



**Syntroleum Corporation**  
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catalyst.

**Syntroleum Corporation**  
An energy technology company

## Cat·a·lyst /kát'list/:

n. 1. a substance that enables a chemical reaction to proceed at a faster rate or under different conditions than otherwise possible. 2. an agent that provokes or speeds significant change or action.

At the core of Syntroleum's technology is a catalyst that converts natural gas into clean, high-value synthetic crude oil. Catalyst is also an apt term for Syntroleum's role in the global energy arena – an agent provoking and speeding change. Our gas-to-liquids technology is that and more. It's a key to making quantum additions to the world's useful energy supply by tapping vast amounts of remote and stranded natural gas reserves. It is also the technology that can speed ultra-clean, sulfur-free fuels to the transportation and power industries. The payoffs: compliance with new regulatory and environmental rules, plus added value at every step in the energy chain.

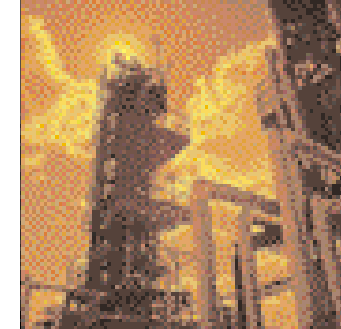
A new energy industry is emerging. At its core will be a catalyst.

**We believe that catalyst will be Syntroleum.**



## DEVELOPMENTAL MILESTONES FOR THE GAS-TO-LIQUIDS INDUSTRY

1923	Fischer-Tropsch chemistry discovered
1936-1944	Initial coal-based production plants constructed in Germany
1954	Sasol I South Africa plant completed (2,500 b/d, coal-based)
1980	Sasol II South Africa plant completed (50,000 b/d, coal-based)
1982	Sasol III South Africa plant completed (50,000 b/d, coal-based)
1984	Syntroleum founded
1989	Initial Syntroleum patents issued
1990	Syntroleum's first pilot plant comes on stream
1992	Mossgas South Africa plant completed (23,000 b/d, natural gas-based)
1993	Shell Malaysia plant completed (12,400 b/d, natural gas-based)
1995	Syntroleum presents first paper on its economic GTL design
1996	Exxon announces economical GTL process Texaco licenses Syntroleum Process
1997	Marathon licenses Syntroleum Process ARCO licenses Syntroleum Process YPF licenses Syntroleum Process
1998	Kerr McGee licenses Syntroleum Process Enron licenses Syntroleum Process Syntroleum quadruples R&D Facilities Syntroleum becomes public company DaimlerChrysler enters fuel testing agreement with Syntroleum
1999	Syntroleum fuels demonstrated in Dodge Power Wagon ARCO/Syntroleum pilot plant goes on stream at Cherry Point refinery
2000	Syntroleum Sweetwater project officially announced Sweetwater gas contract signed with North West Shelf Venture Partners Commonwealth of Australia licenses Syntroleum Process Commonwealth of Australia authorizes A\$40 million loan to Syntroleum Burrup Peninsula site secured for Sweetwater project Ivanhoe Energy licenses Syntroleum Process Volkswagen of America enters fuel testing agreement with Syntroleum General Motors enters fuel testing agreement with Syntroleum Syntroleum completes \$95 million stock offering



## To Our Stockholders:

Syntroleum was founded on a deeply held belief: If gas-to-liquids (GTL) technology could be made economical and widely available, it would play a central role in transforming the global energy industry. Evidence increasingly justifies this belief.

Today, two powerful, interlocking forces propel development of the GTL industry: supply and demand. World crude oil production is pushing capacity limits while trillions of cubic feet of natural gas sit just out of reach – too far from markets to be economically produced, transported and monetized. Meanwhile there is growing global thirst for legally-mandated, environmentally-friendlier fuels.

The year 2000, we believe, marked a sea change for the energy industry as significant progress was made toward reconciling these forces. While new rules raised the cost of refining ultra-low-sulfur fuels from crude oil, advances in technology reduced the cost of producing these products from abundant, presently stranded natural gas. Thus, 2000 also marked a sea change for Syntroleum. Favorable market forces improved the climate for acceptance and commercialization of the natural-gas refinery, further validating our vision of the future.

It was a year of significant progress for Syntroleum:

### *Specialty Products*

Development of high-margin GTL specialty products plants is a key component of Syntroleum's business strategy. In 2000, our first such project – the 10,000 barrel per day GTL specialty chemical plant being developed in Western Australia and known as the Sweetwater project – cleared critical hurdles. A secondary stock offering secured needed capital. Ivanhoe Energy joined as an equity partner. A 20-year gas-supply contract for the plant was put in place with North West Shelf Venture Partners. And Tessag Industrie GmbH completed front-end engineering design for the plant. We are now working on finalizing the fixed-price engineering, procurement and construction contract and obtaining project financing.

Once completed, Sweetwater should provide its partners with substantial cash flow and become a cornerstone for building Syntroleum's long-term growth and profitability.

### *Licensing*

Another component of Syntroleum's strategy is to widely license our technology. This part of our business continued to grow in 2000 with the addition of two new licensees. The Commonwealth of Australia purchased a regional license, providing it with a new option for accessing and monetizing Australia's vast natural gas resources. Additionally, Canada's Ivanhoe Energy purchased a master license to the Syntroleum Process, making GTL central to its business strategy as it actively seeks projects in several locations around the world.

This raises the total to eight Syntroleum Process licensees: ARCO (now a subsidiary of BP), Enron, Ivanhoe, Kerr-McGee, Marathon, Repsol-YPF, Texaco and the Commonwealth of Australia. These and future licensees will be able to use Syntroleum's GTL technology to transform natural gas into ultra-clean liquid fuels, in a world increasingly demanding such products. Fees from licensees, including royalties that accrue with site licenses and sales of proprietary catalysts, should provide another cornerstone for growing Syntroleum revenues.

### *Research and Development*

The third component of our strategy is continued R&D to further reduce costs and increase efficiencies of the Syntroleum Process. In 2000 we:

- *Added three new engineers to our R&D team, increasing the total R&D staff to 43;*
- *Added four new reactors to our product upgrading pilot plant, increasing the total from six to 10;*
- *Installed five new bench-scale reactors for catalyst development at our laboratory, increasing the total to 29;*
- *Installed substantial test and analysis instrumentation at our Technology Center, enabling more comprehensive response to licensees on plant and product design issues;*



Kenneth L. Agee



Mark A. Agee

- Expanded our US and foreign intellectual property portfolio to 101 patents issued, pending, licensed or owned; and
- Built a product upgrading pilot plant at our Tulsa Technology Center. This facility will enable us to expand and accelerate our own product development, using synthetic crude from Syntroleum's pilot plant and the inventory from Cherry Point pilot plant runs. Finished products will supply testing programs and support Syntroleum market development activities for specialty products and fuels.

Our "technology pool" is another vital component in Syntroleum's R&D activities – selective partnering with others to enhance elements of our technology, add complementary process components or initiate testing and product development programs. Our partnerships have grown to include more than 40 companies. Developments from these partnerships become accessible to all Syntroleum licensees and, we believe, move the technology forward faster than would be possible for any one company working alone.

Recent additions to the technology pool include the U.S. Navy, Volkswagen of America, GM and FuelCell Energy, Inc. Each has initiated testing programs using Syntroleum synthetic fuels. Also, FuelCell Energy signed a marketing agreement to package Syntroleum fuels with their systems.

All of these activities, of course, reflect in our financial performance. For 2000, Syntroleum reported a loss of \$25.2 million, or \$.84 per share, compared to a loss of \$17.2 million, or \$.64 per share for the year 1999. The increased loss from operations is primarily the result of an approximate \$2 million investment in the new product upgrading pilot plant and expenses associated with the development of our Sweetwater project. These investments produced significant progress in moving Sweetwater toward the construction phase.

As the 21st century begins, GTL looks to be the start of a new energy paradigm. We believe that Syntroleum is positioned as a prime catalyst to accelerate commercialization of the industry, opening access to huge reserves of clean, untapped energy. The commercial natural-gas refinery promises to be the vital bridge enabling a smooth transition from the petroleum age, through the natural gas age, and into the hydrogen age. As blending stock, synthetic fuel and on-board hydrogen source, GTL products have a significant role to play. And the technologies that can deliver these valuable products are destined for a profitable place in the new energy order.

As events increasingly merge with our founding vision, we continue to see a bright outlook for Syntroleum. Our talented team of dedicated people has put us on course to reap the benefits of leadership in the new industry.

We thank them for their dedication and hard work. And we thank you, our stockholders, for your continued support.

