

*“A leaner, restructured
Syntroleum with a
REFOCUSED STRATEGY
emerged from the tough
economic conditions of 2002.”*



Syntroleum Corporation provides solutions for the monetization of stranded and/or under-utilized natural gas. Its core technology – the Syntroleum Process – converts natural gas and other hydrocarbons into synthetic crude oil, which can be refined into ultra-clean fuels and specialty products.

Using its proprietary gas-to-liquids technology and technical expertise, Syntroleum plans to develop projects in which it has equity participation. Syntroleum also licenses its technology to the international petroleum industry.

getting **COSTS UNDER CONTROL** *was the first order of business.*

While Syntroleum did not escape unscathed from 2002's economic turmoil, we emerged from it leaner, more focused and better prepared for the future.

Progress was made on several fronts. We advanced our technology with a multi-stage slurry FT demonstration plant, operated our new Synfining upgrading unit to produce fuels for testing by a consortium of Japanese companies and the U.S. Department of Defense, entered a contract with the U.S. Department of Defense to design a GTL barge to produce a single battlefield fuel, began construction of the ultra-clean fuels demonstration plant for the U.S. Department of Energy, brought costs under control, and put a broader, more promising business strategy in place.

We intend to gain greater control of our **OWN DESTINY...**

On the other hand, our nominal 11,500-barrel per day Sweetwater project in Australia had to be shelved because of financing hurdles related to capital cost increases and weaker than expected prices for its slate of specialty products. But Sweetwater was not a total loss. Experience gained from this effort will serve us well as we integrate future specialty plants with larger fuels plants to gain economies of scale and better profitability.

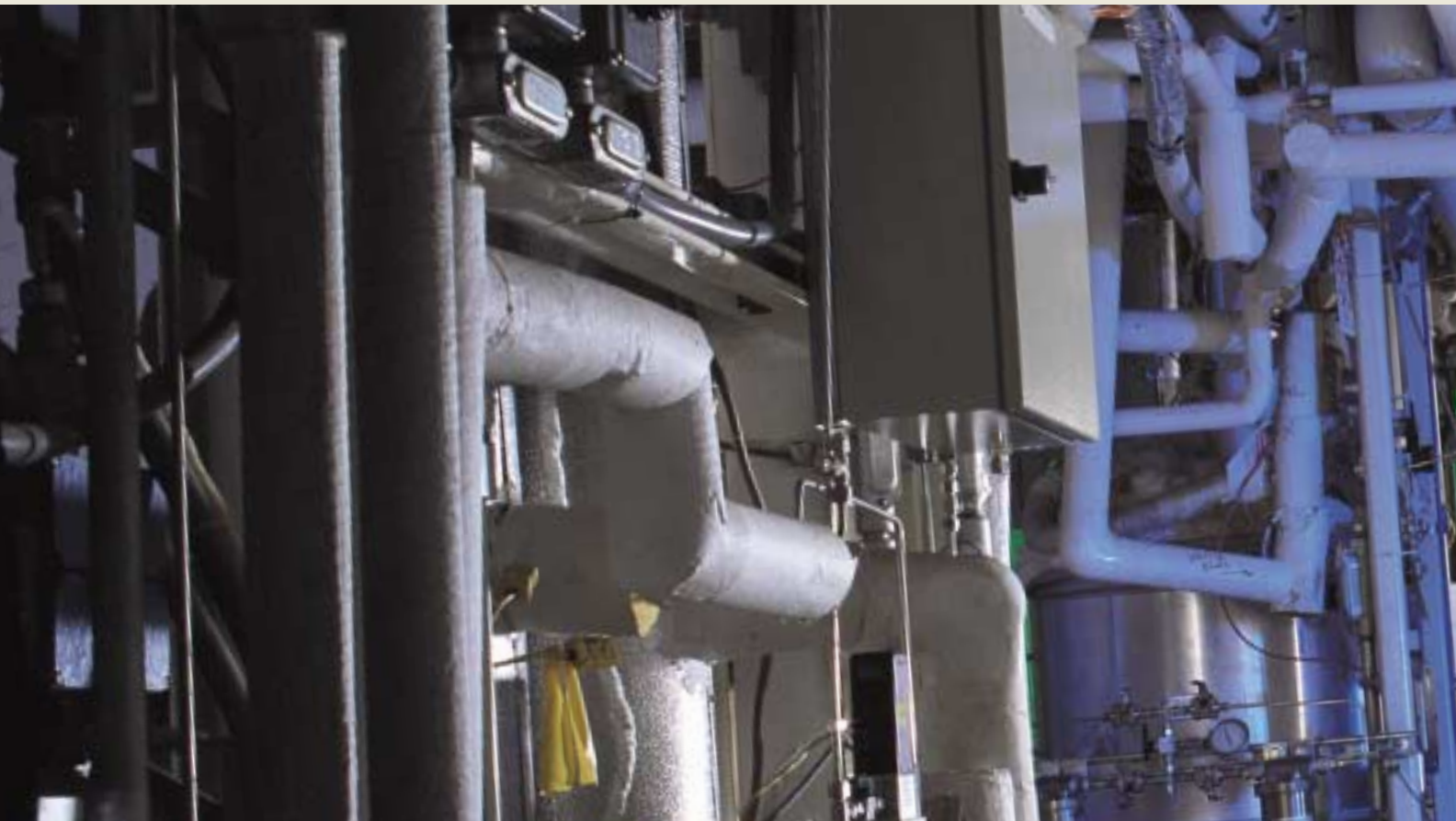
Going forward, we intend to gain greater control of our own destiny and concentrate on what we can do better than anyone else. We will no longer be just a provider of technology to convert stranded natural gas reserves into ultra-clean synthetic fuels. Licensing and licensee support will certainly remain an important part of our business. But we have expanded our strategy to include plans for direct participation in projects by leveraging and applying our own technologies to produce clean fuels from natural gas and coal. We are currently using this approach to acquire reserves and develop projects in Peru, Bolivia, Australia, and offshore Cameroon.

