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

FORM 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended June 30, 2013

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

For the transition period from ______ to _______

Commission file number: 01-33522

SYNTHESIS ENERGY SYSTEMS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**20-2110031**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
Three Riverway, Suite 300, Houston, Texas	**77056**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code **(713) 579-0600**

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

Common Stock, $.01 par value	**NASDAQ Stock Market**
(Title of Class)	(Name of Exchange on Which Registered)

Securities registered pursuant to Section 12(g) of the Exchange Act: **None**

Indicate by check mark whether the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of 15(d) of the Exchange Act. Yes ☐ No ☑

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $52.6 million on December 31, 2012. The registrant had 63,719,640 shares of common stock outstanding on September 23, 2013.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required to be disclosed in Part III of this report is incorporated by reference from the registrant's definitive Proxy Statement for the 2013 Annual Meeting of Stockholders, which will be filed not later than 120 days after the end of the fiscal year covered by this report.

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Forward-Looking Statements

This Annual Report on Form 10-K includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934 as amended. All statements other than statements of historical fact are forward-looking statements. Forward-looking statements are subject to certain risks, trends and uncertainties that could cause actual results to differ materially from those projected. Among those risks, trends and uncertainties are the development stage of our operations, our estimate of the sufficiency of existing capital sources, our ability to successfully develop our licensing business, our ability to raise additional capital to fund cash requirements for future investments and operations including our China platform initiative, our ability to reduce operating costs as necessary, the limited history and viability of our technology, commodity prices and the availability and terms of financing opportunities, our results of operations in foreign countries, our ability to diversify, our ability to complete the restructuring of the ZZ joint venture and production of methanol, our ability to obtain the necessary approvals and permits for our future projects, the estimated timetables for achieving mechanical completion and commencing commercial operations for the Yima project as well as the ability of the Yima project to produce revenues and earnings, the sufficiency of internal controls and procedures, our ability to grow our business and generate revenues and earnings as a result of our proposed China and India platform initiatives, and our ability to develop our power business unit and marketing arrangement with a subsidiary of General Electric Company, or GE, and our other business verticals for steel and renewables. Although we believe that in making such forward-looking statements our expectations are based upon reasonable assumptions, such statements may be influenced by factors that could cause actual outcomes and results to be materially different from those projected. We cannot assure you that the assumptions upon which these statements are based will prove to have been correct.

When used in this Form 10-K, the words "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Because these forward-looking statements involve risks and uncertainties, actual results could differ materially from those expressed or implied by these forward-looking statements for a number of important reasons, including those discussed under "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and elsewhere in this Form 10-K.

You should read these statements carefully because they discuss our expectations about our future performance, contain projections of our future operating results or our future financial condition, or state other "forward-looking" information. You should be aware that the occurrence of certain of the events described in this Form 10-K could substantially harm our business, results of operations and financial condition and that upon the occurrence of any of these events, the trading price of our common stock could decline, and you could lose all or part of your investment.

We cannot guarantee any future results, levels of activity, performance or achievements. Except as required by law, we undertake no obligation to update any of the forward-looking statements in this Form 10-K after the date hereof.

PART I

Item 1. Description of Business

We are a development stage global energy and gasification technology company that provides proprietary gasification technology systems and solutions to the energy and chemical industries. Our business is to create value by supplying our technology, equipment and services into global projects where lower cost low quality coals, coal wastes, municipal wastes, agricultural biomass, and other biomass feedstocks can be profitably converted through our proprietary gasification technology into clean synthesis gas, or syngas (a mixture of primarily hydrogen, carbon monoxide, and methane), which is then used to produce a variety of high value energy and chemical products. Our initial operating projects to date convert high ash coal and coal wastes to chemical grade methanol, and we are pursuing a variety of additional global projects under development by customers who may use our technology platform to convert low quality coals such as lignite, coal wastes, municipal wastes and agricultural waste biomass to high value products such as electric power, transportation fuels, substitute natural gas, or SNG, fuel for direct reduction iron, or DRI, steel making and other products. Our technology is originally based on the U-GAS® process developed by the Gas Technology Institute and we have augmented and differentiated the technology through newly developed intellectual property related to design, detailed engineering, constructing, starting up and operating our two commercial joint venture plants in China.

We intend to commercialize our technology through supplying our gasification systems consisting of technology, equipment and services to projects globally and to accomplish this largely via value accretive partnerships and collaborations with other companies which operate in the energy and chemical market segments where we believe our technology is highly advantaged. This is a low capital intensity business approach which we believe can generate attractive margins for us through providing our technology differentiated equipment and services in multiple market segments globally with a potential to build meaningful sales opportunities over time. However, to date our principal operating activities have focused in China where we have invested and built two commercial projects. We made these investments to fully demonstrate our technology and our capabilities to build and operate, but with this step of commercializing our technology successfully completed, we no longer intend to make such extensive capital investments in the foreseeable future. Our ZZ Joint Venture project is our first commercial scale coal gasification plant and is located in Shandong Province, China. It achieved commercial operation in December 2008. The ZZ Joint Venture is designed to produce clean syngas for sale to an immediately adjacent industrial company who manufactures methanol from the syngas. Under the new commercial structure completed in July 2013, we are assuming control of the methanol facilities and the ZZ Joint Venture plant will operate as an integrated plant which converts local coal wastes to methanol, as described in more detail under "-Current Operations and Projects – Zao Zhaung Joint Venture." The Yima Joint Venture project in Henan Province, China generated its first methanol production in December 2012, and is currently in its start-up phase, as described in more detail under "Business-Current Operations and Projects – Yima Joint Ventures." It is designed to produce 300,000 tons per year of chemical grade methanol and has achieved as high as 80% of its design raw methanol production capacity during start-up.

Our business model is to deploy our technology on a global basis via supplying a technology package, containing license rights to operate a project using our technology, gasification system equipment, and technology related services. As part of our overall strategy we intend to form strategic regional and market-based partnerships or business verticals where our technology offers advantages and through cooperating with these partners grow an installed base of projects. Through collaborative partnering arrangements we believe we will commercialize our technology much faster than entering these markets alone. Building on our successs in China, we are formalizing a China region business unit, that we refer to as SES China, with plans to capitalize this business locally with strategic partners that we believe can help accelerate our growth in China. In addition to regional business units, we are continuing to evaluate and develop our business in markets such as power, steel, fuels, substitute natural gas, chemicals and renewables which can benefit from deploying our technology offering to create these products from low cost coal and renewable feedstocks. We are developing these market-based business vertical opportunities together with strategic partners which have established businesses or interests in these markets with the goal of growing and expanding these businesses by partnering with us and deployment of our technology offering. Our collaboration with GE Packaged Power, Inc., a subsidiary of GE, which began in early 2013 to jointly evaluate and market a small scale power generation unit combining our gasification technology with GE's aeroderivative gas turbines, is an ongoing example of our market-based business vertical developments underway. We are also advancing developments via technology integration studies with potential partners for business verticals in DRI steel and "green" chemicals derived from municipal wastes. We have also formalized agreements for marketing our technology in India which we believe is an important growth region for which our technology is uniquely well suited.

We believe our existing operating projects in China have clearly demonstrated that we have several advantages which differentiate our technology over other commercially available gasification technologies, such as entrained flow, fixed bed, and moving bed gasification technologies. The first of these advantages is our ability to use a wide range of feedstocks (including low rank, high ash and high moisture coals, which are significantly cheaper than higher grade coals), coal wastes, municipal wastes, agricultural wastes, and other biomass feedstocks to make clean syngas. Our feedstock advantage opens up many of these global resources for use to manufacture energy and chemical products which otherwise could not be done with other currently available commercial gasification technologies. Secondly, our technology's advanced fluidized bed design is extremely tolerant to a wide range changes in feedstock during operation, which allows for flexible fuel purchasing for our customers. Additionally, our technology can use much less water and its simple design leads to the fabrication cost of our equipment and resulting plant costs being lower compared to other commercially available technologies. We believe these important factors position our technology for future deployment of gasification worldwide because our technology can enable projects to become a lower cost producer of products. Depending on local market needs and fuel sources, our syngas can be used to produce many valuable products including electric power, SNG, chemicals such as methanol, dimethyl ether, or DME, and glycol, ammonia for fertilizer production, reducing gas for DRI processes, and transportation fuels such as gasoline and diesel.

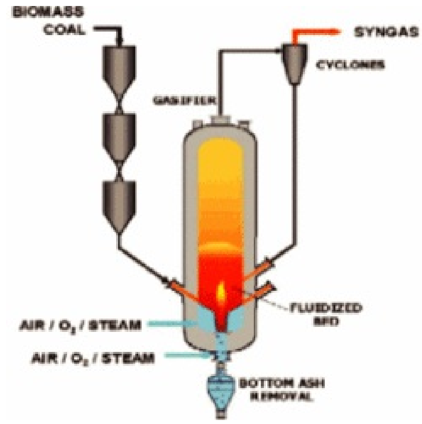
Overview of Our Gasification Process

We began our gasification activities by obtaining an exclusive worldwide license for the U-GAS® gasification technology, developed by the Gas Technology Institute, or GTI, a leading not-for-profit research and development organization located near Chicago, Illinois. Beginning in 1975, GTI developed a fluidized bed gasification technology trademarked as U-GAS®. Our U-GAS® license grants us the worldwide exclusive right to manufacture, make, use and sell both U-GAS® coal gasification systems and coal and biomass mixture (with coal content exceeding 60% by weight) gasification systems, and a non-exclusive right to manufacture 100% biomass gasification systems and coal and biomass mixture (with biomass content exceeding 40% by weight) gasification systems. We also have rights to sublicense U-GAS® systems to third parties for coal, coal and biomass mixtures and for 100% biomass projects (subject to the approval of GTI, which approval shall not be unreasonably withheld), with GTI and us to share the revenue from such third party licensing fees based on an agreed percentage split. Our license has an initial term expiring in August 2016, with two additional 10-year extensions exercisable at our option. For more information, see "- GTI Agreement" below.

Since we initially obtained the license in 2004, we have transformed the GTI process with considerable intellectual property of our own, based on improvements to the technology made during the ZZ Joint Venture plant design and operations and in the design, construction, commissioning, and pending operation of the Yima Joint Ventures. We will continue to refine and expand our gasification process to further differentiate it from other processes in its ability to reliably, cleanly and efficiently produce valuable products from feedstocks that are of low cost and quality and may even be characterized as wastes.

The primary advantage of our gasification process relative to other leading gasification technologies is its ability to produce syngas from all ranks of coal (including low rank, high ash and high moisture coals, and lignite), many coal waste products and biomass feed stocks. Our process is highly efficient at separating carbon from waste ash, which allows for the efficient processing of certain low rank coal and many coal waste products that cannot otherwise be utilized in the entrained flow and fixed bed gasifiers offered by our competitors. The ability to gasify these lower quality feedstocks unlocks economic advantages by allowing the use of lower cost, abundant, local feedstocks while maintaining high carbon conversion and clean syngas outputs.

Our gasification process is based on a single-stage, fluidized-bed technology for the production of low-to-medium heating value syngas from a wide array of biomass feedstocks and coals using oxygen, oxygen enriched air, or air in the gasification reaction. Our technology was developed for the gasification of all ranks of coal as well as coal, biomass and biomass blends.



In the gasification process, the feedstock is prepared and conveyed into the gasifier vessel. Within the fluidized bed, the feedstock reacts with steam, air and/or oxygen and the temperature is controlled to maintain high carbon conversion and non-slagging conditions for the ash. Our gasification process accomplishes four important functions in a single-stage, fluidized-bed gasifier: it decakes, devolatilizes and gasifies the feedstock, and if necessary, agglomerates and separates ash from the reacting coal. The operating pressure of the gasifier depends on the end use for the syngas and may vary from 3 to 40 bars (45 to 585 psia) or more. After cleaning, the syngas can be used for many applications such as power, SNG, chemicals such as methanol, DME and glycol, ammonia for fertilizer production, reducing gas for DRI processing, and transportation fuels, such as gasoline and diesels.

During operation, the feedstock is gasified rapidly within the fluidized bed and produces a gaseous mixture of hydrogen, carbon monoxide, carbon dioxide, water vapor and methane, in addition to small amounts of hydrogen sulfide and other trace impurities that are derived from the feedstock. Reactant gases, including steam and air or oxygen are introduced into the gasifier to facilitate the chemical reactions, and are also used to fluidize the feedstock inside the reactor. Ash is removed by gravity from the gasifier and discharged into a system for depressurization and disposal. The gasifier maintains a low level of carbon in the bottom ash discharge stream, generally achieving overall carbon conversions of over 95%. Cold gas efficiencies of over 80% and carbon conversion of over 99% have been repeatedly demonstrated at commercial scale in the ZZ Joint Venture plant with improved designs by us.

Fines carried over from the fluidized bed are separated from the product syngas prior to heat recovery and syngas cleanup and returned to the gasifier through our proprietary Fines Management System, or FMS, for maximizing carbon conversion. Our FMS which, along with other gasifier improvements, increases conversion of the feedstock which lowers feedstock costs. Using FMS, we achieved over 90-day continuous runs on each single gasifier, which provided very high availability of syngas due to our spare gasifier configuration. With FMS, we believe that we can maximize the utilization of low rank coal in our gasifiers, and as a result, improve the cost advantages derived from using our technology. Our Ash Management System, or AMS, recovers thermal energy from the hot ash generated during gasification and converts it to steam used in the gasification process for export or for generating power. Both our FMS and AMS increase overall efficiency. The product syngas generated from coal is essentially free of tars and oils due to the temperature profile and residence time of the gases in the fluidized bed, simplifying downstream heat recovery and gas cleaning operations.

GTI Agreement

On November 5, 2009, we entered into an Amended and Restated License Agreement, or the GTI Agreement, with GTI, replacing the Amended and Restated License Agreement between us and GTI dated August 31, 2006, as amended, or the Original GTI Agreement. Under the GTI Agreement, we maintain our exclusive worldwide right to license the U-GAS ® technology for all types of coals and coal/biomass mixtures with coal content exceeding 60%, as well as the non-exclusive right to license the U-GAS ® technology for 100% biomass and coal/biomass blends exceeding 40% biomass.

In order to sublicense any U-GAS® system, we are required to comply with certain requirements set forth in the GTI Agreement. In the preliminary stage of developing a potential sublicense, we are required to provide notice and certain information regarding the potential sublicense to GTI and GTI is required to provide notice of approval or non-approval within ten business days of the date of the notice from us, provided that GTI is required to not unreasonably withhold their approval. If GTI does not respond within that ten business day period, they are deemed to have approved of the sublicense. We are required to provide updates on any potential sublicenses once every three months during the term of the GTI Agreement. We are also restricted from offering a competing gasification technology during the term of the GTI Agreement.

For each U-GAS® unit which we license, design, build or operate for ourselves or for a party other than a sublicensee and which uses coal or a coal and biomass mixture or biomass as the feed stock, we must pay a royalty based upon a calculation using the MMBtu per hour of dry syngas production of a rated design capacity, payable in installments at the beginning and at the completion of the construction of a project, or the Standard Royalty. If we invest, or have the option to invest, in a specified percentage of the equity of a third party, and the royalty payable by such third party for their sublicense exceeds the Standard Royalty, we are required to pay to GTI an agreed percentage split of third party licensing fees, or the Agreed Percentage, of such royalty payable by such third party. However, if the royalty payable by such third party for their sublicense is less than the Standard Royalty, we are required to pay to GTI, in addition to the Agreed Percentage of such royalty payable by such third party, the Agreed Percentage of our dividends and liquidation proceeds from our equity investment in the third party. In addition, if we receive a carried interest in a third party, and the carried interest is less than a specified percentage of the equity of such third party, we are required to pay to GTI, in our sole discretion, either (i) the Standard Royalty or (ii) the Agreed Percentage of the royalty payable to such third party for their sublicense, as well as the Agreed Percentage of the carried interest. We will be required to pay the Standard Royalty to GTI if the percentage of the equity of a third party that we (a) invest in, (b) have an option to invest in, or (c) receive a carried interest in, exceeds the percentage of the third party specified in the preceding sentence.

We are required to make an annual payment to GTI for each year of the term, with such annual payment due by the last day of January of the following year; provided, however, that we are entitled to deduct all royalties paid to GTI in a given year under the GTI Agreement from this amount, and if such royalties exceed the annual payment amount in a given year, we are not required to make the annual payment. We must also provide GTI with a copy of each contract that we enter into relating to a U-GAS® system and report to GTI with our progress on development of the technology every six months.

For a period of ten years, we and GTI are restricted from disclosing any confidential information (as defined in the GTI Agreement) to any person other than employees of affiliates or contractors who are required to deal with such information, and such persons will be bound by the confidentiality provisions of the GTI Agreement. We have further indemnified GTI and its affiliates from any liability or loss resulting from unauthorized disclosure or use of any confidential information that we receive.

The GTI Agreement expires on August 31, 2016, but may be extended for two additional ten-year periods at our option.

Business Strategy

The key elements of our business strategy include:

- *Secure a partner for China business platform.* SES China is intended to be a stand-alone business platform that encompasses all of our current and future business activities and initiatives in China. Don Bunnell, our co-founder and board member, has recently been rehired as our Chief Commercial Officer and will be leading day-to-day activities for SES China with a focus on finding a partner for the business. We believe that SES China will better enable us to grow faster in China than otherwise possible and to better protect our intellectual property and technology in China. In addition, we expect to work more effectively with our existing partners to efficiently leverage the other business verticals we are developing including clean renewable fuels and power businesses, direct reduction iron for the steel industry, clean coal-to-chemicals projects, and for longer term value creation, larger scale SNG projects utilizing low rank coal resources and biomass. We are seeking to partner SES China with a financially strong and highly skilled Chinese companies which desires to invest into the growth of China's clean energy space and who recognize the opportunity afforded by our technology capability and business model. We believe partnering a significant portion of SES China can, with the right Chinese partner, accelerate the commercialization of our technology on a global basis and will enable to reduce our capital requirements to achieve this acceleration.

- *Operations of existing plants.* The Yima Joint Venture plant generated its first methanol production in December 2012, and is currently in its start-up phase. It is designed to produce 300,000 tons per year of chemical grade methanol and has been ramping up plant production up since it was initially started. It has achieved as high as 80% of its design raw methanol, production capacity. The current focus is on completing the installations of char removal systems for the syngas production and commissioning of the downstream units that prepare the syngas for methanol production as well as the continued commissioning of the methanol production unit itself. There have been a variety of minor construction related shutdowns which are normally seen in the startup of these units, but they have generally not been related to our gasifier systems. This plant will provide a commercial demonstration of our technology on a much larger scale than the ZZ Joint Venture plant. The ZZ Joint Venture plant is designed to produce clean syngas for sale to an immediately adjacent industrial company who manufactures methanol from the syngas. We successfully operated the ZZ Joint Venture plant for over three years through September 2011, and since then have held it idle while an expanded commercial structure was negotiated with Hai Hua, the former syngas off-taker. During this operating period the plant demonstrated robust technology performance, high efficiency and leading capability to process a wide range of coals, coal washery wastes and lignite coals from Inner Mongolia China and Australia. Xuejiao acquired the plant in 2012 and the new commercial structure and definitive agreements were completed July 2013. Under this revised commercial structure, we are assuming control of the methanol facilities and the ZZ Joint Venture plant will operate as an integrated plant which converts local coal wastes to methanol. The plant is now under going maintenance repairs along with some minor modifications which enable it to operate as an integrated syngas to methanol production operation. It is expected that this work will be completed and the plant returned to service by the end of calendar 2013.

- *Strategic partnerships and collaborations in key market segments through new business verticals.* We intend to commercialize our technology through supplying our gasification systems consisting of technology, equipment and services to projects globally and to accomplish this largely via value accretive partnerships and collaborations with other companies which operate in the energy and chemical market segments where we believe our technology is highly advantaged. This is a low capital intensity business approach which we believe can generate attractive margins for us through providing our technology differentiated equipment and services in multiple market segments globally with a potential to build meaningful sales opportunities over time. As part of our overall strategy we intend to form strategic regional and market-based partnerships or business verticals where our technology offers advantages and through cooperating with these partners grow an installed base of projects. This includes our transactions with Hongye and Zhongmo for SES China and strategic collaborations in specific markets that will enable us to expand our business. Building on our success in China, we have formalized other business vertical relationships through marketing agreements including with GE's Packaged Power Inc. for global distributed power generation projects and with Simon India Ltd, a subsidiary of Zuari Global Ltd, to exclusively market our technology in India. The most modern and environmentally friendly types of new steel plants include an iron ore processing step called DRI that replaces dirty blast furnaces. Syngas produced by our technology has a composition that is especially well-suited for use in DRI, and our process' ability to utilize low-cost coal and coal wastes makes it especially economical in this application. In addition, we are also developing additional business vertical opportunities to integrate our technology with DRI steel making technology for a coal-to-steel solution and for evaluating projects that can make methanol and derivatives from refuse derived fuels from our technology. We have completed two paid studies during fiscal 2013 with potential partners to assess integrating our technology into these applications and the results of these studies indicated a very cost effective solution with highly efficient integrations. In the fastest growing regions of Asia, including India and China, new infrastructure additions create a strong market for steel.

- *Leveraging our proprietary technology through licensing, equipment sales and related services to increase revenues and position us for future growth*. We provide a proprietary technology package whereby we license our technology rights to third parties, deliver an engineered technology package and sell proprietary equipment components to customers who have contracted to own and operate projects using our technology. We intend to focus on developing opportunities for our proprietary technology package whereby we may (i) integrate our gasification process technology package with downstream technologies to provide a fully integrated offering where we may invest in projects either directly or through an investment partner or (ii) may partner with engineering, equipment and technology companies to provide our gasification process technology package into an integrated and modular product offering. We anticipate that we can increase revenues through collecting technology licensing fees and royalties, engineering and technical service fees, as well as equipment product sales to customers who have contracted to own and operate projects and desire to incorporate our proprietary technology. We also believe that our licensing activities will provide insight into project development activities, which may allow us to make selective equity investments in such projects in the future, or take options in projects for which we provide a license.

- *Developing value where we have a competitive advantage and have access of rights to feedstock resources.* We believe that we have the greatest competitive advantage using our gasification technology in situations where there is a ready source of low cost coal, coal waste or biomass to utilize as a feedstock. We are focusing our efforts globally together with our partners in countries with large low rank coal resources, but our principal operating activities to-date have focused on China and India. In the U.S. and certain other countries, we believe there may be opportunities for us to leverage the capability of our technology to efficiently and cleanly gasify coal wastes or biomass material to make renewable fuels or "green chemicals". Today's regulatory environment in the U.S. is favorable for these types of projects because increased environmental concerns are creating a market demand for renewable fuels and companies are under increasing pressure to reduce their carbon footprint.

- *Continue to develop and improve our technology.* We are continually seeking to improve the overall plant availability, plant efficiency and fuel handling capabilities of our gasification technology. We are continuing to work with our prospective customers to determine the suitability of their low rank coals for our technology through proprietary coal characterization testing and bench scale gasification tests. Additionally, we are growing our technology base through (i) continued development of know-how with our engineering and technical staff, (ii) growing and protecting our trade secrets as a result of patenting improvements tested at our ZZ and Yima Joint Venture plants, (iii) developing improvements resulting from integration of our technology with downstream processes, and (iv) developing improvements resulting from scaling up the design of our technology in pressure and capacity. Examples of our technology development include our FMS and AMS. We have several patent applications pending relating to these improvements to the technology in addition to a number of other improvements to increase the availability of the gasifier or to lower the cost of the gasifier and its operation.

- *Grow earnings through increased revenues, joint venture projects and control of expenses.* We remain intently focused on control of our expenses while we grow revenues from our technology business and operating projects. We believe our strategy will allow us to develop revenues and operating cash flows necessary for sustainable long term growth. We anticipate that we can generate revenues through equipment supply, engineering and technical service fees, and licensing fees and royalties on products sold by our licensees that incorporate our proprietary technology without incurring the significant capital costs required to develop and construct a plant. We also believe that our licensing activities will provide additional insight into project development activities, which may allow us to make selective equity investments in such projects in the future and also the development of integrated, modular product offerings. We have also initiated discussions with companies that have expressed interest in partnering with us on a strategic basis to accelerate our business and in some cases who are willing to pay us to bring our technology into an industry-specific joint venture. We intend to minimize project development expense until we have assurances that acceptable financing is available to complete our projects. Until we have such assurances, our strategy will be to operate using our current capital resources and to leverage the resources of strategic relationships or financing partners. We have taken and may take additional steps to significantly reduce expenses, particularly in China, to align our development efforts with available cash resources until we can find such a partner.

