

our strategic focus

Syntroleum Corporation is an energy technology company. We originally developed the Syntroleum Process to address the petroleum industry's need to monetize the vast reserves of remote, shut-in natural gas around the world. The Process accomplishes this by converting stranded gas into liquids that can be shipped in conventional oil transportation facilities and sold in world commodity markets. The Process employs a simpler, safer and more flexible design that reduces both capital and operating costs compared to earlier gas-to-liquids (GTL) technologies. Plants using the Syntroleum Process can produce superior ultra-clean fuels for use in diesel, gasoline and jet engines, as well as in fuel cells, which are essentially free of sulfur, aromatics, and heavy metals. They can also produce specialty products such as synthetic lubricants and high-value chemical feedstocks. Thus, a solution to the problem of stranded gas also turns out to be a new tool to help solve industry's other principal problem: upgrading existing fuels to meet low-sulfur specifications required for the cleaner-burning engines of the near and long-term future. Our unwavering objective is to become the premier provider of GTL technology to the global energy and transportation industries. Today, in pursuit of that objective, Syntroleum and its partners are proceeding with engineering and costing for our first commercial plant, planned for Australia.

Syntroleum's strategy for success

- > Licensing the Syntroleum Process to others. Current licensees include ARCO, Enron, Ivanhoe Energy, Kerr-McGee, Marathon, Texaco, Repsol/YPF. We also have a letter of intent with the Commonwealth of Australia to license the Syntroleum Process.
- > Building and owning GTL plants that produce specialty products and fuels via the Syntroleum Process. Our Sweetwater Project, currently under development, is the first example of this activity.
- > Continuing development of new markets for Syntroleum fuels and specialty products in order to promote the construction of GTL plants by our licensees and create demand for the products from our own GTL plants.
- > Continuing to drive GTL capital and operating costs down as rapidly as possible through research and development, alone and with others. Improved reactor designs, new catalyst formulations and numerous patents related to the novel integration of plant components are recent examples.

SUMMARY FINANCIAL DATA

(\$000s)

<i>Year ended December 31,</i>	1999	1998	1997
BALANCE SHEET			
Working Capital	\$22,798	\$37,476	\$ 9,846
Total Assets	39,591	50,400	12,091
Stockholders' Equity	24,832	35,962	(1,242)
STATEMENT OF OPERATIONS			
Joint Development Revenue	1,986	1,779	2,006
Total Revenue	3,855	4,479	2,007
Total Operating Expenses	22,877	17,498	11,972
Net Income (loss)	(17,158)	(11,711)	(9,612)

ADDITIONAL DATA

Licensees	7	4	4
Lab Reactors	21	20	12
Patents Issued/Pending	80	73	43
Employees	73	62	37

Investing for the Future.

To our shareholders



Syntroleum made significant progress toward the goals outlined in the strategic plan in last year's report.

During 1999, our 15th year in business and our second year as a publicly traded company, Syntroleum Corporation moved forward along three strategic tracks. Specifically, we:

- > **Commenced engineering work for the design and construction of our first commercial GTL specialty products plant, which will be built on Western Australia's Burrup Peninsula;**
- > **Successfully tested our moving bed reactor technology with the ARCO Cherry Point Project, which has been in operation since August 1999; and**
- > **Progressed in developing additional markets for the premium, high-quality chemicals and fuels that will be produced in our plants and those of our licensees.**

The pieces are falling into place for our Sweetwater Project. We signed contracts in February of 2000 for a gas supply and obtained approval for the plant site on the Burrup Peninsula of Australia. In November 1999, we signed an agreement with TESSAG, a major international contractor, for the front end engineering, design and costing phase of the project. This work is underway. The completed work should open the way for a firm project construction cost and substantial performance guarantees, all critical steps toward securing financing for the project.

In February 2000, we announced the pending addition of the Commonwealth of Australia to the list of six major international companies already licensed to build Syntroleum fuels plants. When executed, this will be our first country license and represents another important step forward.

Our research and development efforts also made progress in 1999, advancing our moving bed technology, which should further lower plant capital costs. The performance of the large demonstration plant at ARCO's Cherry Point, Washington, refinery has exceeded our expectations. The results of this project should provide the data needed for the confident scale-up of this new design to commercial-scale plant sizes of 10,000 barrels per day and larger.

In addition, recovery of the global crude oil market brought renewed activity by owners of stranded gas reserves. Prospective licensees are looking for a technology that will enable them to exploit shut-in gas fields, associated gas now being flared or recycled, and new oil discoveries whose development is deferred because flaring is no longer permitted. Our value to our licensees was further enhanced by a recent report we commissioned from Gaffney, Cline & Associates, a leading reserve auditing firm, which outlined the basis on which companies with access to our technology may be able to recognize presently stranded natural gas reserves. This represents significant value that these companies could potentially realize through the use of GTL technology.



KENNETH L. AGEE, *Chairman/CEO (seated)*
MARK A. AGEE, *President/COO*

Backlog for potential GTL projects also grew during 1999, driven in part by recent large discoveries in remote areas such as offshore West Africa. Pressures to exploit these new finds, we believe, create significant opportunities for our technology. The urgency to reduce emissions of greenhouse gases is further incentive. These needs must be addressed regardless of future fluctuations in crude prices.

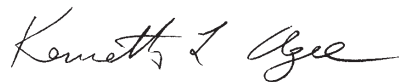
At the same time, market forces, tightening environmental rules and the promise of fuel cell technology continue to boost the immediate and longer-term demand for low-sulfur fuels. Several Syntroleum research projects are expanding horizons still further for Syntroleum's ultra-clean fuels. For refiners, Syntroleum GTL plants also offer an attractive alternative to massive refinery desulfurization investments to produce these clean fuels. Of the other alternatives under review – natural gas, methanol, ethanol, propane, and soy diesel – none is in a position to play a major role in fueling the lower-emission engines of the future. However, in joint tests with the automotive industry and national testing laboratories, Syntroleum designer fuels have demonstrated their readiness for such a role.

Through the judicious reinvestment of funds from our merger with SLH Corporation in August 1998, we made progress on all these fronts last year. We also invested in people, adding several highly qualified scientists and business professionals to our ranks, improved

and expanded our research laboratory, and made several enhancements to our pilot plant and demonstration facilities. Together, these investments have enabled us to advance key facets of our technology and our business plan. While reflected as operating expenses on our income statements, these seed investments are laying a solid foundation for operating revenues in the future.

Rapid change is restructuring the petroleum industry. As an energy technology provider that offers compelling and commercially viable solutions, Syntroleum is well positioned to capitalize on this dynamic change.

With our network of licensees, technology partners, employees and stockholders, we are working to make GTL technology an integral and essential part of the energy industry. By enabling the conversion of presently idle assets into extremely valuable products, we intend to preserve and expand our customers' markets – and create value for all of us. We appreciate your continued support and confidence in our future.



KENNETH L. AGEE
Chairman and CEO



MARK A. AGEE
President and COO



pioneering technology

Sweetwater:

Our first commercial plant

We have made considerable progress in the development of our Sweetwater Project. Understandings with Australian state and national authorities early this year provided a substantial boost. While subject to definitive documentation, these understandings include:

- An infrastructure package of AUD\$30 (approximately US\$19) million from the state government of Western Australia, where the plant is to be located, for the construction of a desalinization plant, access roads and site improvements.
- A 25-year interest-free technology loan of AUD\$40 (approximately US\$25)

million from the Australian Government to support development of Syntroleum GTL technology in Australia.

- *A payment of AUD\$30 (approximately US\$19) million from the Australian Government a license to the proprietary Syntroleum Process for GTL synthetic fuels plants.*
- *A commitment by Syntroleum to conduct a feasibility study for the construction of a large-scale GTL fuels plant in Australia.*

Meanwhile, TESSAG Industrie-Anlagen GmbH (formerly known as Klockner), a member of the \$35-billion RWE group in Germany,

is proceeding with engineering and costing under a project development contract signed last November. The parties have agreed to finalize a fixed-price engineering, procurement and construction (EPC) contract under which TESSAG will provide significant plant performance guarantees. We expect the results of this work will enable us to secure attractive debt financing for the project later this year.

Sweetwater will have a design capacity of 10,000 barrels per day. The plant will convert approximately 100 million cubic feet of natural gas daily into high margin products such as synthetic lubricants, drilling fluids, liquid normal paraffins and designer fuels.

strong alliances

leadership strategy

process licensing

>> >

will be located on Australia's Burrup Peninsula.





**fuels for
the future**

>> >



Successful tests of our moving bed technology at the Cherry Point demonstration plant represent another milestone toward lowering the cost of our technology to produce GTL designer fuels. Results of these tests at ARCO's Cherry Point refinery near Bellingham, Washington exceeded our expectations.

The 70-barrel per day pilot plant achieved initial operating targets in tests of the new reactor design and high performance Fischer-Tropsch catalysts for the Syntroleum Process. The successful integration of the new catalyst system and the advanced reactor design represents a major step towards being able to commercialize this important technology. We expect that the knowledge gained in this plant

will further lower capital costs for GTL projects – especially for large facilities in the 10,000 – 20,000 barrels per day and larger sizes.

In the months ahead, we expect to be assisting all of our licensees with evaluating this new technology for their individual plans in a variety of configurations and locations. As an illustration, the trade press continues to mention GTL as having a role in remote locations such as the North Slope of Alaska, Africa, the Middle East, Latin America, and Asia. Under our understanding with Australia, we will complete a feasibility study for a large-scale GTL fuels plant in that country, using this new technology.

As part of our efforts to improve our process, we have made and tested hundreds of F-T catalysts

in our own laboratories. These tests and others are the product of expanded resources – world-class research and development facilities and additional highly qualified personnel – made possible by the investments of our stockholders.

Our progress further reflects the power of the combined resources of our network model – our licensees, joint development partners, engineering contractors, and equipment and catalyst manufacturers, plus strong working relationships with potential users of GTL products in the transportation and power industries. We stand ready as technology providers to the petroleum industry with the resources to assist owners of gas reserves in the development of GTL projects worldwide.

