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CROWN ENERGY CORP
Form 10-K
July 07, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO
SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

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.)

1710 West 2600 South
Woods Cross, Utah

84087

(Address of principal executive offices)

(Zip Code)

801-296-0166

(Registrant's telephone number, including area code)

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

Title of each class

Name of each exchange on which registered

None

None

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

Common Stock, Par Value \$0.02

(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss. 229.405 of this chapter) 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. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [] No [X]

State the aggregate market value of the voting and nonvoting common equity held by nonaffiliates computed by reference to the price at which the common equity

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was last sold, or the average bid and asked prices of such common equity, as of last business day of the registrant's most recently completed second fiscal quarter. As of June 30, 2004, the aggregate market value of the voting and nonvoting common equity held by nonaffiliates of the issuer was \$264,824 using the average bid and asked prices for registrant's common stock.

Indicate the number of shares outstanding of each of the registrant's classes of common equity, as of the latest practicable date. As of June 30, 2004, registrant had outstanding 26,482,388 shares of its common stock, par value \$0.02.

DOCUMENTS INCORPORATED BY REFERENCE: None.

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PART I

ITEM 1. BUSINESS

General

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Crown Energy Corporation, headquartered in Woods Cross, Utah, manufactures and distributes asphalt paving and related products from facilities in Utah, Arizona, Nebraska and Wyoming.

For the years ended December 31, 2003, 2002 and 2001, we reported revenues, primarily from our asphalt manufacturing and distribution operations, of approximately \$17.0 million, \$18.0 million and \$27.0 million respectively.

During 2003, we continued the manufacturing and distribution of liquid asphalt and attained a total sales volume of roughly 86,400 tons. Our sales volume and revenue for 2003 were constrained by the lack of working capital that limited the purchase of base asphalt and blend components for sale. Cash flow and operational costs were carefully monitored to allow for the maximization of the limited working capital available.

In 1997, we sold to an unrelated third party for \$5.0 million in cash 500,000 shares of \$10 Series A Cumulative Convertible Preferred Stock and a warrant to purchase at \$0.002 per share an amount equal to 8% of the shares of common stock then outstanding and reserved for issuance, or approximately 925,771 shares. In 2002, the Series A Preferred Stock, the warrant, and all associated rights were acquired by the Mealey Family Limited Partnership, which is the current holder of the Series A Preferred Stock, the warrant, all associated rights, and accrued dividends. Jay Mealey, our chief executive officer, president and a director, owns 48.5% of the Mealey Family Limited Partnership and is its general partner and his immediate family is its beneficiary.

As of December 31, 2003, there were dividends payable to the holder of the Series A Preferred Stock of \$1.5 million that may, at the election of the holder of the Series A Preferred Stock, be taken in cash or common stock. At the market price of \$0.01 per share as of April 30, 2004, approximately 150 million shares of common stock would have to be issued to satisfy the dividend payable. The Series A Preferred Stock is convertible to 4,285,000 shares of common stock, if so elected by the holder of the Series A Preferred Stock.

As of December 31, 2003, we had a working capital deficit of approximately \$1.5 million, an accumulated deficit of approximately \$5.0 million, and stockholders' deficit attributable to the common stock of approximately \$0.53 million. Our auditor's report on our financial statements for the year ended December 31, 2003, as for prior years, contained an explanatory paragraph about our ability to continue as a going concern. During 2003 we continued to suffer from shortages of working capital needed to optimize operating economies. Further, our operating history and the prevailing current conditions in the investment markets generally have made it difficult to obtain outside equity capital. Given our financial condition, generally, outside working capital funding requires personal guarantees, and our officers and directors have been unwilling to provide such guarantees for our benefit as a publicly-held company.

In view of our continuing inability to arrange required financing as discussed above, in March 2003, our board of directors, which includes affiliates of our principal stockholders, authorized management to investigate available alternatives for a so-called "going private" transaction, with the effect that we would become privately held by our current principal stockholders, subject to satisfying various regulatory requirements. As we

investigated these possible going private alternatives, we also continued our search for financing from a variety of sources through a number of alternative arrangements.

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As a result of our efforts to obtain funding, on June 7, 2004, we entered into an agreement with an unrelated asphalt distribution firm to organize a joint venture that will be owned 51% by the other firm and 49% by us. Substantially all of our asphalt business, operations and assets will be transferred to the joint venture entity in consideration of a promissory note for \$7.5 million, the payment of which will be largely contingent upon the joint venture having earnings sufficient to permit such payment, and a 49% interest in the joint venture entity. In addition, the other joint venture participant will provide the joint venture with an operating line of credit through the end of calendar year 2004, which may be extended in subsequent years at the election of our joint venture partner. In anticipation of completing this transaction the joint venture partner has advanced interim operating capital, secured by our inventory, work in progress, finished goods and accounts receivable. Formation of the joint venture is contingent on a number of factors, including approval by our stockholders (a majority of which has indicated that they intend to do so), the negotiation of definitive agreements, the completion of a review of business and financial matters and other items.

When we use the terms "we" and the "Company" in this document, we include, unless otherwise noted, the entities through which we conduct our activities, consisting of our wholly-owned subsidiaries Crown Asphalt Products Company, or CAPCO, and Crown Asphalt Distribution, L.L.C., or Crown Asphalt Distribution, and a 67% interest in Cowboy Asphalt Terminal, L.L.C., or CAT, LLC. Another subsidiary, Crown Asphalt Corporation, or CAC, previously became inactive and terminated its existence December 31, 2002. Our consolidated financial statements and results of operation include the accounts and results of operations of CAPCO, CAC, Crown Asphalt Distribution and CAT, LLC.

The Paving Asphalt Manufacturing and Distribution Industry

The liquid paving asphalt industry is a 30 million ton per year market. The industry is segmented into commodity asphalt, performance-grade (performance grade asphalt) and asphalt emulsions and maintenance products. The commodity asphalt segment is by far the largest comprised of private construction projects (parking lots, driveways, etc.) and much of the minor city and county road projects. The liquid asphalt used by this segment generally has few quality or performance specifications and is served by refined sand asphalt wholesalers. The performance-grade asphalt segment is comprised of interstate highways and larger state highways and city/county roads. The liquid asphalt used in this segment must meet very stringent performance standards and requires the blending of asphalt with other asphalts, additives and modifiers to meet the product specification. This segment is our primary focus. The asphalt emulsions/maintenance segment is also growing as states and other agencies implement pavement maintenance programs to rehabilitate and extend the life of existing roads. We manufacture a broad slate of products to serve this segment of the asphalt industry.

The paving asphalt business is seasonal and quite weather dependent. In areas served by us, paving is generally limited to the warmer months, typically extending from May through October. During the other colder months of the year, virtually no construction occurs and therefore demand for liquid asphalt is low.

Asphalt is the residual product left after heavy crude oils are refined to make gasoline, diesel and other petrochemical products. Even though demand for asphalt is seasonal, the supply is continuous as refiners process crude oil into gasoline and diesel all year. Most refineries have limited tank capacity to store product and must therefore sell the refined asphalt throughout the year. These dynamics generally lead to an oversupply of asphalt during the colder

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months, which typically leads to much lower asphalt prices during those colder months. In order to take advantage of the lower winter prices, the liquid asphalt must be purchased and stored until the paving season starts. Tank storage capacity at terminals such as those owned/operated by us is necessary to benefit from winter-fill asphalt pricing.

The large volume of inventory placed into storage tanks and the long period between purchase and sale consumes a significant amount of working capital. Manufacturing performance-grade asphalt and asphalt emulsions requires highly-trained and experienced operating personnel, which allows only some of the labor force to be employed on a seasonal basis. In addition, operations continue throughout the year to receive and transfer asphalt inventory. These ongoing operational expenses also demand large amounts of working capital during the off-season months.

Asphalt manufacturers such as us sell liquid asphalt to paving contractors that add liquid asphalt to aggregates such as rock, gravel or sand at a high temperature in hot-mix asphalt equipment to make the paving product generally referred to as "asphalt." Liquid asphalt suppliers distribute the product as either a direct sale (primarily non-highway projects) or as a subcontractor to the paving contractors that are awarded projects by federal, state and local agencies after a bid process.

The asphalt industry is very competitive, both within the industry with other manufacturing/distribution companies and as an industry competing for road projects with other paving products such as concrete. The industry is dependent on tax-based funding from the federal, state and local governments through road and highway budgets. As such, the industry is driven by the economy at both national and regional levels.

Our Business

General

We focus primarily on the performance-grade asphalt and emulsion/maintenance segments of the liquid asphalt industry. We have approximately 75,000 tons of asphalt tank storage at our facilities. Given adequate working capital availability, we prefer to purchase enough asphalt inventory from November through April to fill the storage tanks and benefit from the approximate \$30 to \$50 per ton price advantage relative to purchasing inventory in the summer months. We purchase the base asphalt inventory from refineries and transport it to our facilities via rail and truck. The material is unloaded and stored until needed during the asphalt-paving season.

We manufacture finished liquid asphalt products by blending the base asphalt inventory from the storage tanks with other additives, chemicals and modifiers to meet the various product specifications. Our products are sold to paving contractors that mix it with aggregate (rock and gravel) to make a hot mix asphalt pavement or directly to customers for pavement maintenance.

For the majority of our business, we submit sealed bids to contractors, who in turn bid for road and highway projects, for most of our business. We also have direct sales to contractors, states, counties and cities for some of our business.

Cowboy Asphalt Terminal

In June 1998, we and Foreland Refining Corporation, an unrelated entity engaged in the asphalt roofing products business, formed CAT, LLC to acquire an asphalt terminal and its underlying real property located in Woods Cross, Utah.

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Though the property and tanks are owned by CAT, LLC, the property was divided by specific assets and use by the Company and Foreland. Foreland retained three storage tanks and a certain portion of the land for exclusive use in its roofing

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asphalt business. The remaining tanks and a certain portion of the land are for our exclusive use in our paving asphalt business. The remaining land may be used jointly by the parties. All revenues generated from the exclusive use assets are the sole property of the respective party. Both Foreland and the Company have made capital equipment improvements to the respective exclusive use assets. Those capital improvements are the sole property of the party making the improvement. Each party retains all revenues and profits generated from its respective exclusive operations. CAT, LLC is owned 66.7% by us and 33.3% by Foreland, and we are the operator. The accounts and results of operations of CAT, LLC are included within our consolidated financial statements and results of operations as majority-owned subsidiary.

Foreland and we are obligated to make equal contributions to CAT, LLC for environmental clean-up costs, if any, up to \$650,000 and related legal expenses. Contributions for these costs will not affect our respective percentage interests in CAT, LLC.