Relationships with Strategic Partners and Business Verticals

As part of our overall strategy we intend to form strategic regional and market-based partnerships or business verticals where our technology offers advantages and through cooperating with these partners grow an installed base of projects. Through collaborative partnering arrangements we believe we will commercialize our technology much faster than entering these markets alone. In addition to regional business units, we are continuing to evaluate and develop our business in markets such as power, steel, fuels, substitute natural gas, chemicals and renewables which can benefit from deploying our technology offering to create these products from low cost coal and renewable feedstocks. We are developing these market-based business vertical opportunities together with strategic partners which have established businesses or interests in these markets with the goal of growing and expanding these businesses by partnering with us and deployment of our technology offering. Our collaboration with GE Packaged Power, Inc., a subsidiary of GE, which began in early 2013 to jointly evaluate and market a small scale power generation unit combining our gasification technology with GE's aeroderivative gas turbines, is an ongoing example of our market-based business vertical developments underway. We are also advancing developments via technology integration studies with potential partners for business verticals in DRI steel and "green" chemicals derived from municipal wastes.

We and GE have agreed to jointly evaluate and market a small scale power generation unit combining our gasification technology with GE's aeroderivative gas turbines. This application marketing agreement will focus on regions of the world where conversion of non-conventional feedstock sources such as lignite and coal wastes into synthesis gas fuel via our technology may be advantaged over conventional gas turbine fuel sources such as natural gas and fuel oil. For the past 12 months, we and GE have completed a preliminary evaluation of this application of our combined technologies. Under the terms of this agreement, the two businesses on a non-exclusive basis will complete the market evaluation and seek initial customers for this small scale power product.

We are working on licensing opportunities and other business arrangements with high-profile steel companies who are active in the DRI industry. In addition, we are also developing additional business vertical opportunities to integrate our technology with DRI steel making technology for a coal-to-steel solution and for evaluating projects that can make methanol and derivatives from refuse derived fuels from our technology. We have completed two paid studies during fiscal 2013 with potential partners to assess integrating our technology into these applications and the results of these studies indicated a very cost effective solution with highly efficient integrations. Our goal for these two business verticals is to find strategic partnering to provide a complete technology and equipment package offering.

Building on our success in China, we are formalizing SES China, with plans to capitalize this business locally with strategic partners that we believe can help accelerate our growth in China. We believe that SES China will better enable us to grow faster in China than otherwise possible and to better protect our intellectual property and technology in China. We are seeking to partner SES China with a financially strong and highly skilled Chinese companies which desires to invest into the growth of China's clean energy space and who recognize the opportunity afforded by our technology capability and business model. We believe partnering a significant portion of SES China can, with the right Chinese partner, accelerate the commercialization of our technology on a global basis and will enable to reduce our capital requirements to achieve this acceleration

We have also formalized a relationship through our marketing agreement with Simon India Ltd, a subsidiary of Zuari Global Ltd, to exclusively market our technology in India, which we believe is an important growth region for which our technology is uniquely well suited.

Target Markets

China

We believe that China offers immediate opportunities to develop our gasification process technology-based projects. Coal is China's most abundant indigenous energy resource, including a ready supply of low rank coals. According to the BP Statistical Review of World Energy June 2013 report, as of yearend 2012, China's recoverable coal reserves amounted to 114.5 billion tonnes, including 52.3 billion tonnes of lower grade sub-bituminous and lignite coals. In addition, the Chinese government is promoting the expansion of the domestic supply of chemical products and transportation fuels derived from coal. Methanol derived from coal is used primarily as a commodity chemical used in manufacturing a wide range of products from formaldehyde and acetic acid to pharmaceuticals and plastics. As the technology to make olefin from methanol matures, methanol-to-olefin projects are expected to play a key role in driving the methanol demand growth. Methanol is also used to a lesser extent to further process into DME as well as an oxygenate for blending into automotive gasoline. China's methanol consumption has grown from 2.6 million tonnes in 1999 to 31.5 million tonnes in 2012. China has put in place standards that control the use of methanol as a fuel at 100% and 85%. In April 2009, China approved the national standard which regulates the quality, transportation, packaging and storage of methanol to be used as fuel for motor vehicles. In July 2009, China released the standard that controls the use of methanol as a fuel at 85% concentration with gasoline and is expected to put in place standards that control the use of methanol as a fuel at 15% concentration with gasoline. Although these standards do not mandate the use of methanol, we expect that they will act as a catalyst for further growth in the development of infrastructure, fuelling stations, and vehicles in China which can accommodate higher proportion methanol blends. We believe that methanol as a blending agent at 15% concentration with gasoline is positive for the long-term outlook for methanol demand. With China demonstrating the viability of methanol blending in gasoline, we believe this will accelerate methanol consumption and increase methanol prices. This should also increase the potential for methanol blending to be adopted in other countries.

We believe coal to SNG will grow in China due to China's limited natural gas resources. According to the International Energy Outlook 2013 from the U.S. Energy Information Administration, China's natural gas consumption is estimated to reach 7.8 trillion cubic feet in 2020 but domestic production of natural gas in China is estimated to be 4.2 trillion cubic feet in 2020. Today, coal to SNG projects are beginning to progress and the Chinese government supports these types of coal to energy projects. Due to this estimated shortfall in natural gas, combined with the current encouragement from the Chinese government for these projects, we believe there is potential in China for several of these SNG projects which are anticipated to be very large scale as compared to previous coal-to-chemical projects that have been built in China. In addition, we believe many of these projects will be located in regions such as Inner Mongolia where very low cost lignite coals can be made available and are necessary to reduce the production cost of SNG. Our technology is well suited for this location due to its ability to process these low quality coals and to meet local requirements for clean production of syngas, without tars and oils produced by other technologies, and very low water usage for the overall process. In addition, Inner Mongolia government regulations permit higher quality coals to be made available to those companies that can cleanly gasify the low quality lignite coals. This creates the potential to sell the high quality coals directly to the market while operating the project on low cost lignite, further enhancing the overall financial performance and value created by the project.

In addition to these applications, new technologies such as coal-to-glycol are encouraged. Glycol is mainly used for making polyester and, to a lesser extent, coolant and unsaturated polyester resins. China's glycol demand exceeded 9 million tonnes in 2010 and more than 70% of China's glycol demand is satisfied through imports. We may provide technology or develop projects that integrate coal-to-glycol technology with our U-GAS® coal gasification systems.

India

We believe that India is poised for coal-based gasification growth. Although India has substantial low rank coal resources, there has historically been limited coal gasification in India due to the cost of competing alternatives derived from oil and natural gas and due to the challenging nature of the high ash Indian coals to be gasified. Our recent business development activities in India indicate that interest in coal gasification is growing, and the first coal gasification project in more than 30 years is under construction in India by Jindal Steel & Power. The market for additional coal gasification based plants is poised for growth due to reduced availability and increasing prices of oil and natural gas, large infrastructure growth demands, rapid economic growth, and an increasing need for a variety of basic chemical and energy products, which may be derived from coal gasification to fuel this growing market. We are actively pursuing significant opportunities in India and we believe that we have competitive advantages in this market due to India's high ash coals for which other commercialized technologies are not as suitable. India also offers a base for high quality engineering and other technical resources at low cost.

There have been allegations of government corruption in India over the past few years. One of the more highly publicized allegations is the so-called "coal-gate" scandal. Early in 2012, the Controller and Auditor General, or CAG, in India released a report alleging widespread government corruption in the awards and non-awards of Indian coal allocations to various companies. The report estimated that this corruption cost the Indian government $33 billion due to selling allocations at undervalued prices to certain companies. Many of these mine allocations were left undeveloped for a variety of reasons, including the Indian government's price controls, strict environmental and land use regulations and other government policies. India's growing population and standards of living demand a wide variety of infrastructure projects such as for power, steel and fertilizer, all of which could be aided by coal development. The CAG recommended suspending or rescinding mining rights from companies that received coal allocations in the period from 2004 to 2008. Some of our prospective customers are among these, and in these cases it is likely that these customers' projects will experience delays. However, it is unlikely that companies with near-term clean coal development plans would lose their coal allocations as this would be counter-productive for India. Increased pressure on the government to deploy the country's coal assets to worthy infrastructure projects could become advantageous to our prospective customers in India.

Business Development, Engineering and Project Management

Business Development Staff

We currently employ a staff of experienced business development professionals in the U.S. and China that are focused on opportunities in all of our target markets. The business development team is focused on the disciplined development of new business for gasification projects, licensing opportunities and other technology products and services that maximize the advantages of our gasification technology. Members of the team have either led or participated in the development of multiple coal and natural gas power projects, coal gasification projects, chemical and nuclear projects and gasification licensing transactions globally over the past three decades. In addition, we utilize consultants to supplement our staff in developing relationships with strategic partners and potential customers.

Technology, Engineering and Project Management Staff

Our operations in China have given us the opportunity to build a leading gasification technology and engineering team based on core experience derived from leaders with decades of gasification technology development and design experience. We employ a strong technology team with engineering execution expertise to advance our technology and to support additional licensing and joint venture opportunities. We are also enhancing in-house technology development, intellectual property patenting opportunities, and design improvement capabilities through structured technology evaluation procedures.

Additionally, we have an experienced project management team that includes several members with international engineering, procurement and construction experience. We intend to use this engineering and project management team to conceptualize, design and build gasification projects in our target markets and to develop and protect the development of our technology. We believe that this capability represents a key advantage for marketing to multi-national firms throughout the project development cycle and enables pre-development engineering work to be done with a faster cycle time and at a substantially lower cost. In addition to our technology engineering team, we leverage our resource capability through partnering with international engineering and procurement companies with significant gasification experience.

Current Operations and Projects

Zao Zhuang Joint Venture

Joint Venture Agreement

On July 6, 2006, we entered into a cooperative joint venture contract with Shandong Hai Hua Coal & Chemical Company Ltd., or Hai Hua, which established Synthesis Energy Systems (Zao Zhuang) New Gas Company Ltd., or the ZZ Joint Venture, a joint venture company that has the primary purposes of (i) developing, constructing and operating a syngas production plant utilizing the U-GAS ® technology in Zao Zhuang City, Shandong Province, China and (ii) producing and selling syngas and the various byproducts of the plant. In August 2012, Hai Hua's name was changed to Shandong Weijiao Group Xuecheng Energy Company Ltd., or Xuecheng Energy, after a change in control transaction. We own 97.5% of the ZZ Joint Venture and Xuecheng Energy owns the remaining 2.5%. We consolidate the results of the ZZ Joint Venture in our consolidated financial statements.

On July 24, 2013, the ZZ Joint Venture entered into a cooperation agreement, or the ZZ Cooperation Agreement, with Xuecheng Energy and its parent company, Shandong Xuejiao Chemical Co., Ltd., or collectively referred to as Xuejiao, which serves to supersede the existing syngas purchase and sale agreement among the parties dated October 22, 2006 and supplemented previously in 2008. The ZZ Cooperation Agreement represents the basis for an integrated syngas to methanol operation and resolution of the nonpayment of the contractual capacity fees by Xuejiao.

Under the terms of the ZZ Cooperation Agreement, Xuejiao will (i) provide the ZZ Joint Venture with use of their methanol plant for ten years at no cost to the ZZ Joint Venture, (ii) has provided a bank loan guarantee of approximately $3.2 million for a majority of the financing necessary for the ZZ Joint Venture for the retrofit and related costs of the ZZ Joint Venture plant, (iii) waive certain advances previously made to the ZZ Joint Venture and (iv) supply discounted coke oven gas, or COG, produced by its existing coke ovens to be used in combination with synthesis gas to produce refined methanol from the new ZZ Joint Venture integrated syngas to methanol operation. The new integrated operation will be managed by us. Upon successful completion of certain conditions precedent described below, we will terminate and waive its claims to past due capacity fees owed by Xuejiao under the existing syngas purchase and sale agreement.

The ZZ Cooperation Agreement will take full effect upon the completion of certain conditions precedent including: (i) all necessary consents and approvals being obtained by each of the parties, (ii) completion of final due diligence on the methanol plant, as well as the scheduled overhaul of the facility (as described in more detail in the ZZ Cooperation Agreement) and the handover to the ZZ Joint Venture, and (iii) execution of the Xuejiao financing guarantee and the financial closing of the ZZ Joint Venture bank financing for the retrofit which occurred on September 10, 2013. Until the ZZ Cooperation Agreement takes effect, we will continue to operate under the existing syngas purchase and sale agreement.

Additionally, we are also evaluating alternative products and partnership structures for a possible expansion of the ZZ Joint Venture plant for its longer term use. In 2010, the ZZ Joint Venture received the necessary government approval for an expansion and this project is under evaluation by us. We are also evaluating certain new downstream technologies to produce high value products.

Syngas Purchase and Sale Agreement

The ZZ Joint Venture's existing syngas purchase and sale agreement with Xuejiao for syngas produced by the plant obligated Xuejiao to pay the ZZ Joint Venture an energy fee and capacity fee based on the syngas production. The syngas to be purchased by Xuecheng Energy is subject to certain quality component requirements set forth in the contract. In late December 2008, the plant declared commercial operations status for purposes of the purchase and sale agreement. The energy fee is a per normal cubic meters, or Ncum, of syngas calculation based on a formula which factors in the monthly averages of the prices of design base coal, coke, coke oven gas, power, steam and water, all of which are components used in the production of syngas. The capacity fee is paid based on the capacity of the plant to produce syngas, factoring in the number of hours (i) of production and (ii) of capability of production as compared to the guaranteed capacity of the plant, which for purposes of the contract is 22,000 Ncum per hour of net syngas. Xuejiao is obligated to pay the capacity fee regardless of whether they use the gasification capacity, subject only to availability of the plant, quality of the syngas and exceptions for certain events of force majeure. Due to worldwide reductions in methanol prices, as well as reliability issues with respect to Xuejiao's plant, Xuejiao has operated at a reduced rate of syngas consumption. Xuejiao used approximately 35% to 45% of the syngas guarantee capacity from 2009 until September 2011 when the plant was shut down.

In April 2009, the ZZ Joint Venture entered into a Supplementary Agreement with Xuejiao, amending the terms of the purchase and sale agreement. The Supplementary Agreement was entered into to provide more clarity regarding the required syngas quality and volume to be delivered, recovery of the energy fee during turndown periods and operations coordination during unscheduled outages.

Since initial start-up of the ZZ Joint Venture plant, Xuejiao has been unable to off take the full volume amount of syngas as required by the initial syngas sales agreement for which the ZZ Joint Venture plant's original design was based and as a result the plant incurred operating losses. In addition, in April 2011, Xuejiao stopped paying the contractual capacities fees owed to the ZZ Joint Venture plant, and in September 2011, we stopped syngas production at the ZZ Joint Venture until this commercial issue could be remedied. In March 2012, Xuejiao advanced approximately $1.0 million to the ZZ Joint Venture. In September 2012, Xuejiao advanced an additional approximately $0.8 million to the ZZ Joint Venture. Under the ZZ Cooperation Agreement, these advances are to be applied to settling the prior payments due under the syngas purchase and sale agreement. Until the ZZ Cooperation Agreement takes effect, we will also need to make additional contributions to the ZZ Joint Venture in order for it to meet its obligations, including the outstanding balance under the loan with ICBC. Upon successful completion of certain conditions precedent described above, we will terminate and waive our claims to past due capacity fees owed by Xuejiao under the existing syngas purchase and sale agreement.

Yima Joint Ventures

In August 2009, we entered into amended joint venture contracts with Yima Coal Industry (Group) Co., Ltd., or Yima, replacing the prior joint venture contracts entered into in October 2008 and April 2009. The joint ventures were formed for each of the gasification, methanol/methanol protein production, and utility island components of the plant, or collectively, the Yima Joint Ventures. The parties obtained government approvals for the project's feasibility study during the three months ended December 31, 2008 and for the project's environmental impact assessment during the three months ended March 31, 2009, which were the two key approvals required to proceed with the project. The amended joint venture contracts provide that: (i) we and Yima contribute equity of 25% and 75%, respectively, to the Yima Joint Ventures; (ii) Yima will guarantee the repayment of loans from third party lenders for 50% of the project's cost and, if debt financing is not available, Yima is obligated to provide debt financing via shareholder loans to the project until the project is able to secure third-party debt financing; and (iii) Yima will supply coal to the project from a mine located in close proximity to the project at a preferential price subject to a definitive agreement to be subsequently negotiated. In connection with entering into the amended contracts, we and Yima contributed remaining cash equity contributions of $29.3 million and $90.8 million, respectively, to the Yima Joint Ventures during the three months ended September 30, 2009. We will also be responsible for our share of any cost overruns on the project.

In exchange for such capital contributions, we own a 25% interest in each joint venture and Yima owns a 75% interest. Notwithstanding this, in connection with an expansion of the project, we have the option to contribute a greater percentage of capital for the expansion, such that as a result, we would have up to a 49% ownership interest in the Yima Joint Ventures.

The Yima Joint Venture plant's commissioning is in its final stages and methanol production has been ramped up to as high as 80% of total design capacity and is now selling its methanol product to a local industrial company. All three of the gasifiers have been operated at various ranges of throughput and pressure. The current focus is on completing the installations of char removal systems for the syngas production and commissioning of the downstream units that prepare the syngas for methanol production as well as the continued commissioning of the methanol production unit itself. There have been a variety of minor construction related shutdowns which are normally seen in the startup of these units, but they have generally not been related to our gasifier systems. The plant is designed to produce 300,000 tonnes per year of methanol from two operating gasifiers.

The current estimate of the total required capital of the project is approximately $250 million. The remaining capital for the project has been funded with project debt obtained by the Yima Joint Ventures. Yima agreed to guarantee the project debt in order to secure debt financing from domestic Chinese banking sources. We have agreed to pledge to Yima our ownership interests in the joint ventures as security for our obligations under any project guarantee. In the event that the necessary additional debt financing is not obtained, Yima has agreed to provide a loan to the joint ventures to satisfy the remaining capital needs of the project with terms comparable to current market rates at the time of the loan.

Under the terms of the joint venture agreements, the Yima Joint Ventures are to be governed by a board of directors consisting of eight directors, two of whom were appointed by us and six of whom were appointed by Yima. The joint ventures also have officers that are nominated by us, Yima and/or the board of directors pursuant to the terms of the joint venture contracts. We and Yima shall share the profits, and bear the risks and losses, of the joint ventures in proportion to our respective ownership interests. The term of the joint venture shall commence upon each joint venture company obtaining its business license and shall end 30 years after commercial operation of the plant.

As of June 1, 2013, we concluded that we are unable to exercise significant influence over the Yima Joint Ventures, resulting in certain accounting changes described in "Management's Discussion and Analysis of Financial Condition and Results of Operations." Our conclusion regarding our lack of significant influence is based on our interactions with the Yima Joint Ventures related to the start-up and operations and due to various other circumstances including limited participation in operating and financial policymaking processes and our limited ability to influence technological decisions.

We have included a $1.5 million payment paid to GTI in June 2009 (when the amended joint venture contracts were signed) toward future royalties due to GTI for the Yima Joint Ventures' project as part of our investment in the Yima project. An additional future royalty payment of approximately $1.5 million will be due to GTI upon full completion of the build of the gasifier systems which is expected by the end of calendar 2013.

Golden Concord Joint Venture

Our joint venture with Golden Concord, or the GC Joint Venture, was formed to (i) develop, construct and operate a coal gasification, methanol and DME production plant utilizing our technology in the Xilinghote Economic and Technology Development Zone, Inner Mongolia Autonomous Region, China and (ii) produce and sell methanol, DME and the various byproducts of the plant. We have a 51% ownership interest in the GC Joint Venture. We are working to liquidate and dissolve the GC Joint Venture.

SES Resource Solutions

SES Resource Solutions, Ltd., or SRS, is a joint venture owned 50% by us and 50% by Midas Resources AG, or Midas that was formed in June 2011 to provide additional avenues of commercialization for our technology. Key objectives of the joint venture are to identify and procure low cost, low rank coal resources for which our technology represents the best route to commercialization; to provide investment opportunities in both gasification facilities and coal resources; and to facilitate the establishment of gasification projects globally based on the our technology. In December 2012, SRS suspended its activities due to the unavailability of financing for coal resources, therefore our contributions to SRS are expected to be minimal until its activities resume.

Business Concentration

Our noncurrent assets in China accounted for $67.2 million of the $69.8 million of consolidated total noncurrent assets as of June 30, 2013, which includes property, plant and equipment of the ZZ Joint Venture, our investment in the Yima Joint Ventures and other assets.

Competition

We believe we are highly differentiated through our ability to economically gasify an extremely wide range of feedstocks. We are not aware of commercially available gasifiers with such a wide range of feedstock flexibility. However, the primary competition that is able to gasify some of the available lower quality coal resources is the fixed bed and moving bed technologies, which were developed and implemented commercially in the 1960's. The Lurgi fixed bed slagging and non-slagging gasification technology can operate on more difficult coals containing high ash and high moisture content, however, the gasifiers require lump-size non-caking coals for their feed, which results in a significant portion of the coal being rejected during preparation. Additionally, fixed bed gasifiers of Lurgi produce a large amount of tars and oils that must be removed from the syngas. These two inefficiencies result in increased capital and operating costs and reduced coal utilization when compared to our technology. Our gasification technology operates efficiently with high ash and high moisture coals without any coal rejection and without the formation of tars and oils. Other technologies, such as the Winkler and High Temperature Winkler fluidized bed gasifiers, British Gas Lurgi fixed bed gasifiers, and others are being marketed in specific regions like China, India, Russia, and North Korea. These technologies have a longer history but generally have lower carbon conversions, lower cold gas efficiencies and lower operating pressure capabilities compared to U-GAS®, and generate undesirable by-products such as tars and oils in the syngas which cause additional clean up expense. Additionally, several companies, including KBR, are developing gasification technologies targeted for low quality coals which have progressed past the research and development phase but as yet have no commercially operating gasifiers.

In the rest of the global gasification market, the largest technology providers are GE, Shell, Siemens and CB&I (formerly Phillips66). These entrained flow slagging gasifier technologies operate efficiently on more expensive high grade bituminous or sub-bituminous coals as feedstocks, but lack experience or capability with the more difficult high ash and high moisture coals and with biomass. Although we do not directly compete with these multi-national industrial corporations, their activities in the marketplace may negatively impact our operations and our ability to attract quality projects. In addition, there are several Chinese companies that utilize similar entrained flow slagging gasification technologies that have built commercial scale plants in China. Increased competition could result in a loss of contracts and market share. Either of these results could seriously harm our business and operating results. In addition, there are a number of gasification and conventional, non-gasification, coal-based alternatives for producing heat and power that could compete with our technology in specific situations.

Suppliers

China has rapidly expanded its industrial manufacturing and construction capabilities which has reduced the cost and build time of traditional sources of supply. We have been successful in locating and contracting with a number of key suppliers of major equipment and services. For projects outside of China where local sourcing is of value, we expect to develop supply chain capabilities for our equipment utilizing experienced industrial manufacturing capabilities and low cost sources of labor and materials to continue to benefit our technology.

Project and Technical Development

We may incur internal and third-party project and technical development costs related to the advancement of our gasification technology and related processes. We plan to continue certain development initiatives that support our strategies and project development activities with a goal of offering our customers the best and most efficient clean coal solutions. Generally, our internal costs and third-party costs are included in general and administrative expenses on our consolidated statements of operations.

Governmental and Environmental Regulation

Our operations are subject to stringent federal, provincial state and local laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. Numerous governmental agencies, including various Chinese authorities, issue regulations to implement and enforce such laws, which often require difficult and costly compliance measures that carry substantial administrative, civil and criminal penalties or may result in injunctive relief for failure to comply. These laws and regulations may require the acquisition of a permit before construction or operation at a facility commence, restrict the types, quantities and concentrations of various substances that can be released into the environment in connection with such activities, limit or prohibit construction activities on certain lands lying within wilderness, wetlands, ecologically sensitive and other protected areas, and impose substantial liabilities for pollution. Our facilities may require permits for air emissions and wastewater discharges, as well as other authorizations, some of which must be issued before construction commences. Issuance of these permits could be subject to unpredictable delays, contests and even, in some cases, denial. Although we believe that there will be support for our projects, the permitting process could be complex and time consuming and the issuance of permits may be subject to the potential for contest and other regulatory uncertainties that may result in unpredictable delays. We believe that we are in substantial compliance with current applicable environmental laws and regulations and we have not experienced any material adverse effect from compliance with these environmental requirements.