Fischer-Tropsch

GTL

world-class facilities

Cherry Point:

**demonstration plant located at
ARCO's Cherry Point refinery, Washington.**





**market
expansion**

Market forces and demands for cleaner air are rewriting the rules. Even before new regulations are fully implemented, the switch to lower sulfur fuels has already begun. We expect this momentum to accelerate in advance of a new generation of vehicles and fuels specifications expected no later than 2004.

Lucrative markets await technologies that can produce products that satisfy these strict requirements. Oil and gas companies are searching for tools to turn the problems of stranded gas and the need to produce

cleaner fuels into opportunities. In addition to offering such tools, we are moving aggressively with research and strategic alliances to carve out a major role for the products of our GTL plants and our licensees' plants in several markets:

Our projects with DaimlerChrysler.

We made a significant statement in nationwide driving tests of the low-emission Dodge PowerWagon last year. Syntroleum's designer fuel worked to perfection. We didn't have to modify the fuel

or the engine, and the vehicle ran virtually smoke free.

Early this year, we gained further recognition when DaimlerChrysler unveiled its high-mileage/low-emission diesel/electric hybrid vehicle. The Dodge EXS3, developed for the government/industry Partnership for a New Generation of Vehicles (PNGV) program, passed even stiffer emission tests and achieved 72 mpg — also using Syntroleum fuel as its fuel of choice.

DaimlerChrysler:
Dodge PowerWagon



cleaner air

Dodge PowerWagon

low-emission

>> >

Alternative fuels:

Energy Policy Act of 1992.

Energy Policy Act of 1992 (EPACT) alternative fuels.

By law, federal, state and municipal vehicle fleets must use alternative (non-petroleum) fuels in a steadily increasing percentage of their fleet. By 2010, this is expected to translate into a potential market of 600,000 barrels per day for fuels that qualify. Syntroleum has been gathering the necessary test data on our synthetic diesel fuels at Southwest Research Institute, in order to apply to the Department of Energy for alternative fuel certification of Syntroleum designer fuels.

Fuel cells first for residential and remote power generation, then vehicles.

Successful tests at Argonne laboratories, Northwest Power Systems and by Epyx Corp. establish Syntroleum designer fuel as a leading contender to supply the fuel for fuel cells in the power generation and transportation markets. GTL products have the edge on several counts. They offer fuels with high hydrogen density, virtually zero sulfur content, and compatibility with the existing fuel distribution infrastructure forward and backward – and can be made in the large volumes that will

be needed for many decades to come. A product that is able to deliver on all these counts could set the universal standard for the future.

The rules are indeed changing. Advanced automotive and emission controls technologies are ready. But they won't work without ultra-clean fuels. The energy technology companies that can enable the supply of these fuels will be important players in the new energy economy of the 21st century.



DaimlerChrysler:
Dodge EX3

alternative fuels

fuel cells

DOE certification

Fuel cells:

residential and power generation,

then vehicles.

financial section

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The selected consolidated financial data presented below is derived from our audited consolidated financial statements. This information should be read along with the consolidated financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this annual report. The results of operations of SLH Corporation have been included in our consolidated statement of operations following the August 7, 1998 effective date of the merger of Syntroleum Corporation and SLH Corporation. The selected consolidated financial data provided below is not necessarily indicative of our future results of operations or financial performance.

(in thousands, except for per share data)

		Year Ended December 31,				
	1999	1998	1997	1996	1995	
Statement of Operations Data:						
Joint development revenue	\$ 1,986	\$ 1,779	\$ 2,006	\$ 616	\$ 45	
Real estate sales revenue	1,219	2,416	-	-	-	
Other revenue	650	284	1	-	-	
Total revenues	3,855	4,479	2,007	616	45	
Costs and expenses:						
Cost of real estate sold	824	2,387	-	-	-	
Real estate operating expenses	781	267	-	-	-	
Pilot plant, engineering and research and development	10,863	5,693	3,554	1,120	671	
Catalyst services	-	-	4,800	-	-	
General and administrative	10,409	9,151	3,618	1,421	580	
Total operating expenses	22,877	17,498	11,972	2,541	1,251	
Operating income (loss)	(19,022)	(13,019)	(9,965)	(1,925)	(1,206)	
Investment, interest and other income (expense)	1,864	1,308	353	(12)	60	
Net income (loss)	\$ (17,158)	\$ (11,711)	\$ (9,612)	\$ (1,937)	\$ (1,146)	
Net income (loss) per share – basic and diluted	\$ (0.64)	\$ (0.46)	\$ (0.40)	\$ (0.08)	\$ (0.06)	

(in thousands)

		As of December 31,				
	1999	1998	1997	1996	1995	
Balance Sheet Data:						
Working capital	\$ 22,798	\$ 37,476	\$ 9,846	\$ 601	\$ (410)	
Property and equipment, net	6,442	3,210	1,245	521	507	
Total assets	39,591	50,400	12,091	1,552	873	
Deferred revenue	11,000	11,000	11,000	-	-	
Stockholders' equity	24,832	35,962	(1,242)	266	203	

OVERVIEW

In August 1998, Syntroleum Corporation, an Oklahoma corporation, merged into SLH Corporation, a Kansas corporation. SLH Corporation was the surviving corporation and changed its name to Syntroleum Corporation in connection with the merger. This merger was accounted for as a reverse acquisition, with Syntroleum Corporation, an Oklahoma corporation, being treated as the accounting acquiror. The results of operations of SLH Corporation have been included in our financial results since completion of the merger.

In June 1999, we completed a reincorporation as a Delaware corporation. In the reincorporation, our predecessor, Syntroleum Corporation, a Kansas corporation, merged into a wholly owned Delaware subsidiary, and each share of our predecessor's common stock was converted into one share of the Delaware corporation's common stock. The Delaware corporation was the surviving corporation in the merger. The reincorporation merger has been accounted for as a combination of entities under common control using the historical cost basis of the combining companies as if it were a pooling-of-interests.

Because we are incurring costs with respect to developing and commercializing the Syntroleum Process and do not anticipate recognizing any significant revenues from licensing our technology or from production from a specialty plant in the near future, we expect to continue to operate at a loss unless and until sufficient revenues are recognized from licensing activities, GTL plants or real estate sales.

OPERATING REVENUES

GENERAL. During the periods discussed below, our revenues were generated from the following:

- sales of real estate holdings owned by SLH Corporation prior to the merger of Syntroleum Corporation and SLH Corporation,
- reimbursement for research and development activities associated with the Syntroleum Process, and
- other sources, including rent generated by real estate holdings owned by SLH prior to the merger.

Because our real estate portfolio has been substantially sold, we expect to receive lower levels of revenues from these sources in following periods. In the future, we expect to receive revenue relating to the Syntroleum Process from four principal sources:

- licensing,
- catalyst sales,
- sales of products from GTL plants in which we own an equity interest, and
- revenues from research and development activities carried out with industry partners.

Until the commencement of commercial operation of GTL plants in which we own an interest, we expect that cash flow relating to the Syntroleum Process will consist primarily of license fee deposits, site license fees and revenues associated with joint development activities. We will not receive any cash flow from GTL plants in which we own an equity interest until the first of these plants is constructed. Our future operating revenues will depend on the successful commercial construction and operation of GTL plants based on the Syntroleum Process, the success of competing GTL technologies and other competing uses for natural gas. Our results of operations and cash flows are expected to be affected by changing crude oil, fuel and specialty product prices. If the price of these products increases (decreases), there could be a corresponding increase (decrease) in operating revenues.

LICENSE REVENUES. The revenue earned from licensing the Syntroleum Process is expected to be generated through four types of contracts: master license agreements, volume license agreements, regional license agreements and site license agreements. Master, volume and regional license agreements provide the licensee with the right to enter into site license agreements for individual GTL plants. A master license agreement grants broad geographic and volume rights, while volume license agreements limit the total production capacity of all GTL plants constructed under the

agreement to specified amounts, and regional license agreements limit the geographical rights of the licensee. Master, volume and regional license agreements require an up-front cash deposit that may offset or partially offset license fees for future plants payable under site licenses. We have acquired technology, commitment of funds for joint development activities, services or other consideration in lieu of the initial cash deposit in cases where we believed the technologies or commitments had a greater value.

Our site license agreements require fees to be paid in increments when milestones during the plant design and construction process are achieved. The amount of the license fee under our existing master and volume license agreements is determined pursuant to a formula based on the present value of the product of: (1) the yearly maximum design capacity of the plant, (2) an assumed life of the plant and (3) our per barrel rate, which currently is approximately \$.50 per barrel of daily capacity, regardless of plant capacity. Our licensee fees may change from time to time based on the size of the plant, improvements that reduce plant capital cost and competitive market conditions. Our existing master and volume license agreements allow for the adjustment of fees for new site licenses under certain circumstances. Our accounting policy is to defer all up-front deposits under master, volume and regional license agreements and license fees under site license agreements and recognize 50% of the deposits and fees as revenue in the period in which the engineering process design package for a plant licensed under the agreement is delivered and recognize the other 50% of the deposits and fees when the plant has passed the performance tests. The amount of license revenue we earn will be dependent on the construction of plants by licensees, as well as the number of licenses we sell in the future.

CATALYST REVENUES. We expect to earn revenue from the sale of our proprietary catalysts to our licensees. Our license agreements require our catalyst to be used in the initial fill for the licensee to receive our process guarantee. After the initial fill, the licensee may use other catalyst vendors if appropriate catalysts are available. The price for catalysts purchased from us pursuant to license agreements is equal to our cost plus a specified margin. We will receive revenue from catalyst sales if and when our licensees purchase catalysts. We expect that catalysts will need to be replaced every three to five years.

GTL PLANT REVENUES. We intend to develop several GTL plants and retain significant equity interests in these plants. These plants will enable us to gain experience with the commercial operation of the Syntroleum Process and, if successful, are expected to provide ongoing revenues. The anticipated products of these plants (i.e., fuels, synthetic lube base oils, process oils, waxes, synthetic drilling fluid and liquid normal paraffins) have historically been sold at

premium prices and are expected to result in relatively high margins for these plants. We anticipate forming several joint ventures with energy industry and financial partners in order to finance and operate these plants. We anticipate that our GTL plants will include partners who have low-cost gas reserves in strategic locations and/or have distribution networks in place for the specialty products to be made in each plant.