Kenneth L. Agee  
Chairman and CEO

Mark A. Agee  
President and COO



*"We are witnessing a historic shift from oil to natural gas and a growing business commitment to sustainable development."*

Jeroen van der Veer, President,  
Royal Dutch Petroleum Co.

# velocity.

Pressure is building on the global petroleum industry to embrace a new paradigm based on natural gas. Consider that . . .

- Replacement of crude oil reserves is declining, and surplus production capacity is down, too;
- Crude prices are increasing;
- Crude supply is subject to manipulation and miscalculation by OPEC;
- Crude production continues 20-year trend of becoming steadily heavier and more sour;
- Surplus refining capacity has virtually disappeared; and
- Refining costs will continue to increase as plants are retrofitted to meet each new environmental rule.

A dagger aimed at the status quo, these problems do have an up side. They offer company-making opportunities to those who can find solutions.

Offsetting this rather troublesome outlook for crude oil, known natural gas reserves have increased to staggering levels – well in excess of 5,000 trillion cubic feet. Approximately half of

these reserves are stranded; that is, too remote from markets to be economically produced and transported. Consequently, they sit idle, have little economic value, and so, cannot be booked as reserves on the balance sheets of the companies that own them. This problem is the classic opportunity in disguise.

**GTL is the pathway by which oil and gas companies can tap the untapped.**

Converted to liquid, these stranded reserves could make 250 billion barrels of sulfur-free synthetic oil. This is equivalent to discovering another Saudi Arabia and Kuwait combined – this time holding sweet, zero-sulfur crude oil. In other words, GTL is the pathway by which oil and gas companies can tap the untapped. By doing so, they have the opportunity to earn a higher return on their assets, meet the growing consumer and regulatory demands for clean fuels and, in the process, boost energy supply, too.



*“People don’t understand that there is very little excess oil capacity in the world today. Some people say a million barrels a day, some people say three million – that is very little excess capacity.”*

*Robert Allison, Chairman  
and CEO, Anadarko Petroleum*



As the pressures driving this transformation build, oil companies are re-examining their strategies. They are weighing the merits (and returns) of investing precious capital into crude oil capacity vs. diverting increasing amounts to exploiting natural gas opportunities. For refiners, there is little choice but to go with massive desulfurization – at a cost of \$8-\$10 billion in the U.S. alone – retrofitting old plants to meet the EPA’s new sulfur limits. There is no time to do anything else. But what about growth in demand and replacement of capacity lost from shuttering marginal plants? Are refiners limited just to spending additional billions on expensive incremental crude capacity in order to grow? Or do they have the option of taking some of that money and investing it in the future to diversify their asset base to include natural gas refining?

This tempting new option commands attention. The possibility of using largely valueless assets to add billions of dollars to balance sheets is impossible to ignore.

The major stumbling block to more rapid exploitation of natural gas has been the difficulty and expense of transportation from the remote

areas of discovery to the developed areas of market. Unless there is a gas pipeline system close by (and in most places there is not), the gas must be converted to a form that is transportable, i.e., liquid, that reduces the volume and makes handling easier and cheaper.

One way is to convert it into cryogenic liquid natural gas (LNG). While this is expensive, it has become a viable method for monetizing a portion of available gas reserves. However, the capital requirements of LNG, and the logistical and contractual arrangements required to make the economics work, have severely limited this approach. Even where LNG and pipelines are economical, gas market limitations still leave enormous reserves shut in.

Converting natural gas into synthetic liquid hydrocarbons (syncrude) is an alternative way to monetize stranded gas – and erase those barriers. Syncrude made from natural gas becomes instantly fungible on the world market. It will flow through the existing oil distribution infrastructure – linking shut-in gas deposits to the entire range of energy uses everywhere. That includes the huge market for clean, high-performing transportation fuels, where

sulfur-free, zero-aromatics GTL products will find a perfect fit.

The missing ingredient, until now, has been the economics: since discovery in the 1920s, GTL conversion utilizing Fischer-Tropsch chemistry has been effective, but not economic.

Today, however, the technology has advanced to the point that refined, improved and economic GTL processes have become available to the global petroleum industry. Recent reports indicate that current technology permits GTL fuels plants to be constructed within the range of \$20,000 to \$25,000 per barrel of daily capacity. At this level, assuming \$20/bbl for crude oil and \$.50/MMBTU for remote natural-gas feedstock, there could be significant economic advantage for clean synthetic fuels compared with conventional fuels from crude oil.

There is perhaps an even better indication of GTL’s arrival on the world stage. Royal Dutch/Shell Group has proposed four large-scale GTL projects estimated to cost more than \$6 billion. Exxon, Sasol/Chevron and of course Syntroleum and several of our licensees are hard at work developing other GTL projects around the world.

Contrast this to the fact that the majors are not building a single new grassroots crude-oil refinery to produce fuels meeting the very low sulfur specifications – no such plant has even been announced. And you begin to see where the industry is headed.

**Quite simply, the advent of the commercial natural gas refinery changes everything.**

It’s headed toward the age of natural gas. And GTL technology is the catalyst that can take it there. GTL will allow oil companies to monetize their stranded resources, substantially increase their booked reserves, and add growing revenue streams to their income statements.

Quite simply, the advent of the commercial natural gas refinery changes everything.



# pressure.

*"Gas-to-liquids technology is so promising that its development could create an entire paradigm shift throughout the petroleum industry... The advent of the 21st century will see expanded capability to profitably convert natural gas into environmentally superior products ..."*

*Richard Matzke, President,  
Chevron Overseas Petroleum*

The message is loud and clear. Consumers, regulators, policymakers, environmentalists, the global automotive industry and progressive energy companies agree on a crucial point: protecting and preserving the environment must be a priority for all. Engine and emissions controls manufacturers, challenged to cut tailpipe pollution another 95%, say they can deliver – on one condition. For their advanced designs to achieve targeted reductions, they must have a super-clean fuel.

In a sea of legitimate but conflicting interests, there is consensus on the criteria for the perfect fuel. In addition to being clean, it must be economical, safe, convenient, and available in ample supply to meet global demand. These are easy criteria to identify, but very difficult to meet.

Difficult, that is, until you compare these criteria with the qualities inherent in synthetic fuels produced from GTL technology.

Synthetic fuels:

- Are virtually free of sulfur, aromatics and heavy metals;
- Can be produced in sufficient quantity to satisfy global demand;
- Are compatible with existing and next generation diesel engines and emissions

control technologies, thus dramatically advancing the cause of cleaner air;

- Are environmentally friendly in the production phase;
- Can be distributed through the existing distribution infrastructure;
- Lack the toxicity and water solubility found in other possible alternatives;
- Have all the characteristics desired for on-board conversion into hydrogen to power fuel cell vehicles;
- Satisfy consumers' demand for a fuel source with power (we call it the "vroom factor");
- And they can be produced economically, i.e. for less than the cost of a barrel of ultra-low-sulfur fuel refined from crude oil.

The question is how to bring the new fuel and engine technologies together. Who will be the catalyst that starts the flow of GTL-based synthetic fuels into commercial markets? We believe there are at least six:

*Policymakers*

The EPA recently passed new rules requiring refiners to reduce the sulfur content of diesel fuels to 15 ppm. Responding to new regulations in Europe and Australia, refiners there have taken the lead in introducing 50-ppm sulfur



diesel, well ahead of the 2005-6 requirements in some cities, and Germany has ordered a reduction to 10 ppm by 2003. Meanwhile, the Worldwide Fuel Charter, which reflects the views of a global coalition of auto manufacturers, has called for a diesel fuel sulfur content cap of 10 ppm. In other words, there's no going back. Low sulfur fuel is coming.

#### *Refiners*

The burden of complying with the new sulfur content rules will fall heavily on refiners. As a practical matter, refiners will continue to invest in conventional facilities as product demand and new oil reserves warrant. However, where fuel quality is concerned, they now have a choice. They can go with heroic desulfurization steps. Or they can do a combination of the traditional technology and GTL, which offers a source of sulfur-free products for direct use or blending to upgrade crude-based fuels. We think the economics favor the latter.

#### *Automotive Companies*

Auto manufacturers worldwide are investing heavily in new emissions control and engine technologies. Sulfur has been identified as a principal element in today's fuels that impedes auto manufacturers' ability to reduce harmful engine emissions. Not only does it contribute directly to pollution from internal combustion engines, it precludes the use of a new generation of after-treatment devices designed to reduce emissions of nitrogen, sulfur oxides and particulate matter. Hence, the global communities are taking steps to reduce sulfur in fuels to levels that will enable the use of these cleaner engine technologies.