Environmental Matters

We 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 health and the environment generally. 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.

We 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.

We expect that we may be required to expend funds to comply with federal, state and local provisions and orders that relate to the environment. Based upon information available to us at this time, we believe that compliance with such provisions will not have a material effect on our capital expenditures, earnings and competitive position.

Employees

As of June 15, 2004, we had 30 full and part-time employees. None of our employees is represented by a union or other collective bargaining group. Management believes that its relations with its employees are good.

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ITEM 2. PROPERTIES

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Our principal executive offices are located in the office building we own at 1710 West 2600 South, Woods Cross, Utah 84087, adjacent to the Woods Cross asphalt terminal owned by CAT, LLC.

We conduct our activities from the following manufacturing and distribution facilities:

Location -----	Owner/Lessee -----	Company's Interest -----
Woods Cross (Cowboy), Utah		
Office building.....	Company	Owned, subject to a note(2)
Terminal.....	CAT, LLC	Owned, subject to a note, of which Company 67%, or \$314,000(3)
Equipment.....	Crown Asphalt Distribution	Owned
Rawlins, Wyoming		
Terminal land.....	CAPCO	Lease expiring 2020
Equipment.....	CAPCO	Owned, subject to lien bank loan
Fredonia, Arizona.....	Crown Asphalt Distribution	Owned
Gadsby, Salt Lake City, Utah		
Terminal.....	Crown Asphalt Distribution	Lease expiring 2006
Equipment.....	Crown Asphalt Distribution	Lease expiring 2004
Grand Island, Nebraska.....		
Terminal.....	CAPCO	Lease expiring 2004
Equipment.....	CAPCO	Owned

(1) As of December 31, 2003.

(2) We also agreed to pay a former landlord \$80,000 as a termination fee for a lease, and to extinguish all of our obligations with a balance of \$80,000 as of December 31, 2002, due under our prior lease.

(3) We hold a 66.7% interest in CAT, LLC, a joint venture limited liability company with an unrelated party.

We believe that the foregoing facilities are adequate for our foreseeable business needs.

ITEM 3. LEGAL PROCEEDINGS

On May 24, 2002, Geneva Rock Products, Inc. filed a complaint against us in the Third Judicial District Court, Salt Lake County, Utah. Geneva has alleged that we supplied it with defective asphalt binder for approximately four months in 1999. In this action, Geneva seeks to recover damages, which it has indicated may exceed \$1,600,000 plus interest, costs and attorneys' fees. We have denied liability on all of Geneva's claims. We believe that the asphalt binder sold to Geneva met all applicable industry standards and did not cause any of the problems on which Geneva has based its claims. The litigation is currently in the early discovery phase, and we are unaware of any additional information that suggests that our asphalt binder was deficient. Because discovery has not been completed and due to the serious nature of Geneva's claims, we have no way of predicting whether we will ultimately prevail.

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On December 20, 2001, Oriental New Investments, Ltd. served a complaint against us, which was filed in the Third Judicial District Court, Salt Lake County, Utah. The action relates to a 1997 convertible debenture and replacement convertible debenture issued by us to Oriental. The action sought to recover \$75,000 in liquidated damages, plus interest, or actual damages, and attorneys' fees and costs, for alleged breaches of the convertible debentures. While we denied any and all liability and believe that Oriental's claims are without merit, on December 8, 2003 we agreed to fully settle the matter. Pursuant to the settlement agreement we paid New Oriental \$10,000 and agreed to pay and additional \$ 10,000 on or before December 31, 2004 and \$15,000 on or before December 31, 2005.

On April 9, 2003, S & L Industrial filed legal action against us in the Fifth Judicial District of Big Horn County, Wyoming. The action was removed to the United States District Court for Wyoming on May 20, 2003. In the action, S & L sought to recover amounts that we offset against the purchase price of the Rawlins, Wyoming facility in 1999 for items that were warranted by S & L pursuant to the terms of the asset purchase agreement. On November 19, 2003 the matter was fully settled. The Company paid S & L \$30,000 and agreed to pay an additional \$ 25,000 on or before December 15, 2004.

On May 22, 2003, GATX Financial Corporation filed a complaint against us in the Third Judicial District Court of Salt Lake County, Utah. The parties have fully settled the matter and the Company has agreed to pay GATX \$75,000 over a 36-month period.

From time to time, we file litigation as a regular part of our business to seek collection of uncollected accounts receivable, plus costs and attorney's fees, as provided by or sales agreements.

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

No matters were submitted to our stockholders for vote during the fourth quarter of fiscal year 2003.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock has been traded in the over-the-counter market since 1980. Our common stock was quoted under the symbol "CROE" on the Nasdaq OTC Bulletin Board prior to June 2, 2004 and thereafter on the Pink Sheets published by Pink Sheets, LLP, due to our failure to file timely our periodic reports under the Securities Exchange Act. The following table sets forth the range of high and low bid quotations of our common stock as reported by the OTC Bulletin Board or the Pink Sheets, as the case may be, 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:

	Low	High
	-----	-----
2004:		
Second Quarter (through June 15, 2004)....	\$0.01	\$0.02
First Quarter.....	0.02	0.04

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2003:		
Fourth Quarter.....	0.01	0.03
Third Quarter.....	0.01	0.015
Second Quarter.....	0.01	0.02
First Quarter.....	0.01	0.02
2002:		
Fourth Quarter.....	0.008	0.012
Third Quarter.....	0.011	0.02
Second Quarter.....	0.02	0.055
First Quarter.....	0.011	0.04

We have not paid any dividends or made any other distributions on our common stock, and we do not anticipate paying any cash dividends on our common stock in the foreseeable future. The terms of our Series A Preferred Stock prohibit the payment of dividends on common stock at any time that accrued dividends on the Series A Preferred Stock are unpaid. As of December 31, 2003, accrued but unpaid dividends equaled \$1.5 million. We estimate that, as of March 31, 2004, we had approximately 746 stockholders.

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ITEM 6. SELECTED FINANCIAL DATA

The financial data included in the following table have been derived from the financial statements for the periods indicated. The financial statements as of and for the year ended December 31, 1999, were audited by Deloitte & Touche, LLP, independent public accountants. The financial statements as of and for the years ended December 31, 2000, 2001, 2002 and 2003, 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:

	Year Ended December 31			
	2003	2002	2001	2000

	(in thousands, except per share)			
Net revenues.....	\$16,954	\$17,965	\$27,033	\$22,000
Income (loss) from continuing operations.....	(1,260)	(769)	(6,488)	(18,000)
Income (loss) per share				
from continuing operations.....	(0.06)	(0.05)	(0.51)	(1.00)
Total assets.....	11,077	13,275	15,717	17,000
Total long-term obligations.....	2,165	2,442	11,130	11,000
Redeemable Series A Preferred Stock.....	5,000	5,000	4,953	4,000
Cash dividends per common share	--	--	--	
Common stockholders' equity (deficit).....	(527)	1,134	(27,994)	(21,000)

The foregoing selected financial data are presented on a historical basis and may not be comparable from period to period due to significant changes in our operations.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

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CONDITION AND RESULTS OF OPERATION

Note about Forward-Looking Information

The following discussion and analysis of our 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 that express, either directly or by implication, management's beliefs, expectations or intentions regarding our future performance or future events or trends that may affect us or our 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 our 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 risk of loss of certain operating assets serving as collateral to secure such financing, and other similar risks inherent in our operations or in business operations generally. Any such risks or uncertainties, either alone or in combination with other factors, may cause our actual results, performance or achievements to differ materially from our 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.

Introduction

During 2003, we continued our performance-grade asphalt paving product manufacturing and distribution segment activities. Our business is capital intensive and requires a working capital credit facility to operate efficiently. Due to prior disputes and the resulting poor financial condition of the Company, we have been unable to obtain third party working capital credit arrangements since 1999. This has imposed substantial operating constraints on us and has adversely affected our results of operations. These negative effects continue.

Our inability to obtain a working capital line-of-credit substantially limited our ability to purchase inventory, which forced us to limit our sales volume and revenues and reduced the gross profit on sales because we were unable to purchase inventory at the more favorable prices prevailing during the colder months. On June 07, 2004, we entered into a Memorandum of Understanding with an unrelated asphalt distribution company to form a new limited liability company to purchase all of our asphalt manufacturing and distribution assets and related business. At closing of the transaction, we will own 49% of the membership interest in the new limited liability company. The new limited liability company will purchase the assets and business for \$7.5 million in the form of a six-year promissory secured by the sold assets and business. As part of the transaction, the other member of the limited liability company will supply the working capital financing to enable the company to take advantage of off-season asphalt purchase to fill the storage tank capacity. This transaction is described in more detail in the Liquidity and Capital Resources Section.

As of December 31, 2003, we had a working capital deficit of \$1.5 million, an accumulated deficit of \$5.0 million, and stockholders' deficit attributable to the common stock of \$0.53 million. Our auditor's report on our financial statements for the year ended December 31, 2003, as for prior years, contained an explanatory paragraph about our ability to continue as a going

concern. As previously reported, as we continued our search for funding our board of directors approved the investigation of alternatives for a "going-private" transaction. In order to ensure our survival and resolve our working capital problems, the board has approved the sale of all of our asphalt manufacturing and distribution assets and related business to form a joint venture to continue operations with funding provided by the other joint venture participant as discussed below.

Liquidity and Capital Resources

At December 31, 2003, we had cash and other current assets of \$2.4 million, as compared to cash and other current assets of \$4.0 million at December 31, 2002. The decrease of \$1.6 million was generally due to a reduction in accounts receivable and in year-end asphalt inventory levels. Our business is capital intensive and requires a working capital credit facility to operate efficiently. We have not had such a credit facility since 1999, which has resulted in lowered profitability. We plan to diminish part of our working capital constraints by structuring supply arrangements in 2004; however, there can be no guarantee we will be able to accomplish such arrangements.

Our business requires a large amount of working capital to purchase and store inventory and for accounts receivable and general operations. We have not had adequate working capital to operate our business currently and must rely on outside third-party sources to finance that requirement. We have not had outside working capital financing since 1999. In order to resolve our working capital problems and operate the business more efficiently, we have agreed in principle to sell our asphalt manufacturing and distribution assets and related business to a new limited liability company of which we will own 49%.