JOINT DEVELOPMENT REVENUES. We continually conduct research and development activities in order to reduce the capital and operating costs of GTL plants based on the Syntroleum Process. We conduct our research and development activities primarily through two initiatives: (1) independent development utilizing our own resources and (2) formal joint development arrangements with our licensee partners and others. Through these joint development agreements, we may receive revenue as reimbursement for specified portions of our research and development expenses. Under some of these agreements, the joint development partner may receive credits against future license fees for monies expended on joint research and development.

Real Estate Sales Revenues. As of December 31, 1999, our real estate inventory consisted of: (1) a seven-story parking garage in Reno, Nevada, which has subsequently been sold, (2) a 49.9% interest in a community shopping center in Gillette, Wyoming and (3) undeveloped land in Houston, Texas (300 acres of undeveloped land and 125 lots comprising the "Houston Project") and in Corinth, Texas (nine acres). This real estate inventory was owned by SLH Corporation prior to the merger of Syntroleum Corporation and SLH Corporation and reflects the remaining assets of a real estate development business that was conducted by SLH. Our total real estate inventory had an aggregate carrying value at December 31, 1999 of approximately \$6.0 million. All of our real estate inventory is held for sale except the Houston Project, which is being developed for commercial and residential use and ultimate sale. The timing of real estate sales will create variances in period-to-period earnings recognition. We do not intend to acquire additional real estate holdings for development and/or sale outside our core business interests, and real estate sales revenues should decrease as the current real estate inventory is liquidated.

In February 2000, we closed the sale of the Reno parking garage to Fitzgeralds Reno, Inc. The sale price was \$3 million, payable \$750,000 in cash at closing and the balance payable in the form of Fitzgeralds' promissory note in the principal amount of \$2,250,000. The note bears interest at the rate of 10% and is payable in monthly installments of principal and interest based on a 20-year amortization, with the entire unpaid balance due in 10 years. The note is secured by the ground lease on which the garage is located as well as the parking garage itself.

OPERATING EXPENSES

Our operating expenses historically have consisted primarily of pilot plant, engineering and research and development expenses and general and administrative expenses, which include costs associated with general corporate overhead, compensation expense, legal and accounting expense and expenses associated with other related administrative functions. Our policy is to expense pilot plant, engineering and research and development costs as incurred. All of these research and development expenses are associated with our development of the Syntroleum Process. We have also recognized depreciation and amortization expense primarily related to office and computer equipment. Following the merger of Syntroleum Corporation and SLH Corporation in 1998, our operating expenses have also included costs of real estate sold and real estate operating expense. Our general and administrative expenses have increased substantially, and we have expanded our research and development, engineering and commercial staffing levels. These expenses are expected to continue to increase. We also expect to continue to incur pilot plant, engineering and research and development expenses as we continue to develop and improve our GTL technology. In May 1998, we acquired a 16,500-square-foot laboratory located on approximately 100 acres at which we are increasing our laboratory space and where we plan to consolidate our pilot plant operations.

We expect to incur significant expenses in connection with the start-up of our GTL plants. For example, we expect that our expenses will increase at the time of commencement of construction of GTL plants in which we own an interest. Upon the commencement of commercial operation of GTL plants in which we own an equity interest, we will incur cost of sales expenses relating primarily to the cost of natural gas feedstocks for our specialty plants and operating expenses relating to these plants, including labor, supplies and maintenance. Due to the substantial capital expenditures associated with the construction of GTL plants, we expect to incur significant depreciation and amortization expense in the future.

RESULTS OF OPERATIONS

OVERVIEW

During 1999, we continued our efforts to commercialize our GTL technology on several fronts. We continued our joint participation with ARCO in a 70 barrel per day demonstration GTL plant located at ARCO's Cherry Point refinery in the State of Washington. The plant began operating in July 1999 and has been successfully operating since that time. Plant operations have exceeded our expectations and have successfully demonstrated a number of key aspects of our proprietary autothermal reformer and moving bed reactor designs and related catalyst performance. We continue to gather data and experience from plant operations which will

be useful in our efforts to apply these reactor designs on a commercial basis both for fuels and specialty product plants.

We continued our activities to confirm catalyst performance and reactor designs for our proposed Sweetwater Project. These activities included the construction and operation of new pilot scale Fischer-Tropsch reactors at our pilot plant in Tulsa, Oklahoma. Operation of these reactors will allow us to complete a battery of confirmation tests and begin detailed engineering of our proposed Sweetwater plant during the year 2000.

We also continued our efforts to advance numerous other aspects of the Sweetwater Project. In February 2000, we selected a site for the plant approximately 4 kilometers from the North West Shelf liquid natural gas facility on the Burrup Peninsula of Western Australia. In November 1999, we signed a project development agreement with TESSAG Industrie-Anlagen GmbH (formerly Klöckner Industrie-Anlagen GmbH), a wholly-owned subsidiary of RWE AG, to provide us with a fixed price for the design and construction of the Sweetwater plant. We entered into a letter of intent with the Commonwealth of Australia in February 2000 to license the Syntroleum Process as part of a program designed to unlock the value of Australia's energy reserves and improve the quality of the environment. Under this letter of intent, the Commonwealth would make an AUD\$30 million (approximately U.S.\$19 million) deposit, of which AUD\$20 million (approximately U.S.\$12.4 million) may be credited against future license fees. The letter of intent also provides that the Commonwealth would make an unsecured, interest-free loan in the amount of AUD\$40 million (approximately U.S.\$25 million) with a 25-year maturity to support the further development and commercialization of GTL technologies in Australia, and that we would conduct a feasibility study on constructing a large-scale GTL fuels plant in Australia. The transactions contemplated by our letter of intent with the Commonwealth are subject to the execution of definitive license and loan agreements.

In January 2000, we received \$2 million dollars from Methanex Corporation towards the cost of engineering work being performed by TESSAG pursuant to a letter of intent that provided for the contribution by Methanex of an additional \$43 million in exchange for an equity interest in the plant, subject to the execution of definitive agreements and the satisfaction of certain conditions. In May 2000, Methanex informed us that it was terminating its participation in the Sweetwater Project.

1999 COMPARED TO 1998

JOINT DEVELOPMENT REVENUE. Revenues from our joint research and development and pilot plant operations were \$1,986,000 in 1999, up \$207,000 from 1998 when they were \$1,779,000. The increase was primarily due to the funding received under the joint development agreement with ARCO relating to our pilot plant at their Cherry Point

refinery in Washington. This increase was partially offset by decreased revenues under our joint development agreement with Texaco as a result of the completion in 1998 of construction of the hybrid, multiphase (HMX) reactor at our pilot plant.

REAL ESTATE SALES REVENUE. Revenues from the sale of real estate were \$1,219,000 in 1999, down \$1,197,000 from \$2,416,000 in 1998. This decrease was the result of the sale of 38 lots in the Houston Project and the sale of the remaining land in Kansas City, Missouri during 1999 compared to the sale of the final three condominium units at our Quail Run development in Santa Fe, New Mexico, the sale of undeveloped land in Kansas City, Missouri and the sale of a boat slip in Florida during 1998. These revenues should continue to decrease as the remaining real estate inventory is sold.

OTHER REVENUE. Other revenues were \$650,000 in 1999, up \$366,000 from 1998 when they were \$284,000. The increase resulted primarily from parking and retail rentals at our parking garage in Reno, Nevada. We sold this parking garage during the first quarter of 2000 and we will no longer receive revenues from parking and retail rentals at this garage.

COST OF REAL ESTATE SOLD AND REAL ESTATE OPERATING EXPENSE. The cost of real estate sold was \$824,000 in 1999, down \$1,563,000 from \$2,387,000 in 1998. The decrease resulted from the sale of 38 lots in the Houston Project and the sale of the remaining land in Kansas City, Missouri. Our 1998 cost of sales included the sale of our remaining condominium units in New Mexico, the undeveloped land in Kansas City and the boat slip in Florida during 1998. Real estate operating expenses were \$781,000 during 1999, up \$514,000 from 1998 when they were \$267,000. This increase was primarily attributed to inclusion of a full year of expenses in 1999 as the merger with SLH occurred in August of 1998.

PILOT PLANT, ENGINEERING AND R&D. Expenses from pilot plant, engineering and research and development activities were \$10,863,000 in 1999, up \$5,170,000 from 1998 when these expenses were \$5,693,000. The increase occurred primarily as a result of the expansion of our Tulsa, Oklahoma pilot plant facility, the purchase of equipment for our recently acquired technology center in Tulsa, Oklahoma, higher research and development spending and higher outside engineering expense associated with our joint efforts with ARCO to design and construct the pilot plant at ARCO's Cherry Point refinery and our efforts to accelerate the preliminary design and operating parameters of the Sweetwater plant.

GENERAL AND ADMINISTRATIVE EXPENSE. General and administrative expenses were \$10,409,000 in 1999, up \$1,258,000 from 1998 when these expenses were \$9,151,000. The increase is attributable primarily to higher wages and salaries resulting from our increased staffing levels, increased rent expense and increased expense for outside consultants.

INVESTMENT, INTEREST AND OTHER INCOME (EXPENSE).

Investment, interest and other income increased to \$1,864,000 in 1999, up \$556,000 from 1998 when this income was \$1,308,000. The increase was primarily attributable to interest income from higher cash balances following the merger of Syntroleum Corporation and SLH Corporation.

PROVISION FOR INCOME TAXES. We incurred a loss in both 1999 and 1998 and did not recognize an income tax benefit for such loss.

NET INCOME. In 1999, we experienced a loss of \$17,158,000. The loss was \$5,447,000 higher than in 1998 when we experienced a loss of \$11,711,000. The increase in the loss is a result of the factors described above.

1998 COMPARED TO 1997

JOINT DEVELOPMENT REVENUE. Revenues from our joint research and development and pilot plant operations were \$1,779,000 in 1998, down \$227,000 from 1997 when they were \$2,006,000. The decrease was primarily due to the completion in 1998 of construction of the hybrid, multiphase (HMX) reactor at our pilot plant that was funded by Texaco under our joint development agreement.