#### *Fuel Cell Companies*

Many forward thinkers see fuel cells as the engine of the future. We don't disagree. In fact, we see GTL as one of the great enablers of fuel cell technology. As with catalytic converters, sulfur poisons fuel cells. In addition, the high

hydrogen density of synthetic fuels makes them ideal for on-board hydrogen conversion. In other words, we believe synthetic fuels will be the fuel of choice for fuel cells.

#### *Military*

The military has been investigating the possibility of standardizing a "single battlefield fuel." The same fuel must be suitable for use in turbine engines of jets, tanks and helicopters, as well as in diesel engines of trucks and in fuel cell systems that are expected on the battlefield of the future. The fuel must also meet military safety requirements for flammability. Recent tests of Syntroleum fuels indicate that our synthetic fuels can meet all of these requirements. This isn't technology for technology's sake: About 70% of the bulk tonnage needed to sustain the military during a conflict is fuel. Using a single, power-train neutral fuel would vastly simplify the logistics and reduce the overall tonnage required. Syntroleum is working with the U.S. Navy and the U.S. Army's National Automotive Center to test the suitability of synthetic fuel for just this purpose.

Many forward thinkers see fuel cells as the engine of the future. We don't disagree.

#### *Consumers*

Environmental considerations have become a central factor driving consumers' purchasing decisions. Consumers demand fuels that can maintain vehicle performance, safety and convenience – and meet environmental tests, too. In the years just ahead, there will be enormous market opportunities for those that qualify. At the head of the list are designer fuels produced from natural gas, which consumers are ready to embrace.

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The following selected financial information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes thereto 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.

(in thousands, except for per share data)

		Year Ended December 31,			
	2000	1999	1998	1997	1996
<b>Statement of Operations Data:</b>					
Joint development revenue	\$ 1,166	\$ 1,986	\$ 1,779	\$ 2,006	\$ 616
Real estate sales revenue	4,758	1,219	2,416	-	-
Licensing revenue	2,000	-	-	-	-
Other revenue	84	650	284	1	-
<b>Total revenue</b>	<b>8,008</b>	<b>3,855</b>	<b>4,479</b>	<b>2,007</b>	<b>616</b>
Costs and expenses:					
Cost of real estate sold	3,646	824	2,387	-	-
Real estate operating expenses	250	781	267	-	-
Pilot plant, engineering and research and development	18,520	10,863	5,693	3,554	1,120
Catalyst services	-	-	-	4,800	-
General and administrative	13,118	10,409	9,151	3,618	1,421
<b>Total operating expenses</b>	<b>35,534</b>	<b>22,877</b>	<b>17,498</b>	<b>11,972</b>	<b>2,541</b>
Operating income (loss)	(27,526)	(19,022)	(13,019)	(9,965)	(1,925)
Investment, interest and other income (expense)	2,358	1,864	1,308	353	(12)
<b>Net income (loss)</b>	<b>\$(25,168)</b>	<b>\$(17,158)</b>	<b>\$(11,711)</b>	<b>\$ (9,612)</b>	<b>\$ (1,937)</b>
Net income (loss) per share – basic and diluted (1)	\$ (0.84)	\$ (0.64)	\$ (0.46)	\$ (0.40)	\$ (0.08)

(1) Adjusted to reflect the exchange ratio for the merger of Syntroleum Corporation and SLH Corporation of 1.2899 shares of our common stock for each share of our predecessor company's common stock. See Management's Discussion and Analysis of Financial Condition and Results of Operations.

(in thousands)

		As of December 31,			
	2000	1999	1998	1997	1996
<b>Balance Sheet Data:</b>					
Working capital	\$ 81,722	\$ 22,798	\$ 37,476	\$ 9,846	\$ 601
Property and equipment, net	31,274	6,442	3,210	1,245	521
Total assets	139,878	39,591	50,400	12,091	1,552
Deferred revenue	35,680	11,000	11,000	11,000	-
Stockholders' equity	94,748	24,832	35,962	(1,242)	266

### 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 acquirer. 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 primarily 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. We expect our results of operations and cash flows 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 agree-

ments 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 technologies or commitments 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 to 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 licensees 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, 2000, our real estate inventory consisted of land in Houston, Texas comprised of 281 acres of undeveloped land and 108 lots known as the "Houston Project." 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's former parent corporation. Our total real estate inventory had an aggregate carrying value at December 31, 2000 of approximately \$3.3 million. The Houston Project 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.

During 2000, we sold the remaining tract of land in Corinth, Texas for \$36,000. We also sold 82 lots from the Houston Project for \$1,663,000.

In February 2000, the Company sold its parking garage in Reno, Nevada to Fitzgeralds Reno, Inc. The sale price of \$3 million was paid by \$750,000 in cash and the balance in the form of a promissory note in the principal amount of \$2,250,000 together with the assumption of the lease payments due under the ground lease. The note bears interest at the rate of 10% per annum 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 a deed of trust covering

the leasehold estate created by the ground lease on which the garage is located, as well as the parking garage and an assignment of leases. In December 2000, Fitzgeralds Reno, Inc., a Nevada corporation ("FRI") doing business as Fitzgeralds Hotel & Casino Reno, along with several affiliates, filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court, District of Nevada. Fitzgeralds continues to make the monthly payments due on the note and the ground lease and has informed the Company that it intends to assume these obligations and continue making these payments until Fitzgeralds is able to sell the parking garage. The Company's deed of trust contains a "due on sale" provision until the note is paid. After the note is paid, the Company's deed of trust remains in effect to secure Fitzgeralds' performance of its obligations under the ground lease and provides that any assignee of Fitzgeralds in the event of the sale of the parking garage must meet certain net worth requirements in order for Fitzgeralds to assign the ground lease.

#### *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 and patents. 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.

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. Our policy is to expense costs associated with the development of GTL plants until financial close unless they have future economic value for future projects. Engineering costs are capitalized once an engineering contract leading to a firm lump sum price has been signed.

#### **Results Of Operations**

##### *Overview*

During 2000, we continued our efforts to commercialize our GTL technology on several fronts. We completed 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 operated successfully until it was shut down at the completion of testing shortly after June 30, 2000. ARCO funded the construction and operation of this plant under our joint development agreement. Plant operations exceeded our expectations and successfully demonstrated a number of key aspects of our proprietary autothermal reformer and moving bed reactor designs and related catalyst performance. The data and experience generated from our participation in plant operations will be useful in our efforts to apply these reactor designs on a commercial basis both for fuels and specialty product plants. We are currently conducting engineering studies with others for commercial-scale plants using these reactor designs.

We continued our activities to confirm catalyst performance and reactor designs for our proposed Sweetwater plant. These activities included operation of new pilot scale Fischer-Tropsch reactors at our pilot plant in Tulsa, Oklahoma. Operation of these reactors allowed us to complete a battery of confirmation tests and detailed engineering of our proposed Sweetwater plant during the year 2000. To date our pilot plant operations have met or exceeded our Sweetwater plant design targets. Pilot plant testing activities with respect to the Sweetwater plant are continuing. We also substantially completed construction of a product upgrading pilot plant located at our technology center which is currently undergoing pre-commissioning for start up and operation.

We also continued our efforts to advance numerous other aspects of the Sweetwater project, including completion of our license and loan agreements with the Commonwealth of Australia and execution of letters of intent with Enron and Ivanhoe Energy relating to their participation as equity partners in the Sweetwater project. Each of these transactions is discussed in more detail below under "Liquidity and Capital Resources - Initial

Specialty Product GTL Plant." In addition, we engaged the investment banking firm of Merrill Lynch, Pierce, Fenner & Smith Incorporated to advise us as we seek to raise the necessary debt capital to construct the Sweetwater project.

In September 2000, we were selected by the U.S. Department of Energy to participate in one of eight teams of companies that have been identified as potential participants in the DOE's program to help pioneer a new generation of ultra-clean transportation fuels and tailpipe emission controls. Our team will use our GTL technology to demonstrate the effective production, testing, adaptation and use of ultra-clean synthetic fuels that can be delivered by existing fuel infrastructures. The DOE has not yet selected the final participants, and we can give no assurance that our team will be selected for a DOE grant for this project. In addition, the terms and conditions of our participation have not yet been finalized.

We continued to expand our technology partners during 2000, as General Motors and Volkswagen entered into fuel testing agreements with us. In addition, fuel cell developer FuelCell Energy entered into a Fuel Marketing and Offtake Agreement with us.