As we transitioned to this broader strategy, getting costs under control was the first order of business. Completion of research projects that don't have to be repeated, coupled with a 28% reduction in staff, has enabled us to cut negative cash flow in half in 2003 compared to last year. With this lower spending level, we have sufficient cash to cover expenses through 2003 and, with

continued divestment of non-core assets, we expect to be able to cover cash flow through 2004 – even without additional monies from projects under development or public/private offerings. Moreover, major GTL projects in Qatar are under development by two of our licensees – Ivanhoe Energy and Marathon. If either of these projects goes ahead, Syntroleum should bank additional cash to cover requirements beyond 2004 as we move into profitability.

We hope our licensees will be successful in their project development. But hope is not a strategy, and we've taken initiatives to proceed with our own gas monetization projects that include GTL as well as other gas processing technologies. We've established an in-house organization with technical and development experience in both exploration/production and gas processing. This group is actively reviewing under-valued gas reserves in the U.S. that we believe can be

*We are also looking
for **ACCELERATED** opportunities . . .
for early cash flow.*

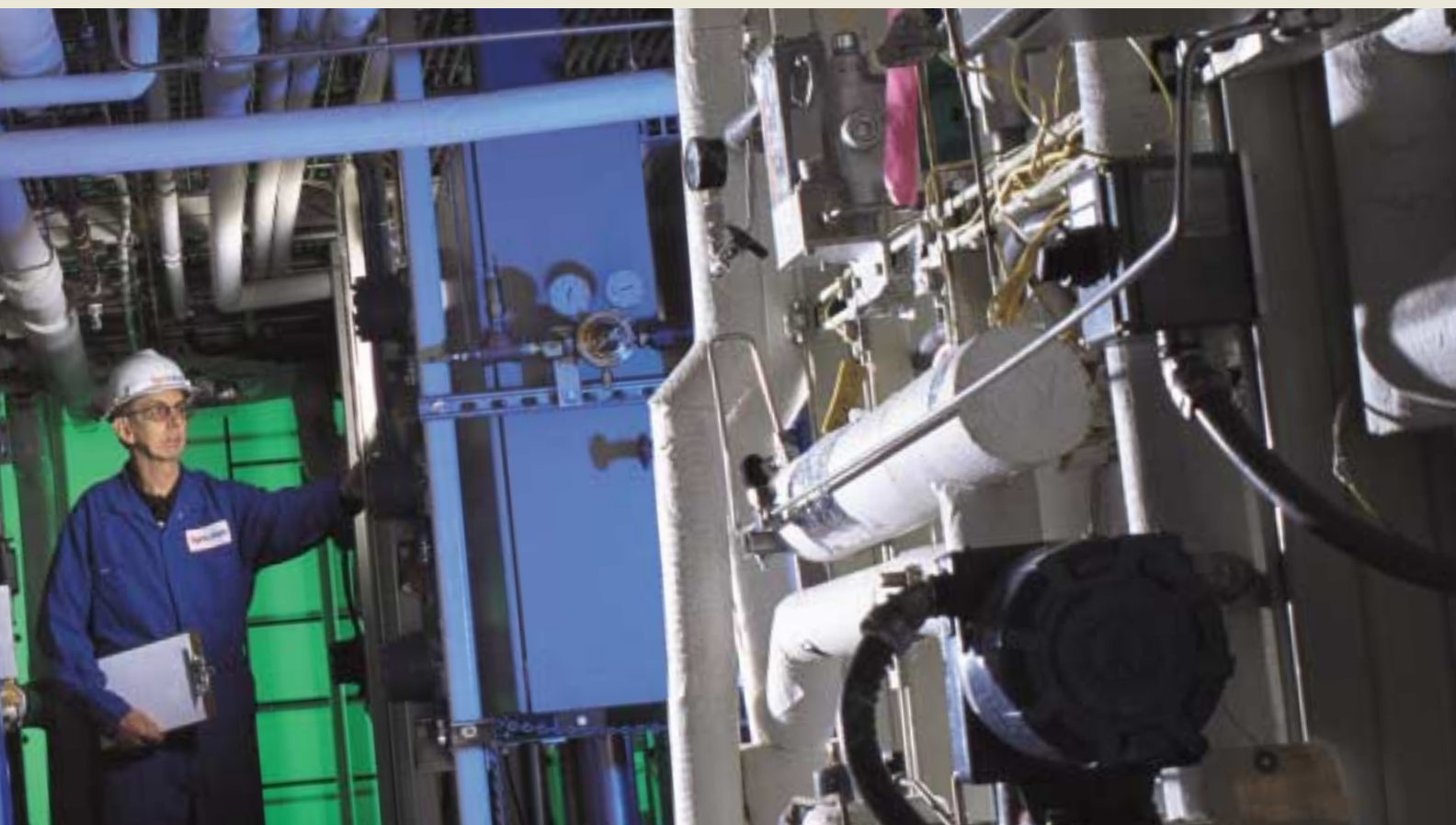


acquired, developed and processed into pipeline-quality gas using one of several new technologies developed by strategic partners. Successfully completed, these projects could start providing significant cash flow in 2004.

We are also looking for accelerated opportunities in our long-term GTL projects. Gas resources that will feed these projects are already discovered, and several things can be done to produce early revenues prior to GTL plant construction. These include putting a few wells on production, building an LPG plant to recover liquids and/or generating electricity where markets exist.

Partnering with independent producers is one of the keys to our new strategy. We believe the Syntroleum Process is a way for them to add large reserves onto their balance sheets, with very low geologic risk. By employing our technology, they can turn already discovered but stranded gas

► Syntroleum's Synfining[®] Refinery Process Unit, which upgrades Fischer-Tropsch synthetic crude oil into finished fuels and other products, located at Syntroleum's Technology Center at Tulsa, Oklahoma.