On June 7, 2004, the Company entered into an agreement with an unrelated asphalt distribution firm to organize a joint venture that will be owned 51% by the other firm and 49% by us. Substantially all of our asphalt business, operations and assets with a net book value of approximately \$8.4 million will be transferred to the joint venture entity in consideration of a promissory note for \$7.5 million, the payment of which will be largely contingent upon the joint venture having earnings sufficient to permit such payment assumption of debt of approximately \$2.3 million, and a 49% interest in the joint venture entity. In addition, the other joint venture participant will provide the joint venture with an operating line of credit through the end of calendar year 2004, which may be extended in subsequent years at the election of our joint venture partner. In anticipation of completing this transaction the joint venture partner has advanced interim operating capital, secured by our inventory, work in progress, finished goods, and accounts receivable. Formation of the joint venture is contingent on a number of factors, including approval by our stockholders, a majority of which has indicated that they intend to do so. Our failure to complete this transaction would have a significant negative impact on our future operations and may make it unable for us to continue.

A portion of our accounts receivable is subject to the risks and uncertainties of litigation and related collection risks. See "Item 3. Legal Proceedings." In the event that we are unable to collect our current accounts receivables, we are unable to secure the necessary working capital line-of-credit for our operations, our operating losses and working capital deficits continue, or if we are unable to recoup our losses, we may not have sufficient capital to operate through 2004.

Results of Operations

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Comparison of 2002 and 2003

Total revenue decreased from \$18.0 million for the year ended December 31, 2002, to \$17.0 million for the year ended December 31, 2003, a revenue

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decrease of approximately \$1.0 million, or 6%. This decrease was primarily due to a reduction in sales volume from 92,000 tons for the year ended December 31, 2002, to a volume of approximately 86,000 tons for the year ended December 31, 2003. This reduction of 6,000 tons was a direct result of our limited working capital to purchase inventory, which required us to limit our sales volume and revenues.

Our gross profit decreased from approximately \$467,000, or 2.6%, for 2002 to approximately \$101,000, or 0.5%, for 2003. This decrease was primarily due to two factors: first, an overall decrease in the gross margin of approximately \$4.00 per ton, and second, a lower sales volume at the facilities, which negated the effects of certain synergies in the fixed costs of operating the plants. The decrease in the gross margin of \$4.00 per ton can be attributed to the inability to purchase enough asphalt in the winter, when prices are traditionally lower, to fill our tanks. We believe continued cost-cutting procedures will impact 2004, but the lack of an adequate working capital credit facility could offset the benefits of those cost-cutting procedures.

General, administrative and provision for bad debt expenses increased from \$1.0 million for the year ended December 31, 2002, to \$1.1 million for the year ended December 31, 2003, an increase of \$100,000, or approximately 0.6% of revenue. This increase was primarily the result of a non-recurring recovery of bad debt expenses in 2002 that had been written off in the year ended December 31, 2000. Cost-cutting procedures in 2003 and a reduction in administrative staff also contributed to the change.

The loss from operations decreased from \$1.4 million in 2002 to \$1.1 million in 2003, a decreased loss of \$300,000, or 1.7% of revenue. The decreased loss was a result of limited working capital not allowing us to take full advantage of lower winter-fill pricing and limiting the volume of asphalt that could be purchased to sell. This was partially offset by synergies in the fixed costs and improved operating costs of the plants. The inability to purchase enough winter-fill asphalt to fill our storage capacity contributed to a lower gross margin as higher priced asphalt was purchased during the warmer months at higher prices as working capital would allow.

Total other income (expense) decreased from net income of \$560,000 for the year ended December 31, 2002, to net expense of \$221,000 for the year ended December 31, 2003, a decrease of \$781,000. The 2002 income is comprised of a \$3.0 million gain on the transfer of interest in an unconsolidated affiliate. This gain is the result of the settlement of litigation and the relinquishment of debt

Minority interest of \$49,673 represents Foreland's approximate 33% interest in the loss in CAT, LLC.

Comparison of 2001 and 2002

Total revenue decreased from \$27.0 million for the year ended December 31, 2001, to \$18.0 million for the year ended December 31, 2002, a revenue decrease of approximately \$9.1 million, or 34%. This decrease was primarily due to a reduction in sales volume of 130,000 tons for the year ended December 31, 2001, to a volume of 92,000 tons for the year ended December 31, 2002. This reduction of 38,000 tons was a direct result of our limited working capital to

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purchase inventory, which required us to limit our sales volume and revenues. During 2001, we were able to structure favorable supply arrangements that allowed us to increase our sales revenues without obtaining a working capital loan or line of credit. We have not been able to continue these favorable arrangements because of changes in the supply markets.

Our gross profit decreased from approximately \$2.9 million, or 10.75%, for 2001 to approximately \$467,000, or 2.6 %, for 2002. This decrease was

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primarily due to two factors: first, an overall decrease in the gross margin of approximately \$2.00 per ton, and second, a lower sales volume at the facilities, which negated the effects of certain synergies in the fixed costs of operating the plants. The decrease in the gross margin of \$2.00 per ton can be attributed to the inability to purchase enough asphalt in the winter, when prices are traditionally lower, to fill our tanks.

General, administrative and provision for bad debt expenses decreased from \$3.5 million for the year ended December 31, 2001, to \$1.0 million for the year ended December 31, 2002, a decrease of \$2.5 million, or approximately 13.9% of revenue. This decrease was primarily the result of the recovery of \$1.6 million of bad debt expenses that had been written off in the year ended December 31, 2000. Cost-cutting procedures in 2002 and a reduction in administrative staff also contributed to the decrease.

The loss from operations increased from \$573,000 in 2001 to \$1.4 million in 2002, an increased loss of \$800,000, or approximately 4.0% of revenue. The increased loss was a result of limited working capital not allowing us to take full advantage of lower winter-fill pricing and limiting the volume of asphalt that could be purchased to sell. The inability to purchase enough winter-fill asphalt to fill our storage capacity contributed to a lower gross margin as higher priced asphalt was purchased during the warmer months at higher prices as working capital would allow. In addition, other items attributing to the increased loss in 2002 are the impairment of goodwill in the amount of \$265,000 and the impairment of property and equipment for \$545,000.

Total other income (expense) increased from net expenses of \$6.0 million for the year ended December 31, 2001, to net income of \$560,000 for the year ended December 31, 2002, an increase of \$6.5 million, or approximately 36.0% of revenue. The 2002 income is comprised of a \$3.0 million gain on the transfer of interest in an unconsolidated affiliate. This gain is the result of the settlement of certain litigation and relinquishment of debt.

Minority interest of \$44,000 represents Foreland's approximate 33% interest in the loss in CAT, LLC.

Extraordinary gain on the extinguishment of debt of \$30.1 million is the result of settlement of certain litigation. As a result of this settlement, we realized a gain of approximately \$30.1 million, calculated as the amount by which the total of our liabilities cancelled exceeded our cost for the assets conveyed.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not believe we are subject to material market risks, such as interest rate risks, foreign currency exchange rate risks, or similar risks, and therefore, we do not engage in transactions, such as hedging or similar transactions in derivative financial instruments, intended to reduce our exposure to such risks. However, we are subject to general market fluctuations

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related to the purchase of base stock asphalt and may suffer reduced operating margins to the extent our increased costs are not passed through to our customers. Such prices generally fluctuate with the price of crude oil.

We are also subject to certain price escalation and de-escalation clauses in our asphalt distribution sales contracts. We supply 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. We include such de-escalation risk into our bid prices and do not believe we have material exposure to risk resulting from these regulations.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements, including the accountant's report, are included beginning at page F-1 immediately following the signature pages and related officer certifications.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure controls are procedures that are designed with an objective of ensuring that information required to be disclosed in our periodic reports filed with the SEC, such as this Annual Report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified by the SEC. Disclosure controls are also designed with an objective of ensuring that such information is accumulated and communicated to our management, including the Chief Executive Officer and Controller, who is our principal financial officer, in order to allow timely consideration regarding required disclosures.

The evaluation of our disclosure controls by the Chief Executive Officer and Controller included a review of the controls' objectives and design, the operation of the controls, and the effect of the controls on the information presented in this Annual Report. Our management, including the Chief Executive Officer and Controller, does not expect that disclosure controls can or will prevent or detect all errors and all fraud, if any. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Also, projections of any evaluation of the disclosure controls and procedures to future periods are subject to the risk that the disclosure controls and procedures may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on their review and evaluation as of a date within 90 days of the filing of this Form 10-K, and subject to the inherent limitations all as described above, our Chief Executive Officer and Controller have concluded that our disclosure controls and procedures (as defined in Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934) are effective. They are not aware of any significant changes in our disclosure controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard" to significant deficiencies and material weaknesses.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OF THE REGISTRANT

Directors and Executive Officers

Our directors are elected annually by the stockholders. Our officers serve at the pleasure of the board of directors. Our officers and directors, their ages, and their positions are set forth below:

Name ----	Age ---	Position -----
Jay Mealey.....	48	Chairman of the Board of Directors Chief Executive Officer, President, Treasurer
Stephen J. Burton...	56	Secretary
Andrew W. Buffmire..	57	Vice President Business Development, Director
Alan L. Parker.....	52	Vice President, Director
Scott Beall.....	50	Vice President

Jay Mealey has served as President and Chief Operating Officer and as our director since 1991 and was appointed as Chief Executive Officer in April 1999 and treasurer in October 2000. Mr. Mealey has been actively involved in the oil and gas exploration and production business since 1978. Prior to becoming our employee, Mr. Mealey served as Vice President of Ambra Oil and Gas Company and prior to that position, worked for Belco Petroleum Corporation and Conoco, Inc. in their exploration divisions. Mr. Mealey is responsible for managing our day-to-day operations.

Stephen J. Burton was elected Secretary in October 2000. Mr. Burton has held various accounting positions with us since 1989. He is currently responsible for our 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, Mr. 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, Mr. 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.

Alan L. Parker, Vice-President and Controller, has been employed by us since 1998 and our predecessor, Petro Source Asphalt Company, since 1987.

Scott Beall, Vice President, has been employed by us since 1998 and our predecessor, Petro Source Asphalt Company, since 1979.

Audit Committee and Audit Committee Financial Expert

We do not have an audit committee composed entirely of independent directors; our board of directors acts as our audit committee. Additionally, we do not have an audit committee financial expert, as that term is defined by Item 401(h) of Regulation SK. Given our financial condition and recent history of legal matters, our board of directors has determined that it would be unlikely to identify a qualified audit committee financial expert who would be willing to serve.

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Compliance with Section 16(a) of the Exchange Act.

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and officers, and persons who own more than 10% of our outstanding common stock, to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership in our common stock and other equity securities.

Except as described below, to our knowledge, based solely on a review of the copies of the Section 16(a) reports furnished to us, or written representations that no reports were required, we believe that during fiscal year 2003 all Section 16(a) filing requirements applicable to our directors, executive officers and greater than 10% stockholders were complied with.