During 2000, we entered into a volume license agreement with Ivanhoe and later amended the agreement to a full master license agreement. The license agreement, as amended, no longer contains limitations on the volume of synthetic hydrocarbons which may be produced by Ivanhoe under the agreement and enables Ivanhoe to pursue an unlimited number of gas-to-liquids projects around the world.

During April of 2000, we recognized \$2 million in license revenue reflecting funds previously received as payment for an option granted to a licensee to acquire the right to use the Syntroleum Process in certain additional geographic areas not included in the original licensed territory. Revenue received upon the grant of this option was deferred until the earlier of the licensee exercising the option or the expiration of the option. The option lapsed in April 2000, resulting in the recognition of the related revenue.

#### *2000 Compared to 1999*

**JOINT DEVELOPMENT REVENUE.** Revenues from our joint research and development and pilot plant operations were \$1,166,000 in 2000, down \$820,000 from 1999 when they were \$1,986,000. The decrease was primarily due to reduced funding received under our joint development agreement with ARCO relating to the construction of the pilot plant at ARCO's Cherry Point refinery in Washington. Construction of this pilot plant was completed in 1999 and we continued to receive funding for the operation of this pilot plant through June 2000. Testing was completed and the plant was shut down in early July 2000.

**REAL ESTATE SALES REVENUE.** Revenues from the sale of

real estate were \$4,758,000 in 2000, up \$3,539,000 from \$1,219,000 in 1999. The increase was due to the sale of our Reno parking garage to Fitzgeralds Reno, Inc. during February 2000 and the sale of 82 lots from our Houston Project during 2000, compared to our sale of the Santa Rosa land in Kansas City and the sale of 38 lots from our Houston project during 1999. Real estate sales revenues should decrease as the remaining real estate inventory is sold.

**LICENSING REVENUE.** Revenues from license activities were \$2,000,000 in 2000 compared to zero in 1999. This increase was a result of our recognition of \$2 million in previously deferred license revenue as a result of the expiration of an option held by a licensee to expand the licensee's licensed territory.

**OTHER REVENUE.** Other revenues were \$84,000 in 2000, down \$566,000 from 1999 when they were \$650,000. The decrease resulted primarily from the lower parking and retail rentals from our parking garage in Reno, Nevada, which we sold in February 2000.

**COST OF REAL ESTATE SOLD AND REAL ESTATE OPERATING EXPENSE.** The cost of real estate sold was \$3,646,000 in 2000, up \$2,822,000 from \$824,000 in 1999. The increase resulted from the sale of our Reno parking garage to Fitzgeralds Reno, Inc. during February 2000 and the sale of 82 lots from our Houston Project during 2000 compared to our sale of the Santa Rosa land in Kansas City and the sale of 38 lots from our Houston project during 1999. Real estate operating expense was \$250,000 during 2000, down \$531,000 from \$781,000 in 1999. This decrease was the result of decreased costs associated with the parking and retail operation of the Reno garage.

**PILOT PLANT, ENGINEERING AND R&D.** Expenses from pilot plant, engineering and research and development activities were \$18,520,000 in 2000, up \$7,657,000 from 1999 when these expenses were \$10,863,000. The increase was primarily the result of the continued expansion of our Tulsa, Oklahoma pilot plant facility, the construction of a product upgrading pilot plant at our technology center, higher research and development spending and higher consulting expense associated with the design and engineering of the Sweetwater plant.

**GENERAL AND ADMINISTRATIVE EXPENSE.** General and administrative expenses were \$13,118,000 in 2000, up \$2,709,000 from 1999 when these expenses were \$10,409,000. The increase is attributable primarily to higher wages and salaries resulting from our higher staffing levels, higher rent expense and higher expense for outside consultants and advisors.

**INVESTMENT, INTEREST AND OTHER INCOME (EXPENSE).** Investment, interest and other income increased to \$2,358,000 in 2000, up \$494,000 from 1999 when this income was \$1,864,000. The increase was primarily attribut-

able to higher interest income from increased cash balances and foreign currency exchange gains during 2000 compared to 1999.

**PROVISION FOR INCOME TAXES.** Income tax expense was \$2,486,000 in 2000 up from zero in 1999. This tax expense was an Australian withholding tax on payments made to the Company by the Commonwealth of Australia under our license and loan agreements with the Commonwealth. We expect to incur similar withholding tax expense with respect to any future payments to the Company by the Commonwealth under either of these agreements. We incurred a loss in both 2000 and 1999 and did not recognize an income tax benefit for such loss.

**NET INCOME.** In 2000, we experienced a loss of \$25,168,000. The loss was \$8,010,000 higher than 1999 when we experienced a loss of \$17,158,000. The increase in the loss is a result of the factors described above.

#### *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.

## **Liquidity and Capital Resources**

### *General*

As of December 31, 2000, we had \$86,497,000 in cash and short-term investments and \$5,754,000 in current liabilities. Our long-term debt as of December 31, 2000 was \$731,000, and this debt matures in 2025. The long-term debt amount reflects cash loan proceeds received in escrow (AUD \$12 million which is approximately U.S. \$7 million) discounted over the remaining term of

the loan using an imputed interest rate of 9%. The difference between the cash received and the discounted long-term debt amount of \$731,000 has been recorded as a reduction in the costs of the related Sweetwater project. The long term debt amount reflected for these proceeds will increase over time as the remaining term of the loan declines.

Prior to our merger with SLH, our primary sources of liquidity were equity capital contributions and prepaid license fees and our principal liquidity needs were to fund expenditures relating to research and development and pilot plant activities and to fund working capital. At December 31, 2000, we had \$2,934,000 in accounts and notes receivable outstanding. We currently have short-term investments of approximately \$3,300,000, of which \$3,200,000 secures 49.9 percent of a letter of credit for the Powder Basin Partnership in which we are a 49.9 percent investor. We also have \$13,744,000 in restricted investments that are held in escrow representing funds received from the Commonwealth of Australia under our loan and license agreements with the Commonwealth.

Cash flows provided by (used in) operations were \$5,316,000 in 2000 compared to (\$16,599,000) in 1999 and \$(12,132,000) in 1998. This increase in cash flows in 2000 was primarily the result of the receipt of \$27,520,000 in deferred revenue offset by the recognition of \$2,000,000 of previously deferred revenue. Cash flows provided by operations also increased because of the completion of site development for the beginning phases of the Houston Project, the sale of 82 lots from the Houston Project and the sale of the Reno garage. Cash flows provided by (used in) investment activities were \$(39,656,000) in 2000 compared to \$(4,094,000) in 1999 and \$35,242,000 in 1998. The decrease in 2000 resulted primarily from the increased capitalized costs for our Sweetwater project and the increase of restricted funds associated with the Commonwealth of Australia license and loan agreements.

Cash flows provided by financing activities were \$97,539,000 in 2000 compared to \$6,028,000 in 1999 and \$1,713,000 in 1998. The increase in 2000 was primarily due to the completion of the sale of 5,650,000 shares of common stock pursuant to a public offering in which we received net proceeds of approximately \$92,242,000 after the underwriting discount and offering expenses and the receipt of \$757,000 in long-term debt under the Commonwealth of Australia loan agreement. We intend to use a substantial portion of these net proceeds to fund our portion of the equity financing for our Sweetwater project. We intend to use any remaining net proceeds to fund costs associated with pilot plant facilities, the development and construction of additional GTL plants, research

and development activities, the acquisition of complementary technologies, working capital needs and other general corporate purposes.

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 have an effective registration statement for the proposed offering from time to time of shares of our common stock for an aggregate initial offering price of \$21,125,000. 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 additional 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, although the actual amount could be materially different than this estimated amount.

We have sought and intend to continue 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.

#### *Initial Specialty Product GTL Plant*

We are developing a 10,000 barrel per day specialty product plant, which we call the Sweetwater plant. We currently anticipate that this plant will produce synthetic lube oil, normal paraffins, process oils and light paraffins. The project is expected to use a fixed tube reactor design which produces a high yield of the desired products with high wax content and has lower scale-up risks than other reactor designs. The plant is also expected to include additional refining equipment necessary to produce the targeted specialty products. We plan to construct this plant through a joint venture. In February 2000, we selected a site for the plant about four 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, a wholly owned subsidiary of RWE AG, to provide us with a fixed price for the design and construction of the Sweetwater plant. Tessag also agreed to pay liquidated damages up to certain levels in the event certain process and product specifications are not achieved. We currently expect that Tessag will complete the plant design and, subject to completion of plant financing, begin con-

struction in 2001. We expect the plant to be operational in late 2003 or early 2004, although construction of the plant will be subject to the risk of delay inherent in any large construction project.