reserves into marketable liquids. To pursue these opportunities, we've had to take a hard look at the capital costs for deploying our GTL technology at smaller sizes. With zero compromise to safety, our engineers have developed a simplified design for a nominal 10,000-barrel per day barge-mounted plant, which could be fielded at substantially lower cost than earlier, more complex designs. We believe this basic gas monetization approach will be attractive and affordable within the independent producer community.

Since the Syntroleum Process is air-based rather than oxygen-based, we think from a safety standpoint that we're the only GTL technology supplier that can build a viable, small GTL plant on a barge, ship or platform. Our design enables targeting smaller fields of less than 3 trillion cubic feet, which is below what it takes to justify an LNG project. We can certainly handle large

*Partnering with **INDEPENDENT** producers is one of the keys to our new strategy.*

Syntroleum Executive Management Team – seasoned individuals with broad energy-industry experience.

Left to right: Jeffrey M. Bigger, Vice President of Engineering; Carla S. Covey, Vice President of Finance and Controller; Kenneth L. Agee, Chairman and Chief Executive Officer; John B. (Jack) Holmes, President and Chief Operating Officer; Paul F. Schubert, Vice President of Research and Development; Ronald E. Stinebaugh, Director of Corporate Finance and Acquisitions; Kenneth R. Roberts, Vice President of Finance, Planning and Administration and Chief Financial Officer; Larry J. Weick, Vice President of Licensing and Business Development.



plants, and will. But we're looking intently at projects with reserves down to 500 billion cubic feet. Our aim is to take a technology that nobody else can do and minimize its cost, thereby targeting fields that are below the radar screen of others. That is our niche.

Apart from stranded *gas* fields, our technology also answers the problem of *oil* discoveries that have been shut in because of inability to flare or find markets for the associated gas. As new oil is discovered, additional volumes of associated gas will require disposition if the new oil is to be produced, and this creates more opportunities for Syntroleum. For example, several major energy companies in Russia are currently struggling with disposition of associated gas as they try to expand oil production. After reviewing Syntroleum's technical approach, these companies are expressing strong interest in using our technology to deal with their problem.