REAL ESTATE SALES REVENUE. Revenues from the sale of real estate were \$2,416,000 in 1998, up from zero in 1997 when we had no real estate operations. This increase was the result of the sale of the final three condominium units at SLH's Quail Run development in Santa Fe, New Mexico, the sale of undeveloped land in Kansas City, Missouri and the sale of a boat slip in Florida.

OTHER REVENUE. Other revenues were \$284,000 in 1998, up \$283,000 from 1997 when they were \$1,000. The increase resulted primarily from parking and retail rentals at our parking garage in Reno, Nevada.

COST OF REAL ESTATE SOLD AND REAL ESTATE OPERATING EXPENSE. The cost of real estate sold was \$2,387,000 in 1998, up from zero in 1997 when we had no real estate operations. The increase resulted from the sale of the condominium units in New Mexico, the undeveloped land in Kansas City and the boat slip in Florida. Real estate operating expenses were \$267,000 in 1998 compared to zero in 1997 when we had no real estate operations.

PILOT PLANT, ENGINEERING AND R&D. Expenses from pilot plant, engineering and research and development activities were \$5,693,000 in 1998, up \$2,139,000 from 1997 when these expenses were \$3,554,000. The increase occurred as a result of our higher research and development spending and higher outside engineering expense, partially offset by lower operating costs associated with our development of the HMX reactor.

GENERAL AND ADMINISTRATIVE AND CATALYST SERVICES EXPENSE. General and administrative expenses were \$9,151,000 in 1998, up \$5,533,000 from 1997 when these expenses were \$3,618,000. The increase is attributable primarily to higher wages and salaries resulting from our

increased staffing levels, increased rent expense and increased expense for outside consultants. During 1997 Syntroleum incurred a \$4,800,000 catalyst services expense in connection with a transaction whereby: (1) Criterion exercised a portion of an option and purchased 167,000 shares (on a pre-merger basis) of Syntroleum's common stock for \$2,004,000, (2) Syntroleum and Criterion modified an agreement regarding future purchases of catalyst by Syntroleum and (3) Syntroleum and Criterion entered into an agreement pursuant to which Syntroleum issued 400,000 shares (on a pre-merger basis) of Syntroleum's common stock (valued at \$12.00 per share) to Criterion in consideration for all prior services rendered to and catalyst received by Syntroleum from Criterion and other consideration. Accordingly, this \$4,800,000 was expensed.

INVESTMENT, INTEREST AND OTHER INCOME (EXPENSE).

Investment, interest and other income increased to \$1,308,000 in 1998, up \$955,000 from 1997 when this income was \$353,000. The increase was primarily attributable to interest income from higher cash balances following the merger of Syntroleum Corporation with SLH Corporation.

PROVISION FOR INCOME TAXES. We incurred a loss in both 1998 and 1997 and did not recognize an income tax benefit for such loss.

NET INCOME. In 1998, we experienced a loss of \$11,711,000. The loss was \$2,099,000 higher than 1997 when we experienced a loss of \$9,612,000. The increase in the loss is as a result of the factors described above.

LIQUIDITY AND CAPITAL RESOURCES

GENERAL

As of December 31, 1999, we had \$23,881,000 in cash and short-term investments and \$2,641,000 in current liabilities. We do not currently have any material outstanding debt or lines of credit. Prior to the merger of Syntroleum Corporation and SLH Corporation in 1998, the primary sources of liquidity for Syntroleum Corporation were equity capital contributions and prepaid license fees and its principal liquidity needs were to fund expenditures relating to research and development and pilot plant activities and to fund working capital. As of December 31, 1999, we had \$748,000 in accounts receivable outstanding with our joint development partners relating to joint development activities.

Cash flows (used in) provided by operations were (\$16,599,000), (\$12,132,000) and \$6,736,000 in 1999, 1998 and 1997, respectively. The decrease in cash flows provided by operations in 1999 as compared to 1998 was primarily the result of the absence during 1999 of prepaid license and option fees, which we recognize as deferred revenue, the sale of 38 lots in Houston, Texas, offset by additional spending on the Houston development, higher salaries and wages related to higher staffing levels and increased spending on research and development and

engineering activities. Additionally, during 1998, we sold the final three condominium units in Santa Fe, New Mexico, which were acquired from SLH as a result of our merger.

Cash flows (used in) provided by investment activities were (\$4,094,000), \$35,242,000 and (\$1,114,000) in 1999, 1998 and 1997, respectively. The decrease in cash flows provided by investment activities in 1999 as compared to 1998 resulted from the maturity of investments held that were acquired in the merger of Syntroleum Corporation and SLH Corporation and by higher spending on property and equipment. Cash flows provided by financing activities were \$6,028,000, \$1,713,000 and \$3,654,000 in 1999, 1998 and 1997, respectively. The increase in cash flows provided by financing activities in 1999 as compared to 1998 is primarily related to the settlement of a merger contingency in early 1999 for \$6 million. Cash flows in 1998 primarily reflected the investment by Enron in our Sweetwater Project and cash received in the merger of Syntroleum Corporation and SLH Corporation.

The construction of our GTL plants will require significant capital expenditures. Our other efforts to commercialize the Syntroleum Process will also involve significant expenditures. We intend to obtain additional funding through joint ventures, partnerships, license agreements and other strategic alliances, as well as various other financing arrangements. We may also seek debt or equity financing in the capital markets. In the event such capital resources are not available to us, our GTL plant development and other activities may be curtailed. Additionally, we estimate that construction and disposal costs to complete real estate projects in development will be approximately \$1.5 million.

We have sought to temporarily invest our assets, pending their use, so as to avoid becoming subject to the registration requirements of the Investment Company Act of 1940. These investments are likely to result in lower yields on the funds invested than might be available in the securities market generally. If we were required to register as an investment company under the Investment Company Act, we would become subject to substantial regulation that would materially adversely affect us.

If five or fewer individuals own, directly or under constructive ownership rules, more than 50% in value of our outstanding stock at any time during the last half of a taxable year and at least 60% of our adjusted ordinary gross income consists of personal holding company income, we would be subject to not only the regular federal income tax, but would also be subject to an additional tax of 39.6% of our undistributed personal holding company income. Based on current levels of stock ownership, we believe that slightly less than 50% in value of our common stock is owned by five or fewer individuals. We also believe that payments we receive under our license agreements do not constitute items of personal holding company income, although the Internal Revenue Service may contest that position.

INITIAL SPECIALTY PRODUCT GTL PLANT

We are developing a 10,000 barrel per day specialty product plant called the "Sweetwater plant." The capital costs of this plant are currently expected to be funded primarily by non-recourse senior and subordinated debt at the project level, as well as equity financing, including a portion of the proceeds of this offering. We are currently exploring sources of debt and equity capital to fund final design and construction. However, we can give no assurance that the necessary capital for this project will be obtained.

We plan to construct the Sweetwater plant through a joint venture, and our ownership percentage in this joint venture will depend on the terms of subsequent financings. Enron has contributed \$1 million toward the development of this project, and we are currently in discussions with Enron regarding its equity participation in the Sweetwater Project.

The State of Western Australia has recently announced its intention to assist our Sweetwater Project and other potential projects in the area with a AUD\$30 million (approximately US\$19 million) common use infrastructure package, including a desalinization plant to which our project will supply steam and from which our project will receive cooling water.

In addition to the \$2 million contributed by Methanex and the \$1 million contributed by Enron, we had contributed \$2 million toward the Sweetwater plant's development, through March 31, 2000.

In February 2000, we entered into a letter of intent with the Commonwealth of Australia to license the Syntroleum Process to the Commonwealth as part of a program for unlocking the value of Australia's energy reserves and improving the quality of the environment. Under the letter of intent, the Commonwealth would make a AUD\$30 million (approximately U.S.\$19 million) license fee deposit, of which AUD\$20 million (approximately U.S.\$12 million) may be credited against future license fees. The letter of intent also provides that the Commonwealth would make a 25-year, AUD\$40 million (approximately U.S.\$25 million) interest-free loan to support the further development and commercialization of GTL technologies in Australia. The transactions contemplated by the letter of intent with the Commonwealth are subject to negotiation and execution of definitive license and loan agreements.

CURRENCY RISK

We expect to conduct a portion of our business in currencies other than the United States dollar. We may attempt to minimize our currency exchange risk by seeking international contracts payable in local currency in amounts equal to our estimated operating costs payable in local currency and in United States dollars for the balance of the contract. In addition, we expect to seek contractual purchase price adjustments based on an exchange rate formula related to United States dollars. In the future, we may also have significant investments in countries other than the United States. The functional currency of these foreign operations may be the local currency, and accordingly, financial statement assets and liabilities may be translated at prevailing exchange rates.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement. Companies must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. SFAS No. 133, as amended by SFAS No. 137, is effective for fiscal years beginning after June 15, 2000. However, companies may elect to adopt SFAS No. 133 prior to that date. SFAS No. 133 cannot be applied retroactively and must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts that were issued, acquired, or substantively modified after December 31, 1997. We are currently in the process of determining timing and the effect of adopting SFAS No. 133.

(in thousands, except share and per share data)

	December 31,	
	1999	1998
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 20,316	\$ 34,981
Short-term investments	3,565	3,135
Accounts and notes receivable	1,193	860
Other current assets	365	498
Total current assets	25,439	39,474
Real estate for sale	2,665	3,122
Real estate under development	3,349	2,722
Investments	1,104	1,180
Property and equipment, net	6,442	3,210
Other assets, net	592	692
	\$ 39,591	\$ 50,400
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 2,188	\$ 1,365
Accrued liabilities	453	633
Total current liabilities	2,641	1,998
Other noncurrent liabilities	94	103
Minority interests	1,024	1,337
Deferred revenue	11,000	11,000
Total liabilities	14,759	14,438
Stockholders' Equity:		
Preferred stock, \$0.01 par value, 5,000,000 shares authorized, no shares issued	-	-
Common stock, \$0.01 par value, 150,000,000 shares authorized, 34,668,748 and 34,574,957 shares issued in 1999 and 1998, respectively, including shares in treasury	347	346
Additional paid-in capital	68,935	62,908
Notes receivable from sale of common stock	(699)	(699)
Accumulated deficit	(43,674)	(26,516)
	24,909	36,039
Less-treasury stock, 7,674,905 shares in 1999 and 1998, respectively	(77)	(77)
Total stockholders' equity	24,832	35,962
	\$ 39,591	\$ 50,400

The accompanying notes are an integral part of these consolidated balance sheets.