Code of Ethics

We have not adopted a code of ethics because the board of directors has determined that given our small size, the service of our chief executive officer and our principal financial officers on our board of directors, and the significant majority of our common stock owned by our officers and directors, a written code of ethics would be a mere formality and would not meaningfully enhance our commitment to act honestly and ethically, provide full, fair, accurate, timely and understandable disclosure, or comply with applicable governmental laws, rules and regulations.

ITEM 11. EXECUTIVE COMPENSATION

Summary Compensation

The following table sets forth, for the last three fiscal years, the annual and long-term compensation earned by, awarded to, or paid to the person who was our Chief Executive Officer and each of our other highest compensated executive officers as of the end of the last fiscal year (the "Named Executive Officers"):

(a)	Annual Compensation			(e)	Long-Term Compensation	
	(b)	(c)	(d)		(f)	(g)
Name and Principal Position	Year Ended Dec. 31	Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Restricted Stock Award(s) (\$)	Security Underlying Options SARs (no.)
Jay Mealey President (CEO)	2003	\$302,700	--	\$10,563 (1)	--	--
	2002	344,600	--	10,563 (1)	--	--
	2001	250,000	--	8,400 (1)	--	--
Scott Beall Vice-President	2003	\$110,300	--	--	--	--
	2002	128,462	--	--	--	--
	2001	107,225	--	--	--	--

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- (1) Car allowance.
- (2) Term life insurance paid for Mr. Mealey.

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Option/SAR Grants in Last Fiscal Year

During the fiscal year ended December 31, 2003, we did not grant any stock options or stock appreciation rights to any Named Executive Officers.

Aggregate Option/SAR Exercises and Fiscal Year-End Option/SAR Values

The following table contains information regarding the fiscal year-end value of unexercised options held by the Named Officers. The aggregate value of the options was calculated using \$0.03 per share, the average bid and asked price for our common stock on December 31, 2003:

(a) Name	(b) Shares Acquired on Exercise (#)	(c) Value Realized (\$)	(d) Number of Securities Underlying Unexercised Options/ SARs at FY-End (#) Exercisable/ Unexercisable	(e) Value of Unexe In-the-Mon Options/S at FY-End Exercisabl Unexercisa
Jay Mealey	--	--	750,000 / --(1)	-- / --
Scott Beall	--	--	125,000 / --	-- / --

- (1) Represents six tranches of 150,000 options each granted in two separate grants to Mr. Mealey in November 1997 and November 1999 and exercisable as follows:

Number	Expiration Date	Exercise Price	Market Price Condition *
150,000.....	November 1, 2007	\$0.125	\$0.16
150,000.....	November 1, 2007	0.125	0.23
150,000.....	November 1, 2007	0.125	0.31
150,000.....	November 1, 2009	0.38	1.00
150,000.....	November 1, 2009	0.38	1.30
150,000	November 1, 2009	0.38	1.69

* Vested options cannot be exercised unless the market price for the common stock is at least equal to the market price stated.

Director Compensation

Members of the board of directors are not compensated for their time or service representing the Company. Direct expenses incurred by members of the board in connection with our business are reimbursed.

Employment Contracts

Jay Mealey, our Chief Executive Officer, President and Treasurer, was

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employed under a November 1997 employment agreement that expired on December 31, 2003. The employment agreement provided for a base salary plus compensation bonuses. No bonus has been paid to Mr. Mealey under these provisions during the preceding three fiscal years. In previous years, Mr. Mealey was also issued options to purchase an aggregate of 900,000 shares, subject to vesting and

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minimum trading price conditions as summarized above. Of these, options to purchase 450,000 shares at \$1.62 were repriced in 2000 to an exercise price of \$0.125 per share. Mr. Mealey continues his employment at the same rate of compensation without an employment agreement.

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

The following table sets forth certain information with respect to beneficial ownership of the our common stock as of June 15, 2004, to the extent known to us, of each of our executive officers and directors, each person known to us to be the beneficial owner of more than 5% of the outstanding shares of any class of our stock, and all directors and officers as a group:

Name and Address of Person or Group -----	Nature of Ownership -----	Amount -----
Principal Stockholders:		
Jay Mealey (2).....	Common stock (3) Options Shares issuable on conversion of Series A Preferred, payment of accrued dividends and exercise of warrant (4)	13,841,818 900,000 20,454,464 35,196,282
Andrew W. Buffmire (2).....	Common stock Options	1,600,000 85,000 1,685,000
Directors:		
Jay Mealey.....	-----See above-----	
Andrew W. Buffmire.....	-----See above-----	
Alan L. Parker.....	Common stock	--
All Executive Officers and Directors as a Group (4 persons):.....		
	Common Stock Options (5) Shares issuable on conversion of Series A Preferred, payment of accrued dividends and exercise of warrant (4)	15,441,818 1,052,500 36,948,782

(1) Based on 26,482,388 shares of our common stock issued and outstanding on April 10, 2003. Under Rule 13d-3 of the Securities Exchange Act, shares are deemed to be beneficially owned by a person if the person has the right to acquire the shares (for example, upon exercise of an option) within 60 days of the date as of which the information is provided. In computing the percentage ownership of any person, the amount of shares outstanding is

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deemed to include the amount of shares beneficially owned by such person (and only such person) by reason of these acquisition rights. As a result, the percentage of outstanding shares of any person as shown in this table does not necessarily reflect the person's actual ownership or voting power with respect to the number of shares of common stock actually outstanding. Unless otherwise indicated, all securities are owned beneficially and of record.

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- (2) The address for all principal stockholders is c/o Crown Energy Corporation, 1710 West 2600 South, Woods Cross, Utah 84087.
- (3) Consists of 3,307,452 shares owned of record and beneficially by Mr. Mealey, 9,524,366 shares owned by the Mealey Family Partnership, 110,000 shares owned by Mr. Mealey's brother, as custodian for Mr. Mealey's minor children, and 900,000 shares owned for the benefit of Mr. Mealey's minor children by a trust, of which Mr. Mealey is the trustee. Mr. Mealey is the general partner of the Mealey Family Partnership and owns 48.5% of the partnership, and members of his immediate family are the beneficiaries. Mr. Mealey expressly disclaims beneficial ownership of the shares held his brother and mother. Furthermore, the options that are included within this calculation may not be exercised unless specified trading prices are realized for our common stock. As of the date hereof, such trading prices have been not been met and there is no assurance that they will ever be met during the terms of the options.
- (4) The number reported constitutes the maximum issuable, based on our authorized capitalization of 50,000,000 shares, with 26,482,388 shares issued and outstanding and 3,063,148 shares reserved for issuance on the exercise of outstanding options and warrants. The Mealey Family Limited Partnership has the right to acquire common stock as follows: 4,285,000 shares issuable upon conversion of 500,000 shares of our Series A Preferred Stock; 150 million shares issuable at the election of the holder at the market price of \$0.01 per share as of April 30, 2003, in payment of \$1.5 million of dividends accrued as of December 31, 2003 on the Series A Preferred Stock; and 925,771 shares issuable on the exercise of warrants to purchase shares at \$0.002. Mr. Mealey and the Mealey Family Limited Partnership, which he controls, own beneficially a sufficient number of shares to amend our articles of incorporation to increase our authorized capitalization, which would enable us to issue all 60,766,327 shares to which the Mealey Family Limited Partnership would be entitled on conversion of the Series A Preferred Stock, the payment of accrued dividends, and the exercise of the warrant.
- (5) Includes 67,500 shares underlying options held by an unnamed executive officer to acquire common stock.

Change of Control Contracts

In November 1997, we entered into an employment agreement with Jay Mealey that contained "change of control" provisions providing for the payment of compensation and benefits upon our termination of Mr. Mealey's employment without cause or termination by Mr. Mealey for "good reason" (as defined in that agreement). No change of control events occurred and the employment agreement terminated December 31, 2003.

Equity Compensation Plan Information

Number of securities to be Weighted average exercise

Numb
avai
issu
com

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Plan Category	issued upon exercise of outstanding options (a)	prices of outstanding options (b)	(exc reflec
Equity compensation plans			
approved by shareholders...	2,263,148	\$0.122	
Equity compensation plans not			
approved by security holders	--	--	
	-----	-----	
Total.....	2,263,148	\$0.122	

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In September 1997, we sold to an unrelated third party for \$5.0 million in cash 500,000 shares of \$10 Series A Cumulative Convertible Preferred Stock and a warrant to purchase 925,771 shares at \$0.002 per share. In 2002, the Series A Preferred Stock, the warrant, and all associated rights were acquired by the Mealey Family Limited Partnership, which is the current holder of the Series A Preferred Stock, the warrant, all associated rights, and accrued dividends. Jay Mealey, our Chief Executive Officer, President and a director, owns 48.5% of the Mealey Family Limited Partnership and is its general partner and his immediate family is its beneficiary. See Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

As of December 31, 2004, there were dividends payable to the holder of the Series A Preferred Stock of \$1.5 million that may, at the election of the holder be taken in cash or common stock. At the market price of \$0.01 per share as of April 30, 2004, 150 million shares of common stock would have to be issued to satisfy the dividend payable. The Series A Preferred Stock is convertible to 4,285,000 shares of common stock, if so elected by the holder of the Series A Preferred Stock.

We currently have an authorized capital of 50.0 million shares of common stock, of which approximately 26.5 million shares are issued and outstanding and approximately 3.1 million shares are reserved for issuance on the exercise of outstanding options and warrants, for a total of approximately 29.6 million shares, excluding the shares issuable on conversion of the Series A Preferred Stock, the payment of accrued dividends thereon, and exercise of the warrant. Therefore, there are only approximately 20.4 million shares available for issuance under the Series A Preferred Stock on conversion or the payment of dividends or on exercise of the warrant. We have not undertaken to renegotiate with the Mealey Family Limited Partnership any of the terms of the Series A Preferred Stock or the warrant, do not know whether we will attempt to do so, and have not analyzed our obligations or responsibilities if Mealey Family Limited Partnership would elect to convert the Series A Preferred Stock, demand payment of the dividends in common stock, or exercise the warrant.

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ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The aggregate fees billed by Tanner + Co. for professional services rendered for the audit of the Company's annual financial statements for the fiscal year ended December 31, 2003, and for the reviews of the financial statements included in the Company's quarterly reports on Form 10-Q for that fiscal year were \$33,000. The aggregate fees billed by Tanner + Co. for

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professional services rendered for the audit of the Company's annual financial statements for the fiscal year ended December 31, 2002, and for the reviews of the financial statements included in the Company's quarterly reports on Form 10-Q for that fiscal year were \$52,295.