The State of Western Australia has announced its intention to assist the Sweetwater project with an AUD \$30 million (approximately U.S. \$17 million) common use infrastructure package, including a desalinization plant to which our plant will supply steam and from which our plant will receive cooling water. In addition, we have entered into a gas purchase agreement with the North West Shelf Gas Partners, whose members include affiliates of BHP Petroleum, BP, Chevron, Mitsui, Mitsubishi, Royal Dutch Shell and Woodside Energy Ltd. Subject to certain conditions, North West Shelf Gas Partners have agreed to supply the Sweetwater plant with the natural gas required to operate the plant at full capacity for 20 years.

In August 2000, we entered into a license agreement with the Commonwealth of Australia 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 the license agreement, the Commonwealth made an AUD \$30 million (approximately U.S. \$17 million) deposit, of which AUD \$15 million (approximately U.S. \$8 million) is held in escrow pending satisfaction of conditions relating to the construction of the Sweetwater project. AUD \$20 million (approximately U.S. \$11 million) of the license fee may be credited against future site license fees. At the same time, we entered into a loan agreement with the Commonwealth under which the Commonwealth will make a non-amortizing, interest-free loan to us in the amount of AUD \$40 million (approximately U.S. \$22 million) with a 25-year maturity to support the further development and commercialization of GTL technologies in Australia and under which we have agreed to conduct a feasibility study on constructing a large-scale GTL fuels plant in Australia. Loan proceeds are to be made available to us in three successive advances. Pending satisfaction of conditions relating to the financing, construction and completion of the Sweetwater project, loan proceeds will be held in escrow. Should the conditions not be fully satisfied by August 2004, any license and loan proceeds remaining in escrow will be returned to the Commonwealth.

In October 2000, we entered into a non-binding letter of intent with Ivanhoe Energy Inc. with respect to its contemplated contribution of \$21 million in exchange for a 13% equity investment in the Sweetwater plant. Upon execution of the letter of intent, Ivanhoe funded \$2 million of its contemplated contribution for front-end engineering and other project development costs. Under certain circumstances, Ivanhoe Energy would have the right to receive

cash flow distributions in excess of 13% if the plant does not meet specified performance targets.

In June 2000, we entered into a non-binding letter of intent with a subsidiary of Enron with respect to its contemplated contribution of \$21 million in exchange for a 13% equity investment in the Sweetwater project. Under the letter of intent, Enron would receive a \$1 million credit toward its investment in the Sweetwater project as a result of its prior contribution toward the development of the project, resulting in net equity funding to be received from Enron of \$20 million. Under certain circumstances, Enron would have the right to receive cash flow distributions in excess of 13% if the plant does not meet specified performance targets.

Upon Enron's funding of its net capital contribution, it would become entitled to convert its interest in the Sweetwater project into a maximum of 1,500,000 shares of our common stock during a period beginning one year after the date on which the project completes successful performance testing and ending on the tenth anniversary of execution of definitive agreements relating to the transaction contemplated in the letter of intent. In addition, upon Enron's funding of its net capital contribution, it would receive a warrant to acquire no more than 1,500,000 additional shares of our common stock at an exercise price equal to \$21.00 per share.

Consummation of the transactions contemplated by the letters of intent with Ivanhoe and Enron requires the satisfaction of a number of conditions, some of which are not within our control, including Ivanhoe and Enron management approvals, satisfactory completion of due diligence by Ivanhoe and Enron, funding of commitments with respect to other debt and equity financing and the negotiation and execution of definitive agreements. As a result, the transactions contemplated by the letters of intent may not be realized or may only be realized under terms and conditions that differ materially from those contemplated by the letters of intent.

In addition to the \$2 million contributed by Ivanhoe, the \$1 million contributed by Enron and \$2 million contributed by Methanex Corporation prior to its withdrawal from the project in May 2000, we have made a substantial financial contribution toward the development of the Sweetwater project through December 31, 2000, and we expect to continue to make additional financial contributions in the future.

Tessag recently completed front end engineering and design and has provided us a price quote of \$506 million for the engineering, procurement and construction of the Sweetwater plant. The quote includes provision for expanded refining capabilities that will give the plant greater flexibility for a wider range of products than originally contemplated. The quote does not include interest during construction and other owner's costs, which include proprietary catalysts

to be supplied by Syntroleum. These costs are yet to be finalized, but could represent a substantial portion of total plant costs. Tessag's price quote may change due to fluctuations in currency exchange rates, but will be converted into a firm, lump sum, dollar denominated contract upon final closing of the financing for the plant. With the quote completed, we are working with Tessag toward finalizing the fixed price EPC contract. However, we can give no assurance that the contract will be finalized. If finalized, the contract may be on terms materially different than the terms currently anticipated. Upon execution of the EPC contract, we can then proceed with completing the debt and equity financing for the project.

We currently expect the capital costs of the Sweetwater project to be funded primarily by non-recourse senior and subordinated debt at the project level, as well as the equity financing discussed above, together with our own equity contribution. We are currently seeking to finalize the equity investment transactions discussed above and we are exploring sources of debt capital to fund final design and construction. However, we can give no assurance that the necessary capital for this project will be obtained.

#### 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 or we may choose to convert our currency position into United States dollars. For example, our funding plan with the Commonwealth of Australia is in Australian dollars. 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 and may result in gains or losses in current

income. Currently, all of the Company's subsidiaries use the U.S. dollar for their functional currency. Assets and liabilities are translated into U.S. dollars at the rate of exchange in effect at the balance sheet date. Transaction gains and losses that arise from exchange rate fluctuations applicable to transactions denominated in a currency other than the U.S. dollar are included in the results of operations as incurred.

#### 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, and further amended by SFAS No. 138, 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 do not purchase futures contracts nor do we hold derivative investments. The Company adopted SFAS No. 133 beginning January 1, 2001. The adoption of SFAS No. 133 did not have a material effect on its financial statements.

(in thousands, except per share data)

	December 31,	
	2000	1999
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 83,150	\$ 20,316
Short-term investments	3,347	3,565
Accounts and notes receivable	572	1,193
Other current assets	407	365
Total current assets	87,476	25,439
Real estate held for sale	-	2,665
Real estate under development	3,340	3,349
Investments	959	1,104
Restricted cash	13,744	-
Property and equipment, net	31,274	6,442
Notes receivable	2,362	297
Other assets, net	723	295
	<b>\$139,878</b>	<b>\$ 39,591</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 5,178	\$ 2,188
Accrued liabilities	576	453
Total current liabilities	5,754	2,641
Long-term debt	731	-
Other noncurrent liabilities	29	94
Deferred revenue	35,680	11,000
Minority interests	2,936	1,024
Commitments and contingencies		
Total liabilities	45,130	14,759
<b>Stockholders' Equity:</b>		
Preferred stock, \$0.01 par value, 5,000 shares authorized, no shares issued	-	-
Common stock, \$0.01 par value, 150,000 shares authorized, 40,812 and 34,669 shares issued in 2000 and 1999, respectively, including shares in treasury	408	347
Additional paid-in capital	163,858	68,935
Notes receivable from sale of common stock	(599)	(699)
Accumulated deficit	(68,842)	(43,674)
	94,825	24,909
Less-treasury stock, 7,675 shares in 2000 and 1999, respectively	(77)	(77)
Total stockholders' equity	94,748	24,832
	<b>\$139,878</b>	<b>\$ 39,591</b>

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

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	For the Year Ended December 31,		
	2000	1999	1998
<b>Revenues:</b>			
Joint development revenue	\$ 1,166	\$ 1,986	\$ 1,779
Real estate sales	4,758	1,219	2,416
Licensing	2,000	-	-
Other	84	650	284
Total revenues	8,008	3,855	4,479
<b>Costs and Expenses:</b>			
Cost of real estate sales	3,646	824	2,387
Real estate operating expense	250	781	267
Pilot plant, engineering and research and development	18,520	10,863	5,693
General and administrative	13,118	10,409	9,151
Income (loss) from operations	(27,526)	(19,022)	(13,019)
Investment and interest income	4,432	1,681	1,159
Foreign currency exchange	365	-	-
Other income (expense)	(17)	154	118
Income (loss) before minority interests and income taxes	(22,746)	(17,187)	(11,742)
Minority interests	64	29	31
Income taxes	(2,486)	-	-
Net income (loss)	\$(25,168)	\$(17,158)	\$(11,711)
Net income (loss) per share - Basic and diluted	\$ (0.84)	\$ (0.64)	\$ (0.46)
Weighted average common shares outstanding	30,107	26,906	25,467