With ongoing economic turmoil and political uncertainties, the road ahead will continue to be bumpy. But some good things are happening that are driving the GTL industry forward – environmental demands for cleaner fuels and cleaner air, the need to monetize stranded oil and gas to enhance energy security, and President Bush’s push behind fuel-cell powered vehicles that could extract their required hydrogen from sulfur-free fuels. GTL technology addresses all of these issues.

Much like the LNG industry of 30 years ago, everybody is trying to be first in line to build the second commercial GTL plant. They’re waiting for someone else to finance and start construction on the initial venture, and 2003 could be the year. Sasol, which has announced it is moving ahead with its 34,000 b/d project with Qatar Petroleum, could break the logjam. This first commercial, independently financed GTL plant is a major milestone in the development of the new GTL industry.

► Syntroleum Advanced Reactor Unit, a 3-barrel per day GTL demonstration plant with multi-phase slurry reactors, located at Tulsa, Oklahoma.



Everyone is aware by now of the immense problems and opportunities of shut-in gas reserves, currently estimated to be in excess of 3,000 trillion cubic feet. As these underutilized assets are commercialized by GTL technology, company owners will add significant value to their booked reserves while creating the potential for producing 300 billion barrels of liquids – approximately the equivalent of discovering another Saudi Arabia.

We remain confident of our leading position as a GTL pioneer. Demonstration plant experience convinces us that our process is economic and viable in the marketplace – thanks to 18 years and more than \$100 million invested to perfect it. And review of more than 1,500 Fischer-Tropsch patents by our technical/legal staffs and outside counsel – at a cost of over \$2 million – enables us to reassure shareholders, licensees and ourselves that our processes are well protected and infringe no valid patents.

► Construction site for 100-barrel per day ultra-clean fuels demonstration plant – a joint project with Syntroleum and Marathon Oil Company under the U.S. Department of Energy's Clean Fuels Program. Plant will be located at the Port of Catoosa near Tulsa, Oklahoma.



Assessing the future, we believe we are on course to succeed. Cost reductions already made have bought time for our new strategy to begin to pay off. Short-term cash flow projects under consideration, including application of innovative gas processing technologies, should bear fruit in the next couple of years. The partnership niche with independents, enabled by our new low-cost GTL barge design, creates an opening to exploit the myriad smaller gas fields that might otherwise go undeveloped. Meanwhile, licensing and joint ventures on large GTL projects promise significant revenues in the short term and even larger profits down the road.

A new Syntroleum intends to be alive and well at the launch of the commercial GTL industry. With a unique technology and a refined strategy to exploit it to the fullest, we should be well positioned to reap the benefits for our shareholders.



*A new Syntroleum intends
to be **ALIVE AND WELL** at the
launch of the commercial
GTL industry.*

A handwritten signature in black ink that reads "Kenneth L. Agee".

Kenneth L. Agee

CHAIRMAN AND CEO

A handwritten signature in black ink that reads "Jack Holmes".

Jack Holmes

PRESIDENT AND COO

Board of Directors

Kenneth L. Agee
*Chief Executive Officer and
Chairman of the Board of Syntroleum*

Jack B. Holmes, Jr.
*President and Chief Operating
Officer of Syntroleum*

Alvin Albe, Jr.
*Executive Vice President of the TCW Group, Inc.,
a financial and business management firm
in Los Angeles*

Frank M. Bumstead
*President of Flood, Bumstead, McCready &
McCarthy, Inc., a financial and business
management firm in Nashville, Tennessee.*

Robert A. Day
*Chairman of the Board and Chief Executive Officer
of Trust Company of the West,
an investment management company, and
Chairman and President of M.E. Keck Foundation,
a philanthropic organization.*

P. Anthony Jacobs
*Retired in 1999, previously President
and Chief Executive Officer of Lab Holdings, Inc.,
a company engaged in the laboratory
testing business.*

Robert Rosene, Jr.
*President of Seminole Energy Services, L.L.C.,
a natural gas marketing and gathering company
in Tulsa, Oklahoma.*

James R. Seward
*President and Chief Executive Officer of
Seward & Company LLC, a financial advisory
firm in Prairie Village, Kansas.*

J. Edward Sheridan
*Founder and President of Sheridan Management
Corporation in Washington, DC, a company that
provides support services to businesses and
industries with global markets for their products
and services.*

Senior Officers

Kenneth L. Agee
*Chief Executive Officer and
Chairman of the Board*

Jack B. Holmes, Jr.
President and Chief Operating Officer

Jeff Bigger
Vice President of Engineering

Carla S. Covey
Vice President Finance and Controller

Kenneth R. Roberts
Vice President and Chief Financial Officer

Paul F. Schubert
Vice President of Research and Development

Ronald E. Stinebaugh
Director Corporate Finance and Acquisitions

Larry J. Weick
*Vice President of Licensing and Business
Development*

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")*

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