Audit Related Fees

Tanner + Co. did not bill the Company for any professional services that were reasonably related to the performance of the audit or review of financial statements for either the fiscal year ended December 31, 2003, or the fiscal year ended December 31, 2002, that are not included under Audit Fees above.

Tax Fees

The aggregate fees billed by Tanner + Co. for professional services rendered for tax compliance, tax advice, and tax planning for the fiscal years ended December 31, 2003, and December 31, 2002, were \$12,750 and \$5,348, respectively.

All Other Fees

Tanner + Co. did not perform any services for the Company or charge any fees other than the services described above under "Audit Fees" and "Tax Fees" for either the fiscal year ended December 31, 2003, or the fiscal year ended December 31, 2002.

The engagements of Tanner + Co. to perform all of the above-described services were approved by the board of directors, acting as the audit committee, before the Company entered into the engagements, and the policy of the board of directors is to require that all services performed by the independent auditor be preapproved by the board of directors before the services are performed.

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ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents. The following documents are filed as part of this report or incorporated herein by reference.

(1) Financial Statements. See the following beginning at page F-1:

	Page
Report of Independent Accountants	F-2
Consolidated Balance Sheets as of December 31, 2003 and 2002	F-3
Consolidated Statements of Operations for each of the Three Years Ended December 31, 2003, 2002 and 2001, respectively	F-4
Consolidated Statements of Cash Flows for each of the Three Years Ended December 31, 2003, 2002 and 2001, respectively	F-5
Consolidated Statements of Stockholders' Equity (Deficit) for each of the Three Years Ended December 31, 2003, 2002 and 2001, respectively	F-6
Notes to the Consolidated Financial Statements	F-7

(2) Supplemental Schedules. The financial statement schedules have been

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omitted because they are not applicable or the required information is otherwise included in the accompanying financial statements and the notes thereto.

(3) Exhibits. The following exhibits are included as part of this report:

Exhibit Number	Title of Document	Location
<hr/>		
Item 3	Articles of Incorporation and Bylaws	
<hr/>		
3.01	Articles of Incorporation	Incorporated by reference from Statement on Form S-1 filed March 1997, file number 333-02358.
3.02	Certificate of the Voting Powers, Designations, Preferences and Relative, Participating, Optional or other Special Rights, and Qualifications, Limitations and Restrictions Thereof, of Series A Cumulative Convertible Preferred Stock of Crown Energy Corporation	Incorporated by reference from Trade Resources Corp. Form 13D 1997, file number 005-51717.
3.03	Amended Bylaws	Incorporated by reference from Statement on Form 10 filed July August 30, 1991.
Item 4	Instruments Defining the Rights of Security Holders, Including Indentures	
<hr/>		
4.01	Convertible Debenture Agreement dated May 6, 1997, between Crown Energy Corporation and Oriental New Investments, Ltd.	Incorporated by reference from on Form 8-K filed June 12, 1997
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<hr/>		
Exhibit Number	Title of Document	Location
<hr/>		
4.02	Form of Stock Option Agreements between Crown Energy Corporation and (1) Jay Mealey, (2) Richard Rawdin, and (3) Thomas Bachtell	Incorporated by reference from on Form 10-K for the year ended 1997, filed March 31, 1998.
4.03	The Crown Energy Long Term Equity-Based Incentive Plan	Incorporated by reference from Report on Form 10-K for the year ended December 31, 1997, filed April 1998.
4.04	Common Stock Purchase Warrant dated November 4, 1997, issued to Enron Capital & Trade Resources Corp.	Incorporated by reference from Trade Resources Corp. Form 13D 1997, file number 005-51717.
4.05	May 1998 Warrant issued to Ladenburg Thalmann & Co., Inc.	Incorporated by reference from on Form 10-K for the year ended 1998, filed June 14, 1999.
Item 10	Material Contracts	
<hr/>		
10.01	Employment Agreement with Jay Mealey	Incorporated by reference from

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		on Form 10-K for the year ended 1997, filed March 31, 1998.
10.02	Revised Right of Co-Sale Agreement between Jay Mealey and Enron Capital & Trade Resources Corp.	Incorporated by reference from Trade Resources Corp. Form 13D/12, 1997.
10.03	Lease Agreement dated June 6, 1996, between Petro Source Refining Corporation and PacifiCorp (which was assigned to the Company on or about July 2, 1998)	Incorporated by reference from Report on Form 10-Q for the quarter ended September 30, 1998, filed November 12, 1998.
10.04	Operating Agreement for Cowboy Asphalt Distribution L.L.C.	Incorporated by reference from Form 10-K for the year ended 1998, filed June 14, 1999.
10.05	April 3, 1998, Agreement regarding Investment Banking Services with Ladenburg Thalmann & Co., Inc.	Incorporated by reference from Form 10-K for the year ended 1998, filed June 14, 1999.
10.06	Indemnification Agreement with Ladenburg Thalmann & Co., Inc.	Incorporated by reference from Form 10-K for the year ended 1998, filed June 14, 1999.
10.07	\$1,800,000 Loan Agreement: Community First National Bank to Crown Asphalt Products Company	Incorporated by reference from Form 10-K for the year ended 1999, filed April 4, 2000.
10.08	Letter Amendment to Loan Agreement with Community First National Bank dated June 2, 1999	Incorporated by reference from Form 10-K for the year ended 1999, filed April 4, 2000.

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Exhibit Number	Title of Document	Location
10.09	Guaranty of Community First National Bank Loan by Crown Energy Corporation	Incorporated by reference from Form 10-K for the year ended 1999, filed April 4, 2000.
10.10	Assignment & Assumption Agreement (Off Site Services Agreement)	Incorporated by reference from Form 10-K for the year ended 1999, filed April 4, 2000.
10.11	First Amendment to Employment Agreement with Jay Mealey	Incorporated by reference from Form 10-K for the year ended 1999, filed April 4, 2000.
10.12	Settlement Agreement among Crown Energy Corporation, MCNIC and related parties	Incorporated by reference from Form 10-K for the year ended 2002, filed April 15, 2003.
10.13	Lease Agreement with Frontier Grand Island, L.L.C.	Incorporated by reference from Form 10-K for the year ended 2002, filed April 15, 2003.
10.14	Asset Sale Agreement with Fruita Marketing and Management, Inc.	Incorporated by reference from Form 10-K for the year ended 2002, filed April 15, 2003.

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10.15	Extension to Lease Agreement with Frontier Grand Island L.L.C.	Incorporated by reference from on Form 10-K for the year ended 2002, filed April 15, 2003.
Item 21	Subsidiaries of the Company	
21.01	List of subsidiaries	[Incorporated by reference from on Form 10-K for the year ended 2002, filed April 15, 2003.]
Item 31	Rule 13a-14(a)/15d-14(a) Certifications	
31.01	Certification of Chief Executive Officer Pursuant to Rule 13a-14	This filing.
31.02	Certification of Chief Financial Officer Pursuant to Rule 13a-14	This filing
Item 32	Section 1350 Certifications	
32.01	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer)	This filing.
32.02	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer)	This filing.

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* All exhibits are numbered with the number preceding the decimal indicating the applicable SEC reference number in Item 601 and the number following the decimal indicating the sequence of the particular document. Omitted numbers in the sequence refer to documents previously filed as an exhibit, but no longer required.

We agree to furnish supplementally to the SEC a copy of any omitted schedule or exhibit to and document filed as an exhibit upon request by the SEC.

(b) Reports on Form 8-K: We did not report any items on Form 8-K for the quarter ended December 31, 2003.

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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 report to be signed on its behalf by the undersigned, thereunto duly authorized.

CROWN ENERGY CORPORATION

Date: July 2, 2004

By /s/ Jay Mealey

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Jay Mealey
Its Principal Executive Officer

Date: July 2, 2004

By /s/ Alan L. Parker

Alan L. Parker,
Its Principal Financial Officer

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.

Dated: July 2, 2004

/s/ Jay Mealey

Jay Mealey, Director

/s/ Alan L. Parker

Alan L. Parker, Director

/s/ Andrew W. Buffmire

Andrew W. Buffmire, Director

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CROWN ENERGY CORPORATION
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REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
of Crown Energy Corporation

We have audited the consolidated balance sheet of Crown Energy Corporation as of

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December 31, 2003 and 2002, and the consolidated statements of operations, stockholders' equity and cash flows for the years ended December 31, 2003, 2002, and 2001. 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 the standards of the Public Company Accounting Oversight Board. 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 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, 2003 and 2002, and the results of its operations and its cash flows for the years ended December 31, 2003, 2002, and 2001, 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, has a working capital deficit, 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.

Salt Lake City, Utah
April 8, 2004

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Assets

Current assets:

Cash and cash equivalents
Accounts receivable, net of allowance for doubtful accounts
of \$164,630 and \$175,927, respectively
Inventory
Prepaid and other current assets

Total current assets

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Property, plant, and equipment, net
 Intangible assets, net
 Other assets

Total

\$
 ==

 Liabilities and Stockholders' Equity

Current liabilities:

Accounts payable
 Preferred stock dividends payable
 Accrued expenses
 Accrued interest
 Current portion of long-term debt

\$

Total current liabilities

Long-term debt
 Redeemable preferred stock

Total liabilities

Commitments and contingencies

Minority interest in consolidated joint ventures

Stockholders' equity:

Common stock, \$.02 par value, 50,000,000 shares authorized 26,482,388 and
 26,482,388 shares issued and outstanding, respectively
 Additional paid-in capital
 Stock warrants
 Accumulated deficit

Total stockholders' equity (deficit)

Total

\$
 ==

 See accompanying notes to consolidated financial statements.