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

	Common Stock		Additional	Notes	Accumulated	Treasury	Total
	Number of Shares	Amount	Paid-in Capital	From Sale of Common Stock	Deficit	Stock	Stockholders' Equity
<b>Balance, December 31, 1997</b>	24,502	\$245	\$ 14,028	\$(699)	\$(14,805)	\$(11)	\$(1,242)
Retirement of treasury stock	(2)	-	(11)	-	-	11	-
Merger with SLH Corporation	10,075	101	48,891	-	-	(77)	48,915
Net income (loss)	-	-	-	-	(11,711)	-	(11,711)
<b>Balance, December 31, 1998</b>	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)
<b>Balance, December 31, 1999</b>	34,669	347	68,935	(699)	(43,674)	(77)	24,832
Stock options exercised	499	5	2,513	-	-	-	2,518
Consultant options granted	-	-	302	-	-	-	302
Other	(6)	-	(134)	100	-	-	(34)
Common stock issuance	5,650	56	92,242	-	-	-	92,298
Net income (loss)	-	-	-	-	(25,168)	-	(25,168)
<b>Balance, December 31, 2000</b>	40,812	\$408	\$163,858	\$(599)	\$(68,842)	\$(77)	\$ 94,748

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

(in thousands)

	For the Year Ended December 31,		
	2000	1999	1998
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	<b>\$(25,168)</b>	\$(17,158)	\$(11,711)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operations:			
Minority interest in subsidiaries	<b>(87)</b>	(313)	(31)
Depreciation and amortization	<b>993</b>	676	306
Non-cash compensation expense	<b>302</b>	-	-
Equity in affiliates	<b>145</b>	(141)	(8)
Changes in real estate held for sale and under development	<b>2,674</b>	(170)	1,545
Changes in assets and liabilities –			
Accounts and notes receivable	<b>(1,609)</b>	(333)	466
Other assets	<b>(502)</b>	206	(362)
Accounts payable	<b>2,990</b>	823	348
Accrued liabilities and other	<b>58</b>	(189)	(2,685)
Deferred revenue	<b>25,520</b>	-	-
Net cash provided by (used in) operating activities	<b>5,316</b>	(16,599)	(12,132)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property and equipment	<b>(25,793)</b>	(3,881)	(2,173)
Increase in restricted cash	<b>(14,081)</b>	-	-
Changes in investments and distributions from investment funds	<b>218</b>	(213)	37,415
Net cash provided by (used in) investing activities	<b>(39,656)</b>	(4,094)	35,242
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from sale of common stock and option exercises	<b>94,782</b>	31	-
Minority interest investment	<b>2,000</b>	-	1,000
Proceeds from issuance of long-term debt	<b>757</b>	-	-
Settlement of merger contingency	-	5,997	-
Cash received from merger	-	-	713
Net cash provided by financing activities	<b>97,539</b>	6,028	1,713
Foreign exchange effect on cash	<b>(365)</b>	-	-
Net increase (decrease) in cash and cash equivalents	<b>62,834</b>	(14,665)	24,823
Cash and cash equivalents, beginning of period	<b>20,316</b>	34,981	10,158
Cash and cash equivalents, end of period	<b>\$ 83,150</b>	\$ 20,316	\$ 34,981

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 seven oil companies and the Commonwealth of Australia. In addition to operating its own pilot plant in Tulsa, Oklahoma, the Company participated 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 known as the Sweetwater project.

On August 7, 1998, the Company's predecessor, Syntroleum Corporation, merged with SLH 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 year ended December 31, 1998, as though the merger with SLH had occurred at January 1, 1998, 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:

(in thousands)	1998
Revenues	\$12,028
Net income (loss)	(7,771)
Basic and diluted earnings (loss) per share	\$ (0.31)

**Operations**

The construction of GTL plants will require significant capital expenditures. The Company's other efforts to commercialize the Syntroleum Process will also involve significant expenditures. The Company has an effective registration statement for the proposed offering from time to time of shares of common stock for an aggregate initial offering

price of \$21,125,000. 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 additional equity financing in the capital markets. In the event such capital resources are not available to the Company, its GTL plant development and other activities may be curtailed.

**Consolidation**

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. 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 less than 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 Company's joint development revenues during the periods presented have been from joint development activities with several major oil companies (see Note 17). All such joint development activities were pursuant to joint research and development agreements where the Company expends 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. During 2000, the Company recognized \$2 million as revenue related to an expired option agreement. As of December 31, 2000, the Company has deferred all amounts received related to license 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 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 expense as properties are sold.

During 2000, the Company sold its remaining tract of land in Corinth, Texas for \$36,000 and its parking garage in Reno, Nevada for \$3,059,000 (see Note 6). The Company also sold 82 lots in Houston for \$1,663,000. These assets were acquired in the Company's 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 at each subsequent balance sheet date. At December 31, 2000 and 1999, the Company's investment portfolio consisted of debt securities classified as held-to-maturity and trading securities 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 2000, 1999 or 1998.

**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 commercialize 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 3,114,347, 2,721,925 and 2,131,839 shares of common stock at an average exercise price of \$10.43, \$7.44 and \$7.44 were not included in the computation of diluted earnings per share for the years ended December 31, 2000, 1999 and 1998, respectively, as inclusion of such options would be anti-dilutive.

**Reclassifications**

Certain reclassifications have been made to the 1999 and 1998 financial statements to conform with the 2000 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.

**Foreign Currency Transactions**

All of the Company's subsidiaries use the U.S. dollar for their functional currency. Assets and liabilities are translated into U.S. dollars at the rate of exchange in effect at

the balance sheet date. Transaction gains and losses that arise from exchange rate fluctuations applicable to transactions denominated in a currency other than the U.S. dollar are included in the results of operations as incurred.

**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 treatment. SFAS No. 133, as amended by SFAS No. 137, and further amended by SFAS No. 138, 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 does not purchase futures contracts nor does it hold derivative investments. The Company adopted SFAS No. 133 beginning January 1, 2001. The adoption of SFAS No. 133 did not have a material effect on its financial statements.

**2. INVESTMENTS:**

On December 31, 2000, the Company had 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 a developer of a proprietary bone substitute technology, which has a carrying value of \$565,000 at December 31, 2000. These assets were acquired in the Company's merger with SLH.

The Company has a 49.9% interest in a partnership that owns a shopping center located in Gillette, Wyoming having a carrying value of (\$181,000). This asset was acquired in the Company's merger with SLH. The Company has guaranteed debt (with an unpaid balance of \$5,635,000 at December 31, 2000) 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:

	For the Year Ended December 31,		
<i>(in thousands)</i>	2000	1999	1998
<b>Results of Operations</b>			
Revenue	\$ 878	\$ 830	\$ 798
Gross profit	501	466	446
Net earnings	155	283	71
	December 31,		
<i>(in thousands)</i>	2000	1999	1998
<b>Financial Position</b>			
Current assets	\$ 1,042	\$ 1,303	\$ 1,193
Real estate	4,122	4,357	4,343
Other assets	186	210	189
	<b>\$ 5,350</b>	<b>\$ 5,870</b>	<b>\$ 5,725</b>
Short-term borrowings	\$ 210	\$ 195	\$ 175
Current liabilities	81	114	77
Long-term borrowings	5,425	5,635	5,830
	<b>5,716</b>	<b>5,944</b>	<b>6,082</b>
Partnership deficit	<b>(366)</b>	<b>(74)</b>	<b>(357)</b>
	<b>\$ 5,350</b>	<b>\$ 5,870</b>	<b>\$ 5,725</b>

**3. RESTRICTED CASH:**

Restricted cash consist of funds held in two escrow accounts denominated in Australian dollars and carried at fair value. These restricted funds are held in the Company's name in a custodian account with a major Australian financial institution and are restricted as to withdrawal (see Notes 7 and 9). These funds are restricted as to use and can only be withdrawn with a valid drawdown notice signed by both the Company and the Commonwealth of Australia after certain conditions have been met related to the Sweetwater project. The Company has sole rights to all interest earned on these escrow balances, except after notice of default by the Company on the note.

**4. 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 thirty-nine years. Property and equipment consist of the following:

	December 31,	
<i>(in thousands)</i>	2000	1999
Furniture and office equipment	<b>\$ 3,341</b>	\$ 2,549
Property	<b>840</b>	840
Land	<b>118</b>	118
Leasehold improvements	<b>355</b>	341
Construction in progress	<b>28,675</b>	3,688
	<b>33,329</b>	7,536
Less-accumulated depreciation	<b>2,055</b>	1,094
	<b>\$31,274</b>	\$ 6,442

5. 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. During 2000, notes totaling \$100,000 and accrued interest were repaid. This payment was made in the form of the Company's common stock, which was received by the Company and later retired. The remaining notes bear interest at the rate of 6.10%, mature in May 2004, and are secured by the pledge of the Company's common stock.