In addition, some recent scientific studies have suggested that emissions of certain gases, commonly referred to as “greenhouse gases,” may be contributing to the warming of the Earth’s atmosphere. In response to such studies, many countries are actively considering legislation, or have already taken legal measures, to reduce emissions of greenhouse gases. Examples of such legislation and new legal measures include new environmental laws and regulations that could impose a carbon tax, a cap and trade program requiring us to purchase carbon credits, or measures that would require reductions in emissions or require modification of raw materials, fuel use or production rates. Carbon dioxide, a byproduct of our burning fossil fuels such as coal, is an example of a greenhouse gas. Our plants using U-GAS® technology may release a significant amount of carbon dioxide. Methane is another greenhouse gas. Greenhouse gas regulation may require us or our customers to obtain additional permits, meet additional control requirements, install additional environmental mitigation equipment, or take other as yet unknown steps to comply with such potential regulations, which could adversely affect our financial performance.

We operate our business in China under a legal regime consisting of the State Council, which is the highest authority of the executive branch of the Chinese central government, and several ministries and agencies under its authority, including the State Administration for Industry and Commerce, or SAIC, the Ministry of Commerce, or MOC, the State Administration of Foreign Exchange, or SAFE, and their respective authorized local counterparts.

The Chinese government imposes restrictions on the convertibility of the RMB and on the collection and use of foreign currency by Chinese entities. Under current regulations, the RMB is generally convertible for current account transactions, which include dividend distributions, and the import and export of goods and services subject to review and approval by SAFE or its designated foreign exchange bank. However, conversion of RMB into foreign currency and foreign currency into RMB for capital account transactions is under the strict scrutiny of SAFE. According to SAFE Circular 142 (Circular on Issues Relating to the Improvement of Business Operations with Respect to the Administration of Foreign Exchange Capital Payment and Settlement of Foreign-invested Enterprises), conversion of foreign currency in a capital account into RMB for equity investment is prohibited. Under current Chinese regulations, foreign-invested enterprises such as our Chinese subsidiaries are required to apply to SAFE for a Foreign Exchange Registration Certificate for Foreign-Invested Enterprise. With such a certificate (which is subject to annual inspection by SAFE), a foreign-invested enterprise may open foreign exchange bank accounts at banks authorized to conduct foreign exchange business by SAFE and may buy, sell and remit foreign exchange through such banks, subject to documentation and approval requirements. Foreign-invested enterprises are required to open and maintain separate foreign exchange accounts for capital account transactions and current account transactions. In addition, there are restrictions on the amount of foreign currency that foreign-invested enterprises may retain in such accounts.

According to SAFE Circular 75 (Notice on Issues Relating to the Administration of Foreign Exchange in Fund-Raising and Return Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies), prior to establishing or assuming control of an offshore company, or SPV, for the purpose of financing that offshore company with assets or equity interests in an onshore enterprise in China, each Chinese resident, whether a natural or legal person, must complete certain overseas investment foreign exchange registration procedures with the relevant local SAFE branch. An amendment to the registration with the local SAFE branch is required to be filed by any Chinese resident that directly or indirectly holds interests in that offshore company upon either (i) the injection of equity interests or assets of an onshore enterprise to the offshore company or (ii) the completion of any overseas fund-raising by such offshore company. An amendment to the registration with the local SAFE branch is also required to be filed by such Chinese resident when there is any material change involving a change in the capital of the offshore company, such as (i) an increase or decrease in its capital, (ii) a transfer or swap of shares, (iii) a merger or division, (iv) a long-term equity or debt investment or (v) the creation of any security interests. On May 10, 2013, SAFE further issued the SAFE Circular 21 (Circular on the Administrative Provisions on Foreign Exchange in Domestic Direct Investment by Foreign Investor, which supersedes the SAFE Circular 19 (Circular on Operation Procedures on Foreign Exchange Administration on Financing and Round Tripping Investment by Domestic Residents through Offshore Special Purpose Vehicles) issued on May 27, 2011. SAFE Circular 21 further streamlines the foreign exchange procedures for foreign direct investment, according to which, among other things, round-tripping investments are categorized into “SPV round tripping investment” and “Non-SPV round tripping investment”. Any round tripping investment by Chinese residents through an offshore entity which is not an SPV, as defined in the SAFE Circular 75, shall be considered “Non-SPV round tripping investments”. Chinese residents who are beneficial holders of our shares are required to register with SAFE in connection with their SPV round tripping investment or Non-SPV round tripping investment, as the case may be. The onshore entities that are directly or indirectly held by the Chinese residents shall complete the foreign exchange registration process with a tag on it as "SPV round tripping investment" or "Non-SPV round tripping investment", as the case maybe, for foreign exchange administration.

Failure to comply with the registration procedures may result in restrictions on the relevant onshore entity, including failure to update its own foreign exchange registration, restrictions on the payment of dividends and other distributions to its offshore parent or affiliate and restrictions on the capital inflow from the offshore entity, and may also subject relevant Chinese residents to penalties under the Chinese foreign exchange administration regulations. Also at the time of applying for SAFE registration (including any change registration), the onshore entities will be required to represents that its foreign shareholder is not directly or indirectly held by any Chinese residents. Any false or misleading representations may result in administrative liabilities imposed on the onshore entities and their legal representatives.

Under Chinese regulations, wholly foreign-owned enterprises and Sino-foreign equity joint ventures in China may pay dividends only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. Additionally, these foreign-invested enterprises are required to set aside certain amounts of their accumulated after tax profits each year, if any, to fund certain reserve funds. These reserves are not distributable as cash dividends.

In China, the development and construction of gasification facilities is highly regulated. In the development stage of a project, the key government approvals relate to the project's environmental impact assessment report, feasibility study (also known as the project application report) and, in the case of a Sino-foreign joint venture, approval of the joint venture company's joint venture contract and articles of association. Approvals in China are required at the municipal, provincial and/or central government levels depending on the total investment in the project and subject to industry specified criteria. Due to the global economic recession, China's State Council issued guidance related to the pace of new project approvals including wind power, polysilicon, steel, cement, glass and coal to methanol and DME. At the same time, the government continues to encourage newer technologies that can cleanly process coal. Although we do not believe that China's project approval requirements and slowing of approvals for new coal to methanol and DME projects will invalidate any of our existing permits, our future joint ventures will have to abide by these guidelines.

In April 2009, the Chinese government approved a new national standard for methanol to be used in motor vehicle fuel to become effective on November 1, 2009. The standard includes the technical properties, testing methods, examination procedures as well as identification, packaging, transportation, storage and safety requirements for methanol that is to be used in motor vehicle fuel. Further, in May 2009, the Chinese government approved a new national standard, effective December 1, 2009, for M85 methanol gasoline, which specifies, among other things, the technical requirements, testing methods, examination procedures, identification, packaging, transportation, storage and safety requirements for methanol gasoline that comprises between 84%-86% of methanol and between 14%-16% of gasoline in terms of volume and other performance enhancing additives, for use in motor vehicles. According to the China Petroleum and Chemical Industry Association, the draft national standards for M15 — 15% percent methanol and 85% gasoline has been submitted to the China National Technical Committee on Petroleum Products and Lubricants of Standardization Administration for review. It is expected that the official national standards for M15 -15% percent methanol and 85% gasoline will soon be promulgated. We are monitoring this development closely. Although these standards do not mandate the use of methanol, we expect that they will act as a catalyst for further growth in the development of infrastructure, fueling stations, and vehicles which can accommodate higher proportion methanol blends. These recent developments are positive for the long term outlook for methanol demand, and with China demonstrating the viability of methanol blending in gasoline, this should also increase the potential for methanol blending to be adopted in other countries.

In March 2011, China released its 12th Five – Year Plan, which maps a path for more sustainable economic growth, focusing on energy efficiency and the use of cleaner energy sources to mitigate the effects of rapidly rising energy demand. We believe these policies could lead to expanded syngas application in methanol production as well as in the licensing business of coal gasification technologies, which we believe we are uniquely positioned to benefit from.

Although we have been successful in obtaining the permits that are required at a given stage with respect to the ZZ Joint Venture, and the Yima Joint Ventures, any retroactive change in policy guidelines or regulations or an opinion that the approvals that have been obtained are inadequate, at the municipal, provincial or central government levels in China, could require us to obtain additional or new permits or spend considerable resources on complying with such regulations. Other developments, such as the enactment of more stringent environmental requirements, changes in enforcement policies or discovery of previously unknown conditions, could require us to incur significant capital expenditures or suspend operations.

Employees

As of June 30, 2013, we had approximately 91 full-time employees, including 52 employees at the ZZ Joint Venture plant and 4 employees at the Yima Joint Ventures. None of our employees are represented by any collective bargaining unit. We have not experienced any work stoppages, work slowdowns or other labor unrest. We believe that our relations with our employees are good.

Available Information

We make available free of charge, or through the "Investors—Financial Information" section of our website at www.synthesisenergy.com, access to our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such material is filed, or furnished to the Securities and Exchange Commission. Our Code of Business and Ethical Conduct and the charters of our Audit, Compensation and Nominating and Corporate Governance Committees are also available through the "Investors—Corporate Governance" section of our website or in print to any stockholder who requests them.

Item 1A. Risk Factors

Risks Related to Our Business

We will require substantial additional funding, and our failure to raise additional capital necessary to support and expand our operations could reduce our ability to compete and could harm our business.

As of June 30, 2013, we had $15.9 million of cash and cash equivalents and $8.4 million of working capital available to us. We plan to use our cash for: (i) general and administrative expenses, (ii) working capital; (iii) debt service for the ZZ Joint Venture; (iv) payments to GTI due under our licensing agreements including the $1.5 million royalty due for the Yima Joint Ventures' license which is expected to occur in late calendar 2013; and (v) general corporate purposes. The actual allocation and timing of these expenditures will be dependent on various factors, including changes in our strategic relationships, commodity prices and industry conditions, and other factors that we cannot currently predict. In particular, any future decrease in economic activity in China or in other regions of the world in which we may in the future do business could significantly and adversely affect our results of operations and financial condition. Operating cash flows from our joint venture operating projects can be positively or negatively impacted by changes in coal and methanol prices. These are commodities where market pricing can be cyclical in nature.

We expect to continue for a period of time to have negative operating cash flows until we are generating sufficient cash flows from our technology, equipment and services business and SES China (including the ZZ Joint Venture and the Yima Joint Ventures) to cover our general and administrative expenses and other operating costs. We will also limit the development of any further projects until we have assurances that acceptable financing is available to complete the project. We may pursue the development of selective projects with strong and credible partners or off-takers where we believe equity and debt can be raised or where we believe we can attract a financial partner to participate in the project and where the project would utilize our technology, equipment and services.

We do not currently have all of the financial and human resources to fully develop and execute on all of our other business opportunities; however, we intend to finance our development through paid services, technology access fees, equity financings and by securing financial and strategic partners focused on development of these opportunities. We can make no assurances that our business operations will provide us with sufficient cash flows to continue our operations. We will need to raise additional capital through equity and debt financing for any new ventures that are developed, to support our existing projects and possible expansions thereof and for our corporate general and administrative expenses. As a result of our focus on financing activities, particularly in China, we have identified strategic parties that have expressed interest in helping us grow SES China's business and we are evaluating these options. We are considering a full range of financing options in order to create the most value in the context of the increasing interest we are seeing in our technology.

We cannot provide any assurance that any financing will be available to us in the future on acceptable terms or at all. Any such financing could be dilutive to our existing stockholders. If we cannot raise required funds on acceptable terms, we may not be able to, among other things, (i) maintain our general and administrative expenses at current levels including retention of key personnel and consultants; (ii) successfully develop our licensing and related service businesses; (iii) negotiate and enter into new gasification plant development contracts and licensing agreements; (iv) make additional capital contributions to our joint ventures; (v) fund certain obligations as they become due; and (vi) respond to competitive pressures or unanticipated capital requirements.

Our results of operations and cash flows may fluctuate.

Our operating results and cash flows may fluctuate significantly as a result of a variety of factors, many of which are outside our control. Factors that may affect our operating results and cash flows include: (i) the success of the Yima Joint Ventures and our ZZ Joint Venture; (ii) our success in securing a partner for SES China; (iii) our ability to obtain new customers and retain existing customers; (iv) the cost of coal and electricity; (v) the success and acceptance of our technology; (vi) our ability to successfully develop our licensing business verticals for power, steel and renewables, as well as execute on our projects; (vii) the ability to obtain financing for our projects; (viii) shortages of equipment, raw materials or feedstock; (ix) approvals by various government agencies; and (x) general economic conditions as well as economic conditions specific to the energy industry.

We may not be successful developing our business strategies.

In addition to the completion of the Yima Joint Venture plant and the restart of the ZZ Joint Venture plant, we intend to focus on developing our business verticals and securing a partner for SES China. Although we have begun to develop our power vertical through our relationship with GE, we are still in the early stages of developing these verticals and many of the relationships with potential partners are still being cultivated. We cannot provide assurance that we will be able to successfully develop our business verticals or to find a partner for SES China which depends upon several factors, including the strength of global energy and chemical markets, commodity prices and the continued success of our ZZ Joint Venture Plant and Yima Joint Venture plant. There can be no assurances that we will be able to succeed in either of the strategies and our inability to do so could have a material adverse effect on our business and results of operation.

Our lack of operating history precludes us from forecasting operating results and our business strategies may not be accepted in the marketplace and may not help us to achieve profitability.

Our lack of operating history or meaningful revenue precludes us from forecasting operating results based on historical results. Our proposed business strategies described in this annual report incorporate our senior management's current best analysis of potential markets, opportunities and difficulties that face us. No assurance can be given that the underlying assumptions accurately reflect current trends in our industry, terms of possible project investments or our customers' reaction to our products and services or that such products or services will be successful. Our business strategies may and likely will change substantially from time to time (such as our recent emphasis on licensing and related product offerings) as our senior management reassesses its opportunities and reallocates its resources, and any such strategies may be changed or abandoned at any time. If we are unable to develop or implement these strategies through our projects and our technology, we may never achieve profitability which could impair our ability to continue as a going concern. Even if we do achieve profitability, it may not be sustainable, and we cannot predict the level of such profitability.

We have performance guarantees under our third party licensing agreements.

Under our license agreements, we typically provide a guarantee of the performance of the plant which is using our technology. Should we become liable under the performance guarantee, we could be held liable for the customer's damages and we may be required to re-perform certain affected work and services. Although our liability for the performance guarantee is typically capped at 50% of the fees that we receive under the license agreement, our liability for damages or re-performance of our work could still have a material adverse effect on our business, financial condition and results of operations.

Limited continuing rights of prior licensees of U-GAS® technology could limit the exclusivity of our license and materially adversely affect our business and results of operations.

Prior to granting us an exclusive license, GTI licensed U-GAS® technology to five other entities, all of which have been terminated. We rely on our exclusive license with GTI for U-GAS® technology to negotiate, enter into and implement contracts with partners and customers and to further develop our business and operations. Certain predecessor licensees may have limited continuing rights under their license agreements with GTI or may have sublicensed the technology. Although neither we nor GTI are aware of any continued use or development of U-GAS® technology by any of these prior licensees or sublicensees, it is possible that the exclusivity of our license of U-GAS® technology may be restricted in certain areas of the world. If such rights do in fact exist, GTI does not intend to provide technical or any other support to such licensees. Despite GTI's intentions, any such limitations on the exclusivity of the license could have a materially adverse effect on our business and results of operations.

We face the potential inability to protect our intellectual property rights which could have a material adverse effect on our business.

We rely on proprietary technology licensed from GTI. Our license agreement with GTI for U-GAS® technology (described under "Description of Business —GTI Agreements") is a critical component of our business. All of the prior patents granted around U-GAS® technology have expired. We are improving the technology and we plan to create new technologies around the core U-GAS® technology and have applied for new patents for these improvements and new technologies. Proprietary rights relating to U-GAS® technology are protected from unauthorized use by third parties only to the extent that they are covered by valid and enforceable patents, maintained within trade secrets or maintained in confidence through legally binding agreements. There can be no assurance that patents will be issued from any pending or future patent applications owned by or licensed to us or that the claims allowed under any issued patents will be sufficiently broad to protect our technology. In addition, our ability to obtain patent protection may be affected by the terms of the GTI Agreement. In the absence of patent protection, we may be vulnerable to competitors who attempt to copy our technology or gain access to our proprietary information and technical know-how. In addition, we rely on proprietary information and technical know-how that we seek to protect, in part, by entering into confidentiality agreements with our collaborators, employees, and consultants. We cannot assure you that these agreements will not be breached, that we would have adequate remedies for any breach or that our trade secrets will not otherwise become known or be independently developed by competitors.

Proceedings initiated by us to protect our proprietary rights could result in substantial costs to us. We cannot assure you that our competitors will not initiate litigation to challenge the validity of our patents, or that they will not use their resources to design comparable products that do not infringe upon our patents. Pending or issued patents held by parties not affiliated with us may relate to our products or technologies. We may need to acquire licenses to, or contest the validity of, any such patents. We cannot assure you that any license required under any such patent would be made available on acceptable terms or that we would prevail in any such contest. We could incur substantial costs in defending ourselves in suits brought against us or in suits in which we may assert our patent rights against others. If the outcome of any such litigation is unfavorable to us, our business and results of operations could be materially and adversely affected.

We are dependent on the availability and cost of low rank coal and coal waste and our inability to obtain a low cost source could have an impact on our business.

We believe that we have the greatest competitive advantage using our technology in situations where there is a ready source of low rank, low cost coal, coal waste or biomass to utilize as a feedstock. We intend to locate projects in areas where low cost coal and coal waste is available or where it can be moved to a project site easily without transportation issues and we are working to develop structured transactions that include securing options to feedstock resources including coal and biomass. The success of our projects and those of our customers will depend on the supply of low rank coal and coal waste. If a source of low cost coal or coal waste for these projects cannot be obtained effectively, our business and operating results could be seriously affected.

The termination of our license agreement with GTI or any of our joint venture agreements or licensing agreements would materially adversely affect our business and results of operations.

The GTI Agreement, our joint ventures in China, our licensing and related service business and our business verticals for power, steel and renewables, including our marketing arrangement with GE Power, are essential to us and our future development. The GTI Agreement terminates on August 31, 2016, but may be terminated by GTI upon certain events of default if not cured by us within specified time periods. In addition, after the two ten year extension periods provided under the GTI Agreement, which are exercisable at our option, we cannot assure you that we will succeed in obtaining an extension of the term of the license at a royalty rate that we believe to be reasonable or at all. Our joint venture agreements do not terminate for many years, but may be terminated earlier due to certain events of bankruptcy or default, or, in the case of the ZZ Joint Venture, if the purchase and sale contract for syngas or the methanol cooperation agreement is terminated. Termination of any of our joint ventures or other key business relationships would require us to seek another collaborative relationship in that territory. We cannot assure you that a suitable alternative third party would be identified, and even if identified, we cannot assure you that the terms of any new relationship would be commercially acceptable to us. In addition, any of our license agreements could be terminated by our customer if we default under the terms of the agreement and any such termination could have a material adverse effect on our business and results of operations.

Our projects and projects of our customers are subject to an extensive governmental approval process which could delay the implementation of our business strategy.

Selling syngas, methanol, glycol and other commodities is highly regulated in many markets around the world, as will be projects in our business verticals for power, steel and renewables. We believe these projects will be supported by the governmental agencies in the areas where the projects will operate because coal-based technologies, which are less burdensome on the environment, are generally encouraged by most governments. However, in China and other developing markets, the regulatory environment is often uncertain and can change quickly, often with contradictory regulations or policy guidelines being issued. In some cases, government officials have different interpretations of such regulations and policy guidelines and project approvals that are obtained could later be deemed to be inadequate. Furthermore, new policy guidelines or regulations could alter applicable requirements or require that additional levels of approval be obtained. If we or our customers and partners are unable to effectively complete the government approval process in China and other markets in which we intend to operate, our business prospects and operating results could be seriously harmed.

For example, China's State Council has issued an opinion further restricting new project approvals for wind power, polysilicon, steel cement, glass and coal to methanol and DME projects. At the same time, the government continues to encourage newer technologies that can cleanly process coal. Although we do not believe that China's project approval requirements and slowing of approvals for new coal to methanol and DME projects will invalidate any of our existing permits, our future joint ventures will have to abide by these guidelines.

We are dependent on our relationships with our strategic partners for project development.

We are dependent on our relationships with our strategic partners to accelerate our expansion, fund our development efforts, better understand market practices and regulatory issues and more effectively handle challenges that may arise. Our future success will depend on these relationships and any other strategic relationships that we may enter into. We cannot assure you that we will satisfy the conditions required to maintain these relationships under existing agreements or that we can prevent the termination of these agreements. We also cannot assure you that we will be able to enter into relationships with future strategic partners on acceptable terms. The termination of any relationship with an existing strategic partner or the inability to establish additional strategic relationships may limit our ability to develop SES China, our projects, including the ZZ Joint Venture and Yima Joint Ventures and our marketing arrangement with GE Power, and may have a material adverse effect on our business and financial condition.

We may not be successful developing opportunities to license our technology.

Although we have identified potential opportunities in China, India, the U.S., Australia, Vietnam and southern Africa, as well as other parts of Europe and Asia, we have only recently begun to develop our licensing and related service business and many of the relationships with potential customers are still being cultivated. To date, our principal operating activities have focused in China and India. Our ability to successfully develop global licensing opportunities for our technology is uncertain and depends upon the strength of global markets as well as our continued capability to deliver technology licenses, components and services. In addition, as with our other projects, we will be exposed to the risk of financial non-performance by our customers. Although we anticipate that we can generate revenues through engineering and technical service fees, as well as licensing fees and royalties on products sold by our licensees that incorporate our proprietary technology, there can be no assurances that we will be able to do so and our inability to do so could have a material adverse effect on our business and results of operation.

Our size and lack of operating history could inhibit the development of our third party licensing business.

License agreements typically provide a guarantee of the performance of the plant which is using the U-GAS® technology. Due to our size and lack of operating history there could be a perception that we are not able to satisfy these obligations, even though liability is typically capped at 50% of the fees received under the license agreement. As a result, partners may choose to enter into agreements with our larger competitors due to the belief that they are in a greater position to stand by their performance guarantees. These perceptions could hinder the development of our third party licensing business and, as a result, have a material adverse effect on our financial condition and results of operations.

We may never be able to reach agreements regarding the completion of future projects.

Other than our ZZ Joint Venture and the Yima Joint Ventures, all of our other potential development opportunities are in the early stages of development and/or contract negotiations. Our agreements with Xuejiao and Yima, discussed under "Description of Business—Current Operations and Projects," are currently our only negotiated joint venture contracts with operations. Additionally, we have only recently begun to develop our licensing and related service business, as well as our business verticals for power, steel and renewables, and many of the relationships with potential customers and partners, including GE Power, are still being cultivated and developed. We are unsure of when, if ever, many of these contracts will be negotiated, executed and implemented. There are many reasons that we may fail in our efforts to negotiate, execute and implement contracts with our target customers and partners to provide cost efficient energy services, including the possibilities that: (i) our products and services will be ineffective; (ii) our products and services will be cost prohibitive or will not achieve broad market acceptance; (iii) competitors will offer superior products and services; or (iv) competitors will offer their products and services at a lower cost.

Joint ventures that we enter into present a number of challenges that could have a material adverse effect on our business and results of operations and cash flows.

We have developed two projects in China, the ZZ Joint Venture and the Yima Joint Ventures. In addition, as part of our business strategy, we plan to enter into other joint ventures or similar transactions, including as part of our business verticals for power, steel and renewables, some of which may be material. These transactions typically involve a number of risks and present financial, managerial and operational challenges, including the existence of unknown potential disputes, liabilities or contingencies that arise after entering into the joint venture related to the counterparties to such joint ventures, with whom we share control. We could experience financial or other setbacks if transactions encounter unanticipated problems due to challenges, including problems related to execution or integration. Any of these risks could reduce our revenues or increase our expenses, which could adversely affect our results of operations and cash flows.

Additionally, we are a minority owner in the Yima Joint Ventures and we are relying on Yima to provide the management and operational support for the project. As a result, the success and timing of the Yima project will depend upon a number of factors that will be largely outside of our control and influence. As of June 1, 2013, we changed from the equity method of accounting for our investment in the Yima Joint Ventures to the cost method of accounting because we concluded that we are unable to exercise significant influence over the Yima Joint Ventures. Our conclusion regarding our lack of significant influence is based on our interactions with the Yima Joint Ventures related to the start-up and operations and due to various other circumstances including limited participation in operating and financial policymaking processes and our limited ability to influence technological decisions. Dependence on Yima, and other owners of future projects in which we have a minority interest, or extended negotiations regarding the scope of the projects, could delay or prevent the realization of targeted returns on our capital invested in these projects.

We also include the condensed financial information of the ZZ Joint Venture in our consolidated financial statements. We rely on personnel in China to compile this information and deliver it to us in a timely fashion so that the information can be incorporated into our consolidated financial statements prior to the due dates for our annual and quarterly reports. Any difficulties or delays in receiving this information or incorporating it into our consolidated financial statements could impair our ability to timely file our annual and quarterly reports.