Consolidate

 2003

2002

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Sales, net	\$ 16,936,627	\$ 17,96
Cost of goods sold	16,835,994	17,49
	-----	-----
Gross profit (loss)	100,633	46
General and administrative expenses	(1,529,017)	(2,67
Recovery of (provision for) bad debt expenses	338,729	1,64
Loss on impairment of property and equipment	-	(54
Loss on impairment of goodwill	-	(26
	-----	-----
Loss from operations	(1,089,655)	(1,37
	-----	-----
Other income (expense):		
Interest income	4,358	1
Interest expense	(275,920)	(2,40
Gain on transfer of interest in unconsolidated affiliate	-	2,99
Other (expense) income	50,659	(5
Arbitration expense	-	
	-----	-----
Total other income (expense), net	(220,903)	55
	-----	-----
Loss before provision for income taxes minority interests and extraordinary gain	(1,310,558)	(81
Income tax benefit	-	
Minority Interest in losses of consolidated joint venture	49,673	4
	-----	-----
Loss before extraordinary gain	(1,260,885)	(76
Extraordinary gain on extinguishment of debt	-	30,14
	-----	-----
Net Income (loss)	(1,260,885)	29,37
Redeemable preferred stock dividends	(400,000)	(40
	-----	-----
Net income (loss) applicable to common shares	\$ (1,660,885)	\$ 28,97
	=====	=====
Loss per common share before extraordinary item - basic and diluted	\$ (0.06)	\$
Extraordinary gain on extinguishment of debt - basic and diluted	\$ -	\$
	=====	=====
Net income (loss) per common share - basic and diluted	\$ (0.06)	\$
	=====	=====
Weighted average common shares - basic and diluted	26,482,000	25,43
	=====	=====

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See accompanying notes to consolidated financial statements.

	Consolidated S				
	Years Ended				
	Common Stock		Additional	Stock	Commo
	----- Shares	Amount	Paid-in Capital	Subscription Receivable	----- Warr
Balance, January 1, 2001	13,635,581	272,711	5,429,292	(549,166)	400
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	4,972,688	(549,166)	400
Shares issued as dividend payments	13,793,103	275,862	(75,862)	-	
Preferred stock accretion	-	-	(47,169)	-	
Dividends on preferred stock	-	-	(400,000)	-	
Write-off of stock subscription receivable	(946,296)	(18,926)	(530,240)	549,166	
Net income	-	-	-	-	
Balance, December 31, 2002	26,482,388	529,647	3,919,417	-	400
Dividends on preferred stock	-	-	(400,000)	-	
Net loss	-	-	-	-	
Balance, December 31, 2003	26,482,388	\$ 529,647	\$ 3,519,417	\$ -	\$ 400

See accompanying notes to consolidated financial statements.

CROWN
Consolidated State

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	Years	
	2003	2002

Cash flows from operating activities:		
Net income (loss)	\$ (1,260,885)	\$ 29,377
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation, depletion, and amortization	785,736	785,736
(Decrease) increase in allowance for doubtful accounts	(11,297)	(1,541)
Extraordinary gain on extinguishment of debt	-	(30,141)
Gain on settlement of liabilities in connection with transfer of interest in unconsolidated subsidiary	-	(2,995)
Impairment on property and equipment	-	54,266
Impairment of goodwill	-	26,311
Minority interest in losses of consolidated joint venture, net of distributions to minority interest shareholders	32,004	32,004
Loss on disposal of equipment	-	5,111
Changes in operating assets and liabilities:		
Accounts receivable	4,202	2,231
Inventory	(32,703)	75,111
Prepaid and other current assets	33,232	(5,111)
Related party receivable	-	2,111
Other assets	232,872	(1,111)
Accounts payable	(756,293)	1,931
Accrued interest	92,000	2,191
Accrued arbitration expense	-	-
Accrued expenses	(87,193)	1,111

Net cash provided by (used in) operating activities	(968,325)	3,477

Cash flows from investing activities:		
Purchase of property, plant, and equipment	(47,441)	(64,111)

Cash flows from financing activities:		
Cash paid for purchase of interest in subsidiary	-	(2,001)
Payments on long-term debt	(617,440)	(36,111)
Payment of dividends	-	(40,111)

Net cash used in financing activities	(617,440)	(2,761)

Net change in cash and cash equivalents	(1,633,206)	7,705
Cash and cash equivalents at beginning of year	2,723,068	2,650,363

Cash and cash equivalents at end of year	\$ 1,089,862	\$ 2,723,068
	=====	
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 181,941	\$ 41,111
Cash paid for income taxes	\$ -	\$ -

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:

During the year ended December 31, 2003:

- o The Company acquired equipment with long-term debt of \$400,000.
- o The Company accrued dividends to preferred shareholders of \$400,000.

During the year ended December 31, 2002:

- o The Company issued 13,793,103 shares of common stock totaling a value of \$200,000 as a dividend distribution to preferred stockholders which effectively reduced additional paid in capital by \$75,862 because the estimated fair value was below par.
- o The Company incurred long-term debt of \$46,777 in connection with the acquisition of vehicles.
- o The Company received 946,296 shares of common stock for a write-off of subscriptions receivable of \$549,166.
- o The Company entered into a settlement agreement with MCNIC Pipeline and Processing Company (MCNIC) in which Crown assumed MCNIC's interest in Crown Asphalt Distribution, L.L.C in exchange for \$2,000,000 and \$146,781 of receivables. In connection with the settlement, MCNIC effectively forgave debt of \$20,260,945, accrued interest due of \$9,421,041, and \$2,609,519 of accrued legal fees due (see note 3 and 15). This resulted in an extraordinary gain of \$30,144,724.
- o The Company increased preferred stock and decreased additional paid-in capital for \$47,169 related to preferred stock accretion.
- o The Company entered into a dispute settlement agreement with MCNIC, in which MCNIC assumed debt of \$2,970,469 and accrued interest of \$27,707 in exchange for Crown's 25% interest in Crown Asphalt Ridge L.L.C. (see note 3 and 15).

During 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

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\$400,000, and 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, 2003 and 2002

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 production, distribution, and selling of asphalt products.

Majority-Owned Subsidiaries

CAPCO is the majority-owner of Crown Asphalt Distribution, LLC (Crown Distribution). Crown Distribution was a joint venture formed on July 2, 1998, between CAPCO and MCNIC Pipeline and Processing Company (MCNIC) for the purpose of asphalt production and distribution. On October 16, 2002, the Company entered into a settlement agreement with MCNIC (see note 15), to release itself from obligations to MCNIC. As a result of the settlement, MCNIC transferred its 49.99% interest to CAPCO (48.99%) and CEC (1%), thus making Crown Distribution a wholly-owned subsidiary of the Company.

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.

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.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

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1. Organization Continued
- 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.

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, 2003, the Company had a 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. 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.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

2. Significant Accounting Policies Continued
- Going Concern - Continued
- 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 to fund its cash flow requirements to purchase inventory. Management is attempting to secure financing for inventory purchases with inventory suppliers or other financing institutions. There can be no assurance that the Company will be successful in its attempts to obtain financing for its inventory purchases. Management is also attempting to secure financing to fund its working capital deficit. In addition, management is continuing its plans to reduce overhead and other costs. Management is

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also considering consolidation of manufacturing facilities to maximize operating efficiency and margins on product sales. However, there can be no assurance that management will be successful in these efforts.

If management is unable to secure additional financing it may be required to slow or cease its operations.

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.

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

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

-
2. Significant Accounting Policies Continued
- 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.

Concentration Risks

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

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terms to its 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.

One customer accounted for 16% of 2003 revenues. Loss of this customer could significantly affect the companies operations.

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.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

2. Significant Accounting Policies Continued

Loss Per Common Share - Continued

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 3,513,919, 3,988,919, and 3,163,148 shares of common stock at prices ranging from \$.002 to \$1.94 per share were outstanding at December 31, 2003, 2002, and 2001, respectively, but were not included in the diluted 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.

Long-Lived Assets

The Company evaluates the carrying value of long-term assets including intangibles based on current and anticipated undiscounted cash flows or current appraisals of such assets and recognizes impairment when such cash flows or appraised values are 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

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 year ended December 31, 2001,

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goodwill was amortized using the straight-line method over 20 years. After December 31, 2001 goodwill was no longer amortized but has been evaluated, 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.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

2. Significant Accounting Policies Continued
Goodwill and Intangible Assets - Continued
The following table reflects a comparison of net (loss) income and net (loss) income per share for each of the three years ended December 31, adjusted to give effect to the adoption of SFAS 142:

	2003	2002	
Reported net income (loss) applicable to common shareholders	\$ (1,660,885)	\$ 28,975,683	\$ (6,
Add-back goodwill amortization, net of taxes	-	-	
Adjusted net Income (loss) applicable to common shareholders	\$ (1,660,885)	\$ 28,975,683	\$ (6,
Reported earnings per share - basic and diluted	\$ (.06)	\$ 1.14	\$
Add-back goodwill amortization		-	
Adjusted earnings per share - basic and diluted	\$ (.06)	\$ 1.14	\$

As of December 31, 2003 and 2002, the net book value of goodwill was \$0.

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.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

-
2. Significant Accounting Policies Continued
- 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.

Recent Accounting Pronouncements

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN No. 45). FIN No. 45 requires certain guarantees to be recorded at fair value, which is different from current practice to record a liability only when a loss is probable and reasonably estimable, as those terms are defined in FASB Statement No. 5, Accounting for Contingencies. FIN No. 45 also requires the Company to make significant new disclosures about guarantees. The disclosure requirements of FIN No. 45 are effective for the Company in the first quarter of fiscal year 2003. FIN No. 45's initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The Company's previous accounting for guarantees issued prior to the date of the initial application of FIN No. 45 will not be revised or restated to reflect the provisions of FIN No 45. The adoption of FIN No. 45 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

-
2. Significant Accounting Policies Continued
- Recent Accounting Pronouncements - Continued
- In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation--Transition and Disclosure--an amend-ment of FASB Statement No. 123," which is effective for all fiscal years ending after December 15, 2002. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation under SFAS No. 123 from the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25. SFAS 128 also changes the disclosure requirements of SFAS 123, requiring a more prominent disclosure of the pro-forma effect of the fair value based method of accounting for stock-based compensation. The adoption of SFAS No. 148 by the Company did not have a material impact on the Company's financial position or future operations.