6. NOTES RECEIVABLE:

In February 2000, the Company sold its parking garage in Reno, Nevada to Fitzgeralds Reno, Inc. The sale price of \$3 million was paid by \$750,000 in cash and the balance in the form of a promissory note in the principal amount of \$2,250,000 together with the assumption of the lease payments due under the ground lease. The note bears interest at the rate of 10% per annum 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 a deed of trust covering the leasehold estate created by the ground lease on which the garage is located, as well as the parking garage and an assignment of leases. In December 2000, Fitzgeralds Reno, Inc., a Nevada corporation ("FRI") doing business as Fitzgeralds Hotel & Casino Reno, along with several affiliates, filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court, District of Nevada. Fitzgeralds continues to make the monthly payments due on the note and the ground lease and has informed the Company that it intends to assume these obligations and continue making these payments until the sale of the parking garage. The Company's deed of trust contains a "due

on sale" provision until the note is paid. After the note is paid, the Company's deed of trust remains in effect to secure Fitzgeralds' performance of its obligations under the ground lease and provides that any assignee of Fitzgeralds in the event of the sale of the parking garage must meet certain net worth requirements in order for Fitzgeralds to assign the ground lease.

7. LONG-TERM DEBT:

In August 2000, a wholly-owned subsidiary of the Company entered into a loan agreement with the Commonwealth of Australia under which the Commonwealth will make an unsecured, non-amortizing, interest-free loan to the Company in the amount of AUD \$40 million (approximately U.S. \$22 million) with a 25-year maturity. Loan proceeds are to be used to support the further development and commercialization of GTL technologies in Australia. Under the terms of the loan agreement, the Company has agreed to conduct a feasibility study on constructing a large-scale GTL fuels plant in Australia. Loan proceeds are to be made available to the Company in three successive advances. Pending satisfaction of certain conditions relating to the financing, construction and completion of the Sweetwater project, proceeds will be held in escrow. Should the conditions not be fully satisfied by August 2004, any loan proceeds remaining in escrow will be returned to the Commonwealth.

During 2000, the Commonwealth made the first advance of AUD \$12 million (approximately U.S. \$7 million) under the loan agreement. The funds were placed in the escrow and are being held in Australian currency. Both the restricted funds and the long-term debt have been adjusted to reflect the exchange rates in effect as of the balance sheet date at the end of the third quarter. The long-term debt amount reflects cash loan proceeds received in escrow (AUD \$12 million which is approximately U.S. \$7 million) discounted over the remaining term of the loan using an imputed interest rate of 9%. The difference between the cash received and the discounted long-term debt amount of \$731,000 has been recorded as a reduction in the cost of the related property, plant and equipment. The long-term debt amount reflected for these proceeds will increase over time as the remaining term of the loan declines.

8. MINORITY INTERESTS:

During 2000, the Company entered into a letter of intent with Ivanhoe Energy, Inc. ("Ivanhoe") providing for Ivanhoe to participate in the Company's Sweetwater project. Ivanhoe is a Canadian oil and natural gas exploration and development company. Ivanhoe has funded \$2 million for pre-construction engineering and other project development

costs and, upon execution of definitive agreements, will acquire a 13% equity position in the project for an additional \$19 million. Ivanhoe would have the right to receive cash flow from distributions in excess of 13% if the Sweetwater project does not meet specified performance targets.

Also during 2000, the Company entered into a non-binding letter of intent with a subsidiary of Enron Corp. ("Enron") with respect to its contemplated contribution of \$21 million in exchange for a 13% equity investment in the Sweetwater project. Under the letter of intent, upon execution of definitive agreements, Enron would receive a \$1 million credit toward its investment in the Sweetwater plant as a result of its prior contribution toward the development of the project, resulting in net equity funding to be received from Enron of \$20 million. Enron would have the right to receive cash flow distributions in excess of 13% if the Sweetwater project does not meet specified performance targets.

Upon Enron's funding of its net capital contribution, it would become entitled to convert its interest in the Sweetwater project into a maximum of 1,500,000 shares of the Company's common stock during a period beginning one year after the date on which the project completes successful performance testing and ending on the tenth anniversary of execution of definitive agreements relating to the transaction contemplated in the letter of intent. In addition, upon Enron's funding of its net capital contribution, it would receive a warrant to acquire no more than 1,500,000 additional shares of the Company's common stock at an exercise price equal to \$21.00 per share.

Consummation of the transaction contemplated by the letters of intent with Ivanhoe and Enron requires the satisfaction of a number of conditions, some of which are not within the Company's control, including Ivanhoe and Enron management approvals, satisfactory completion of due diligence by Ivanhoe and Enron, funding of commitments with respect to other debt and equity financing and the negotiation and execution of definitive agreements. As a result, the transactions contemplated by the letters of intent may not be realized or may only be realized under terms and conditions that differ materially from those contemplated by the letters of intent.

The Company also received \$2 million from Methanex Corporation towards the cost of the engineering work being performed by a third party for the Sweetwater project. These funds were received pursuant to a letter of intent with Methanex that provided for the contribution by Methanex of an additional \$43 million in exchange for an equity interest in the Sweetwater project, subject to the execution of definitive agreements and the satisfaction of certain conditions. Subsequently, Methanex informed the Company that it was terminating further participation in the Sweetwater plant. The \$2 million contribution was recorded

as a reduction in engineering costs for the Sweetwater plant during the second quarter of 2000.

9. LICENSING ACTIVITY:

In August 2000, the Company signed a non-exclusive license agreement with the Commonwealth of Australia. This license provides the Commonwealth the right to utilize Syntroleum's proprietary gas-to-liquids technology to convert natural gas to synthetic liquid hydrocarbons, which can be refined into ultra clean fuels. Under the license agreement, the Commonwealth has paid the Company a license fee in the amount of AUD \$30 million (approximately U.S. \$17 million), half of which is being held in escrow and will be distributed to the Company upon satisfaction of certain conditions relating to the construction of the Sweetwater project. Should the conditions not be fully satisfied by August 2004, any license proceeds remaining in escrow will be returned to the Commonwealth.

In October 2000, the Company modified its existing volume license agreement with Ivanhoe to a master license agreement. The license agreement, as amended, no longer contains limitations on the volume of synthetic hydrocarbons which may be produced by Ivanhoe under the agreement and enables Ivanhoe to pursue an unlimited number of gas-to-liquids projects around the world.

Also during 2000, the Company recognized \$2 million in license revenue reflecting funds previously received by the Company as payment for an option granted to a licensee to acquire the right to use the Syntroleum Process in certain additional geographic areas not included in the original licensed territory. Revenue received upon the grant of this option was deferred until the earlier of the licensee exercising the option or the expiration of the option. The option lapsed in April 2000, resulting in the recognition of the related revenue.

10. PUBLIC OFFERING:

In July 2000, the Company completed the sale of 5,650,000 shares of common stock (including 400,000 shares of common stock pursuant to the exercise of a portion of the underwriter's over-allotment option) pursuant to a public offering at a price to the public of \$17.50 per share. The Company received net proceeds of approximately \$92 million after the underwriting discount and offering expenses.

The Company intends to use a substantial portion of the net proceeds from the offering to fund a portion of the Sweetwater project construction costs. The Company intends to use any remaining net proceeds to fund costs associated with pilot plant facilities, the development of additional GTL plants, research and development activities, the acquisition of complementary technologies, working capital needs and other general corporate purposes.

11. INCOME TAXES:

The Company has federal income tax net operating loss (NOL) carry-forwards of approximately \$62 million at December 31, 2000. In connection with the Company's 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 tax asset.

The Company has not recorded an income tax provision or benefit for the years ended December 31, 2000, and 1999. 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 \$11,983,000, \$9,690,000 and \$13,177,000 for the years ended December 31, 2000, 1999 and 1998, 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:

	December 31,	
(in thousands)	2000	1999
Deferred tax assets:		
NOL carry-forwards	\$ 23,637	\$ 19,304
Capital loss carry-forwards	1,614	1,614
Research and development credit	1,826	973
Deferred revenue	6,968	1,710
Other	4,633	3,463
	<b>38,678</b>	27,064
Deferred tax liabilities:		
Depreciation	(80)	(288)
Other	(169)	(330)
Net deferred tax asset		
before valuation allowance	38,429	26,446
Valuation allowance	(38,429)	(26,446)
Net deferred tax assets	\$ -	\$ -

During 2000, the Company made Australian withholding tax payments in the amount of \$2,486,000 for Australian sourced income. These taxes were withheld by the Commonwealth of Australia upon the Commonwealth's payment of the initial license fee under the license agreement and the Commonwealth's first advance under the loan agreement. Under the Australian tax treaty with the U.S., the payor is required to withhold 10% on Australian sourced revenue and to remit it to the Australian tax authorities.