We or our joint venture partners will manage the design, procurement and construction of our plants. If our or their management of these issues fails, our business and operating results could suffer.

For our ZZ Joint Venture, and possibly for other projects we may work on in the future, we have or expect to manage plant design, procurement of equipment and supervise construction. Most of this work has been or will be subcontracted to third parties. We are and will be coordinating and supervising these tasks. Although we believe that this is the most time and cost effective way to build gasification plants in China and elsewhere, we bear the risk of cost and schedule overruns and quality control. If we do not properly manage the design, procurement and construction of our plants, our business and operating results could be seriously harmed. Furthermore, as we continue to improve U-GAS® technology, we may decide to make changes to our equipment that could further delay the construction of our plants. Additionally, for certain of our projects, including projects for which we provide a license or related service, we will rely on our partners to manage the design, procurement and construction of the plant. The success and timing of work on these projects by others will depend upon a number of factors that will be largely outside of our control.

A portion of our revenues will be derived from the merchant sales of commodities and our inability to obtain satisfactory prices could have a material adverse effect on our business.

In certain circumstances, we or our partners plan to sell methanol, glycol, DME, synthetic gasoline, SNG, ammonia, hydrogen, nitrogen, elemental sulphur, ash and other commodities into the merchant market. These sales may not be subject to long term offtake agreements and the price will be dictated by the then prevailing market price. Revenues from such sales may fluctuate and may not be consistent or predictable. In particular, the market for commodities such as methanol is currently under significant pressure and we are unsure of how much longer this will continue. Our business and financial condition would be materially adversely affected if we are unable to obtain satisfactory prices for these commodities or if prospective buyers do not purchase these commodities.

Increased development of shale gas in China could have an adverse effect on our business.

According to 2013 study published by the EIA, China has the world's largest technically recoverable shale gas reserve resource, representing approximately 5.5% of the world's total recoverable shale gas resources. Sinopec, the Chinese state owned oil company, has recently drilled the first of nine planned shale gas wells. Although China currently lacks the infrastructure to develop this on a large scale, by 2020, their goal is for shale gas to provide as much as 10 percent of its total energy needs. An increase in the development of shale gas would be a competitive alternative to syngas which is produced by our technology and could have a material adverse effect on our business and results of operation if successful.

Economic uncertainty could negatively impact our business, limit our access to the credit and equity markets, increase the cost of capital, and may have other negative consequences that we cannot predict.

Economic uncertainty in the United States could create financial challenges if conditions do not improve. Most recently, Standard & Poor's downgraded the U.S. credit rating to AA+ from its top rank of AAA, which has increased the possibility of other credit-rating agency downgrades which could have a material adverse effect on the financial markets and economic conditions in the United States and throughout the world. Our internally generated cash flow and cash on hand historically have not been sufficient to fund all of our expenditures, and we have relied on, among other things, bank financings and private equity to provide us with additional capital. Our ability to access capital may be restricted at a time when we would like, or need, to raise capital. If our cash flow from operations is less than anticipated and our access to capital is restricted, we may be required to reduce our operating and capital budget, which could have a material adverse effect on our results and future operations. Ongoing uncertainty may also reduce the values we are able to realize in asset sales or other transactions we may engage in to raise capital, thus making these transactions more difficult and less economic to consummate.

We are dependent on key personnel who would be difficult to replace.

Our performance is substantially dependent on the continued services and on the performance of our senior management and other key personnel. Our performance also depends on our ability to retain and motivate our officers and key employees. The loss of the services of any of our executive officers or other key employees could have a material adverse effect on our business, results of operations and financial condition. Although we have employment arrangements, which include non-competition provisions, with Robert Rigdon, our President and Chief Executive Officer, Charles Costenbader, our Chief Financial Officer, Francis Lau, our Chief Technology Officer, Don Bunnell, our Chief Commercial Officer, Kevin Kelly, our Chief Accounting Officer, Controller and Secretary and certain other members of senior management, as a practical matter, those agreements will not assure the retention of our employees and we may not be able to enforce all of the provisions in any such employment agreement, including the non-competition provisions. Our future success also depends on our ability to identify, attract, hire, train, retain and motivate other highly skilled technical, managerial, marketing and customer service personnel. Competition for such personnel is intense, and we cannot assure you that we will be able to successfully attract, integrate or retain sufficiently qualified personnel. In addition, because substantially all of our operations are currently in China, we will be required to retain personnel who reside in, or are willing to travel to, and who speak the language and understand the customs of, China. Our inability to retain these types of individuals could have a material adverse effect on our business, results of operations and financial condition.

Payment of severance benefits could strain our cash flow.

Certain members of our senior management have employment agreements that provide for substantial severance payments. In the event we terminate the employment of any of these employees, or in certain cases, if such employees terminate their employment with us, such employees will be entitled to receive certain severance and related payments. The need to pay these severance payments could put a strain on our financial resources.

Our success will depend in part on our ability to grow and diversify, which in turn will require that we manage and control our growth effectively.

Our business strategy contemplates growth and diversification. As we add to our services, our number of customers, and our marketing and sales efforts, operating expenses and capital requirements will increase. Our ability to manage growth effectively will require that we continue to expend funds to improve our operational, financial and management controls, as well as reporting systems and procedures. In addition, we must effectively recruit new employees, and once hired, train and manage them. From time to time, we may also have discussions with respect to potential acquisitions, some of which may be material, in order to further grow and diversify our business. However, acquisitions are subject to a number of risks and challenges, including difficulty of integrating the businesses, adverse effects on our earnings, existence of unknown liabilities or contingencies and potential disputes with counterparties. We will be unable to manage our business effectively if we are unable to alleviate the strain on resources caused by growth in a timely and successful manner. We cannot assure you that we will be able to manage our growth and a failure to do so could have a material adverse effect on our business.

We face intense competition. If we cannot gain market share among our competition, we may not earn revenues and our business may be harmed.

The business of providing energy is highly competitive. In the gasification market, large multi-national industrial corporations that are better capitalized, such as General Electric, Shell, CB&I and Siemens (with entrained flow technologies), and smaller Chinese firms (with atmospheric pressure technologies) offer coal gasification equipment and services. Although we do not directly compete with the multi-national industrial corporations, their activities in the marketplace may negatively impact our operations and our ability to attract quality projects. In addition, new competitors, some of whom may have extensive experience in related fields or greater financial resources, may enter the market. Increased competition could result in a loss of contracts and market share. Either of these results could seriously harm our business and operating results. In addition, there are a number of gasification and conventional, non-gasification, coal-based alternatives for producing heat and power that could compete with our technology in specific situations. If we are unable to effectively compete with other sources of energy, our business and operating results could be seriously harmed.

In our areas of operation, the projects we and our customers intend to build are subject to rigorous environmental regulations, review and approval. We cannot assure you that such approvals will be obtained, applicable requirements will be satisfied or approvals, once granted, will be maintained.

Our operations are subject to stringent laws and regulations governing the discharge of materials into the environment, remediation of contaminated soil and groundwater, siting of facilities or otherwise relating to environmental protection. Numerous governmental agencies, such as various Chinese authorities at the municipal, provincial or central government level and similar regulatory bodies in other countries, issue regulations to implement and enforce such laws, which often require difficult and costly compliance measures that carry substantial potential administrative, civil and criminal penalties or may result in injunctive relief for failure to comply. These laws and regulations may require the acquisition of a permit before construction and/or operations at a facility commence, restrict the types, quantities and concentrations of various substances that can be released into the environment in connection with such activities, limit or prohibit construction activities on certain lands lying within wilderness, wetlands, ecologically sensitive and other protected areas and impose substantial liabilities for pollution. We believe that we are in substantial compliance with current applicable environmental laws and regulations. Although to date we have not experienced any material adverse effect from compliance with existing environmental requirements, we cannot assure you that we will not suffer such effects in the future or that projects developed by our partners or customers will not suffer such effects.

In China, developing, constructing and operating gasification facilities is highly regulated. In the development stage of a project, the key government approvals are the project’s environmental impact assessment report, or EIA, feasibility study (also known as the project application report) and, in the case of a Sino-foreign joint venture, approval of the joint venture company’s joint venture contract and articles of association. Approvals in China are required at the municipal, provincial and/or central government levels depending on the total size of the investment in the project. Prior to commencing full commercial operations, we also need additional environmental approvals to ensure that the facility will comply with standards adopted in the EIA.

Although we have been successful in obtaining the permits that are required at this stage of our development, any retroactive change in policy guidelines or regulations, or an opinion that the approvals that have been obtained are inadequate, could require us to obtain additional or new permits, spend considerable resources on complying with such requirements or delay commencement of construction. For example, China has issued new project approval requirements for coal to methanol and DME which could be applied to our existing permits. Other developments, such as the enactment of more stringent environmental laws, regulations or policy guidelines or more rigorous enforcement procedures, or newly discovered conditions, could require us to incur significant capital expenditures.

We may incur substantial liabilities to comply with climate control legislation and regulatory initiatives.

Recent scientific studies have suggested that emissions of certain gases, commonly referred to as "greenhouse gases," may be contributing to the warming of the Earth's atmosphere. In response to such studies, many countries are actively considering legislation, or have already taken legal measures, to reduce emissions of greenhouse gases. Carbon dioxide, a byproduct of burning fossil fuels such as coal, is an example of a greenhouse gas. Plants using our technology may release a significant amount of carbon dioxide. Methane is another greenhouse gas.

New legislation or regulatory programs that restrict emissions of greenhouse gases in areas in which we conduct business may require us or our customers to obtain additional permits, meet additional control requirements, install additional environmental mitigation equipment, or take other as yet unknown steps to comply with these potential regulations, which could adversely affect our financial performance. Although we plan to use advanced technologies to actively utilize or sequester any greenhouse gas emissions, compliance with any future regulation of greenhouse gases, if it occurs, could be costly and may delay our development of projects. Even if we or out customers obtain all necessary permits, the air quality standards or the interpretation of those standards may change, thus requiring additional control equipment, more stringent permitting requirements, or other measures. Such requirements could significantly increase the operating costs and capital costs associated with any future development, expansion or modification of a plant.

Our controls and procedures may fail or be circumvented.

Our management regularly reviews and updates our internal control over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls and procedures, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures, or failure to comply with regulations related to controls and procedures, could have a material adverse effect on our business, results of operations and financial condition.

We are subject to the requirements of Section 404 of the Sarbanes-Oxley Act. If we are unable to maintain compliance with Section 404 or if the costs related to compliance are significant, our profitability, stock price and results of operations and financial condition could be materially adversely affected.

We are required to comply with the provisions of Section 404 of the Sarbanes-Oxley Act of 2002. Section 404 and the related Securities and Exchange Commission's implementing rules, require that management disclose whether the CEO and CFO maintained internal control over financial reporting that, among other things, provides reasonable assurance that material errors in our external financial reports will be prevented or detected on a timely basis, and that we maintain support for that disclosure that includes evidence of our evaluation of the design and operation of our internal control. We are a small company with limited financial resources and our finance and accounting staff is very limited.

We cannot be certain that we will be able to successfully maintain the procedures, certification and attestation requirements of Section 404 or that we or our auditors will not identify material weaknesses in internal control over financial reporting in the future. If we are unable to maintain compliance with Section 404, investors could lose confidence in our financial statements, which in turn could harm our business and negatively impact the trading price of our common stock.

Risks Related to Our Chinese Operations

Chinese investment regulations could adversely impact our company and subject us to fines.

Recent Chinese regulations relating to outbound investment activities, in particular, round-tripping investments by Chinese residents may increase our administrative burden, restrict our overseas and cross-border investment activity or otherwise adversely affect the implementation of our acquisition strategy. Under the regulations of SAFE, Chinese residents who make, or have previously made, direct or indirect round tripping investments through a SPV, will be required to register with SAFE. In the case of any round tripping investment by the Chinese residents through an offshore entity which is not an SPV, as defined in the SAFE Circular 75, the onshore entities that are indirectly held by the Chinese residents is required to complete the foreign exchange registration process with a tag on it as "Non-SPV round tripping investment". In addition, such SAFE registration is required to be filed or updated in the case of any material change involving its round-trip investment, capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger, division, long-term equity or debt investment or creation of any security interest. If any Chinese stockholder fails to make the required SAFE registration or filings in connection with their round tripping investment, or if Chinese entities fail to be tagged as the "SPV round tripping investment " or "Non-SPV round tripping investment", the Chinese subsidiary of that offshore parent company may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation, to their offshore parent company, and the offshore parent company may also be prohibited from injecting additional capital into their Chinese subsidiary. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under Chinese laws for evasion of applicable foreign exchange restrictions. At the time of applying for SAFE registration (including any change registration), the onshore entities will be required to represents that its foreign shareholder is not directly or indirectly held by any Chinese residents. Any false or misleading representations may result in administrative liabilities imposed on the onshore entities and their legal representatives. We cannot provide any assurances that all of our stockholders who are Chinese residents will make or obtain any applicable registrations or approvals required by these SAFE regulations. The failure or inability of our Chinese resident stockholders to comply with the registration procedures set forth in the SAFE regulations may subject our Chinese subsidiaries to fines and legal sanctions, restrict our cross-border investment activities, or limit them ability to distribute dividends to or obtain foreign-exchange dominated loans from our company. Nor can we provide assurance that our Chinese subsidiaries are accepted by SAFE to be tagged as "SPV round tripping investment" or " Non-SPV round tripping investment" given that SAFE Circular 21 is a newly issued regulation and certain aspects therein still remain in uncertainty. As it is uncertain how the SAFE regulations will be interpreted or implemented, we cannot predict how these regulations will affect our business operations or future strategy. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and obtaining foreign currency denominated borrowings, which may harm our results of operations and financial condition. In addition, if we decide to acquire a Chinese domestic company, we cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the SAFE regulations. This may restrict our ability to implement our acquisition strategy and could adversely affect our business and prospects.

Under Chinese laws, arrangements and transactions among related parties may be subject to a high level of scrutiny by Chinese tax authorities.

Under Chinese laws, arrangements and transactions among related parties may be subject to audit or challenge by Chinese tax authorities. Under the Regulation on the Implementation of the Enterprise Income Tax Law, the "related party" means the enterprises, other organizations or individuals that have any of the following relations with an enterprise:

- direct or indirect control relationship with respect to capital, management, sale or purchase, etc.;
- directly or indirectly controlled by a common third-party;
- any other relationship of interest.

If any of the transactions we enter into with related parties are found not to be on an arm's-length basis, or to result in an unreasonable reduction in tax under Chinese law, Chinese tax authorities have the authority to disallow any tax savings, adjust the profits and losses of such possible future Chinese entities and assess late payment interest and penalties. A finding by Chinese tax authorities that we are ineligible for any such tax savings would in all likelihood substantially increase our possible future taxes and thus reduce our net income in future periods.

Labor laws in China may adversely affect our results of operations.

The Chinese Labor Contract Law imposes greater liabilities on employers and significantly affects the cost of an employer's decision to reduce its workforce. Further, it requires certain terminations be based upon seniority and not merit. In the event we decide to significantly change or decrease our workforce, the Chinese Labor Contract Law could adversely affect our ability to enact such changes in a manner that is most advantageous to our business or in a timely and cost-effective manner, thus materially adversely affecting our financial condition and results of operations.

Increases in the labor costs or future disputes with our employees could damage our business, financial condition or operating results. According to Chinese Social Security Law and other applicable Chinese labor laws, the employer shall be responsible to deal with and pay social insurances and housing funds for all of its employees based on the actual salary of the employees. In addition, as required by Chinese regulations, we participate in various employee benefit plans that are organized by municipal and provincial governments, including pension, work-related injury benefits, maternity insurance, medical and unemployment benefit plans. We are required under Chinese laws to make contributions to the employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time. Members of the retirement plan are entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. There is no guarantee that we and our subsidiaries will be able to comply with the relevant requirements. Failure to comply with the various PRC Labor Laws and regulation requirements described above could result in liability under Chinese law.

Foreign laws may not afford us sufficient protections for our intellectual property, and we may not be able to obtain patent protection outside of the United States.

Despite continuing international pressure on the Chinese government, intellectual property rights protection continues to present significant challenges to foreign investors and, increasingly, Chinese companies. Chinese commercial law is relatively undeveloped compared to the commercial law in our other major markets and only limited protection of intellectual property is available in China as a practical matter. Although we have taken precautions in the operations of our Chinese subsidiaries to protect our intellectual property, any local design or manufacture of products that we undertake in China could subject us to an increased risk that unauthorized parties will be able to copy or otherwise obtain or use our intellectual property, which could harm our business. We may also have limited legal recourse in the event we encounter patent or trademark infringement. Uncertainties with respect to the Chinese legal system may adversely affect the operations of our Chinese subsidiaries. China has put in place a comprehensive system of intellectual property laws; however, incidents of infringement are common and enforcement of rights can, in practice, be difficult. If we are unable to manage our intellectual property rights, our business and operating results may be seriously harmed.

Our operations in China may be adversely affected by evolving economic, political and social conditions.

Our operations are subject to risks inherent in doing business internationally. Such risks include the adverse effects on operations from war, international terrorism, civil disturbances, political instability, governmental activities and deprivation of contract and property rights. In particular, since 1978, the Chinese government has been reforming its economic and political systems, and we expect this to continue. Although we believe that these reforms have had a positive effect on the economic development of China and have improved our ability to do business in China, we cannot assure you that these reforms will continue or that the Chinese government will not take actions that impair our operations or assets in China. In addition, periods of international unrest may impede our ability to do business in other countries and could have a material adverse effect on our business and results of operations.

Long term offtake agreements could be difficult to obtain and, if obtained, enforce because of China's underdeveloped legal system.

Historically, it has been difficult to enter into or otherwise obtain long term offtake agreements in China. Even if we are able to enter into such agreements for syngas, power and other commodities in the future, we may have difficulty seeking remedies under the agreements due to less certainty under China's legal system, as compared to Western countries. We will seek to mitigate this risk by (i) dealing with reliable partners, (ii) obtaining all requisite government approvals, (iii) developing projects with good underlying economics, (iv) developing modular plants that can be moved away in an extreme circumstance, (v) using local banks to finance a majority of our project costs, and (vi) including enforceable arbitration provisions in all project agreements. The success of our business depends in part on our ability to successfully negotiate, implement and manage the offtake agreements. As a result, our business and financial condition would be materially adversely affected if we are unable to enter into these agreements, or if entered to, to mitigate the risks associated with these agreements.

Our results of operations would be negatively affected by potential currency fluctuations in exchange rates with foreign countries.

Currency fluctuations, devaluations and exchange restrictions may adversely affect our liquidity and results of operations. Exchange rates are influenced by political or economic developments in China, the United States or elsewhere and by macroeconomic factors and speculative actions. In some countries, local currencies may not be readily converted into U.S. dollars or other hard currencies or may only be converted at government controlled rates, and, in some countries, the transfer of hard currencies offshore has been restricted from time to time. Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to successfully hedge our exposure, if at all.

Fluctuations in exchange rates can have a material impact on our costs of construction, our operating expenses and the realization of revenue from the sale of commodities. We cannot assure you that we will be able to offset any such fluctuations and any failure to do so could have a material adverse effect on our business, financial condition and results of operations. In addition, our financial statements are expressed in U.S. dollars and will be negatively affected if foreign currencies, such as the Chinese Renminbi Yuan, depreciate relative to the U.S. dollar. In addition, our currency exchange losses may be magnified by exchange control regulations in China or other countries that restrict our ability to convert into U.S. dollars.

Chinese regulations of loans and direct investment by offshore entities to Chinese entities may delay or prevent us from utilizing proceeds of funds to make loans or additional capital contributions to our operations in China, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

We may make loans or additional capital contributions to our operations in China. Any loans to our Chinese operations are subject to Chinese regulations and approvals. Such loans by us cannot exceed statutory limits and must be registered with the Chinese State Administration of Foreign Exchange or its local counterpart. We may also decide to finance our Chinese operations by means of capital contributions. This capital contribution must be approved by the Chinese Ministry of Commerce or its local counterpart. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our Chinese operations or any of their subsidiaries. If we fail to receive such registrations or approvals, our ability to capitalize our Chinese operations may be negatively affected, which could adversely and materially affect our liquidity and ability to fund and expand our business.

We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar Chinese and worldwide anti-bribery laws.

The U.S. Foreign Corrupt Practices Act, or the FCPA, and similar Chinese and worldwide anti-bribery laws generally prohibit companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. Our policies mandate compliance with these laws. We operate in many parts of the world that have experienced governmental corruption to some degree and, in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. Despite our training and compliance program, we cannot assure you that our internal control policies and procedures always will protect us from reckless or negligent acts committed by our employees or agents. Violations of these laws, or allegations of such violations, could disrupt our business and result in a material adverse effect on our business and operations. We may be subject to competitive disadvantages to the extent that our competitors are able to secure business, licenses or other preferential treatment by making payments to government officials and others in positions of influence or using other methods that United States laws and regulations prohibit us from using.

In order to effectively compete in some foreign jurisdictions, we utilize local agents and seek to establish joint ventures with local operators or strategic partners. Although we have procedures and controls in place to monitor internal and external compliance, if we are found to be liable for FCPA violations (either due to our own acts or our inadvertence, or due to the acts or inadvertence of others, including actions taken by our agents and our strategic or local partners, even though our agents and partners are not subject to the FCPA), we could suffer from civil and criminal penalties or other sanctions, which could have a material adverse effect on our business, financial position, results of operations and cash flows.

The Chinese government exerts substantial influence over the manner in which we must conduct our business activities.

The Chinese government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, import and export tariffs, environmental regulations, land use rights, property and other matters. We believe that our operations in China are in material compliance with all applicable legal and regulatory requirements. However, the central or local governments of the jurisdictions in which we operate may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations. Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof and could require us to divest ourselves of any interest we then hold in Chinese properties or joint ventures.

Use of uninsured bank accounts in China could adversely affect our ability to conduct our business.

Funds on deposit at banks and other financial institutions in China are often uninsured. A portion of our assets are held in the form of cash deposited with banks in China. In the event of a bank failure, we may not have access to our funds on deposit. Depending on the amount of money we maintain in a bank that fails, our inability to have access to the cash could impair our operations and adversely affect our ability to conduct our business.

We may have difficulty establishing adequate management, legal and financial controls in China.

China historically has been deficient in Western style management and financial reporting concepts and practices, as well as in modern banking, computer and other control systems. For example, we recently changed from the equity method of accounting for our investment in the Yima Joint Ventures to the cost method of accounting because we concluded that we are unable to exercise significant influence over the Yima Joint Ventures due to, among other things, our limited participation in operating and financial policymaking processes and our limited ability to influence technological decisions. We may have difficulty in hiring and retaining a sufficient number of employees who are qualified to assist us in application of such concepts and practices to work in China. As a result of these factors, we may experience difficulty in establishing management, legal and financial controls, collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet Western standards.

We face risks related to natural disasters and health epidemics in China, which could have a material adverse effect on our business and results of operations.

Our business could be materially adversely affected by natural disasters or the outbreak of health epidemics in China. For example, in May 2008, Sichuan Province suffered a strong earthquake measuring approximately 8.0 on the Richter scale that caused widespread damage and casualties. In addition, in the last decade, China has suffered health epidemics related to the outbreak of avian influenza and severe acute respiratory syndrome, or SARS. In April 2009, an outbreak of the H1N1 virus, also commonly referred to as "swine flu" occurred in Mexico and has spread to other countries. Cases of swine flu have been reported in Hong Kong and mainland China. The Chinese government and certain regional governments within China have enacted regulations to address the H1N1 virus, which may have an effect on our business. If the outbreak of swine flu were to become widespread in China or increase in severity, it could have an adverse effect on economic activity in China, and could require the temporary closure of manufacturing facility. Such events could severely disrupt our business operations and harm our results of operations. Any future natural disasters or health epidemics in China could also have a material adverse effect on our business and results of operations.

Uncertainties with respect to the Chinese legal system could limit the legal protections available to you and us.

We conduct substantially all of our business through our operating subsidiaries in China. Our operating subsidiaries are generally subject to Chinese laws and regulations including those applicable to foreign investments in China and, in particular, laws applicable to foreign-invested enterprises. The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, decided legal cases have little precedential value in China. In 1979, the Chinese government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation since 1979 has significantly enhanced the protections afforded to various forms of foreign investment in China. However, Chinese laws and regulations change frequently and the interpretation of laws and regulations is not always uniform and enforcement thereof can involve uncertainties. For instance, we may have to resort to administrative and court proceedings to enforce the legal protection that we are entitled to by law or contract. However, since Chinese administrative and court authorities have significant discretion in interpreting statutory and contractual terms, it may be difficult to evaluate the outcome of administrative court proceedings and the level of law enforcement that we would receive in more developed legal systems. Such uncertainties, including the potential inability to enforce our contracts, could limit legal protections available to you and us and could affect our business and operations. In addition, intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other countries. Accordingly, we cannot predict the effect of future developments in the Chinese legal system, particularly with regard to the industries in which we operate, including the promulgation of new laws. This may include changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the availability of law enforcement, including our ability to enforce our agreements with Chinese government entities and other foreign investors.