In December 2003, the FASB issued Interpretation No. 46 ("FIN

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46R") (revised December 2003), Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51 ("ARB 51"), which addresses how a business enterprise should evaluate whether it has a controlling interest in an entity though means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FASB Interpretation No. 46 (FIN 46), which was issued in January 2003. Before concluding that it is appropriate to apply ARB 51 voting interest consolidation model to an entity, an enterprise must first determine that the entity is not a variable interest entity (VIE). As of the effective date of FIN 46R, an enterprise must evaluate its involvement with all entities or legal structures created before February 1, 2003, to determine whether consolidation requirements of FIN 46R apply to those entities. There is no grandfathering of existing entities. Public companies must apply either FIN 46 or FIN 46R immediately to entities created after January 31, 2003 and no later than the end of the first reporting period that ends after March 15, 2004. The adoption of FIN 46 had no effect on the Company's consolidated financial position, results of operations or cash flows.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

-
2. Significant Accounting Policies Continued
- Recent Accounting Pronouncements - Continued
- In April 2003, FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS 133, Accounting for Derivatives and Hedging Activities. SFAS 149 is generally effective for derivative instruments, including derivative instruments embedded in certain contracts, entered into or modified after June 30, 2003. The adoption of SFAS 149 did not have a material impact on the operating results or financial condition of the Company.
- In May 2003, the FASB issued SFAS 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. SFAS 150 clarifies the accounting for certain financial instruments with characteristics of both liabilities and equity and requires that those instruments be classified as liabilities in statements of financial position. Previously, many of those financial instruments were classified as equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS 150 resulted in the reclassification of \$5 million of redeemable preferred stock from mezzanine capital to liabilities.
- In December 2003, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition. SAB 104 revises or rescinds portions of the interpretive guidance included in Topic 13 of the codification

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of staff accounting bulletins in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The adoption of SAB 104 did not have a material effect on the Company's results of operations or financial position.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

2. Significant Accounting Policies Continued

Stock-Based Compensation

The Company accounts for stock options granted to employees under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations, and has adopted the disclosure-only provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized in the financial statements, as all options granted under those plans had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant. Had the Company's options 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,		
	2003	2002	
Net income (loss) applicable to common shareholders - as reported	\$ (1,660,885)	\$ 28,975,683	\$ (6
Deduct total stock based employee compensation expense determined under fair value based method for all awards, net of related taxes	(9,791)	(63,935)	
Net income (loss) - pro forma	\$ (1,670,676)	\$ 28,911,748	\$ (6
Diluted income (loss) per share - as reported	\$ (.06)	\$ 1.14	\$
Diluted income (loss) per share - pro forma	\$ (.06)	\$ 1.14	\$

No stock options were granted in 2003, 2002, or 2001.

Reclassifications

Certain amounts in the 2002 and 2001 consolidated financial statements have been reclassified to conform with

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classifications adopted in the current year.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

3. Settlement of MCNIC Obligations
- Crown Distribution
As of December 31, 2001, Crown Distribution owed amounts as follows to its 49.99% owner, MCNIC:
- o Working capital loan in the amount of \$14,935,222
 - o Accrued interest on the working capital loan of \$4,884,401
 - o Preferential loan in the amount of \$5,325,723
 - o Accrued interest on such preferential debt of \$2,429,405

During 2001, pursuant to an arbitration judgment (see note 15), the debts owed to MCNIC were determined to be in default. The default on the working capital loan resulted in a default interest rate of 18% retroactively from December 31, 1999, compounded annually, on \$5,810,581 of the outstanding amount, and an interest rate of 8% on the remaining balance of \$9,124,641. The preferential debt continued to accrue interest at 15%. As part of the arbitration judgment, an additional \$2,609,519 in fees and costs was awarded to MCNIC.

In March 2002, the Company entered into a settlement agreement with MCNIC (see note 15), in which the Company obtained the option to purchase all of MCNIC's rights, title and interests in Crown Distribution (including its right to above-mentioned award rendered in the arbitration judgment), in exchange for \$5.5 million.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

3. Settlement of MCNIC Obligations Continued
- Crown Distribution - Continued
The Company was unable to pay the purchase price of \$5.5 million and therefore entered into additional settlement discussions with MCNIC. In October 2002, the Company reached a final settlement agreement with MCNIC (see note 15) in which CAPCO purchased MCNIC's interest in CAD in exchange for \$2 million, receivables of \$146,781, and CAC's 1% overriding royalty in Crown Ridge. As part of the settlement, MCNIC released its rights to all debt due to MCNIC, including the working capital loan of \$14,935,222, related interest on the working capital loan of \$6,359,115, the preferential debt of \$5,325,723, accrued interest on the preferential debt of

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\$3,061,926, and legal fees and costs of \$2,609,519. Therefore, the balance at December 31, 2002 of the working capital loan, accrued interest on the working capital loan, the preferential debt, accrued interest on the preferential debt, and the accrued amounts for the above mentioned fees and costs were \$0. The gain associated with this settlement of \$30,144,724, calculated as the difference between the liabilities settled and the value paid was recorded as an extraordinary gain on extinguishment of debt.

Crown Ridge

As of December 31, 2001, CAC, a wholly-owned subsidiary, owed MCNIC, in the form of a note payable, \$2,970,469. As part of the above-mentioned March 2002 settlement, the Company, through its CAC subsidiary, transferred its ownership in Crown Ridge to MCNIC in exchange for MCNIC's assumption of certain liabilities, including \$2,998,175 of the debt and related interest owed by CAC to MCNIC, and a 1% overriding royalty interest in the sales proceeds received by Crown Ridge. In connection with this settlement, the Company recognized a gain on the transfer of its ownership in Crown Ridge, which had a book basis of \$0, of \$2,998,175.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

4. Property, Plant and Equipment
- The following is a summary of property, plant, and equipment as of December 31:
- | | 2003 | 2002 |
|---|--------------|--------------|
| Land | \$ 1,000,000 | \$ 1,000,000 |
| Plant and improvements and tankage | 10,265,166 | 9,762,598 |
| Computer equipment, furniture, and fixtures | 336,260 | 391,386 |
| Vehicles | 29,148 | 29,148 |
|
 | | |
| Total property, plant, and equipment | 11,630,574 | 11,183,132 |
| Less accumulated depreciation | (2,994,833) | (2,234,100) |
|
 | | |
| Total | \$ 8,635,741 | \$ 8,949,032 |
5. 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 sand products. The joint venture resulted in the formation of Crown Asphalt Ridge, L.L.C. ("Crown Ridge"). MCNIC and the Company initially owned interests of 75% and 25%, respectively, in the profits and losses of Crown Ridge.

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During the year ended December 31, 2000, the Company evaluated the carrying value of its investments in and advances to Crown Ridge and determined that its investment in and advances to Crown Ridge were impaired. Accordingly, an aggregate non-cash expense for the impairment of \$6,904,085 was recorded.

In March 2002, in accordance with a settlement agreement entered into by CAC with MCNIC (see notes 3 and 15), CAC transferred its interest in Crown Ridge to MCNIC in exchange for MCNIC's assumption of certain liabilities of CAC. In connection with this transaction, the Company recorded a gain of \$2,998,175.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

6. Intangibles Intangible assets consist of the following:

	December 31,	
	2003	2002
Non-compete agreement	\$ 250,000	\$ 250,000
Accumulated amortization	(250,000)	(225,000)
	\$ -	\$ 25,000

At December 31, 2002 the Company re-assessed the recoverability of goodwill associated with its Rawlin's facility. Based on a current appraisal of the facility based on an income approach, the Company determined that the goodwill was not recoverable and recorded an impairment loss of \$265,430.

7. Long-term Debt Long-term debt consists of the following at December 31:

	2003	2002
Note payable with interest at prime plus 1% (5% at December 31, 2003) to a bank, in monthly principal and interest payments until the debt matures in May 2014, secured by assets at Rawlins Terminal.	\$ 1,532,112	\$ 1,644,377
Note payable to a company with interest at 9%, payable in 84 equal monthly principal and interest installments of \$20,627, maturing January 1, 2006, secured by assets at the Cowboy Terminal Facility.	468,627	664,308

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Note payable with interest at 8.77%, due in monthly installments of \$8,200, maturing in May 2008, secured by assets as the Rawlins Terminal.

356,691

-

Note payable 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, maturing in November 2010, secured by property and equipment

203,042

224,405

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

7. Long-term Continued	Deferred Debt purchase price on Rawlins Terminal acquisition with interest at the LIBOR rate (1.12% at December 31, 2003), due in monthly installments through February 2010.	25,000	225,000
	Oriental New Investments, Ltd. Litigation settlement with interest at 10% due in two installments of \$10,000 and \$15,000 on December 31, 2004 and 2005, respectively.	25,000	-
	Note payable with interest at 9.59% to a bank, due in monthly principal and interest payments until the debt matures in June 2007, secured by assets at the Cowboy Terminal	17,635	21,603
	Capital leases (see note 8)	20,715	86,565
	Total	2,648,822	2,866,258
	Less estimated current portion	(483,245)	(423,585)
	Long-term portion	\$ 2,165,577	\$ 2,442,673

The schedule maturities of long-term debt at December 31, 2003 are as follows:

Year Ending December 31:

2004	\$ 483,245
2005	468,558
2006	251,913
2007	246,325
2008	198,829
Thereafter	999,952
Total	\$ 2,648,822

8. Capital Lease Obligations The Company leases equipment under capital lease agreements. The leases provide the Company the option to purchase the

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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 \$213,000 and \$211,000 and accumulated amortization of approximately \$122,000 and \$57,000 at December 31, 2003 and 2002, respectively.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

8. Capital Lease Obligations Continued Amortization expense for the equipment under capital lease for the years ended December 31, 2003, 2002, and 2001 was approximately \$109,000, \$30,000, and \$27,000, respectively. Future minimum payments on the capital lease obligations are as follows:

Year Ending December 31:	

2004	\$ 16,676
2005	4,266

	20,942
Less amount representing interest	(227)

Present value of future minimum capital lease payments	\$ 20,715
	=====

9. 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, 2003 are as follows:

Year Ending December 31:	

2004	\$ 388,531
2005	385,890
2006	334,890
2007	325,890
2008	108,630
Thereafter	-

Total	\$ 1,543,831
	=====

Lease expense for the years ended December 31, 2003, 2002, and 2001 totaled \$459,093, \$782,332, and \$1,046,000, respectively.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

10. Redeemable Redeemable preferred stock consists of 500,000 issued and

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Preferred
Stock

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 \$47,169, \$56,604 and \$56,604 for the years ended December 31, 2002, 2001, and 2000, respectively, toward the stated and liquidation value of \$5,000,000. At December 31, 2003, and 2002 the redeemable preferred stock had a balance of \$5,000,000.

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. The Series A Preferred shares were sold to an entity majority - owned and controlled by the Company's CEO. 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 or common shares of the Company at the option of the holder. During 2002, the Company paid dividends of \$400,000 in cash and \$200,000 in common stock to an entity controlled by the Company's CEO. At December 31, 2003 and 2002 the Company owed \$1,400,000 and \$1,000,000, 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

10. 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

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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 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.