(in thousands, except share and per share data)

	For the Year Ended December 31,		
	1999	1998	1997
Revenues:			
Joint development revenue	\$ 1,986	\$ 1,779	\$ 2,006
Real estate sales	1,219	2,416	-
Other	650	284	1
Total revenues	3,855	4,479	2,007
Cost and expenses:			
Cost of real estate sales	824	2,387	-
Real estate operating expense	781	267	-
Pilot plant, engineering and research and development	10,863	5,693	3,554
Catalyst services	-	-	4,800
General and administrative	10,409	9,151	3,618
Income (loss) from operations	(19,022)	(13,019)	(9,965)
Investment and interest income	1,681	1,159	372
Interest expense	-	-	(22)
Other income	154	118	-
Income (loss) before minority interests	(17,187)	(11,742)	(9,615)
Minority interests	29	31	3
Net Income (loss)	\$ (17,158)	\$ (11,711)	\$ (9,612)
Net income (loss) per share –			
Basic and diluted	\$ (0.64)	\$ (0.46)	\$ (0.40)
Weighted average common shares			
outstanding	26,905,853	25,466,737	23,953,347

The accompanying notes are an integral part of these consolidated statements.

(in thousands)

	Common Stock		Additional Paid-in Capital	Notes	Accumulated Deficit	Treasury Stock	Total Stockholders' Equity
	Number of Shares	Amount		From Sale of Common Stock			
Balance, January 1, 1997	23,619	\$ 237	\$ 5,921	\$ (700)	\$ (5,193)	\$ -	\$ 265
Conversion of debenture	120	1	1,116	-	-	-	1,117
Sale and issuance of stock	759	7	6,957	-	-	-	6,964
Stock issued for services	4	-	34	-	-	-	34
Purchase of 1,934 shares of treasury stock	-	-	-	-	-	(11)	(11)
Payments on notes receivable	-	-	-	1	-	-	1
Net income (loss)	-	-	-	-	(9,612)	-	(9,612)
Balance, December 31, 1997	24,502	245	14,028	(699)	(14,805)	(11)	(1,242)
Retirement of treasury stock	(2)	-	(11)	-	-	11	-
Merger with SHL Corporation	10,075	101	48,891	-	-	(77)	48,915
Net income (loss)	-	-	-	-	(11,711)	-	(11,711)
Balance, December 31, 1998	34,575	346	62,908	(699)	(26,516)	(77)	35,962
Settlement of merger contingency	-	-	5,997	-	-	-	5,997
Stock options exercised	94	1	30	-	-	-	31
Net income (loss)	-	-	-	-	(17,158)	-	(17,158)
Balance, December 31, 1999	34,669	\$ 347	\$ 68,935	\$ (699)	\$ (43,674)	\$ (77)	\$ 24,832

The accompanying notes are an integral part of these consolidated statements.

(in thousands)

For the Year Ended December 31,
1999 1998 1997

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income (loss)	\$ (17,158)	\$ (11,711)	\$ (9,612)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operations:			
Stock issued for catalyst services	-	-	4,800
Minority interest in income (loss) of subsidiary	(29)	(31)	(3)
Distribution of minority interest	(284)	-	-
Depreciation and amortization	676	306	76
Write-down of property and equipment	-	-	414
Equity in earnings of affiliates	(141)	(8)	-
Changes in real estate held for sale and under development	(170)	1,545	-
Other	-	-	56
Changes in assets and liabilities –			
Accounts and notes receivable	(333)	466	(429)
Other assets	206	(362)	(114)
Accounts payable	823	348	485
Accrued liabilities and other	(189)	(2,685)	63
Deferred revenue	-	-	11,000
Net cash provided by (used in) operating activities	(16,599)	(12,132)	6,736

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property and equipment	(3,881)	(2,173)	(1,114)
Distribution from venture capital investment funds	217	-	-
Maturity of SLH investments held to maturity	-	37,415	-
Purchase of short-term investments	(430)	-	-
Net cash provided by (used in) investing activities	(4,094)	35,242	(1,114)

CASH FLOWS FROM FINANCING ACTIVITIES:

Settlement of merger contingency	5,997	-	-
Cash received from merger	-	713	-
Minority interest investment in subsidiary	-	1,000	1,500
Proceeds from sale of common stock	31	-	2,164
Other	-	-	(10)
Net cash provided by financing activities	6,028	1,713	3,654
Net increase (decrease) in cash and cash equivalents	(14,665)	24,823	9,276
Cash and cash equivalents, beginning of period	34,981	10,158	882
Cash and cash equivalents, end of period	\$ 20,316	\$ 34,981	\$ 10,158

The accompanying notes are an integral part of these consolidated statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**BASIS OF REPORTING**

The primary operations of Syntroleum Corporation (together with its predecessors and subsidiaries, the "Company" or "Syntroleum") to date have consisted of the research and development of a proprietary process (the "Syntroleum Process") designed to convert natural gas into synthetic liquid hydrocarbons. Synthetic liquid hydrocarbons produced by the Syntroleum Process can be further processed into high quality liquid fuels such as diesel, kerosene and naphtha, or high quality specialty products such as synthetic lubricants, synthetic drilling fluid, waxes, liquid normal paraffins and certain chemical feedstocks.

The Company's current focus is to further demonstrate the commercial viability of its proprietary technology. The Company has sold license agreements to six oil companies and, in connection with its joint development efforts with certain of its licensees, operates a pilot plant in Tulsa, Oklahoma that has demonstrated certain elements and variations of the Syntroleum Process and is participating in the operation of a pilot plant located at ARCO's refinery in Cherry Point, Washington. The Company is developing a commercial-scale specialty products plant to be located in Western Australia.

Effective June 17, 1999, the Company completed its reincorporation as a Delaware corporation. In the reincorporation, the Company merged (the "Reincorporation Merger") with the Company's predecessor, Syntroleum Corporation, a Kansas corporation ("Syntroleum-Kansas"), with the Company being the surviving corporation and the successor to Syntroleum-Kansas. The Reincorporation Merger has been accounted for as a combination of entities under common control using the historical cost basis of the combining companies as if it were a pooling of interests.

On August 7, 1998, the Company's predecessor, Syntroleum Corporation, an Oklahoma corporation, merged with SLH Corporation, a Kansas corporation ("SLH"). This merger was accounted for as a reverse acquisition. The results of operations of SLH have been included in the results of Syntroleum since completion of the merger with SLH. Unaudited pro forma results of operations for the years ended December 31, 1998 and 1997, as though the merger with SLH had occurred at January 1, 1997, are presented below. The pro forma results of operations are not necessarily indicative of the actual operating results had the transaction been consummated at the beginning of the period presented below or in future operating results of the combined operations:

	December 31,	
<i>(in thousands, except per share amounts)</i>	1998	1997
Revenues	\$ 12,028	\$ 19,350
Net income (loss)	(7,771)	(519)
Basic and diluted earnings (loss) per share	\$ (0.31)	\$ (0.02)

OPERATIONS

The construction of specialty product GTL plants will require significant capital expenditures. The Company's other efforts to commercialize the Syntroleum Process will also involve significant expenditures. The Company intends to obtain additional funding through joint ventures, partnerships, license agreements and other strategic alliances, as well as various other financing arrangements. The Company may also seek debt or equity financing in the capital markets. In the event such capital resources are not available, the Company's GTL plant development and other activities may be curtailed. Management estimates that construction and disposal costs to complete real estate projects in development will be approximately \$1.5 million.

CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. These subsidiaries include BMA Resources, Inc., Scout Development Corporation, Scout Development Corporation of New Mexico, Lot Development, Inc., Carousel Apartment Homes, Inc., 529 Partners, Ltd., Syntroleum/Sweetwater Company, LLC, Syntroleum International Corporation, Syntroleum International Holdings Ltd., Syntroleum Sweetwater Holdings Ltd., and Syntroleum Sweetwater Operations Ltd. All subsidiaries except Syntroleum/Sweetwater Company, LLC, Syntroleum International Corporation, Syntroleum International Holdings Ltd., Syntroleum Sweetwater Holdings Ltd., and Syntroleum Sweetwater Operations Ltd. were acquired through the merger with SLH. All significant inter-company accounts and transactions have been eliminated. Investments in affiliated companies of 20% to 50% in which Syntroleum does not have a controlling interest are accounted for by the equity method. Investments in affiliated companies of 1% to 20% are accounted for by the cost method.

REVENUE RECOGNITION

The Company recognizes revenues from joint development activities as the related expenses are incurred because the contracts provide that revenue is earned as the expenses under the contract are incurred. Substantially all of the joint

development revenues for the years ended December 31, 1999, 1998 and 1997 have been from joint development activities with two major oil companies (see Note 12). All joint development activities during the years ended December 31, 1999, 1998 and 1997 were pursuant to joint research and development agreements where the Company expenses its research and development costs as incurred.

The Company recognizes revenue on the sale of license agreements by recording 50% of the license fee deposit as revenue when: (1) the license agreement has been formally executed, (2) the license fee deposit has been paid in cash and (3) the Company has delivered to the licensee the process design package for the licensee's initial licensed plant. Since 50% of the license fee deposit is subject to the Company's indemnity obligation with respect to the performance guarantee on the related plant, the remaining license fee deposit is recorded as deferred revenue in the consolidated balance sheets and will be recognized as revenue in the consolidated statements of operations after the related plant has passed certain performance tests. Option fees, which provide licensees the right to include additional geographic areas in its license agreement territory, are deferred until the earlier of the option being exercised or lapsing. As of December 31, 1999, the Company has deferred all amounts received related to license and option agreements.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and highly liquid investments with an original maturity of three months or less.