Risks Related to our Common Stock

Our historic stock price has been volatile and the future market price for our common stock is likely to continue to be volatile.

The public market for our common stock has historically been very volatile. Any future market price for our shares is likely to continue to be very volatile. Since we began trading on The NASDAQ Stock Market on November 2, 2007, our common stock has traded at prices as low as $0.41 per share and as high as $15.92 per share. This price volatility may make it more difficult for our stockholders to sell shares when they want at prices that they find attractive. We do not know of any one particular factor that has caused volatility in our stock price. However, the stock market in general has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies. Broad market factors and the investing public's negative perception of our business may reduce our stock price, regardless of our operating performance.

Our common stock is thinly traded on The NASDAQ Stock Market.

Although our common stock is traded on The NASDAQ Stock Market, the trading volume has historically been low and we cannot assure investors that this will increase the trading volume or decrease the volatility of the trading price of our common stock. We cannot assure investors that a more active trading market will develop even if we issue more equity in the future.

We are at risk of being de-listed from NASDAQ if we do not regain compliance with the minimum $1 bid price per share required by NASDAQ.

On August 2, 2013, we received a letter from NASDAQ informing us that the closing bid price of our common stock has been below $1.00 per share for a period of 30 consecutive trading days, which is outside the requirements of NASDAQ for continued listing. Under NASDAQ Listing Rule 5810(c)(3)(A), we have a grace period of 180 calendar days, or until January 29, 2014, in which to regain compliance with the minimum bid price rule. To regain compliance, the closing bid price of our common stock must meet or exceed $1.00 per share for a minimum of ten consecutive business days during this grace period. If we do not regain compliance before January 29, 2014, we may be eligible for an additional grace period if we meet the initial listing standards, with the exception of bid price, for The NASDAQ Capital Market, and we successfully apply for a transfer of our securities to that market. Such a transfer would provide us with an additional 180 calendar day period to regain compliance with the minimum bid requirement.

The market valuation of our business may fluctuate due to factors beyond our control and the value of the investment of our stockholders may fluctuate correspondingly.

The market valuation of energy companies, such as us, frequently fluctuate due to factors unrelated to the past or present operating performance of such companies. Our market valuation may fluctuate significantly in response to a number of factors, many of which are beyond our control, including:

- Changes in securities analysts' estimates of our financial performance;
- Fluctuations in stock market prices and volumes, particularly among securities of energy companies;
- Changes in market valuations of similar companies;
- Announcements by us or our competitors of significant contracts, new technologies, acquisitions, commercial relationships, joint ventures or capital commitments;
- Variations in our quarterly operating results;
- Fluctuations in coal, oil, natural gas, methanol and ammonia prices;
- Loss of a major customer of failure to complete significant commercial contracts;

- Loss of a relationship with a partner; and
- Additions or departures of key personnel.

As a result, the value of your investment in us may fluctuate.

Investors should not look to dividends as a source of income.

We do not intend to pay cash dividends in the foreseeable future. Consequently, any economic return will initially be derived, if at all, from appreciation in the fair market value of our stock, and not as a result of dividend payments.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate office occupies approximately 7,300 square feet of leased office space in Houston, Texas. We also lease approximately 6,000 square feet of office spaces in Shanghai, China. The ZZ Joint Venture plant is constructed on approximately 375,000 square feet of land under 50-year land use rights acquired from the Chinese government. The plant buildings and related structures occupy approximately 198,000 square feet. Over time, additional properties may be required if we develop new projects and add personnel to advance our commercial and technical efforts.

Item 3. Legal Proceedings

None.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Price for Common Stock and Stockholders

Our common stock is traded on The NASDAQ Global Market under the symbol SYMX. The following table sets forth the range of the high and low sale prices for our common stock for the periods indicated.

	Sales Price	
	High	Low
Year Ending June 30, 2013:		
First Quarter	$ 1.45	$ 0.92
Second Quarter	$ 1.44	$ 0.95
Third Quarter	$ 1.20	$ 0.96
Fourth Quarter	$ 1.49	$ 0.78
Year Ending June 30, 2012:		
First Quarter	$ 2.97	$ 1.21
Second Quarter	$ 1.85	$ 1.36
Third Quarter	$ 1.88	$ 1.30
Fourth Quarter	$ 1.53	$ 0.76

As of September 23, 2013, our authorized capital stock consisted of 200,000,000 shares of common stock, of which 63,719,640 shares of common stock were issued and outstanding. As of such date, there were 89 holders of record of our common stock.

Dividend Policy

We have not paid dividends on our common stock and do not anticipate paying cash dividends in the immediate future as we contemplate that our cash flows will be used for continued growth of our operations. The payment of future dividends, if any, will be determined by our Board of Directors, or the Board, in light of conditions then existing, including our earnings, financial condition, capital requirements, and restrictions in financing agreements, business conditions and other factors.

Securities Authorized For Issuance Under Equity Compensation Plans

The following table sets forth information regarding our existing equity compensation plans as of June 30, 2013.

	Equity Compensation Plan Information		
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders (1)	7,404,692 (2)	$ 0.98	923,316 (2)
Equity compensation plans not approved by security holders	1,649,438 (3)	$ 1.39	—
Total as of June 30, 2013	9,054,130	$ 1.05	923,316

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(1) Consists of the Amended and Restated 2005 Incentive Plan, as amended, or the Plan.

(2) Of the total 9,800,000 shares under the Plan, options to acquire 7,404,692 shares of commons stock were outstanding at June 30, 2013 and 152,468 shares of restricted stock had been granted under the Plan.

(3) As of June 30, 2013, warrants to acquire up to 1,649,438 shares of our common stock were issued to Crystal Vision Energy (i) for consulting services rendered to us and (ii) under a Unit Purchase Agreement.

Item 6. Selected Financial Data

The following table presents selected consolidated financial data as of the dates and for the periods indicated. Such consolidated financial data has been derived from our audited consolidated financial statements for such periods. The historical results are not necessarily indicative of the operating results to be expected in the future. The selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the accompanying notes included elsewhere in this annual report. Among other things, those financial statements include more detailed information regarding the basis of presentation for the following consolidated financial data.

Statements of Operations Data
(in thousands, except per share amounts)

	Years Ended June 30,				
	2013	2012	2011	2010	2009
Total revenue	$ 579	$ 3,062	$ 10,158	$ 9,301	$ 2,102
Operating loss	(18,379)	(18,267)	(15,730)	(24,964)	(30,062)
Net loss	(19,923)	(20,072)	(15,620)	(25,415)	(29,279)
Less: net loss attributable to noncontrolling interests	(10)	176	157	3,667	703
Net loss attributable to stockholders	(19,933)	(19,896)	(15,463)	(21,748)	(28,576)
Net loss per share:					
Basic and diluted	$ (0.33)	$ (0.39)	$ (0.32)	$ (0.45)	$ (0.60)
Weighted average common shares outstanding:					
Basic and diluted	60,171	51,024	48,584	48,230	48,017

Balance Sheet Data
(in thousands)

	June 30,				
	2013	2012	2011	2010	2009
Total working capital	$ 8,448	$ 9,874	$ 27,851	$ 37,223	$ 81,033
Total assets	88,364	92,847	109,974	120,581	146,136
Total liabilities	10,060	12,887	13,190	16,542	20,040
Total equity	78,304	79,960	96,784	104,039	126,096

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and the related notes and other financial information included elsewhere in this annual report. Some of the information contained in this discussion and analysis or set forth elsewhere in this annual report, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties. You should review the "Risk Factors" section of this annual report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Business Overview

We are a development stage global energy and gasification technology company that provides proprietary gasification technology systems and solutions to the energy and chemical industries. Our business is to create value by supplying our technology, equipment and services into global projects where lower cost low quality coals, coal wastes, municipal wastes, agricultural biomass, and other biomass feedstocks can be profitably converted through our proprietary gasification technology into clean synthesis gas, or syngas (a mixture of primarily hydrogen, carbon monoxide, and methane), which is then used to produce a variety of high value energy and chemical products. Our initial operating projects to date convert high ash coal and coal wastes to chemical grade methanol, and we are pursuing a variety of additional global projects under development by customers who may use our technology platform to convert low quality coals such as lignite, coal wastes, municipal wastes and agricultural waste biomass to high value products such as electric power, transportation fuels, substitute natural gas, or SNG, fuel for direct reduction iron, or DRI, steel making and other products. Our technology is originally based on the U-GAS® process developed by the Gas Technology Institute and we have augmented and differentiated the technology through newly developed intellectual property related to design, detailed engineering, constructing, starting up and operating our two commercial joint venture plants in China.

We intend to commercialize our technology through supplying our gasification systems consisting of technology, equipment and services to projects globally and to accomplish this largely via value accretive partnerships and collaborations with other companies which operate in the energy and chemical market segments where we believe our technology is highly advantaged. This is a low capital intensity business approach which we believe can generate attractive margins for us through providing our technology differentiated equipment and services in multiple market segments globally with a potential to build meaningful sales opportunities over time. However, to date our principal operating activities have focused in China where we have invested and built two commercial projects. We made these investments to fully demonstrate our technology and our capabilities to build and operate, but with this step of commercializing our technology successfully completed, we no longer intend to make such extensive capital investments in the foreseeable future. Our ZZ Joint Venture project is our first commercial scale coal gasification plant and is located in Shandong Province, China. It achieved commercial operation in December 2008. The ZZ Joint Venture is designed to produce clean syngas for sale to an immediately adjacent industrial company who manufactures methanol from the syngas. Under the new commercial structure completed in July 2013, we are assuming control of the methanol facilities and the ZZ Joint Venture plant will operate as an integrated plant which converts local coal wastes to methanol, as described in more detail under "-Current Operations and Projects – Zao Zhuang Joint Venture." The Yima Joint Venture project in Henan Province, China generated its first methanol production in December 2012, and is currently in its start-up phase, as described in more detail under "Business-Current Operations and Projects – Yima Joint Ventures." It is designed to produce 300,000 tons per year of chemical grade methanol and has achieved as high as 80% of its design raw methanol production capacity during start-up.

Our business model is to deploy our technology on a global basis via supplying a technology package, containing license rights to operate a project using our technology, gasification system equipment, and technology related services. As part of our overall strategy we intend to form strategic regional and market-based partnerships or business verticals where our technology offers advantages and through cooperating with these partners grow an installed base of projects. Through collaborative partnering arrangements we believe we will commercialize our technology much faster than entering these markets alone. Building on our success in China, we are formalizing a China region business unit, that we refer to as SES China, with plans to capitalize this business locally with strategic partners that we believe can help accelerate our growth in China. In addition to regional business units, we are continuing to evaluate and develop our business in markets such as power, steel, fuels, substitute natural gas, chemicals and renewables which can benefit from deploying our technology offering to create these products from low cost coal and renewable feedstocks. We are developing these market-based business vertical opportunities together with strategic partners which have established businesses or interests in these markets with the goal of growing and expanding these businesses by partnering with us and deployment of our technology offering. Our collaboration with GE Packaged Power, Inc., a subsidiary of GE, which began in early 2013 to jointly evaluate and market a small scale power generation unit combining our gasification technology with GE's aeroderivative gas turbines, is an ongoing example of our market-based business vertical developments underway. We are also advancing developments via technology integration studies with potential partners for business verticals in DRI steel and "green" chemicals derived from municipal wastes. We have also formalized agreements for marketing our technology in India which we believe is an important growth region for which our technology is uniquely well suited.

We believe our existing operating projects in China have clearly demonstrated that we have several advantages which differentiate our technology over other commercially available gasification technologies, such as entrained flow, fixed bed, and moving bed gasification technologies. The first of these advantages is our ability to use a wide range of feedstocks (including low rank, high ash and high moisture coals, which are significantly cheaper than higher grade coals), coal wastes, municipal wastes, agricultural wastes, and other biomass feedstocks to make clean syngas. Our feedstock advantage opens up many of these global resources for use to manufacture energy and chemical products which otherwise could not be done with other currently available commercial gasification technologies. Secondly, our technology's advanced fluidized bed design is extremely tolerant to a wide range changes in feedstock during operation, which allows for flexible fuel purchasing for our customers. Additionally, our technology can use much less water and its simple design leads to the fabrication cost of our equipment and resulting plant costs being lower compared to other commercially available technologies. We believe these important factors position our technology for future deployment of gasification worldwide because our technology can enable projects to become a lower cost producer of products. Depending on local market needs and fuel sources, our syngas can be used to produce many valuable products including electric power, SNG, chemicals such as methanol, dimethyl ether, or DME, and glycol, ammonia for fertilizer production, reducing gas for DRI processes, and transportation fuels such as gasoline and diesel.

Results of Operations

We are in our development stage and therefore have had limited operations. We have sustained net losses of $157.1 million from November 4, 2003, the date of our inception, to June 30, 2013.

Year Ended June 30, 2013 Compared to the Year Ended June 30, 2012

Revenue. Total revenue decreased by $2.5 million to $0.6 million for the year ended June 30, 2013 compared to $3.1 million for the year ended June 30, 2012.

There were no product sales revenues for the fiscal year 2013 due primarily to no capacity fee revenue being received and the suspension of syngas production at the ZZ Joint Venture plant in late September 2011. Product sales were $2.1 million for the year ended June 30, 2012 and were derived from the sale of syngas and byproducts produced at the ZZ Joint Venture plant to Xuejiao before the suspension of syngas production at the ZZ Joint Venture plant. Since initial start-up of the ZZ Joint Venture plant, Xuejiao has been unable to off take the full volume amount of syngas as required by the initial syngas sales agreement for which the ZZ Joint Venture plant's original design was based. In April 2011, Xuejiao stopped paying the contractual capacities fees owed to the ZZ Joint Venture plant, and in September 2011, the ZZ Joint Venture stopped syngas production until this commercial issue could be remedied. In March 2012, Xuecheng Energy advanced approximately $1.0 million to the ZZ Joint Venture. In September 2012, Xuejiao advanced an additional approximately $0.8 million to the ZZ Joint Venture. Under the cooperation agreement agreed to in July 2013, or the ZZ Cooperation Agreement, these advances are to be applied to settling the prior payments due under the syngas purchase and sale agreement, therefore we expect to recognized these advances as revenue when the ZZ Cooperation Agreement is effective. For more on the ZZ Cooperation Agreement, see "Business – Current Operations and Projects – Zao Zhuang Joint Venture".

Technology licensing and related services revenues decreased by $0.4 million to $0.5 million for the year ended June 30, 2013 compared to $0.9 million for the year ended June 30, 2012 and resulted primarily from engineering feasibility studies and coal testing services for customers who are actively developing projects and may license and build plants using our technology. Revenues for the year ended June 30, 2013 were primarily attributable to two customers, one of which is a global leader in iron ore processing and steel production who is studying the integration of our technology with their steel production technology, and the other is a project developer studying the use of renewable feedstock combinations for the production of chemicals.

Costs of sales and plant operating expenses. Costs of sales and plant operating expenses decreased by $4.0 million to $0.8 million for the year ended June 30, 2013 compared to $4.8 million for the year ended June 30, 2012. The decrease was due primarily to the suspension of syngas production at the ZZ Joint Venture plant in late September 2011.

General and administrative expenses. General and administrative expenses increased by $0.4 million to $13.6 million for the year ended June 30, 2013 compared to $13.2 million for the year ended June 30, 2012. Fiscal year 2013 general and administrative expenses included a $1.0 million write off of deferred financing costs related to the ZJX Agreement (as defined below under "Liquidity and Capital Resources") which was terminated on June 10, 2013, and fees of $1.3 million paid to CVE under their consulting agreement which was terminated as of August 31, 2013. Fiscal 2012 general and administrative expenses included non-recurring consulting related costs of $0.8 million, including a $0.5 million charge to recognize the loss related to a matter with a consulting firm and fees associated with collecting a payment from Xuejiao, and $0.4 million of fees paid to Crystal Vision Energy, or CVE, under their consulting agreement. Recurring general and administrative expenses consist primarily of compensation, professional and consulting fees, travel, and other costs of our corporate, development and administrative functions in Houston and Shanghai, and project and technical development expenses.

Stock-based compensation expense. Stock-based compensation expense increased by $1.4 million to $2.3 million for the year ended June 30, 2013 compared to $0.9 million for the year ended June 30, 2012. The increase was due primarily to expensing the excess of the fair value over the consideration paid for shares of common stock and warrants issued to CVE under a unit purchase agreement that closed in February 2013, the expensing of shares and warrants issued in connection with CVE's consulting agreement and expensing the estimated fair values of stock options awarded to directors and employees during the period.

Depreciation and amortization expense. Depreciation and amortization expense decreased by $0.2 million to $2.3 million for the year ended June 30, 2013 compared to $2.5 million for the year ended June 30, 2012 and was primarily due to corporate assets such as information systems becoming fully depreciated during fiscal 2013. The majority of our depreciation expense relates to our ZZ Joint Venture plant's assets which we have continued to depreciate since the plant's operations were suspended in September 2011. We expect to continue to depreciate the ZZ Joint Venture while we prepare for and operate under the ZZ Cooperation Agreement.

Equity in losses of joint ventures. The equity in losses of joint ventures decreased by $0.5 million to $1.4 million for the year ended June 30, 2013 compared to $1.9 million for the year ended June 30, 2012 and relates to our 25% share of the start-up losses incurred by the Yima Joint Ventures and our 50% share of the start-up losses incurred by SES Resource Solutions, Ltd., or SRS. The losses of the Yima Joint Ventures related to non-capitalizable costs incurred during the design, construction, commissioning and start-up phases. As of June 1, 2013, we changed from the equity method of accounting for our investment in the Yima Joint Ventures to the cost method of accounting because we concluded that we are unable to exercise significant influence over the Yima Joint Ventures. Our conclusion regarding our lack of significant influence is based on our interactions with the Yima Joint Ventures related to the start-up and operations and due to various other circumstances including limited participation in operating and financial policymaking processes and our limited ability to influence technological decisions. Under the cost method, we will not record our share of the Yima Joint Ventures' net income or losses, but will record dividend income upon receipt of any dividends. The losses of SRS related to development costs including the value of Midas' contributed services, consulting and travel expenses. In December 2012, SRS suspended its activities due to the unavailability of financing for coal resources, therefore our contributions to SRS are expected to be minimal until its activities resume.

Foreign currency gain. Foreign currency gains were $80,000 for the year ended June 30, 2013 compared to $548,000 for the year ended June 30, 2012. The foreign currency gains have resulted from the appreciation of the Renminbi Yuan relative to the U.S. dollar and are generated on U.S. dollar denominated shareholder loans payable by our Chinese operations.

Interest income. Interest income was $50,000 for the year ended June 30, 2013 compared to $90,000 for the year ended June 30, 2012. The decrease was primarily due to lower cash equivalent investments.

Interest expense. Interest expense was $0.3 million for the year ended June 30, 2013 compared to $0.6 million for the year ended June 30, 2012. Our interest expense relates primarily to the ZZ Joint Venture's loan with Industrial and Commercial Bank of China, or ICBC, and the decrease in interest expense is a result of a lower outstanding principal balance due to scheduled repayments of principal.

Year Ended June 30, 2012 Compared to the Year Ended June 30, 2011

Revenue. Total revenue decreased by $7.1 million to $3.1 million for the year ended June 30, 2012 compared to $10.2 million for the year ended June 30, 2011.

Product sales decreased by $6.8 million to $2.1 million for the year ended June 30, 2012 compared to $8.9 million for the year ended June 30, 2011 and were derived from the sale of syngas and byproducts produced at the ZZ Joint Venture plant to Xuejiao. The decrease in product sales was due primarily to no capacity fee revenue being received during the year ended June 30, 2012 and the suspension of syngas production at the ZZ Joint Venture plant in late September 2011.

In May 2011, Xuejiao notified the ZZ Joint Venture plant that it will not continue payment of capacity fees beyond April 2011. The plant continued to operate and provide syngas to Xuejiao until operations were suspended in late September 2011, and Xuejiao paid other contractual obligations such as the energy fees and by-product sales due under the contract.

Technology licensing and related services revenues decreased by $0.3 million to $0.9 million for the year ended June 30, 2012 compared to $1.2 million for the year ended June 30, 2011 and were generated from the testing of coal at the ZZ Joint Venture plant, and other coal testing, feasibility studies and other technical services provided in association with our technology licensing business.

Costs of sales and plant operating expenses. Costs of sales and plant operating expenses decreased by $4.3 million to $4.8 million for the year ended June 30, 2012 compared to $9.1 million for the year ended June 30, 2011. The decrease was due primarily to the suspension of syngas production at the ZZ Joint Venture plant in late September 2011.

General and administrative expenses. General and administrative expenses increased by $0.3 million to $13.2 million for the year ended June 30, 2012 compared to $12.9 million for the year ended June 30, 2011. The increase was due primarily to non-recurring consulting related costs of $0.8 million, including a $0.5 million charge to recognize the loss related to a matter with a consulting firm which was settled in May 2012 and fees associated with collecting a payment from Xuejiao, offset, in part, by a reduction in expenses of $0.5 million due principally to decreased compensation and other expenses. Recurring general and administrative expenses consist primarily of compensation, professional and consulting fees, travel, and other costs of our corporate, development and administrative functions in Houston and Shanghai, and project and technical development expenses.

Stock-based compensation expense. Stock-based compensation expense decreased by $0.3 million to $0.9 million for the year ended June 30, 2012 compared to $1.2 million for the year ended June 30, 2011 and related to the expensing of the estimated fair values of awarded stock options and restricted stock. The decrease was principally due to awarding fewer stock-based awards in 2012 compared to 2011.

Depreciation and amortization expense. Depreciation and amortization expense decreased by $0.1 million to $2.5 million for the year ended June 30, 2012 compared to $2.6 million for the year ended June 30, 2011 and was primarily related to depreciation of our ZZ Joint Venture plant's assets and our corporate information systems' assets.

Equity in losses of joint ventures. The equity in losses of joint ventures increased by $1.4 million to $1.9 million for the year ended June 30, 2012 compared to $0.4 million for the year ended June 30, 2011 and relates to our 25% share of the start-up losses incurred by the Yima Joint Ventures and our 50% share of the start-up losses incurred by SRS. The losses of the Yima Joint Ventures related to non-capitalizable costs incurred during the design, construction and start-up phases. The losses of SRS related to development costs including the value of Midas' contributed services, consulting and travel expenses.

Foreign currency gain. Foreign currency gains decreased $0.5 million to $0.5 million for the year ended June 30, 2012 compared to $1.0 million for the year ended June 30, 2011. The foreign currency gains have resulted from the appreciation of the Renminbi Yuan relative to the U.S. dollar and are generated on U.S. dollar denominated shareholder loans payable by our Chinese operations.

Interest income. Interest income was $90,000 for the year ended June 30, 2012 compared to $169,000 for the year ended June 30, 2011. The decrease was primarily due to lower cash equivalent investments.

Interest expense. Interest expense was $0.6 million for the year ended June 30, 2012 compared to $0.7 million for the year ended June 30, 2011. Our interest expense relates primarily to the ZZ Joint Venture's outstanding principal balance on its loan with ICBC.

Liquidity and Capital Resources

We are in our development stage and have financed our operations to date through private placements of our common stock in 2005 and 2006 and two public offerings, one in November 2007 and one in June 2008. We have used the proceeds of these offerings primarily for the development of our technology including the investments in the ZZ Joint Venture and the Yima Joint Ventures, and to pay other business development and general and administrative expenses. In addition, we have a loan agreement with ICBC which funded certain of the costs of the ZZ Joint Venture.

As of June 30, 2013, we had $15.9 million in cash and cash equivalents and $8.4 million of working capital available to us. During the year ended June 30, 2013, we used $13.0 million in operating activities compared to $11.8 million for the year ended June 30, 2012. The increase in cash used in operating activities was due principally to certain general and administrative costs including cash payments of approximately $1.4 million in fiscal 2013 made to CVE for their consulting services. During the years ended June 30, 2013 and 2012, we used $0.6 million and $0.9 million, respectively, in investing activities primarily to fund the start-up and development of SRS. During the year ended June 30, 2013, we received $14.8 million of net proceeds from sales of our common stock including approximately $15.5 million of combined gross proceeds from Hongye and Zhongmo for the issuance of 10,352,428 shares, and proceeds of $400,000 for the issuance of 449,438 shares of our common stock and warrants to acquire 449,438 shares of our common stock under a Unit Purchase Agreement with CVE. During each of fiscal 2013 and 2012, we used $2.4 million in financing activities for the scheduled semi-annual principal payments on the ZZ Joint Venture's loan with ICBC.