11. Stock Options
 Options and Warrants
- 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 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

11. Stock Options and Warrants
 Continued
- A summary of the stock option and warrant activity for fiscal years 2003, 2002, and 2001 is as follows:

	Options		Warrant	
	Weighted Number of Shares	Average Exercise Price	Weighted Number of Shares	E
Outstanding at January 1, 2001	3,063,148	.88	400,000	
Granted	-	-	-	
Forfeited	(300,000)	1.05	-	
Outstanding at December 31, 2001	2,763,148	.33	400,000	
Granted	-	-	925,771	
Forfeited	(100,000)	1.00	-	
Outstanding at December 31, 2002	2,663,148	.30	1,325,771	.0
Granted	-	-	-	
Forfeited	(75,000)	1.50	(400,000)	
Outstanding at December 31, 2003	2,588,148	\$.29	925,771	\$

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The following table summarizes information about stock options and warrants outstanding at December 31, 2003:

Outstanding				
Range of Exercisable Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Nu Exerc
\$.002	925,771	3.87	\$.002	92
.10 - .13	1,540,000	5.65	0.12	1,54
.38 - 1.13	1,048,148	3.00	0.54	1,04
\$.002 to 1.13	3,513,919	4.49	\$ 0.22	3,20

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

- | | |
|--|--|
| 11. Stock Options and Warrants Continued | <p>Common Stock Warrant</p> <p>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 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 has been accreted over the five-year period from the date of issuance to the earliest exercise date of the warrant.</p> <p>Upon the fifth anniversary of the issuance of the preferred stock, in accordance with the preferred stock agreement, the warrant became exercisable into 925,771 shares of common stock, the maximum number of shares of common allowed under the agreement, at \$.002 per share. The warrants expire in 2007.</p> |
| 12. Impairment on Long-Lived Assets | <p>As of December 31, 2002, the Company revaluated the carrying value of its Gadsby terminal facility located in Salt Lake City, Utah operated under its CAD subsidiary. In 2002 the Company, entered into a plea and abeyance agreement with the City of Salt Lake to cease its manufacturing operations at that location for at least one year because of an odor violation of the City's ordinance. The Company determined that it would no longer manufacture asphalt from that facility but use it as a shipping and receiving location for its products. The Company determined that the equipment at the facility solely related to the manufacturing process would not have significant value apart from the facility based on estimated net present value of future cash flows to be derived from the operation of those manufacturing assets. Accordingly, an aggregate non-cash expense for the impairment of plant and</p> |

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equipment in the amount of \$544,639 was recognized in 2002.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

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

	2003	2002	2001
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,		
	2003	2002	2001
Income (loss) before income taxes and minority interest - computed tax at the expected federal statutory rate, 34%	\$ (429,000)	\$ 9,988,000	\$ (2,205,000)
State income taxes, net of federal income tax benefits	(34,000)	881,000	(194,000)
Goodwill impairment not deductible for tax purposes due to settlement with MCNIC	-	321,000	
Joint venture affiliate share of gain for tax purposes	-	(5,577,000)	
Permanent difference on disposal of assets	-	(1,352,000)	
Minority interest	19,000	259,000	1,605,000
Expiration of net operating losses	-	20,000	22,000
Other	70,000	170,000	36,000
Change in valuation reserve	374,000	(4,710,000)	736,000

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Total income tax benefit	\$	-	\$	-	\$
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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

13. Income Taxes Deferred tax assets (liabilities) are comprised of the
Continued following:

	December 31,	
	2003	2002
Net operating loss carryforwards	\$ 4,121,000	\$ 3,616,000
Allowance for doubtful accounts	61,000	65,000
Capital loss carryforwards	203,000	203,000
Amortization and impairments of goodwill	137,000	85,000
Depreciation	(784,000)	(618,000)
Other	34,000	47,000
Valuation allowance	(3,772,000)	(3,398,000)
	\$ -	\$ -

The Company has available at December 31, 2003, unused tax operating loss carryforwards of approximately \$12.4 million which may be applied against future taxable income and expire in varying amounts through 2012.

14. Related During 1998, 946,296 options were exercised by officers of the
Party Company through an 8% common stock subscription receivable in
Transactions the amount of \$549,166. The respective receivable was
Not Otherwise reflected as a reduction in common stockholders' equity
Disclosed (deficit). During the year ended December 31, 2002, the
subscription receivable was extinguished, by the Company, in
exchange for the 946,296 common shares issued in connection
with the original subscription receivable.
15. Commitments Litigation
and On May 24, 2002, Geneva Rock Products, Inc. filed a complaint
Contingencies against the Company in the Third Judicial District Court, Salt
Lake County, Utah. Geneva has alleged that the Company
supplied it with defective asphalt binder for approximately
four months in 1999. In this action, Geneva seeks to recover
damages, which it has indicated may exceed \$1,600,000 plus
interest, costs and attorneys' fees. The Company has denied
liability on all of Geneva's claims and believes that the
asphalt binder sold to Geneva met all applicable industry
standards and did not cause any of the problems on which
Geneva has based its claims. The litigation is currently in
the early discovery phase, and the Company is unaware of any
additional information that suggests that the asphalt binder

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was deficient. Because discovery has not been completed and due to the serious nature of Geneva's claims, the Company has no way of predicting whether it will ultimately prevail.

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CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

15. Commitments and Contingencies Continued Litigation - Continued
On December 20, 2001, Oriental New Investments, Ltd. served a complaint against the Company, which was filed in the Third Judicial District Court, Salt Lake County, Utah. The action relates to a 1997 convertible debenture and replacement convertible debenture issued by the Company to Oriental. The action sought to recover \$75,000 in liquidated damages, plus interest, or actual damages, and attorneys' fees and costs, for alleged breaches of the convertible debentures. While the Company denied any and all liability and believes that Oriental's claims are without merit, on December 8, 2003 the Company agreed to fully settle the matter. Pursuant to the settlement agreement, the Company paid New Oriental \$10,000 and agreed to pay an additional \$10,000 on or before December 31, 2004 and \$15,000 on or before December 31, 2005.

On April 9, 2003, S & L Industrial filed legal action against the Company in the Fifth Judicial District of Big Horn County, Wyoming. The action was removed to the United States District Court for Wyoming on May 20, 2003. In the action, S & L sought to recover amounts that the Company offset against the purchase price of the Rawlins, Wyoming facility in 1999 for items that were warranted by S & L pursuant to the terms of the asset purchase agreement. On November 19, 2003 the matter was fully settled. The Company paid S & L \$30,000 and agreed to pay an additional \$25,000 on or before December 15, 2004.

On May 22, 2003, GATX Financial Corporation filed a complaint against the Company in the Third Judicial District Court of Salt Lake County, Utah. The parties have fully settled the matter and the Company has agreed to pay GATX \$75,000 over a 36 month period.

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

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16. **Subsidiary Information** The Company operates in the asphalt production and distribution segment through the following subsidiaries:

Year Ended December 31, 2003

	CEC	Crown Asphalt Products Company	Crown Asphalt Distribution	CAT	Total
Revenues from external customers	\$ -	\$ 16,915,302	\$ 18,325	\$ 3,000	\$ 16,936,627
Gross profit (loss)	\$ -	\$ 582,371	\$ (391,445)	\$ (90,293)	\$ 100,633
Interest expense	\$ 92,085	\$ 133,456	\$ -	\$ 50,379	\$ 275,920
Depreciation and amortization	\$ 14,137	\$ 345,108	\$ 374,940	\$ 51,551	\$ 785,736
Subsidiary net income (loss)	\$ (220,284)	\$ (878,635)	\$ (61,108)	\$ (100,858)	\$ (1,260,885)
Subsidiary total assets	\$ 10,178,340	\$ 35,719,869	\$ 7,946,007	\$ 1,911,208	\$ 55,755,424

Year Ended December 31, 2002

	Crown Asphalt Distribution	Crown Asphalt Products Company	CEC and CAC	Total
Revenues from external customers	\$ 266,269	\$ 17,698,406	\$ -	\$ 17,964,675
Gross profit (loss)	\$ (1,200,552)	\$ 1,667,562	\$ -	\$ 467,010
Interest expense	\$ 2,179,691	\$ 129,573	\$ 95,299	\$ 2,404,563
Depreciation and amortization	\$ 553,411	\$ 199,457	\$ 30,798	\$ 783,666
Subsidiary net income (loss)	\$ (2,541,181)	\$ 29,374,116	\$ 2,542,748	\$ 29,375,683
Subsidiary total assets	\$ 10,318,775	\$ 37,335,055	\$ 5,854,170	\$ 53,508,000

Year Ended December 31, 2001

	Crown Asphalt Distribution	Crown Asphalt Products Company	CEC and CAC	Total
Revenues from external customers	\$ 572,965	\$ 26,459,693	\$ -	\$ 27,032,658
Gross profit (loss)	\$ (1,838,969)	\$ 4,745,437	\$ -	\$ 2,906,468
Interest expense	\$ 3,411,221	\$ 232,360	\$ 375,157	\$ 4,018,738
Depreciation and amortization	\$ 566,241	\$ 169,407	\$ 27,959	\$ 763,607
Subsidiary net loss	\$ (9,191,518)	\$ 3,090,477	\$ (386,940)	\$ (6,487,981)
Subsidiary total assets	\$ 11,009,753	\$ 7,981,851	\$ 16,322,244	\$ 2,669,360

CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

16. Subsidiary
Information
Continued

	2003	2002
Reconciliation of assets:		
Total assets for individual subsidiaries	\$ 55,755,424	\$ 53,508,000
Elimination of investment in subsidiaries	(40,215,023)	(40,049,177)
Elimination of intercompany receivables	(4,463,408)	(184,027)
Total consolidated assets	\$ 11,076,993	\$ 13,274,796

During 2003, 2002 and 2001, 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.

17. 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, 2003, 2002, and 2001 totaled approximately \$29,000, \$35,000, and \$35,000, respectively.

CROWN ENERGY CORPORATION
Notes to Consolidated Financial Statements
Continued

18. Subsequent
Event

On June 7, 2004, the Company entered into an agreement with an unrelated asphalt distribution firm headquartered in Idaho to organize a joint venture that will be owned 51% by the other firm and 49% by the Company. Substantially all of the Company's asphalt business and operation assets with a net book value of approximately \$8.5 million, will be transferred to the joint venture entity in consideration of a promissory note for \$7.5 million, the payment of which will be largely contingent upon the joint venture having earnings sufficient to permit such payment, assumption of debt of approximately \$2.3 million, and a 49% interest in the joint venture entity.

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In addition, the other joint venture participant will provide the joint venture with an operating line of credit of up to \$4 million through the end of calendar year 2004, which may be extended in subsequent years at the election of the joint venture partner. In anticipation of completing this transaction, on May 17, 2004, the joint venture partner provided the Company with a \$1.4 million interim operating line of credit, secured by the Company's inventory, work in progress, finished goods and accounts receivable. Formation of the joint venture is contingent on a number of factors, including approval by the Company's stockholders, a majority of which have indicated that they intend to do so.

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