12. SUPPLEMENTAL CASH FLOW INFORMATION:

During 1998, the Company's 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 (in thousands):

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

13. COMMITMENTS:

The Company has entered into various, non-cancelable operating leases for office space, equipment, land and buildings that expire over the next several years. Rental expense was \$866,000 in 2000, \$1,246,000 in 1999 and \$614,000 in 1998. Total future minimum lease payments under these agreements as of December 31, 2000 are as follows:

(in thousands)	Year	Amount
	2001	1,069
	2002	907
	2003	382
	2004	343
	2005	332
	Thereafter	5,839

The Company has entered into employment agreements which provide severance benefits to several key employees. Commitments under these agreements totaled approximately \$4,634,000 at December 31, 2000.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS:

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

(in thousands)	2000		1999	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	\$83,150	\$83,150	\$20,316	\$20,316
Short-term investments	3,347	3,347	3,565	3,565
Accounts receivable	572	572	1,193	1,193
Investments	959	959	1,104	1,104
Restricted cash	13,745	13,745	-	-
Notes receivable	2,362	2,607	161	161
Notes receivable from sale of common stock	599	599	699	699

The fair value of the cash and cash equivalents, restricted cash, 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.

15. CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS:

At December 31, 2000 and 1999, all marketable 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 2000 and 1999, 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:

(in thousands)	Amortized Cost	Market Value	Amount on Balance Sheet	Unrealized Holding Gains	Unrealized Holding Losses
<b>2000</b>					
<b>Trading Securities</b>					
Equity Securities	\$ 663	\$ 107	\$ 107	\$ -	\$ 556
<b>Held-to-Maturity</b>					
U.S. Government Securities	\$ 3,240	\$ 3,240	\$ 3,240	\$ -	\$ -
<b>1999</b>					
<b>Trading Securities</b>					
Equity Securities	\$ 663	\$ 415	\$ 415	\$ -	\$ 248
<b>Held-to-Maturity</b>					
U.S. Government Securities	\$16,243	\$16,243	\$16,243	\$ -	\$ -

16. STOCK OPTIONS:

The Company maintains stock option and incentive plans for employees and directors and has reserved 4,644,122 shares of common stock for issuance under the employee and director plans including one percent of the outstanding shares of common stock of the Company as of January 1 of each year (269,938 as of December 31, 2000) 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. 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, 2000, 282,619 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 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
Granted at market price	908,955	16.26
Granted at price exceeding market	58,284	12.37
Exercised	(506,331)	5.16
Expired	(68,486)	9.59
<b>Outstanding at December 31, 2000</b>	<b>3,114,347</b>	<b>\$10.43</b>

The Company applies the disclosure-only provisions of SFAS No. 123, "Accounting for 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, 2000 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 below:

	December 31,		
(in thousands, except per share data)	2000	1999	1998
Net income (loss):			
As reported	<b>\$(25,168)</b>	\$(17,158)	\$(11,711)
Pro forma	<b>\$(28,610)</b>	\$(19,632)	\$(14,175)
Basic and diluted income (loss) per share:			
As reported	<b>\$ (0.84)</b>	\$ (0.64)	\$ (0.46)
Pro forma	<b>\$ (0.95)</b>	\$ (0.73)	\$ (0.56)

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 2000, 1999 and 1998 was \$12.32, \$5.82 and \$10.60 per share, respectively. Prior to the Company's 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:

	2000	1999	1998
Expected dividend yield	<b>0%</b>	0%	0%
Expected volatility	<b>98%</b>	83%	124%
Risk-free interest rate	<b>5.78%</b>	5.07%	5.47%
Expected life	<b>5 yrs.</b>	9.77 yrs.	9.66 yrs.

Subsequent to December 31, 2000, the Company granted 225,413 options to purchase shares of common stock to employees at an average exercise price of \$14.88 and the Company amended the employee stock option plan to reserve 5,000,000 shares for issuance under the plan.

17. SIGNIFICANT CUSTOMERS:

Substantially all of the Company's joint development revenue for the three years ended December 31, 2000 was from several 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 and in connection with the conduct of several feasibility studies. The testing in the laboratories under these agreements was completed in September 2000. In addition, the Company has signed master license agreements with four oil companies and with the Commonwealth of Australia since 1996. The Company has also signed volume license agreements with three other oil companies. The license agreements allow the licensees to use the Syntroleum Process in their production of synthetic crude oil and fuels primarily outside of North America. Syntroleum received an aggregate of \$36 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 have been recorded as deferred revenue at December 31, 2000 and 1999. During 2000, the Company recognized \$2 million in license revenue reflecting funds previously received by the Company as payment for an option granted to a licensee to acquire the right to use the Syntroleum Process in certain additional geographic areas not included in the original licensed territory. The option lapsed in April 2000, resulting in the recognition of previously deferred revenue.

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 issued 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 (i) the annual maximum design capacity of the plant, (ii) an assumed life of the plant, and (iii) 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.

18. 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.

The following is a summary of stock options outstanding as of December 31, 2000:

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
\$ 3.19 - \$ 3.19	682,850	\$ 3.19	2.60	682,850	\$ 3.19
\$ 5.75 - \$ 6.88	714,904	6.66	7.87	311,171	6.37
\$ 7.25 - \$15.44	597,604	10.74	7.24	402,036	10.60
\$15.75 - \$16.38	612,899	16.36	9.75	12,899	15.75
\$16.75 - \$20.29	506,090	17.97	7.83	180,171	18.54
	<b>3,114,347</b>	<b>\$ 10.43</b>		<b>1,589,127</b>	<b>\$ 7.53</b>

**To the Board of Directors and Stockholders  
of Syntroleum Corporation:**

We have audited the accompanying consolidated balance sheets of Syntroleum Corporation and subsidiaries (a Delaware corporation) as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. 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 and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP  
Tulsa, Oklahoma  
January 19, 2001

**Senior Officers**

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 & Marljar. 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.

#### Board of Directors

Kenneth L. Agee is Chief Executive Officer and Chairman of the Board of Syntroleum. He has served as a director of Syntroleum since its founding in 1984.

Mark A. Agee is President and Chief Operating Officer of Syntroleum. He became a director in 1985. Mr. Agee joined Syntroleum in 1994 from Convergent Communications, where he was President, Chief Executive Officer.

Alvin Albe, Jr. was named a director in December 1988. He is Executive Vice President of the TCWGroup, Inc., a financial and business management firm in Los Angeles.

Frank M. Bumstead was named a director in May 1993. He is President of Flood, Bumstead, McCready & McCarthy, Inc., a financial and business management firm in Nashville, Tennessee.

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 became a director in December 1996. He is President and Chief Executive Officer of Lab Holdings, Inc., a company engaged in the laboratory testing business.

Robert Rosene, Jr. became a director in March 1985. He is co-founder and President of Boyd Rosene and Associates, Inc., a natural gas consulting and marketing firm in Tulsa, Oklahoma.

James R. Seward became a director in December 1996. He is President and Chief Executive Officer of Seward & Company LLC, a financial advisory firm in Prairie Village, Kansas.

J. Edward Sheridan was named a director in November 1995. He founded and served as President of Sheridan Management Corporation in Washington, D.C., a company that provides support services to businesses and industries with global markets for their products and services.

## Corporate Data:

#### Form 10-K

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

#### Shares Traded

Nasdaq Stock Market  
(Ticker Symbol "SYNM")

#### Registrar of Stock and Transfer Agent

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

#### Independent Accountants

Arthur Andersen LLP  
6450 South Lewis  
Suite 300  
Tulsa, Oklahoma 74136

#### Corporate Offices

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

#### Stockholder Communications

Visit Syntroleum on the Internet  
[www.syntroleum.com](http://www.syntroleum.com)



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 sales prices for the common stock for each quarter during 1999 and 2000.

	Sales Price			Sales Price	
	High	Low		High	Low
<b>1999:</b>			<b>2000:</b>		
First Quarter	10.13	5.50	First Quarter	26.38	7.13
Second Quarter	8.94	5.88	Second Quarter	26.50	16.38
Third Quarter	10.00	6.50	Third Quarter	20.81	12.88
Fourth Quarter	10.00	6.25	Fourth Quarter	20.81	11.81

#### Forward-looking statements

This Annual Report 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, 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 in this Annual Report.