In June 2009, we paid $1.5 million to GTI toward future royalties due to GTI for the Yima Joint Ventures' project as part of our investment in the Yima project. An additional future royalty payment of approximately $1.5 million will be due to GTI upon full completion of the build of the gasifier systems which we expect to occur by the end of calendar 2013.

Loan Agreements

On March 22, 2007, the ZZ Joint Venture entered into a seven-year loan agreement and received $12.6 million of loan proceeds pursuant to the terms of a Fixed Asset Loan Contract with ICBC to complete the project financing for the ZZ Joint Venture. Key terms of the Fixed Asset Loan Contract with ICBC are as follows:

- Term of the loan is seven years from the commencement date (March 22, 2007) of the loan;
- Interest is adjusted annually based upon the standard rate announced each year by the People's Bank of China, or PBOC, and as of June 30, 2013, the applicable interest rate was 6.55 % and is payable monthly;
- A principal payment of RMB 7.7 million (approximately $1.2 million based on current currency exchange rates) was paid in September 2013 and the final payment of the same amount is due in March 2014;
- Xuejiao is the guarantor of the entire loan;
- Assets of the ZZ Joint Venture are pledged as collateral for the loan;
- Covenants include, among other things, prohibiting pre-payment without the consent of ICBC and permitting ICBC to be involved in the review and inspection of the ZZ Joint Venture plant; and
- Subject to customary events of default which, should one or more of them occur and be continuing, would permit ICBC to declare all amounts owing under the contract to be due and payable immediately.

As of June 30, 2013, the ZZ Joint Venture was in compliance with all covenants and obligations under the Fixed Asset Loan Contract.

On September 10, 2013, the ZZ Joint Venture entered into a one-year loan agreement with a local bank and received approximately $3.2 million of proceeds for costs related to the ZZ Cooperation Agreement. Interest on this loan is based on the PBOC rate and is initially 10.8% and payable monthly. The principal is due at maturity of the loan. Xuejiao provided a guarantee for this loan and the ZZ Joint Venture collateralized certain real estate assets.

Share Purchase Agreements

Unit Purchase Agreement with CVE

In February 2013, we entered into and closed a Unit Purchase Agreement with CVE under which we received proceeds of $400,000 and issued 449,438 shares of our common stock and issued warrants to acquire 449,438 shares of our common stock.

Share Purchase Agreements with Hongye and Zhongmo

On June 18, 2012, we entered into a Share Purchase Agreement with Hongye pursuant to which Hongye acquired 6,175,093 shares of our common stock, or the Hongye Shares, for $1.50 per share, for an aggregate purchase price of approximately $9.3 million, and entered into a Share Purchase Agreement with Zhongmo pursuant to which Zhongmo acquired 4,177,335 shares of our common stock, or the Zhongmo Shares, for $1.50 per share, for an aggregate purchase price of approximately $6.3 million. The net proceeds received by us are to be fully applied to our operations and projects in China and have been deposited into a bank account in Hong Kong controlled by SES China. The terms and conditions of the agreements are summarized in Note 13 to the consolidated financial statements included herein.

On September 21, 2012, we received gross proceeds of approximately $8.7 million from Hongye and issued 5,777,700 of the Hongye Shares to Hongye. On October 10, 2012, we received gross proceeds of approximately $6.3 million from Zhongmo and issued the Zhongmo Shares to Zhongmo. Also, on October 16, 2012, we received gross proceeds of approximately $596,000 from Hongye and issued the remaining 397,393 of the Hongye Shares to Hongye.

Share Purchase Agreement with ZJX

On June 10, 2013, we provided notice to China Energy Industry Holdings Group Co, Ltd., or China Energy, and Zhongjixuan Investment Management Company Ltd., or ZJX, of the termination of the Share Purchase Agreement among the us, ZJX and China Energy dated March 31, 2011, as amended on August 16, 2011 and December 30, 2011, or the ZJX Agreement, as permitted by the terms of the ZJX Agreement. No penalties or payments were due as a result of the termination of the ZJX Agreement, China Energy had not paid any of the purchase price and we have not issued any shares to ZJX or China Energy under the ZJX Agreement. We incurred approximately $1.0 million of legal and other professional fees and costs related to the ZJX Agreement which were deferred and written off in June 2013.

Consulting Agreement with Crystal Vision Energy

Effective January 1, 2013, we entered into a consulting services agreement, or the CVE Agreement, with Crystal Vision Energy Limited, or CVE, pursuant to which CVE provided strategic, executive leadership and management services for us and our China business platform. The CVE Agreement replaced a prior services agreement that we had in place with CVE dated effective April 1, 2012. CVE received a monthly services fee of $150,000 plus expense reimbursement, $100,000 of which is payable in cash each month and the remaining $50,000 accrues monthly and is payable quarterly in common stock. CVE was also entitled to incentive warrants upon signing. In connection with fundraising on behalf of us, CVE is entitled to a success fee for the total of any investment from a third party (subject to certain exclusions) for use in China, or directly invested into our China business.

A warrant to purchase up to 1,200,000 shares of our common stock with an exercise price of $1.50 was granted in February 2013 and becomes vested and fully exercisable on December 31, 2013 and has a term of five years. These warrants to CVE are referred to as the CVE Incentive Warrants.

In February 2013, we entered into and closed a Unit Purchase Agreement with CVE under which we received proceeds of $400,000 and issued 449,438 shares of its common stock and warrants to acquire 449,438 shares of our common stock, or the CVE Unit Purchase Warrants. The CVE Unit Purchase Warrants have an exercise price of $1.11 per share and have a term of 5 years.

As of June 30, 2013, we had issued 279,480 shares of our common stock to CVE as part of their monthly compensation payable in common stock under the CVE Agreement. These shares are valued based upon the volume-weighted-average share price for the month preceding the month in which services are performed.

On July 29, 2013, we entered into an amendment, or the CVE Amendment, to the CVE Agreement between CVE and us dated effective January 1, 2013. Pursuant to the CVE Amendment, CVE made a $100,000 investment in our common stock on August 1, 2013. The shares of our common stock were issued at a price which was equal to 80% of the volume weighted average price of our common stock on the NASDAQ Stock Market over the three months prior to August 1, 2013. The associated warrants shall have an exercise price which is equal to the volume weighted average price of our common stock on the NASDAQ over the three months prior to August 1, 2013.

The CVE Agreement was terminated effective as of August 31, 2013.

Outlook

Our strategies are focused on the completion of the Yima Joint Venture plant, the restart of the ZZ Joint Venture plant, developing our business verticals and finding a partner for SES China. Our business is to create value by supplying our technology, equipment and services into global projects where lower cost low quality coals, coal wastes, municipal wastes, agricultural biomass, and other biomass feedstocks can be profitably converted through our proprietary gasification technology into clean synthesis gas, or syngas (a mixture of primarily hydrogen, carbon monoxide, and methane), which is then used to produce a variety of high value energy and chemical products.

Our business model is to deploy our technology on a global basis via supplying a technology package, containing license rights to operate a project using our technology, gasification system equipment, and technology related services. As part of our overall strategy we intend to form strategic regional and market-based partnerships or business verticals where our technology offers advantages and through cooperating with these partners grow an installed base of projects. Through collaborative partnering arrangements we believe we will commercialize our technology much faster than entering these markets alone. This is a low capital intensity business approach which we believe can generate attractive margins for us through providing our technology differentiated equipment and services in multiple market segments globally with a potential to build meaningful sales opportunities over time. We also believe that our technology business activities will help advance our capabilities and provide opportunities which may allow us to selectively participate as equity partners in such projects in the future. Additionally, we are continuing to improve our technology in ways we believe will enhance our competitive position. We are pursuing other possible technology licensing opportunities with third parties allowing us to build on our capability demonstrated at the ZZ Joint Venture and the Yima Joint Venture. We are focusing our efforts globally with our partners in countries with large low rank coal resources, but our principal operating activities to-date have focused on China and India.

We and GE Packaged Power, Inc., a subsidiary of GE, have agreed to jointly evaluate and market a small scale power generation unit combining our gasification technology with GE's aeroderivative gas turbines. This application marketing agreement will focus on regions of the world where conversion of non-conventional feedstock sources such as lignite and coal wastes into synthesis gas fuel via our technology may be advantaged over conventional gas turbine fuel sources such as natural gas and fuel oil. Together with GE, we have completed a preliminary evaluation of this application of our combined technologies. Under the terms of this agreement, the two businesses on a non-exclusive basis will complete the market evaluation and seek initial customers for this small scale power product. We also recently announced plans to seek deployment our technology as a gas turbine fuel generation package into a standardized plant design in the 50 to 100 MW range. We believe the power segment offers opportunity over time to provide meaningful sales opportunities for our gasification technology and equipment systems. We intend to focus on the continued development of this business vertical.

We are working on licensing opportunities and other business arrangements with high-profile steel companies who are active in the DRI industry. In addition, we are also developing additional business vertical opportunities to integrate our technology with DRI steel making technology for a coal-to-steel solution and for evaluating projects that can make methanol and derivatives from refuse derived fuels from our technology. We have completed two paid studies during fiscal 2013 with potential partners to assess integrating our technology into these applications and the results of these studies indicated a very cost effective solution with highly efficient integrations. Our goal for these two business verticals is to find strategic partnering to provide a complete technology and equipment package offering.

We intend to focus on developing new opportunities for our proprietary technology whereby we may (i) integrate our technology package with downstream technologies to provide a fully integrated offering, (ii) partner with engineering, equipment and technology companies to provide our technology package into an integrated modular product offering, (iii) provide technology to enable coal resources to be integrated together with our technology where the coal resources may be of little commercial value without our conversion technology, or (iv) acquire or partner with owners of these coal resources to create more value and opportunity for us through the integration of our technology with the coal resource. We understand the need to partner in certain markets, and plan to do so with companies that we believe can help us accelerate our business. For example, we have entered into an agreement with Simon India Ltd, a subsidiary of Zuari Global Ltd, to exclusively market our technology in India where we believe the market for coal gasification plants is now developing due to large infrastructure growth demands and an increasing need for a variety of basic chemical and energy products. Our partnering approach in some cases is country specific and in some cases is industry or market segment specific. Additionally, where strategic relationships and capital and/or financing is available, we may acquire operating assets with potential to generate near term earnings and give us advantages in deploying our technology. Examples of such assets include methanol fuel-blending facilities, compressed natural gas fuel operations and operating coal mines. We are also actively pursuing business verticals in the segments of transportation fuels, steel and fertilizers where our technology is specifically well suited and developing new downstream coal-to-chemicals and coal-to-energy projects which may expand our initial focus to include facilities producing SNG, MTG, glycol, and power and reducing gas for the steel industry.

SES China is intended to be a stand-alone business platform that encompasses all of our current and future business activities and initiatives in China. Don Bunnell, our co-founder and board member, has recently been rehired as our Chief Commercial Officer and will be leading day-to-day activities for SES China with a focus on finding a partner for the business. We believe that SES China will better enable us to grow faster in China than otherwise possible and to better protect our intellectual property and technology in China. In addition, we expect to work more effectively with our existing partners to efficiently leverage the other business verticals we are developing including clean renewable fuels and power businesses, direct reduction iron for the steel industry, clean coal-to-chemicals projects, and for longer term value creation, larger scale SNG projects utilizing low rank coal resources and biomass. We are seeking to partner SES China with a financially strong and highly skilled Chinese companies which desires to invest into the growth of China's clean energy space and who recognize the opportunity afforded by our technology capability and business model. We believe partnering a significant portion of SES China can, with the right Chinese partner, accelerate the commercialization of our technology on a global basis and will enable to reduce our capital requirements to achieve this acceleration.

We are also actively pursuing new project partners to invest in our ongoing development efforts. The Yima Joint Venture plant's commissioning is in its final stages and methanol production has been ramped up to as high as 80% of total design capacity and is now selling its methanol product to a local industrial company. All three of the gasifiers have been operated at various ranges of throughput and pressure. The current focus is on completing the installations of char removal systems for the syngas production and commissioning of the downstream units that prepare the syngas for methanol production as well as the continued commissioning of the methanol production unit itself. The plant is designed to produce 300,000 tonnes per year of methanol from two operating gasifiers. There have been a variety of minor construction related shutdowns which are normally seen in the startup of these units, but they have generally not been related to our gasifier systems. The Yima Joint Venture plant is being closely watched by our potential customers and partners in China and globally, and we expect the Yima project to be a major catalyst for securing much of the new business we have been developing.

We believe that the ZZ Joint Venture plant has achieved significant success demonstrating our technology as well as our technical and operating capabilities. We are of the view that by improving financial performance and reducing operating costs at the ZZ Joint Venture plant our overall financial performance can be improved. Since initial start-up, Xuejiao (originally owned by Hai Hua) has been unable to off take the full volume amount of syngas as required by the initial syngas sales agreement for which the ZZ Joint Venture plant's original design was based and as a result the plant incurred operating losses. On July 24, 2013, the ZZ Joint Venture entered into the ZZ Cooperation Agreement with Xuejiao, which serves to supersede the existing syngas purchase and sale agreement among the parties dated October 22, 2006 and supplemented previously in 2008. The ZZ Cooperation Agreement represents the basis for an integrated syngas to methanol operation and resolution of the nonpayment of the contractual capacity fees by Xuejiao. Under the terms of the Agreement, Xuejiao will (i) provide the ZZ Joint Venture with use of their methanol plant for ten years at no cost to the ZZ Joint Venture, (ii) has provided a bank loan guarantee of approximately $3.2 million for a majority of the financing necessary for the ZZ Joint Venture for the retrofit and related costs of the ZZ Joint Venture plant, (iii) waive certain advances previously made to the ZZ Joint Venture and (iv) supply discounted coke oven gas produced by its existing coke ovens to be used in combination with synthesis gas to produce refined methanol from the new ZZ Joint Venture integrated syngas methanol operation. The new integrated operation will be managed by us. Upon successful completion of certain conditions precedent described below, we will terminate and waive our claims to past due capacity fees owed by Xuejiao under the existing syngas purchase and sale agreement.

The ZZ Cooperation Agreement will take full effect upon the completion of certain conditions precedent including: (i) all necessary consents and approvals being obtained by each of the parties, (ii) completion of final due diligence on the methanol plant, as well as the scheduled overhaul of the facility (as described in more detail in the Agreement) and the handover to the ZZ Joint Venture, and (iii) execution of the Xuejiao financing guarantee and the financial closing of the ZZ Joint Venture bank financing for the retrofit which occurred on September 10, 2013.

We believe that there is currently a shift in the coal gasification business toward the use of low quality, and therefore low cost, coals for coal-to-energy and chemicals projects and we believe that China is a good example of this new direction in coal gasification. According to the International Energy Outlook 2013 from the U.S. Energy Information Administration, China's natural gas consumption is estimated to reach 7.8 trillion cubic feet in 2020 but domestic production of natural gas in China is estimated to be 4.2 trillion cubic feet in 2020. Today, coal to SNG projects are beginning to progress and the Chinese government supports these types of coal to energy projects. Due to this estimated shortfall in natural gas, combined with the current encouragement from the Chinese government for these projects, we believe there is potential in China for several of these SNG projects which are anticipated to be very large scale as compared to previous coal-to-chemical projects that have been built in China. In addition, we believe many of these projects will be located in regions such as Inner Mongolia where very low cost lignite coals can be made available and are necessary to reduce the production cost of SNG. Our technology is well suited for this location due to its ability to process these low quality coals and to meet local requirements for clean production of syngas, without tars and oils produced by other technologies, and very low water usage for the overall process. In addition, Inner Mongolia government regulations permit higher quality coals to be made available to those companies that can cleanly gasify the low quality lignite coals. This creates the potential to sell the high quality coals directly to the market while operating the project on low cost lignite, further enhancing the overall financial performance and value created by the project.

We expect to continue for a period of time to have negative operating cash flows until we are generating sufficient cash flows from our technology, equipment and services business and SES China (including our ZZ Joint Venture and the Yima Joint Ventures) to cover our general and administrative expenses and other operating costs. We will also limit the development of any further projects until we have assurances that acceptable financing is available to complete the project. We may pursue the development of selective projects with strong and credible partners or off-takers where we believe equity and debt can be raised or where we believe we can attract a financial partner to participate in the project and where the project would utilize our technology, equipment and services.

We currently plan to use our available cash for (i) general and administrative expenses, (ii) working capital; (iii) debt service for the ZZ Joint Venture; (iv) payments to GTI due under our licensing agreements including the $1.5 million royalty due for the Yima Joint Ventures' license; and (v) general corporate purposes. The actual allocation and timing of these expenditures will be dependent on various factors, including changes in our strategic relationships, commodity prices and industry conditions, and other factors that we cannot currently predict. In particular, any future decrease in economic activity in China or in other regions of the world in which we may in the future do business could significantly and adversely affect our results of operations and financial condition. Operating cash flows from our joint venture operating projects can be positively or negatively impacted by changes in coal and methanol prices. These are commodities where market pricing can be cyclical in nature.

We do not currently have all of the financial and human resources to fully develop and execute on all of our other business opportunities; however, we intend to finance our development through paid services, technology access fees, equity financings and by securing financial and strategic partners focused on development of these opportunities. We can make no assurances that our business operations will provide us with sufficient cash flows to continue our operations. We will need to raise additional capital through equity and debt financing for any new ventures that are developed, to support our existing projects and possible expansions thereof and for our corporate general and administrative expenses. As a result of our focus on financing activities, particularly in China, we have identified strategic parties that have expressed interest in helping us grow SES China's business and we are evaluating these options. We are considering a full range of financing options in order to create the most value in the context of the increasing interest we are seeing in our technology. We cannot provide any assurance that any financing will be available to us in the future on acceptable terms or at all. Any such financing could be dilutive to our existing stockholders. If we cannot raise required funds on acceptable terms, we may not be able to, among other things, (i) maintain our general and administrative expenses at current levels including retention of key personnel and consultants; (ii) successfully develop our licensing and related service businesses; (iii) negotiate and enter into new gasification plant development contracts and licensing agreements; (iv) make additional capital contributions to our joint ventures; (v) fund certain obligations as they become due; and (vi) respond to competitive pressures or unanticipated capital requirements.

On August 2, 2013, we received a letter from NASDAQ informing us that the closing bid price of its common stock has been below $1.00 per share for a period of 30 consecutive trading days, which is outside the requirements of NASDAQ for continued listing. Under NASDAQ Listing Rule 5810(c)(3)(A), we have a grace period of 180 calendar days, or until January 29, 2014, in which to regain compliance with the minimum bid price rule. To regain compliance, the closing bid price of our common stock must meet or exceed $1.00 per share for a minimum of ten consecutive business days during this grace period. If we do not regain compliance before January 29, 2014, we may be eligible for an additional grace period if we meet the initial listing standards, with the exception of bid price, for The NASDAQ Capital Market, and we successfully apply for a transfer of our securities to that market. Such a transfer would provide us with an additional 180 calendar day period to regain compliance with the minimum bid requirement.

Critical Accounting Policies

The preparation of financial statements in accordance with U.S. generally accepted accounting principles, or GAAP, requires our management to make certain estimates and assumptions which are inherently imprecise and may differ significantly from actual results achieved. We believe the following are our critical accounting policies due to the significance, subjectivity and judgment involved in determining our estimates used in preparing our consolidated financial statements. We evaluate our estimates and assumptions used in preparing our consolidated financial statements on an ongoing basis utilizing historic experience, anticipated future events or trends and on various other assumptions that are believed to be reasonable under the circumstances. The resulting effects of changes in our estimates are recorded in our consolidated financial statements in the period in which the facts and circumstances that give rise to the change in estimate become known.

We believe the following describes significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue Recognition

Revenue from sales of products, which has included the capacity fee and energy fee earned at the ZZ Joint Venture plant and is expected to include sale of methanol under the ZZ Cooperation Agreement, and sales of equipment are recognized when the following elements are satisfied: (i) there are no uncertainties regarding customer acceptance; (ii) there is persuasive evidence that an agreement exists; (iii) delivery has occurred; (iv) the sales price is fixed or determinable; and (v) collectability is reasonably assured.

Technology licensing revenue is typically received over the course of a project's development as milestones are met. We may receive upfront licensing fee payments when a license agreement is entered into. Typically, the majority of a license fee is due once project financing and equipment installation occur. We recognize license fees as revenue when the license fees become due and payable under the license agreement, subject to the deferral of the amount of the performance guarantee. Fees earned for engineering services, such as services that relate to integrating our technology to a customer's project, are recognized using the percentage-of-completion method.

Impairment Evaluation of Long-Lived Assets

We evaluate our long-lived assets, such as property, plant and equipment, construction-in-progress, equity method investments and specifically identified intangibles, when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. When we believe an impairment condition may have occurred, we are required to estimate the undiscounted future cash flows associated with a long-lived asset or group of long-lived assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities for long-lived assets that are expected to be held and used. We evaluate our operating plants as a whole. Production equipment at each plant is not evaluated for impairment separately, as it is integral to the assumed future operations of the plant. All construction and development projects are reviewed for impairment whenever there is an indication of potential reduction in fair value. If it is determined that it is no longer probable that the projects will be completed and all capitalized costs recovered through future operations, the carrying values of the projects would be written down to the recoverable value. If we determine that the undiscounted cash flows from an asset to be held and used are less than the carrying amount of the asset, or if we have classified an asset as held for sale, we estimate fair value to determine the amount of any impairment charge.

The following summarizes some of the most significant estimates and assumptions used in evaluating if we have an impairment charge.

<u>*Undiscounted Expected Future Cash Flows*</u>. In order to estimate future cash flows, we consider historical cash flows and changes in the market environment and other factors that may affect future cash flows. To the extent applicable, the assumptions we use are consistent with forecasts that we are otherwise required to make (for example, in preparing our other earnings forecasts). The use of this method involves inherent uncertainty. We use our best estimates in making these evaluations and consider various factors, including forward price curves for energy, feedstock costs, and other operating costs. However, actual future market prices and project costs could vary from the assumptions used in our estimates, and the impact of such variations could be material.

<u>*Fair Value*</u>. Generally, fair value will be determined using valuation techniques such as the present value of expected future cash flows. We will also discount the estimated future cash flows associated with the asset using a single interest rate representative of the risk involved with such an investment. We may also consider prices of similar assets, consult with brokers, or employ other valuation techniques. We use our best estimates in making these evaluations; however, actual future market prices and project costs could vary from the assumptions used in our estimates, and the impact of such variations could be material.

The evaluation and measurement of impairments for investments such as our equity investment in the Yima Joint Ventures involve the same uncertainties as described for long-lived assets that we own directly. Similarly, our estimates that we make with respect to our equity and cost-method investments are subjective, and the impact of variations in these estimates could be material.

ZZ Joint Venture Plant Impairment Analysis

Due to the continued shut down of the plant and new economic and financial assumptions based on the negotiations of the ZZ Cooperation Agreement, we believed an impairment assessment of the ZZ Joint Venture plant was warranted as of March 31, 2013. We performed an analysis of the ZZ Joint Venture plant and determined that these assets were not impaired based upon management's estimated cash flow projections for the plant. Such estimated cash flow projections included a case based on the completion of the negotiations between us and Xuejiao to restructure the current business arrangement to create an integrated syngas to methanol operation. This restructuring would include a combination of technical improvements being made to Xuejiao's methanol unit allowing for increased syngas off-take and other repairs and improvements being made to the plant enabling more efficient joint production of methanol for a five-year period. After this period, this case assumes that an additional downstream facility to produce a higher value product such as glycol is developed with the additional capital investment made by a strategic partner and that we retain a minority interest in the combined project. An alternative case assumed the same five-year period of the same integrated syngas to methanol operation as the prior case but that the ZZ Joint Venture plant's assets are sold after the five-year period. If we are not successful in finalizing effectiveness of the ZZ Cooperation Agreement or otherwise improving the ZZ Joint Venture's profitability, or if management's estimated cash flow projections for these assets decrease, the ZZ Joint Venture plant could become impaired which could have a material effect on our consolidated financial statements. As no significant changes occurred during the fourth quarter of fiscal 2013, an updated impairment assessment was not necessary as of June 30, 2013.