REAL ESTATE

Real estate sales are recognized when consummated. Profit is recognized using the full accrual method when the down payment, continuing investment, and transfer of risk criteria have been satisfied. Payments received from buyers prior to recording of a sale are recorded as deposits. Real estate rentals and other revenues are accrued in the period when earned.

Real estate is valued at lower of cost, including development costs, or market. Development costs that are incurred during the period of development or construction are capitalized. Capitalized costs are charged to expenses as properties are sold.

During 1999, the Company sold its remaining Kansas City Tracts and an easement in the Corinth Tract for a total of \$531,000. The Company also sold 38 lots in Houston for \$688,000. These assets were acquired in the merger with SLH.

SHORT-TERM INVESTMENTS

Short-term investments consist of U.S. Treasury securities and debt obligations of U.S. Government agencies with original maturities between three and twelve months. Management determines the appropriate classification of these securities at the time of purchase and re-evaluates such designation as of each subsequent balance sheet date. At December 31, 1999 and 1998, the Company's investment portfolio consisted of debt securities classified as held-to-maturity and trading securities and are presented at amortized cost and fair value, respectively.

RESEARCH AND DEVELOPMENT

The Company incurs significant costs for research, development and engineering programs. Such costs are charged to expense when incurred.

INCOME TAXES

Income taxes are accounted for using the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and of net operating loss carry-forwards. Deferred tax assets and liabilities are measured using the enacted tax rates and laws in effect or that will be in effect when the differences are expected to reverse. The Company records a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company follows the provisions of SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." The Company makes assessments of impairment on a project-by-project basis. The impairment provision is based on the excess of carrying value over fair value. Fair value is defined as the present value of the estimated future net revenues of a project. No impairment provisions were required in 1999, 1998 or 1997.

SEGMENTS

The Company has certain real estate assets that it acquired in the merger with SLH. Management's intent is to liquidate these assets and it does not intend to acquire additional real estate holdings. The Company's primary operation is to further demonstrate the commercial viability of its proprietary technology. Accordingly, management views the Company as having only one segment.

EARNINGS PER SHARE

The Company applies the provisions of SFAS No. 128, "Earnings Per Share." Basic and diluted earnings (losses) per common share were computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the reporting period. Options to purchase 2,721,925 shares of common stock at an average exercise price of \$7.44 were not included in the computation of diluted earnings per share as inclusion of such options would be anti-dilutive.

RECLASSIFICATIONS

Certain reclassifications have been made to the 1997 and 1998 financial statements to conform with the 1999 presentation. Such reclassifications did not impact net income (loss).

USE OF ESTIMATES

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

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement. Companies must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. SFAS No. 133, as amended by SFAS No. 137, is effective for fiscal years beginning after June 15, 2000. However, companies may elect to adopt SFAS No. 133 prior to that date. SFAS No. 133 cannot be applied retroactively and must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts that were issued, acquired, or substantively modified after December 31, 1997. The Company is currently in the process of determining timing and the effect of adopting SFAS No. 133.

2. INVESTMENTS:

At December 31, 1999, the Company has a 4.34% interest in a hotel partnership in Tulsa, Oklahoma having a carrying value of \$100,000. The Company also owns a 3.61% investment in a privately held venture capital limited partnership having a carrying value of \$476,000 and an investment in Norian Corporation, a developer of a proprietary bone substitute technology, which has a carrying value of \$565,000 at December 31, 1999.

The Company has a 49.9% interest in a partnership that owns a shopping center having a carrying value of (\$37,000). The Company has guaranteed debt (with an unpaid balance of \$5,830,000 at December 31, 1999) of the shopping center partnership. Because the Company has guaranteed this debt, the investment is carried below zero to reflect the Company's pro rata share of the partnership's deficit. The Company's obligation is secured by a \$3.2 million U.S. Agency note. Summary financial information of the shopping center partnership is shown below:

	December 31,	
<i>(in thousands)</i>	1999	1998
Results of Operations		
Revenue	\$ 830	\$ 798
Gross profit	466	446
Net earnings (loss)	283	71

	December 31,	
<i>(in thousands)</i>	1999	1998
Financial Position		
Current assets	\$ 1,303	\$ 1,193
Real estate	4,357	4,343
Other assets	210	189
	\$ 5,870	\$ 5,725
Short-term borrowings	\$ 195	\$ 175
Current liabilities	114	77
Long-term borrowings	5,635	5,830
	5,944	6,082
Partnership deficit	(74)	(357)
	\$ 5,870	\$ 5,725

3. PROPERTY AND EQUIPMENT:

Property and equipment is stated at cost. When assets are sold or retired, the cost and accumulated depreciation related to those assets are removed from the accounts and any gain or loss is credited or charged to income. Depreciation of property and equipment is computed on the straight – line method over estimated useful lives of three to seven years. Property and equipment consists of the following:

<i>(in thousands)</i>	December 31,	
	1999	1998
Furniture and office equipment	\$ 2,549	\$ 1,919
Property	840	807
Land	118	118
Leasehold improvements	341	288
Construction in progress	3,688	523
	7,536	3,655
Less accumulated depreciation	1,094	445
	\$ 6,442	\$ 3,210

4. NOTES RECEIVABLE FROM SALE OF COMMON STOCK:

Notes receivable from the sale of common stock consists of notes receivable from officers for the purchase of common stock in the Company. The notes bear interest at the rate of 6.10%, mature in May 2004 and are secured by stock pledge agreements.

5. ACCRUED LIABILITIES:

The components of accrued liabilities are as follows:

<i>(in thousands)</i>	December 31,	
	1999	1998
Accrued warranty	\$ 135	\$ 135
Accrued vacation	167	161
Accrued rent	95	120
Other	56	217
	\$ 453	\$ 633

6. INCOME TAXES:

The Company has federal income tax net operating loss (NOL) carry-forwards of approximately \$58 million at December 31, 1999. In connection with the merger with SLH, the Company obtained NOLs of approximately \$17.6 million and capital loss carry-forwards of approximately \$4.6 million. These carry-forwards generally begin to expire in 2004.

The Company recognizes the tax benefit of NOL carry-forwards as assets to the extent that management concludes that the realization of the NOL carry-forwards is "more likely than not." Realization of the future tax benefits is dependent on the Company's ability to generate taxable income within the carry-forward period. The Company's management has concluded that, based solely on the criteria of SFAS No.

109 "Accounting for Income Taxes" and the historical results of the Company, a valuation allowance should be provided for the entire balance of the net deferred asset.

The Company has not recorded an income tax provision or benefit for the years ended December 31, 1999, 1998 or 1997, respectively. This differs from the amount of income tax benefit that would result from applying the 34% statutory federal income tax rate to the pretax loss due to the increase in the valuation allowance in each period. The valuation allowance increased by approximately \$9,690,000, \$13,177,000 and \$3,609,000 for the years ended December 31, 1999, 1998 and 1997, respectively. Deferred taxes arise primarily from NOL carry-forwards and the recognition of revenues and expenses in different periods for financial and tax purposes. Deferred taxes consist of the following:

<i>(in thousands)</i>	December 31,	
	1999	1998
Deferred tax assets:		
NOL carry-forwards	\$ 19,304	\$ 14,895
Capital loss carry-forwards	1,614	1,759
Research and development credit	973	-
Deferred revenue	1,710	1,710
Other	3,463	682
	27,064	19,046
Deferred tax liabilities:		
Depreciation	(288)	(268)
Other	(330)	(17)
Net deferred tax asset before valuation allowance	26,446	18,761
Valuation allowance	(26,446)	(18,761)
Net deferred tax	\$ -	\$ -

7. SUPPLEMENTAL CASH FLOW INFORMATION:

During 1997, a convertible debenture was converted into 120,036 shares of the Company's common stock which was accounted for as a non-cash financing activity. Also during 1997, the Company issued 515,960 shares of its common stock to a catalyst manufacturer which was accounted for as a non-cash operating activity except for the extent of cash received.

During 1998, the merger with SLH was accounted for as a non-cash investing activity. In conjunction with the merger with SLH, the following assets were acquired and liabilities assumed:

Cash	\$ 713
Short-term investments	40,550
Real estate held for sale and under development	7,387
Other assets	2,719
Liabilities assumed	(2,454)
Equity issued	\$ 48,915

8. COMMITMENTS:

The Company has entered into various, non-cancelable leases for office space, equipment, land and buildings that expire over the next several years. Rental expense was \$1,246,000 in 1999, \$614,000 in 1998 and \$168,000 in 1997. Total future minimum lease payments under these agreements as of December 31, 1999 are as follows:

<i>(in thousands)</i>	
Year	Amount
2000	\$ 1,033
2001	901
2002	855
2003	361
2004	331
Thereafter	6,169

The Company has entered into employment agreements which provide severance benefits to several key employees. Commitments under these agreements totaled approximately \$3,132,000 at December 31, 1999.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS:

The estimated fair values of the Company's financial instruments at December 31 are summarized as follows:

<i>(in thousands)</i>	1999		1998	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	\$20,316	\$20,316	\$34,981	\$34,981
Short-term investments	3,565	3,565	3,135	3,135
Accounts and notes receivable	1,193	1,193	860	860
Investments	1,104	1,104	1,180	1,180
Notes receivable from sale of common stock	699	699	699	699

The fair value of the short-term investments and accounts receivable approximates cost because of the short-term maturity of these financial instruments. The estimated fair value of the notes receivable were calculated by discounting scheduled cash flows using estimated market discount rates. The investments were acquired in the merger and, at the time of the merger, were valued at market. No significant changes in the estimated fair value have occurred since the merger.

10. CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS:

At December 31, 1999 and 1998, all marketable debt securities were classified as held-to-maturity and trading securities. Held-to-maturity investments were carried at amortized cost and trading securities were carried at fair value. During 1999, 1998 and 1997, no securities classified as held-to-maturity or trading securities were transferred out of held-to-maturity or trading securities. Investments consisted of the following at December 31:

	Amortized Cost	Market Value	Amount on Balance Sheet	Unrealized Holding Gains	Unrealized Holding Losses
1999					
Trading Securities					
Equity Securities	\$ 663	\$ 415	\$ 415	\$ -	\$ 248
Held-to-Maturity					
U.S. Government Securities	\$ 16,243	\$ 16,243	\$ 16,243	\$ -	\$ -
1998					
Held-to-Maturity					
U.S. Government Securities	\$ 31,454	\$ 31,454	\$ 31,454	\$ -	\$ -

11. STOCK OPTIONS:

The Company maintains stock option and incentive plans for employees and directors and has reserved 4,623,184 shares of common stock for issuance under the employee plans including one percent of the outstanding shares of common stock of the Company as of January 1 of each year (269,000 as of December 31, 1999) for the director plan. Under the terms of the plans, incentive stock options may be issued with an exercise price of not less than 100% of fair market value at the date of grant. All other options may be issued at an exercise price of not less than 75% of the fair market value at the date of grant. Options granted vest at a rate determined by the Compensation Committee of the Company's Board of Directors and are exercisable for varying periods, not to exceed ten years. At December 31, 1999, 1,186,232 shares were available for granting future options.

The number and exercise price of stock options granted are as follows:

	Shares Under Option	Weighted Average Price Per Share
Outstanding at January 1, 1997	467,589	\$ 0.50
Granted at market price	535,954	9.13
Exercised	(27,733)	5.75
Expired	(274,104)	0.33
Outstanding at December 31, 1997	701,706	6.95
SLH options from merger	974,400	3.19
Fractional share payout	(19)	6.94
Granted at market price	445,430	16.70
Granted at price exceeding market	32,247	20.28
Expired	(21,925)	10.42
Outstanding at December 31, 1998	2,131,839	7.44
Granted at market price	736,351	6.89
Granted at price exceeding market	35,000	7.57
Exercised	(101,694)	1.06
Expired	(79,571)	10.48
Outstanding at December 31, 1999	2,721,925	\$ 7.44

The following is a summary of stock options outstanding as of December 31, 1999:

Options Outstanding				Options Exercisable	
Range of Exercise Price	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Options Exercisable	Weighted Average Exercise Price Per Share
\$ 0.39 - \$ 0.39	103,192	\$ 0.39	0.45	103,192	\$ 0.39
\$ 3.19 - \$ 3.19	950,100	3.19	3.60	560,100	3.19
\$ 5.75 - \$ 6.88	771,575	6.66	8.85	101,043	5.75
\$ 7.25 - \$ 9.38	420,957	8.91	7.48	225,518	9.30
\$15.44 - \$20.88	476,101	17.39	7.93	179,729	17.47
	2,721,925	\$ 7.44		1,169,582	\$ 6.54

The Company applies the disclosure-only provisions of SFAS No. 123, "Accounting from Stock-Based Compensation." Accordingly, no compensation cost has been recognized for the stock option plans. However, pursuant to the requirements of SFAS No. 123, the following disclosures are presented to reflect the Company's pro forma net income (loss) for the three years ended December 31, 1999 as if the fair value method of accounting prescribed by SFAS No. 123 had been used. Had compensation cost for the Company's stock option plan been determined consistent with the provisions of SFAS No. 123, the Company's net income (loss) and income (loss) per share would have increased to the pro forma amounts indicated:

	December 31,		
(in thousands, except per share data)	1999	1998	1997
Net income (loss):			
As reported	\$(17,158)	\$(11,711)	\$(9,612)
Pro forma	\$(19,632)	\$(14,175)	\$(10,261)
Basic and diluted income (loss) per share:			
As reported	\$ (0.64)	\$ (0.46)	\$ (0.40)
Pro forma	\$ (0.73)	\$ (0.56)	\$ (0.43)

Because the SFAS No. 123 method of accounting has not been applied to options granted prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

The weighted average per share fair value at date of grant for options granted during 1999, 1998 and 1997 was \$5.82, \$10.60 and \$4.71 per share, respectively. Prior to the merger with SLH on August 7, 1998, the Company was a privately held corporation and used the minimum value method with the following assumptions during 1997: dividend yield of 0%, risk-free interest rate of 5.60% to 6.83%, and expected lives of 5 to 10 years. During 1997 and prior to the merger in 1998, volatility was assumed to be 0%. The fair values of options granted since the merger have been estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	1999	1998
Expected dividend yield	0%	0%
Expected volatility	83%	124%
Risk-free interest rate	5.07%	5.47%
Expected life	9.77 yrs.	9.66 yrs.

Subsequent to December 31, 1999, the Company granted 47,090 options to purchase shares of common stock to employees at an average exercise price of \$10.28.

12. SIGNIFICANT CUSTOMERS:

Substantially all of the Company's joint development revenue for the three years ended December 31, 1999 were from two major oil companies for joint development work conducted in the Company's research and development facilities and at the pilot plant located at ARCO's Cherry Point Refinery in Cherry Point, Washington. The testing in the laboratories under these agreements was completed in September of 1999. In addition, the Company has signed master license agreements with three oil companies since 1996. The Company has also signed volume license agreements with three other oil companies. The license agreements allow the oil companies to use the Syntroleum Process in their production of synthetic crude oil and fuels primarily outside of North America. Syntroleum received an aggregate of \$9 million and rights to certain technologies in connection with these license agreements. The Company also received from a licensee a separate nonrefundable payment of \$2 million for options to add certain geographic areas not covered by the applicable license agreement. The amounts received under license agreements and the amounts received for options have been recorded as deferred revenue at December 31, 1999 and 1998.

Under these license agreements, a licensee obtains the right to use the Syntroleum Process and to acquire catalysts from the Company, secures pricing terms for future site licenses and obtains rights to future improvements to the Syntroleum Process. Generally, the amount of the license fee for site licenses under the Company's master and volume license agreements is determined pursuant to a formula based on the discounted present value of the product of: (1) the annual maximum design capacity of the plant, (2) an assumed life of the plant, and (3) the Company's per barrel rate. Initial cash deposits under the Company's license agreement are credited against future site license fees. (See Note 1.)

The Company is pursuing development of a commercial specialty products plant to be located in Western Australia using the Syntroleum Process. In addition, the Company conducts a portion of its research and development activities through joint development agreements with licensees and other industry partners. The terms of these agreements vary, but generally provide cost sharing arrangements.

13. STOCKHOLDER RIGHTS PLAN:

Each outstanding share of the Company's common stock carries a stock purchase right issued pursuant to a dividend distribution declared by the Company's Board of Directors in March 1997. The rights entitle the holder to buy one-sixth of one one-hundredth of a share of junior preferred stock at a price of \$125 per one one-hundredth of a share. Generally, the rights become exercisable ten days after a public announcement that a person or group has acquired, or a tender offer is made for 25% or more of the common stock of the Company. If either of these events occur, each right will entitle the holder (other than a holder owning more than 25% of the outstanding stock) to buy the number of shares of the Company's common stock having a market value two times the exercise price. The exercise price is \$125. The rights may be redeemed by the Company for \$.01 per right until a person or group has acquired 25% of the Company's stock. The rights expire January 2007.

14. EVENTS SUBSEQUENT TO DECEMBER 31, 1999:

Subsequent to December 31, 1999, the Company received \$2 million towards the cost of the engineering work being performed by a third party for the gas-to-liquids specialty product plant under development by the Company to be located in Western Australia. These monies were received from a partner who, upon satisfaction of certain conditions, will become an equity investor in the project.

To the Board of Directors and Stockholders of Syntroleum Corporation:

We have audited the accompanying consolidated balance sheets of Syntroleum Corporation (a Delaware corporation) as of December 31, 1999 and 1998, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 financial statements referred to above present fairly, in all material respects, the financial position of Syntroleum Corporation as of December 31, 1999 and 1998, and the results of their operations and their cash flows for the three years then ended, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Tulsa, Oklahoma
January 18, 2000

KENNETH L. AGEE is our Chief Executive Officer and Chairman of the Board. Mr. Kenneth L. Agee founded our company in 1984 and initially served as President and a director. He became Chief Executive Officer in February 1996 and Chairman of the Board in November 1995. He is a graduate of Oklahoma State University with a degree in Chemical Engineering and is a licensed Professional Engineer in the State of Oklahoma. In addition, he has over 15 years of experience in the energy industry and is listed as Inventor on several United States and foreign patents and several pending patent applications, all of which have been assigned to us by Mr. Agee.

MARK A. AGEE is our President, Chief Operating Officer and a director. Mr. Mark A. Agee joined our company in 1994 as Vice President of Finance and became President and Chief Operating Officer in February 1996. He has served as a director since March 1985. From 1989 to May 1993, he served as President, Chief Executive Officer and Director of Convergent Communications, a company which he founded in 1989 and sold in 1993. From 1981 to 1989, he served as President, Chief Executive Officer and a Director of XETA Corp., a computer company which he founded in 1981 and which became public in 1987. He holds a Bachelor's degree in Chemical Engineering from the University of Tulsa and is a licensed Professional Engineer in the State of Oklahoma.

CHARLES A. BAYENS is our Vice President of Engineering. Mr. Bayens joined our company in July 1997 as Business Development Manager and became Vice President of Engineering in December 1997. Prior to joining our company, Mr. Bayens was with Shell Oil Company from 1967 to 1997 in various technical and business assignments. From 1991 to 1997, he was President of Shell Synthetic Fuels, Inc., where he managed the commercialization of Shell's suite of synfuels technologies. Concurrently, from 1991 to 1994, he was also Manager, Technology Licensing for Shell. Mr. Bayens holds a Ph.D. in Chemical Engineering from Johns Hopkins University.

CARLA S. COVEY is our Controller. Ms. Covey became our Director of Accounting in June 1997. Prior to joining our company, Ms. Covey served as Accounting Manager/Human Resource Manager and Manager, Facility Operations for AGC Manufacturing Services, Inc., in Tulsa, Oklahoma from 1995 to 1997. Ms. Covey also served as Assistant Director of Human Resources for the Adam's Mark Hotel in Tulsa, Oklahoma from 1994 to 1995. Ms. Covey received her B.A. degree in Business Administration from Drury University and her M.S. degree in Management from Southern Nazarene University. Ms. Covey is a certified public accountant.