Accounting for Variable Interest Entities and Financial Statement Consolidation Criteria

The joint ventures which we enter into may be considered variable interest entities, or VIEs. We consolidate all VIEs where we are the primary beneficiary. This determination is made at the inception of our involvement with the VIE. We consider both qualitative and quantitative factors and form a conclusion that we, or another interest holder, absorb a majority of the entity's risk for expected losses, receive a majority of the entity's potential for expected residual returns, or both. We do not consolidate VIEs where we are not the primary beneficiary. We account for these unconsolidated VIEs under the equity method or cost method of accounting and include our net investment in investments on our consolidated balance sheets. Our equity interest in the net income or loss from our unconsolidated VIEs under the equity method of accounting is recorded in non-operating (income) expense on a net basis on our consolidated statement of operations.

We have determined that the ZZ Joint Venture is a VIE and that we are the primary beneficiary.

We have determined that the Yima Joint Ventures are VIEs and that Yima is the primary beneficiary since Yima has a 75% ownership interest in the Yima Joint Ventures.

We have determined that SRS is a VIE and that we are not the primary beneficiary since we and Midas each have a 50% ownership interest in SRS and the control, risks and benefits of SRS are shared equally.

We have determined that the GC Joint Venture is a VIE and that we are the primary beneficiary since we have a 51% ownership interest in the GC Joint Venture and since there are no qualitative factors that would preclude us from being deemed the primary beneficiary.

Off Balance Sheet Arrangements

In October 2012, we amended and extended the lease agreement for our corporate offices in Houston, Texas which now expires on June 30, 2014. In addition, we have a short term lease arrangement for our administrative offices in Shanghai.

Contractual Obligations

Our material contractual obligations at June 30, 2013 were as follows (in thousands):

Contractual Obligations	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
ZZ Joint Venture ICBC loan, including interest	$ 2,503	$ 2,503	$ —	$ —	$ —
Operating leases	288	288	—	—	—
Total	$ 2,791	$ 2,791	$ —	$ —	$ —

Recently Issued Accounting Standards

In July 2012 the FASB issued ASU 2012-02: Intangibles: Goodwill and Other: Testing Indefinite-Lived Intangible Assets for Impairment (Topic 350) which is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. This update is intended to reduce cost and complexity by providing an entity with the option to make a qualitative assessment about the likelihood that an indefinite-lived intangible asset is impaired to determine whether it should perform a quantitative impairment test. We do not expect the adoption of this guidance to have a significant impact on our consolidated financial statements.

In June 2011, the FASB issued new guidance on the presentation of comprehensive income. The new guidance allows an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in stockholders equity. This new guidance is effective for fiscal years beginning after December 15, 2011, however the provision of the new guidance which requires reclassifications out of comprehensive income be shown separately in the financial statements was deferred to allow the FASB to reconsider alternatives. We adopted these new presentation requirements as of July 1, 2012.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Qualitative disclosure about market risk.

We are exposed to certain qualitative market risks as part of our ongoing business operations, including risks from changes in foreign currency exchange rates and commodity prices that could impact our financial position, results of operations and cash flows. We manage our exposure to these risks through regular operating and financing activities, and may, in the future, use derivative financial instruments to manage this risk. We have not entered into any derivative financial instruments to date.

Foreign currency risk

We conduct operations in China and our functional currency in China is the Renminbi Yuan. Our financial statements are expressed in U.S. dollars and will be negatively affected if foreign currencies, such as the Renminbi Yuan, depreciate relative to the U.S. dollar. In addition, our currency exchange losses may be magnified by exchange control regulations in China or other countries that restrict our ability to convert into U.S. dollars. The People's Bank of China, the monetary authority in China, sets the spot rate of the Renminbi Yuan, and may also use a variety of techniques, such as intervention by its central bank or imposition of regulatory controls or taxes, to affect the exchange rate relative to the U.S. dollar. In the future, the Chinese government may also issue a new currency to replace its existing currency or alter the exchange rate or relative exchange characteristics by devaluation or revaluation of the Renminbi Yuan in ways that may be adverse to our interests.

Commodity price risk

Our business plan is to purchase coal and other consumables from suppliers and to sell commodities, such as syngas, methanol and other products. Coal is the largest component of our costs of product sales and in order to mitigate coal price fluctuation risk for future projects, we expect to enter into long-term contracts for coal supply or to acquire coal assets. For the sale of commodities from our projects, fixed price contracts will not be available to us in certain markets, such as China, which will require us to purchase some portion of our coal and other consumable needs, or sell some portion of our production, into spot commodity markets or under short term supply agreements. Hedging transactions may be available to reduce our exposure to these commodity price risks, but availability may be limited and we may not be able to successfully hedge this exposure at all. To date, we have not entered into any hedging transactions.

Interest rate risk

We are exposed to interest rate risk through our ZZ Joint Venture loans. Interest under this loans is adjusted annually based upon the standard rate announced each year by the People's Bank of China. As of June 30, 2013, the applicable interest rate on the ICBC loan was 6.55%. We could also be exposed to the risk of rising interest rates through our future borrowing activities. This is an inherent risk as borrowings mature and are renewed at then current market rates. The extent of this risk as to our ICBC loan, or any future borrowings, is not quantifiable or predictable because of the variability of future interest rates.

Customer credit risk

When our projects, including the ZZ Joint Venture plant's methanol production, progress to commercial operation, we will be exposed to the risk of financial non-performance by customers. To manage customer credit risk, we intend to monitor credit ratings of customers and seek to minimize exposure to any one customer where other customers are readily available.

Item 8. Financial Statements and Supplementary Data

INDEX TO FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To Board of Directors and Stockholders
Synthesis Energy Systems, Inc.

We have audited the accompanying consolidated balance sheet of Synthesis Energy Systems, Inc. (a development stage enterprise) and subsidiaries (collectively, the "Company") as of June 30, 2013, and the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts of disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Synthesis Energy Systems, Inc. and subsidiaries as of June 30, 2013, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ UHY LLP
September 24, 2013

Report of Independent Registered Public Accounting Firm

To Board of Directors and Stockholders
Synthesis Energy Systems, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of equity and of cash flows present fairly, in all material respects, the financial position of Synthesis Energy Systems, Inc. and its subsidiaries (a development stage enterprise) at June 30, 2012 and June 30, 2011, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2012 and, cumulatively, for the period from July 1, 2008 to June 30, 2012 in conformity with accounting principles generally accepted in the United States of America. 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 did not audit the cumulative totals of the Company for the period from November 4, 2003 (date of inception) to June 30, 2008, which totals reflect a deficit of $46,124,646 accumulated during the development stage. Those cumulative totals were audited by other auditors whose report, dated September 12, 2008, expressed an unqualified opinion on the cumulative amounts. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
September 26, 2012

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Synthesis Energy Systems, Inc.:

We have audited the accompanying consolidated statements of operations, equity, and cash flows of Synthesis Energy Systems, Inc. and subsidiaries (a development stage enterprise) (the Company) for the period from November 4, 2003 (inception) to June 30, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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 consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Synthesis Energy Systems, Inc. and subsidiaries for the period from November 4, 2003 (inception) to June 30, 2008, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Houston, Texas

September 12, 2008

SYNTHESIS ENERGY SYSTEMS, INC.
(A Development Stage Enterprise)
Consolidated Balance Sheets
(In thousands)

	June 30, 2013	June 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,870	$ 18,035
Accounts receivable, net	2	316
Prepaid expenses and other currents assets	2,636	2,015
Inventory	—	23
Total current assets	18,508	20,389
Property, plant and equipment, net	32,641	33,942
Intangible asset, net	1,060	1,126
Investment in joint ventures	33,311	33,340
Other long-term assets	2,844	4,050
Total assets	$ 88,364	$ 92,847
LIABILITIES AND EQUITY		
Current liabilities:		
Accrued expenses and accounts payable	$ 7,632	$ 8,080
Current portion of long-term bank loan	2,428	2,435
Total current liabilities	10,060	10,515
Long-term bank loan	—	2,372
Total liabilities	10,060	12,887
Commitment and contingencies		
Equity:		
Common stock, $0.01 par value - 200,000 shares authorized – 63,583 and 52,022 shares issued and outstanding, respectively	636	520
Additional paid-in capital	224,337	207,345
Deficit accumulated during development stage	(151,741)	(131,808)
Accumulated other comprehensive income	5,958	4,802
Total stockholders' equity	79,190	80,859
Noncontrolling interests in subsidiaries	(886)	(899)
Total equity	78,304	79,960
Total liabilities and equity	$ 88,364	$ 92,847

See accompanying notes to the consolidated financial statements.

SYNTHESIS ENERGY SYSTEMS, INC.
(A Development Stage Enterprise)
Consolidated Statements of Operations
(In thousands, except per share amounts)

	Year Ended June 30, 2013	Year Ended June 30, 2012	Year Ended June 30, 2011	November 4, 2003 (inception) to June 30, 2013
Revenue:				
Product sales and other — related parties	$ 45	$ 2,121	$ 8,913	$ 21,556
Technology licensing and related services	534	855	1,245	3,367
Other	—	86	—	607
Total revenue	579	3,062	10,158	25,530
Costs and Expenses:				
Costs of sales and plant operating expenses	750	4,767	9,120	33,101
General and administrative expenses	13,599	13,197	12,913	100,219
Asset impairment losses	—	—	—	9,075
Stock-based compensation expense	2,317	879	1,234	24,190
Depreciation and amortization	2,292	2,486	2,621	14,409
Total costs and expenses	18,958	21,329	25,888	180,994
Operating loss	(18,379)	(18,267)	(15,730)	(155,464)
Non-operating (income) expense:				
Equity in losses of joint ventures	1,372	1,881	363	3,656
Foreign currency gains, net	(80)	(548)	(1,004)	(2,433)
Interest income	(50)	(90)	(169)	(3,187)
Interest expense	302	562	700	3,582
Net loss	(19,923)	(20,072)	(15,620)	(157,082)
Less: net income (loss) attributable to noncontrolling interests	(10)	176	157	5,341
Net loss attributable to stockholders	$ (19,933)	$ (19,896)	$ (15,463)	$ (151,741)
Net loss per share:				
Basic and diluted	$ (0.33)	$ (0.39)	$ (0.32)	$ (3.75)
Weighted average common shares outstanding:				
Basic and diluted	60,171	51,024	48,584	40,483

See accompanying notes to the consolidated financial statements.

SYNTHESIS ENERGY SYSTEMS, INC.
(A Development Stage Enterprise)
Consolidated Statements of Comprehensive Loss
(In thousands)

	Year Ended June 30,			November 4, 2003 (inception)
	2013	2012	2011	to June 30, 2013
Net loss, as reported	$ (19,923)	$ (20,072)	$ (15,620)	$ (157,082)
Cumulative translation adjustment	1,159	947	2,004	5,958
Comprehensive loss	(18,764)	(19,125)	(13,616)	(151,124)
Less comprehensive income (loss) attributable to noncontrolling interests	(13)	183	166	5,340
Comprehensive loss attributable to the Company	$ (18,777)	$ (18,942)	$ (13,450)	$ (145,784)

See accompanying notes to the consolidated financial statements.

SYNTHESIS ENERGY SYSTEMS, INC.
(A Development Stage Enterprise)
Consolidated Statement of Equity
(In thousands)

	Common Stock			Deficit Accumulated During the Development Stage	Accumulated Other Comprehensive Income	Non-controlling Interest	
	Shares	Common Stock	Additional Paid-in Capital				Total
Balance at June 30, 2010	48,337	$ 483	$ 198,720	$ (96,449)	$ 1,835	$ (550)	$ 104,039
Net loss	—	—	—	(15,463)	—	(157)	(15,620)
Currency translation adjustment	—	—	—	—	2,013	(9)	2,004
Comprehensive loss	—	—	—	—	—	—	(13,616)
Stock-based compensation	—	—	1,203	—	—	—	1,203
Exercise of stock options	291	4	166	—	—	—	170
Net proceeds from issuance of common stock	2,222	22	4,966	—	—	—	4,988
Balance at June 30, 2011	50,850	509	205,055	(111,912)	3,848	(716)	96,784
Net loss	—	—	—	(19,896)	—	(176)	(20,072)
Currency translation adjustment	—	—	—	—	954	(7)	947
Comprehensive loss	—	—	—	—	—	—	(19,125)
Issuance of common stock	1,005	10	1,397	—	—	—	1,407
Stock-based compensation	147	—	879	—	—	—	879
Exercise of stock options	20	1	14	—	—	—	15
Balance at June 30, 2012	52,022	520	207,345	(131,808)	4,802	(899)	79,960
Net loss	—	—	—	(19,933)	—	10	(19,923)
Currency translation adjustment	—	—	—	—	1,156	3	1,159
Comprehensive loss	—	—	—	—	—	—	(18,764)
Net proceeds from issuance of common stock	11,060	111	14,670	—	—	—	14,781
Stock-based compensation	280	3	2,317	—	—	—	2,320
Exercise of stock options	221	2	5	—	—	—	7
Balance at June 30, 2013	63,583	$ 636	$ 224,337	$ (151,741)	$ 5,958	$ (886)	$ 78,304

See accompanying notes to the consolidated financial statements.

SYNTHESIS ENERGY SYSTEMS, INC.
(A Development Stage Enterprise)
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended June 30,			November 4, 2003 (inception)
	2013	2012	2011	to June 30, 2013
Cash flows from operating activities:				
Net loss	$ (19,923)	$ (20,072)	$ (15,620)	$ (157,082)
Adjustments to reconcile net loss to net cash used in operating activities:				
Stock-based compensation expense	2,317	879	1,234	24,190
Depreciation of property, plant and equipment	2,075	2,265	2,400	12,903
Amortization of intangible and other assets	217	221	221	1,506
Equity in losses of joint ventures	1,372	1,881	363	3,656
Foreign currency gains	(80)	(548)	(1,004)	(2,433)
Loss on disposal of property, plant and equipment	1	13	17	167
Write-off of deferred financing costs	1,004	—	—	1,004
Asset impairment losses	—	—	—	9,075
Changes in operating assets and liabilities:				
Accounts receivable	314	2,328	218	197
Prepaid expenses and other current assets	(566)	(608)	(456)	(1,860)
Inventory	26	296	119	(536)
Other long-term assets	(113)	(713)	590	(1,466)
Deferred revenue	—	—	(522)	—
Accrued expenses and payables	334	2,260	(1,093)	3,159
Net cash used in operating activities	(13,022)	(11,798)	(13,533)	(107,520)
Cash flows from investing activities:				
Capital expenditures	(12)	(65)	(74)	(38,107)
Equity investment in joint ventures	(596)	(840)	—	(32,224)
Purchase of marketable securities	—	—	—	(45,000)
Redemption of marketable securities	—	—	—	45,000
GTI license royalty — Yima joint ventures	—	—	—	(1,500)
ExxonMobil license royalty	—	—	—	(1,250)
Proceeds from sale of fixed assets	1	—	—	8
Restricted cash — redemptions of certificates of deposit	—	—	329	(50)
Amendment to GTI license rights	—	—	—	(500)
Purchase of land use rights	—	—	—	(1,896)
Receipt of Chinese governmental grant	—	—	—	556
Project prepayments	—	—	—	(3,210)
Net cash provided by (used in) investing activities	(607)	(905)	255	(78,173)
Cash flows from financing activities:				
Payments on long-term bank loan	(2,442)	(2,435)	(2,351)	(11,750)
Proceeds from long-term bank loan	—	—	—	12,081
Advance toward sale of common stock	(1,000)	1,000	—	—
Proceeds from exercise of (repurchase of) stock options, net	7	(30)	186	929
Proceeds from issuance of common stock, net	14,877	—	4,988	194,846
Prepaid interest	—	—	—	(276)
Financing costs	—	—	—	(143)
Contributions from noncontrolling interest partners	—	—	—	4,456
Loans from shareholders	—	—	—	11
Net cash provided by (used in) financing activities	11,442	(1,465)	2,823	200,154
Net increase (decrease) in cash	(2,187)	(14,168)	(10,455)	14,461
Cash and cash equivalents, beginning of period	18,035	32,176	42,573	—
Effect of exchange rates on cash	22	27	58	1,409
Cash and cash equivalents, end of period	$ 15,870	$ 18,035	$ 32,176	$ 15,870

See accompanying notes to the consolidated financial statements.

Note 1 — Summary of Significant Accounting Policies

(a) Organization and description of business

Synthesis Energy Systems, Inc. ("SES"), together with its wholly-owned and majority-owned controlled subsidiaries (collectively, the "Company") is a development stage global energy and gasification technology company that provides products and solutions to the energy and chemical industries. The Company's business is to create value by supplying its technology, equipment and services into global projects where lower cost low quality coals, coal wastes, municipal wastes, agricultural biomass, and other biomass feedstocks can be profitably converted through its proprietary gasification technology into clean synthesis gas, or syngas (a mixture of primarily hydrogen, carbon monoxide, and methane), which is then used to produce a variety of high value energy and chemical products. The Company's initial operating projects to date convert high ash coal and coal wastes to chemical grade methanol, and the Company is pursuing a variety of additional global projects under development by customers who may use its technology platform to convert low quality coals such as lignite, coal wastes, municipal wastes and agricultural waste biomass to high value products such as electric power, transportation fuels, substitute natural gas fuel for direct reduction iron steel making and other products. The Company's technology is originally based on the U-GAS® process developed by the Gas Technology Institute and the Company has augmented and differentiated the technology through design, detailed engineering, constructing, starting up and operating two commercial plants in China. The Company's headquarters are located in Houston, Texas.

(b) Basis of presentation and principles of consolidation

The consolidated financial statements are in U.S. dollars. Noncontrolling interests in consolidated subsidiaries in the consolidated balance sheets represents minority stockholders' proportionate share of the equity in such subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Management considers many factors in selecting appropriate operational and financial accounting policies and controls, and in developing the assumptions that are used in the preparation of these financial statements. Management must apply significant judgment in this process. Among the factors, but not fully inclusive of all factors that may be considered by management in these processes are: the range of accounting policies permitted by accounting principles generally accepted in the United States of America; management's understanding of the Company's business for both historical results and expected future results; the extent to which operational controls exist that provide high degrees of assurance that all desired information to assist in the estimation is available and reliable or whether there is greater uncertainty in the information that is available upon which to base the estimate; expectations of the future performance of the economy, both domestically, and globally, within various areas that serve the Company's principal customers and suppliers of goods and services; expected rates of exchange, sensitivity and volatility associated with the assumptions used in developing estimates; and whether historical trends are expected to be representative of future trends. The estimation process often times may yield a range of potentially reasonable estimates of the ultimate future outcomes and management must select an amount that lies within that range of reasonable estimates based upon the risks associated with the variability that might be expected from the future outcome and the factors considered in developing the estimate. Management attempts to use its business and financial accounting judgment in selecting the most appropriate estimate, however, actual amounts could and will differ from those estimates.

(d) Cash and cash equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents are carried at cost, which approximates market value.

(e) Supplemental disclosures of cash flow information (in thousands):

	Years Ended June 30, 2013	2012	2011	November 4, 2003 (inception) to June 30, 2013
Interest paid	$ 260	$ 408	$ 498	$ 4,085
Non-cash transactions:				
Fair value of stock issued to consultants and employees	346	1,581	—	1,979
Fair value of stock issued to GTI	—	—	—	3,876

(f) Accounts receivable and allowance for doubtful accounts

Accounts receivable are stated at historical carrying amounts net of allowance for doubtful accounts. The Company establishes provisions for losses on accounts receivable if it is determined that collection of all or part of an outstanding balance is not probable. Collectability is reviewed regularly and an allowance is established or adjusted, as necessary. As of June 30, 2013 and 2012, no allowance for doubtful accounts was necessary.

(g) Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the average cost method. Inventories include raw materials (primarily coal) which are expensed to cost of sales when consumed.

(h) Property, plant, and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed by using the straight-line method at rates based on the estimated useful lives of the various classes of property, plant and equipment. Estimates of useful lives are based upon a variety of factors including durability of the asset, the amount of usage that is expected from the asset, the rate of technological change and the Company's business plans for the asset. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset. Should the Company change its plans with respect to the use and productivity of property, plant and equipment, it may require a change in the useful life of the asset or incur a charge to reflect the difference between the carrying value of the asset and the proceeds expected to be realized upon the asset's sale or abandonment. Expenditures for maintenance and repairs are expensed as incurred and significant major improvements are capitalized and depreciated over the estimated useful life of the asset.

(i) Intangible assets

The Company accounts for intangible assets in accordance with ASC 350, "Intangibles- Goodwill and Other." This standard requires that goodwill and other intangible assets with indefinite useful lives not be amortized but instead tested annually for impairment, or immediately if conditions indicate that impairment could exist. Intangible assets with definite useful lives are amortized over their estimated useful lives and reviewed for impairment in accordance with ASC 360, "Accounting for Impairment or Disposal of Long-Lived Assets." Substantial judgment is necessary in the determination as to whether an event or circumstance has occurred that may trigger an impairment analysis and in the determination of the related cash flows from the asset. Estimating cash flows related to long-lived assets is a difficult and subjective process that applies historical experience and future business expectations to revenues and related operating costs of assets. Should impairment appear to be necessary, subjective judgment must be applied to estimate the fair value of the asset, for which there may be no ready market, which often times results in the use of discounted cash flow analysis and judgmental selection of discount rates to be used in the discounting process. If the Company determines an asset has been impaired based on the projected undiscounted cash flows of the related asset or the business unit, and if the cash flow analysis indicates that the carrying amount of an asset exceeds related undiscounted cash flows, the carrying value is reduced to the estimated fair value of the asset. There were no events or circumstances that triggered an impairment analysis of intangible assets during the year ended June 30, 2013.

(j) Impairment of long-lived assets

The Company evaluates its long-lived assets, such as property, plant and equipment, construction-in-progress, equity method investments and specifically identified intangibles, when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. When the Company believes an impairment condition may have occurred, it is required to estimate the undiscounted future cash flows associated with a long-lived asset or group of long-lived assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities for long-lived assets that are expected to be held and used. The Company evaluates its operating plants as a whole. Production equipment at each plant is not evaluated for impairment separately, as it is integral to the assumed future operations of the plant. All construction and development projects are reviewed for impairment whenever there is an indication of potential reduction in fair value. If it is determined that it is no longer probable that the projects will be completed and all capitalized costs recovered through future operations, the carrying values of the projects would be written down to the recoverable value. If the Company determines that the undiscounted cash flows from an asset to be held and used are less than the carrying amount of the asset, or if the Company has classified an asset as held for sale, it estimates fair value to determine the amount of any impairment charge.

Due to the continued shut down of the ZZ Joint Venture plant and new economic and financial assumptions based on negotiations of the ZZ Cooperation Agreement, we believed an impairment assessment of the ZZ Joint Venture plant was warranted as of March 31, 2013. We performed an analysis of the ZZ Joint Venture plant and determined that these assets were not impaired based upon management's estimated cash flow projections for the plant. Such estimated cash flow projections included a case based on the completion of the ongoing negotiations between us and Xuecheng Energy to restructure the current business arrangement to create an integrated syngas to methanol operation. This restructuring would include a combination of technical improvements being made to Xuecheng Energy's methanol unit allowing for increased syngas off-take and other repairs and improvements being made to the plant enabling more efficient joint production of methanol for a five-year period. After this period, this case assumes that an additional downstream facility to produce a higher value product such as glycol is developed with the additional capital investment made by a strategic partner and that we retain a minority interest in the combined project. An alternative case assumed the same five-year period of the same integrated syngas to methanol operation as the prior case but that the ZZ Joint Venture plant's assets are sold after the five-year period. If we are not successful in finalizing effectiveness of the ZZ Cooperation Agreement or otherwise improving the ZZ Joint Venture's profitability, or if management's estimated cash flow projections for these assets decrease, the ZZ Joint Venture plant could become impaired which could have a material effect on our consolidated financial statements. As no significant changes occurred during the fourth quarter of fiscal 2013, an updated impairment assessment was not necessary as of June 30, 2013.

(k) Income taxes

The Company accounts for income taxes using the asset and liability method. Deferred tax liabilities and assets are determined based on temporary differences between the basis of assets and liabilities for income tax and financial reporting purposes. The deferred tax assets and liabilities are classified according to the financial statement classification of the assets and liabilities generating the differences. Valuation allowances are established when necessary based upon the judgment of management to reduce deferred tax assets to the amount expected to be realized and could be necessary based upon estimates of future profitability and expenditure levels over specific time horizons in particular tax jurisdictions. The Company recognizes the tax benefit from an uncertain tax position when, based on technical merits, it is more likely than not the position will be sustained on examination by the taxing authorities.

(l) Debt issuance costs

The Company capitalizes direct costs incurred to issue debt or modify debt agreements. These costs, which are included in other long-term assets on the Company's consolidated balance sheet, are deferred and amortized to interest expense over the term of the related debt agreement using the effective interest rate method.