ERIC GRIMSHAW is our Vice President, General Counsel and Secretary. Prior to joining our company in June 1997, Mr. Grimshaw was a partner with the law firm of Pray, Walker, Jackman, Williamson & Marlar. Mr. Grimshaw received a B.A. degree from the University of Colorado and received his law degree from the University of Tulsa.

PAUL F. SCHUBERT is our Vice President of Research and Development. Dr. Schubert joined us as Research Project Manager in May 1998. From 1996 to 1998, Dr. Schubert was Vice President of Monitor Labs, Denver, Colorado, where he was responsible for the research, development and marketing of catalytic and laser-based air emissions monitoring devices. From 1990 until 1996, Dr. Schubert served in a variety of roles with Catalytica, Inc. (Mountain View, California), a company engaged in research and development of catalytic processes. In his last few years at Catalytica, he served as Vice President of their Advanced Sensor Devices Division, which was sold to Monitor Labs in 1996. Prior to joining Catalytica, Dr. Schubert worked with Phillips Petroleum and Englehard Corporation in research, development and manufacturing of catalysts for the petrochemical industry. Dr. Schubert received a B.S. with High Honors from the University of Arkansas and a Ph.D. in Inorganic Chemistry from the University of Illinois at Urbana-Champaign. He is an inventor or co-inventor of 13 U.S. patents, and has authored over two dozen technical publications.

MICHAEL L. STEWART is our Vice President of Information Systems and has served in that position since November 1998. Mr. Stewart joined our company in May 1997 as information technology manager, bringing over 23 years of computer and information systems related experience. From 1993 until joining us, he was a management consultant involved in data processing, systems operation, planning and organization. Earlier, he held the positions of Vice President – Management Information Services for Convergent Communications, Inc., and database design specialist for Continental Savings and Loan.

RANDALL M. THOMPSON is our Vice President and Chief Financial Officer. Mr. Thompson joined our company in January 1997. From January 1994 through December 1996, he held various financial and marketing positions with Tenneco Energy Corporation, as Vice President of Strategic Planning, Marketing and Business Development. From 1983 through 1994, Mr. Thompson was employed by Atlantic Richfield Company and held financial management positions. Mr. Thompson holds a B.A. in Economics from the University of Colorado and an M.B.A. from The Wharton School at the University of Pennsylvania.

LARRY J. WEICK is our Vice President of Licensing and Business Development. Mr. Weick joined our company in 1996. From 1971 to 1982, he held positions in engineering, planning and project development in the natural gas and electric utility industry. From 1982 to 1994, he held several finance, planning and business development positions with Atlantic Richfield Company. From 1994 to 1996, Mr. Weick served as a consultant to us. He holds a B.S. in Electrical Engineering from the University of Nebraska at Lincoln and an M.S. in Engineering-Economics from Stanford University. Mr. Weick is also a Licensed Professional Engineer in both Nebraska and Texas.

ALVIN R. ALBE, JR., became a director in December 1988. Mr. Albe is currently Executive Vice President of the TCW Group, Inc., a capital management firm. Prior to joining TCW in 1991, Mr. Albe was President of Oakmont Corporation, a privately held corporation which administers and manages assets for several families and individuals. Mr. Albe was associated with Oakmont Corporation from 1982 to 1991. Before that time, he was Manager of Accounting at McMoRan Oil and Gas Co. and a Certified Public Accountant with Arthur Andersen & Co. in New Orleans. Mr. Albe graduated from the University of New Orleans with a B.S. in Accounting.

FRANK M. BUMSTEAD became a director in May 1993. He has served as the President of Flood, Bumstead, McCready & McCarthy, Inc., a financial and business management firm, since 1990. Mr. Bumstead has served as Vice Chairman of the Board of Response Oncology, Inc., a health care services firm, since 1986. He has served as a director of First Union National Bank of Tennessee since 1996. Mr. Bumstead has also served as a director of American Retirement Corp., and as a director of Imprint Records, Inc., since 1995 and as a director of TBA Entertainment, Inc., since 1994.

ROBERT A. DAY became a director in March 2000. Mr. Day is currently Chairman of the Board and Chief Executive Officer of Trust Company of the West, an investment management company, and Chairman and President of W.M. Keck Foundation, a philanthropic organization. Mr. Day also serves on the board of directors of Fisher Scientific International, Inc., Freeport-McMoRan, Inc., McMoRan Exploration Company and Freeport-McMoRan Copper & Gold, Inc. Mr. Day holds a B.S. in Economics from Claremont McKenna College.

P. ANTHONY JACOBS has served as a director since December 1996. Mr. Jacobs also served as the Chairman of the Board of SLH Corporation from December 1996 through the closing date of the merger of Syntroleum Corporation and SLH Corporation. Mr. Jacobs served as President and Chief

Executive Officer of Lab Holdings, Inc., a company principally engaged in the laboratory testing business, a position he held from September 1997 until August of 1999 when the company merged with Lab One. From 1990 to 1993, he served as Executive Vice President and Chief Operating Officer of Lab Holdings, and from May 1993 to September 1997, he served as President and Chief Operating Officer of Lab Holdings. Mr. Jacobs also serves on the board of directors for Trenwick Group, Inc. and Response Oncology, Inc. Mr. Jacobs holds an M.B.A. from the University of Kansas and also is a Chartered Financial Analyst.

ROBERT ROSENE, JR. became a director in March 1985. Mr. Rosene is President of Seminole Energy Services, L.L.C., a natural gas consulting and marketing company. From 1984 to August 1998, he was Vice President of Boyd Rosene and Associates, Inc., a natural gas consulting and marketing firm which he co-founded. From 1976 to 1984, he was employed with Transok Pipeline Company, where he served in various positions, including Manager of Rates and Contract Administration and Director of Gas Acquisitions. In 1987, Mr. Rosene co-founded MBR Resources, an oil and gas production company with operations in Arkansas, New Mexico, Oklahoma and Texas. Mr. Rosene holds a B.A. in Accounting from Oklahoma Baptist University.

JAMES R. SEWARD has served as a director since December 1988. Mr. Seward also served as the President, Chief Executive Officer and director of SLH Corporation from February 1997 through the closing date of the merger of Syntroleum Corporation and SLH Corporation. From 1990 to September 1997, Mr. Seward served as Chief Financial Officer and a director of Lab Holdings. From 1990 to May 1993 he served as Senior Vice President of Lab Holdings, and from May 1993 to September 1997, he served as Executive Vice President. He also serves as a director of Response Oncology, Inc., Lab One, Inc. and Concorde Career Colleges. Mr. Seward holds an M.B.A. in Finance and a M.P.A. from the University of Kansas and is also a Chartered Financial Analyst.

J. EDWARD SHERIDAN became a director in November 1995. In 1985, Mr. Sheridan founded and since that time has served as President of Sheridan Management Corporation, a company whose purpose is to provide support services to businesses in industries with global markets for their products and services. From 1973 to 1975, he was Chief Financial Officer at Fairchild Industries, and from 1975 to 1985, he was Chief Financial Officer at AMT, Inc. Mr. Sheridan is also a director of Bitwise Design, Inc. Mr. Sheridan holds an M.B.A. from Harvard University with an emphasis on Finance and International Operations and a B.A. from Dartmouth College.

corporate data

Form 10-K

The annual report on form 10-K, as amended, as filed with the Securities and Exchange Commission is available upon written request to Investor Relations.

Shares Traded

Nasdaq Stock Exchange
(Ticker Symbol "SYNM")

Registrar of Stock and Transfer Agent

American Stock Transfer
Investor Relations
40 Wall Street
New York, NY 10005
800-937-5449

Independent Accountants

Arthur Andersen LLP
6450 South Lewis
Tulsa, OK 74136

Corporate Offices

Syntroleum Corporation
1350 South Boulder Avenue
Suite 1100
Tulsa, OK 74119
918-592-7900

Stockholder Communications

Visit Syntroleum on the Internet
www.syntroleum.com

Price Range of Common Stock



Our common stock is traded on the National Market System of the Nasdaq Stock Market under the symbol "SYNM." The table below reflects the high and low bid prices for the common stock for the periods indicated. The information has been adjusted for a two-for-one stock split on February 9, 1998.

	Bid Price			Bid Price	
	High	Low		High	Low
1998:			1999:		
First Quarter	35.50	25.50	First Quarter	11.50	5.38
Second Quarter	32.69	16.25	Second Quarter	9.13	5.63
Third Quarter	25.13	6.00	Third Quarter	10.00	6.50
Fourth Quarter	12.38	5.25	Fourth Quarter	10.19	5.88

CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

This prospectus supplement includes forward-looking statements as well as historical facts. These forward-looking statements include statements relating to the Syntroleum Process and related technologies, gas-to-liquids plants based on the Syntroleum Process, anticipated costs to design, construct and operate these plants, anticipated costs to make products from these plants, the timing of commencement and completion of the design and construction of these plants, obtaining required financing for these plants, the economic construction and operation of gas-to-liquids plants, the value and markets for plant products, testing, certification, characteristics and use of synthetic fuels and alternative fuels, the continued development of the Syntroleum Process (alone or with partners), anticipated capital expenditures, anticipated revenues, the sale of our real estate inventory and any other statements regarding future growth, cash needs, operations, business plans and financial results. When used in this document, the words "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "project," "should" and similar expressions are intended to be among the statements that identify forward-looking statements. Although we believe that the expectations reflected in these forward-looking statements are reasonable, these kind of statements involve risks and uncertainties. Actual results may not be consistent with these forward-looking statements. Important factors that could cause actual results to differ from these forward-looking statements include the risks that the cost of designing, constructing and operating commercial-scale gas-to-liquids plants will exceed current estimates, commercial-scale gas-to-liquids plants will not achieve the same results as those demonstrated on a laboratory or pilot basis, gas-to-liquids plants may experience technological and mechanical problems, improvements to the Syntroleum Process currently under development may not be successful, plant economics may be adversely impacted by operating conditions, including energy prices, construction risks and risks associated with investments and operations in foreign countries, our ability to implement corporate strategies, competition, intellectual property risks, our ability to obtain financing and other risks described under "Risk Factors" and elsewhere in this prospectus supplement and the accompanying prospectus.



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