(m) Land use rights

Prepayments for land use rights are amortized on a straight-line basis over the term of the rights agreements and are included in long-term assets on the Company's consolidated balance sheet.

(n) Foreign currency translation

Assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars at period-end rates of exchange, and income and expenses are translated at average exchange rates during the period. For the years ended June 30, 2013, 2012 and 2011, adjustments resulting from translating financial statements into U.S. dollars are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive income. Gains and losses from foreign currency transactions are included in the calculation of net loss.

(o) Revenue recognition

Revenue from sales of products, which includes the capacity fee and energy fee earned by the ZZ Joint Venture, are recognized when the following elements are satisfied: (i) there are no uncertainties regarding customer acceptance; (ii) there is persuasive evidence that an agreement exists; (iii) delivery has occurred; (iv) the sales price is fixed or determinable; and (v) collectability is reasonably assured.

Technology licensing revenue is typically received over the course of a project's development as milestones are met. The Company may receive upfront licensing fee payments when a license agreement is entered into. Typically, the majority of a license fee is due once project financing and equipment installation occur. The Company recognizes license fees as revenue when the license fees become due and payable under the license agreement, subject to the deferral of the amount of the performance guarantee. Fees earned for engineering services, such as services that relate to integrating our technology to a customer's project, are recognized using the percentage-of-completion method.

(p) Stock-based compensation

The Company has a stock-based compensation plan under which stock-based awards have been granted to employees and non-employees. Stock-based compensation is accounted for in accordance with ASC 718, "*Compensation – Stock Compensation.*" The Company establishes fair values for its equity awards to determine its cost and recognizes the related expense over the appropriate vesting period. The Company recognizes expense for stock options, stock warrants, and restricted stock awards. The fair value of restricted stock awards is based on the market value as of the date of the awards, and for stock-based awards vesting based on service period, the value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service period on a straight-line basis for each separately vesting portion of the award as if the award was, in substance, multiple awards. See Note 12 for additional information related to stock-based compensation expense.

(q) Accounting for variable interest entities (VIEs) and financial statement consolidation criteria

The joint ventures which the Company enters into may be considered VIEs. The Company consolidates all VIEs where it is the primary beneficiary. This determination is made at the inception of the Company's involvement with the VIE and is continuously assessed. The Company considers qualitative factors and forms a conclusion that the Company, or another interest holder, has a controlling financial interest in the VIE and, if so, whether it is the primary beneficiary. In order to determine the primary beneficiary, the Company considers who has the power to direct activities of the VIE that most significantly impacts the VIE's performance and has an obligation to absorb losses from or the right to receive benefits of the VIE that could be significant to the VIE. The Company does not consolidate VIEs where it is not the primary beneficiary. The Company accounts for these unconsolidated VIEs using either the equity method of accounting or the cost method of accounting and includes its net investment on its consolidated balance sheets. Under the equity method, the Company's equity interest in the net income or loss from its unconsolidated VIEs is recorded in non-operating (income) expense on a net basis on its consolidated statement of operations. Equity investments in which the Company exercises significant influence but does not control and is not the primary beneficiary are accounted for using the equity method. In the event of a change in ownership, any gain or loss resulting from an investee share issuance is recorded in earnings. Investments in which the Company is not able to exercise significant influence over the investee are accounted for under the cost method. Controlling interest is determined by majority ownership interest and the ability to unilaterally direct or cause the direction of management and policies of an entity after considering any third-party participatory rights.

The Company has determined that the ZZ Joint Venture is a VIE and has determined that the Company is the primary beneficiary. In making the initial determination, the Company considered, among other items, the change in profit distribution between the Company and Xuejiao after 20 years. The expected negative variability in the fair value of the ZZ Joint Venture's net assets was considered to be greater during the first 20 years of the ZZ Joint Venture's life, which coincided with our original 95% profit/loss allocation, versus the latter 30 years in which the Company's profit/loss allocation would be reduced to 10%. As the result of an amendment to the ZZ Joint Venture agreement in 2010, the profit distribution percentages will remain in place after the first 20 years, providing further support to the determination that the Company is the primary beneficiary.

The following tables provide additional information on the ZZ Joint Venture's assets and liabilities as of June 30, 2013 and 2012 which are consolidated within the Company's consolidated balance sheets (in thousands):

	June 30, 2013		
	Consolidated	ZZ Joint Venture (1)	% (2)
Current assets	$ 18,508	$ 523	3 %
Long-term assets	69,856	34,742	50 %
Total assets	$ 88,364	$ 35,265	40 %
Current liabilities	$ 10,060	$ 4,529	45 %
Equity	78,304	30,736	39 %
Total liabilities and equity	$ 88,364	$ 35,265	40 %

	June 30, 2012		
	Consolidated	ZZ Joint Venture (1)	% (2)
Current assets	$ 20,389	$ 575	3 %
Long-term assets	72,458	36,937	51 %
Total assets	$ 92,847	$ 37,512	40 %
Current liabilities	$ 10,515	$ 3,793	36 %
Long-term liabilities	2,372	2,372	100 %
Equity	79,960	31,347	39 %
Total liabilities and equity	$ 92,847	$ 37,512	40 %

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(1) Amounts reflect information for the ZZ Joint Venture and exclude intercompany items.
(2) ZZ Joint Venture's percentage of the amount on the Company's consolidated balance sheets.

The Company has determined that the Yima Joint Ventures are VIEs and that Yima, the joint venture partner, is the primary beneficiary since Yima has a 75% ownership interest in the Yima Joint Ventures and has the power to direct the activities of the VIE that most significantly influence the VIE's performance.

Until May 31, 2013, the Company accounted for its equity interest in the Yima Joint Ventures under the equity method of accounting. Under this method, the Company recorded its proportionate share of the Yima Joint Ventures' net income or loss based on the Yima Joint Venture's financial results. As of June 1, 2013, the Company changed to the cost method of accounting because the Company concluded that it is unable to exercise significant influence over the Yima Joint Ventures. The Company's conclusion regarding of its lack of significant influence is due to various circumstances including limited participation in operating and financial policymaking processes and the Company's limited ability to influence technological decisions.

The Company has determined that SES Resource Solutions, Ltd. ("SRS") which was formed in June 2011 is a VIE and that the Company is not the primary beneficiary since neither the Company nor Midas Resources AG control SRS since each have a 50% ownership interest in SRS and the control, risks and benefits of SRS are shared equally. SRS had no assets or liabilities as of June 30, 2013.

The Company has determined that the GC Joint Venture is a VIE and has determined that it is the primary beneficiary since the Company has a 51% ownership interest in the GC Joint Venture and since there are no qualitative factors that would preclude the Company from being deemed the primary beneficiary. The GC Joint Venture project is not currently being developed and the Company is working to liquidate and dissolve the GC Joint Venture.

(r) Fair value measurements

Accounting standards require that fair value measurements be classified and disclosed in one of the following categories:

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level 2	Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
Level 3	Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The Company's financial assets and liabilities are classified based on the lowest level of input that is significant for the fair value measurement. The following table summarizes the valuation of the Company's financial assets and liabilities by pricing levels, as of June 30, 2013 and 2012 (in thousands):

	June 30, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Certificates of Deposit	$ —	$ 50 (1)	$ —	$ 50
Money Market Funds	—	8,752 (2)	—	8,752
Liabilities:				
Long-term bank loan	—	2,428 (3)	$ —	2,428

	June 30, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Certificates of Deposit	$ —	$ 50 (1)	$ —	$ 50
Money Market Funds	—	15,957 (2)	—	15,957
Liabilities:				
Long-term bank loan	—	4,807 (3)	$ —	4,807

(1) Amount included in current assets on the Company's consolidated balance sheets.
(2) Amount included in cash and cash equivalents on the Company's consolidated balance sheets.
(3) Amount comprised of current and long-term portion of bank loan on the Company's consolidated balance sheets.

The carrying values of the certificates of deposit, money market funds and long-term debt approximate fair value, which was estimated using quoted market prices for those or similar investments. The carrying value of the Company's other financial instruments, including accounts receivable and accounts payable, approximate their fair values.

(s) Development Stage Status

Since its inception, the Company has focused primarily on identifying and developing projects and strategies to commercialize its gasification technology and on raising the capital necessary to do so. During fiscal 2013, the Company continued development of its technology licensing business and the development of strategic and financial partner relationships in regions such as China and India. To date, revenues have been generated primarily from the ZZ Joint Venture which operates a small scale commercial syngas production plant that the Company has also utilized to demonstrate the Company's technology for other commercial development opportunities. In addition, the ZZ Joint Venture plant has been idle since September 2011. As a result of these factors, the Company continues to be classified as a development stage enterprise as of and for the year ended June 30, 2013.

Note 2 — Recently Issued Accounting Standards

In June 2011, the Financial Accounting Standards Board ("FASB") issued new guidance on the presentation of comprehensive income. The new guidance allows an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in stockholders equity. This new guidance is effective for fiscal years beginning after December 15, 2011, however the provision of the new guidance which requires reclassifications out of comprehensive income be shown separately in the financial statements has been deferred to allow the FASB to reconsider alternatives. The Company adopted these new presentation requirements as of July 1, 2012.

In July 2012 the FASB issued ASU 2012-02: Intangibles: Goodwill and Other: Testing Indefinite-Lived Intangible Assets for Impairment (Topic 350) which is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. This update is intended to reduce cost and complexity by providing an entity with the option to make a qualitative assessment about the likelihood that an indefinite-lived intangible asset is impaired to determine whether it should perform a quantitative impairment test. The Company does not expect the adoption of this guidance to have a significant impact on its consolidated financial statements.

Note 3 — Current Projects

Zao Zhuang Joint Venture

Joint Venture Agreement

On July 6, 2006, the Company entered into a cooperative joint venture contract with Shandong Hai Hua Coal & Chemical Company Ltd., or Hai Hua, which established Synthesis Energy Systems (Zao Zhuang) New Gas Company Ltd., or the ZZ Joint Venture, a joint venture company that has the primary purposes of (i) developing, constructing and operating a syngas production plant utilizing the U-GAS ® technology in Zao Zhuang City, Shandong Province, China and (ii) producing and selling syngas and the various byproducts of the plant. In August 2012, Hai Hua's name was changed to Shandong Weijiao Group Xuecheng Energy Company Ltd., or Xuecheng Energy, after a change in control transaction. We own 97.5% of the ZZ Joint Venture and Xuecheng Energy owns the remaining 2.5%. We consolidate the results of the ZZ Joint Venture in our consolidated financial statements.

On July 24, 2013, the ZZ Joint Venture entered into a cooperation agreement (the "ZZ Cooperation Agreement") with Xuecheng Energy and its parent company, Shandong Xuejiao Chemical Co., Ltd. (collectively referred to as "Xuejiao"), which serves to supersede the existing syngas purchase and sale agreement among the parties dated October 22, 2006 and supplemented previously in 2008. The Agreement represents the basis for an integrated syngas to methanol operation and resolution of the nonpayment of the contractual capacity fees by Xuejiao.

Under the terms of the ZZ Cooperation Agreement, Xuejiao will (i) provide the ZZ Joint Venture with use of their methanol plant for ten years at no cost to the ZZ Joint Venture, (ii) provide a bank loan guarantee of approximately $3.2 million for a majority of the financing necessary for the ZZ Joint Venture for the retrofit and related costs of the ZZ Joint Venture plant, (iii) waive certain advances previously made to the ZZ Joint Venture and (iv) supply discounted coke oven gas produced by its existing coke ovens to be used in combination with synthesis gas to produce refined methanol from the new ZZ Joint Venture integrated syngas methanol operation. The new integrated operation will be managed by the Company. Upon successful completion of certain conditions precedent described below, the Company will terminate and waive its claims to past due capacity fees owed by Xuejiao under the existing syngas purchase and sale agreement.

The ZZ Cooperation Agreement will take full effect upon the completion of certain conditions precedent including: (i) all necessary consents and approvals being obtained by each of the parties, (ii) completion of final due diligence on the methanol plant, as well as the scheduled overhaul of the facility (as described in more detail in the Agreement) and the handover to the ZZ Joint Venture, and (iii) execution of the Xuejiao financing guarantee and the financial closing of the ZZ Joint Venture bank financing for the retrofit, which occurred on September 10, 2013. Until the ZZ Cooperation Agreement takes effect, the ZZ Joint Venture will continue to operate under the existing syngas purchase and sale agreement.

Additionally, the Company is also evaluating alternative products and partnership structures for a possible expansion of the ZZ Joint Venture plant for its longer term use. In 2010, the ZZ Joint Venture received the necessary government approval for an expansion and this project is under evaluation by the Company. The Company is also evaluating certain new downstream technologies to produce high value products.

Syngas Purchase and Sale Agreement

The ZZ Joint Venture's existing syngas purchase and sale agreement with Xuejiao for syngas produced by the plant obligated Xuejiao to pay the ZZ Joint Venture an energy fee and capacity fee based on the syngas production. The syngas to be purchased by Xuecheng Energy is subject to certain quality component requirements set forth in the contract. In late December 2008, the plant declared commercial operations status for purposes of the purchase and sale agreement. The energy fee is a per normal cubic meters, or Ncum, of syngas calculation based on a formula which factors in the monthly averages of the prices of design base coal, coke, coke oven gas, power, steam and water, all of which are components used in the production of syngas. The capacity fee is paid based on the capacity of the plant to produce syngas, factoring in the number of hours (i) of production and (ii) of capability of production as compared to the guaranteed capacity of the plant, which for purposes of the contract is 22,000 Ncum per hour of net syngas. Xuejiao is obligated to pay the capacity fee regardless of whether they use the gasification capacity, subject only to availability of the plant, quality of the syngas and exceptions for certain events of force majeure. Due to worldwide reductions in methanol prices, as well as reliability issues with respect to Xuejiao's plant, Xuejiao has operated at a reduced rate of syngas consumption. Xuejiao used approximately 35% to 45% of the syngas guarantee capacity from 2009 until September 2011 when the plant was shut down.

In April 2009, the ZZ Joint Venture entered into a Supplementary Agreement with Xuecheng Energy, amending the terms of the purchase and sale agreement. The Supplementary Agreement was entered into to provide more clarity regarding the required syngas quality and volume to be delivered, recovery of the energy fee during turndown periods and operations coordination during unscheduled outages.

Since initial start-up of the ZZ Joint Venture plant, Xuejiao has been unable to off take the full volume amount of syngas as required by the initial syngas sales agreement for which the ZZ Joint Venture plant's original design was based and as a result the plant incurred operating losses. In addition, in April 2011, Xuejiao stopped paying the contractual capacities fees owed to the ZZ Joint Venture plant, and in September 2011, we stopped syngas production at the ZZ Joint Venture until this commercial issue could be remedied. In March 2012, Xuecheng Energy advanced approximately $1.0 million to the ZZ Joint Venture. In September 2012, Xuejiao advanced an additional approximately $0.8 million to the ZZ Joint Venture. These advances are to be applied to settling the prior payments due under the syngas purchase and sale agreement. Until the ZZ Joint Venture generates sufficient cash flows to cover its operating costs and debt service, we will also need to make additional contributions to the ZZ Joint Venture in order for it to meet its obligations, including the outstanding balance under the loan with ICBC.

Loan Agreement

On March 22, 2007, the ZZ Joint Venture entered into a seven-year loan agreement and received approximately $12.6 million of loan proceeds pursuant to the terms of a Fixed Asset Loan Contract with the Industrial and Commercial Bank of China ("ICBC") to complete the project financing for the ZZ Joint Venture. Key terms of the Fixed Asset Loan Contract with ICBC are as follows:

- Term of the loan is seven years from the commencement date (March 22, 2007) of the loan;
- Interest is adjusted annually based upon the standard rate announced each year by the People's Bank of China, and as of June 30, 2013, the applicable interest rate was 6.55% and is payable monthly;
- A principal payment of RMB 7.7 million (approximately $1.2 million based on current currency exchange rates) was paid in September 2013 and the final payment of the same amount is due in March 2014;
- Xuejiao is the guarantor of the entire loan;
- Assets of the ZZ Joint Venture are pledged as collateral for the loan;
- Covenants include, among other things, prohibiting pre-payment without the consent of ICBC and permitting ICBC to be involved in the review and inspection of the Zao Zhuang plant; and
- Subject to customary events of default which, should one or more of them occur and be continuing, would permit ICBC to declare all amounts owing under the contract to be due and payable immediately.

As of June 30, 2013, the ZZ Joint Venture was in compliance with all covenants and obligations under the Fixed Asset Loan Contract.

Impairment Assessment

Due to the continued shut down of the ZZ Joint Venture plant and new economic and financial assumptions based on negotiations of the Cooperation Agreement with Xuejiao, we believed an impairment assessment of the ZZ Joint Venture plant was warranted as of March 31, 2013. We performed an analysis of the ZZ Joint Venture plant and determined that these assets were not impaired based upon management's estimated cash flow projections for the plant. Such estimated cash flow projections included a case based on the completion of the ongoing negotiations between us and Xuecheng Energy to restructure the current business arrangement to create an integrated syngas to methanol operation. This restructuring would include a combination of technical improvements being made to Xuecheng Energy's methanol unit allowing for increased syngas off-take and other repairs and improvements being made to the plant enabling more efficient joint production of methanol for a five-year period. After this period, this case assumes that an additional downstream facility to produce a higher value product such as glycol is developed with the additional capital investment made by a strategic partner and that we retain a minority interest in the combined project. An alternative case assumed the same five-year period of the same integrated syngas to methanol operation as the prior case but that the ZZ Joint Venture plant's assets are sold after the five-year period. If we are not successful in restructuring the joint venture or otherwise improving the ZZ Joint Venture's profitability, or if management's estimated cash flow projections for these assets decrease, the ZZ Joint Venture plant could become impaired which could have a material effect on our consolidated financial statements. As no significant changes occurred during the fourth quarter of fiscal 2013, an updated impairment assessment was not necessary as of June 30, 2013.

Yima Joint Ventures

In August 2009, the Company entered into amended joint venture contracts with Yima Coal Industry (Group) Co., Ltd. ("Yima"), replacing the prior joint venture contracts entered into in October 2008 and April 2009. The joint ventures were formed for each of the gasification, methanol/methanol protein production, and utility island components of the plant (collectively, the "Yima Joint Ventures"). The parties obtained government approvals for the project's feasibility study during the three months ended December 31, 2008 and for the project's environmental impact assessment during the three months ended March 31, 2009, which were the two key approvals required to proceed with the project. The amended joint venture contracts provide that: (i) the Company and Yima contribute equity of 25% and 75%, respectively, to the Yima Joint Ventures; (ii) Yima will guarantee the repayment of loans from third party lenders for 50% of the project's cost and, if debt financing is not available, Yima is obligated to provide debt financing via shareholder loans to the project until the project is able to secure third-party debt financing; and (iii) Yima will supply coal to the project from a mine located in close proximity to the project at a preferential price subject to a definitive agreement to be subsequently negotiated. In connection with entering into the amended contracts, the Company and Yima contributed their remaining cash equity contributions of $29.3 million and $90.8 million, respectively, to the Yima Joint Ventures during the three months ended September 30, 2009.

In exchange for their capital contributions, the Company owns a 25% interest in each joint venture and Yima owns a 75% interest. Notwithstanding this, in connection with an expansion of the project, the Company has the option to contribute a greater percentage of capital for the expansion, such that as a result, the Company would have up to a 49% ownership interest in the Yima Joint Ventures.

The Yima Joint Venture plant's commissioning is in its final stages and methanol production has been ramped up to as high as 80% of total design capacity and is now selling its methanol product to a local industrial company. All three of the gasifiers have been operated at various ranges of throughput and pressure. The current focus is on completing the installations of char removal systems for the syngas production and commissioning of the downstream units that prepare the syngas for methanol production as well as the continued commissioning of the methanol production unit itself. There have been a variety of minor construction related shutdowns which are normally seen in the startup of these units, but they have generally not been related to the Company's gasifier systems. The plant is designed to produce 300,000 tonnes per year of methanol from two operating gasifiers.

The current estimate of the total required capital of the project is approximately $250 million. The remaining capital for the project has been funded with project debt obtained by the Yima Joint Ventures. Yima agreed to guarantee the project debt in order to secure debt financing from domestic Chinese banking sources. The Company has agreed to pledge to Yima its ownership interests in the joint ventures as security for the Company's obligations under any project guarantee. In the event that the necessary additional debt financing is not obtained, Yima has agreed to provide a loan to the joint ventures to satisfy the remaining capital needs of the project with terms comparable to current market rates at the time of the loan.

Under the terms of the joint venture agreements, the Yima Joint Ventures are to be governed by a board of directors consisting of eight directors, two of whom were appointed by the Company and six of whom were appointed by Yima. The joint ventures also have officers that are nominated by the Company, Yima and/or the board of directors pursuant to the terms of the joint venture contracts. The Company and Yima shall share the profits, and bear the risks and losses, of the joint ventures in proportion to their respective ownership interests. The term of the joint venture shall commence upon each joint venture company obtaining its business license and shall end 30 years after commercial operation of the plant.

The Company has included a $1.5 million payment paid to GTI in June 2009 (when the amended joint venture contracts were signed) toward future royalties due to GTI for the Yima Joint Ventures' project as part of its investment in the Yima project. An additional future royalty payment of approximately $1.5 million will be due to GTI upon full completion of the build of the gasifier systems which is expected by the end of calendar 2013.

Until May 31, 2013, the Company accounted for its equity interest in the Yima Joint Ventures under the equity method of accounting. Under this method, the Company recorded its proportionate share of the Yima Joint Ventures' net income or loss based on the Yima Joint Venture's financial results. As of June 1, 2013, the Company changed to the cost method of accounting because the Company concluded that it is unable to exercise significant influence over the Yima Joint Ventures. The Company's conclusion regarding its lack of significant influence is based on its interactions with the Yima Joint Ventures related to the start-up and operations and due to various other circumstances including limited participation in operating and financial policymaking processes and the Company's limited ability to influence technological decisions.

The Company's equity in losses of the Yima Joint Ventures was $0.8 million, $0.9 million and $ 0.4 million for the years ended June 30, 2013, 2012 and 2011, respectively. The following table presents summarized unconsolidated financial information for the Yima Joint Ventures (in thousands):

	Year Ended June 30,	
	2012	2011
Income statement data:		
Revenue	$ —	$ —
Operating loss	(4,197)	(2,110)
Net loss	(3,690)	(1,484)

	June 30, 2012
Balance sheet data:	
Current assets	$ 74,154
Noncurrent assets	174,165
Current liabilities	29,247
Noncurrent liabilities	91,491

SES Resource Solutions

SRS is a joint venture owned 50% by us and 50% by Midas Resources AG, or Midas, that was formed in June 2011 to provide additional avenues of commercialization for the Company's U-GAS® technology. Key objectives of the joint venture are to identify and procure low cost, low rank coal resources for which the Company's technology represents the best route to commercialization; to provide investment opportunities in both gasification facilities and coal resources; and to facilitate the establishment of gasification projects globally based on the Company's technology. Terms of the SRS joint venture agreement include:

- SRS has the exclusive right to promote our gasification technology for the purpose of securing low-cost coal resources in projects worldwide that have been approved by the board of directors of SRS;
- Midas provides expertise to originate and execute the above projects;
- the Company provides SRS with technology licenses and engineering development support for use in developing the joint integrated coal resource projects; and
- SRS being managed by a four person board of directors, two of which are appointed by the Company and two of which are appointed by Midas;
- the Company agreeing to provide up to $2.0 million in funding to SRS, although it has the ability to discontinue funding at any point in time; and
- Revenue and profits are equally divided between the joint venture partners.

As of June 30, 2013, the Company had funded approximately $1.7 million to SRS. In December 2012, SRS suspended its activities due to the unavailability of financing for coal resources, therefore the Company's contributions to SRS are expected to be minimal until its activities resume.

The Company's investment in SRS is accounted for using the equity method. SRS has no assets or liabilities as amounts are funded by the Company as costs are incurred. The following table presents summarized unconsolidated income statement data for SRS (in thousands):

	Three Months Ended June 30,		Year Ended June 30,	
	2013	2012	2013	2012
Income statement data:				
Revenue	$ 130	$ —	$ 130	$ —
Operating income (loss)	55	(720)	(1,108)	(1,922)
Net income (loss)	55	(720)	(1,108)	(1,922)

Golden Concord Joint Venture

The Company's joint venture with Golden Concord ("GC Joint Venture") was formed to (i) develop, construct and operate a coal gasification, methanol and dimethyl either ("DME") production plant utilizing U-GAS®. (ii) produce and sell methanol, DME and the various byproducts of the plant. The Company has a 51% ownership interest in the GC Joint Venture and consolidates the GC Joint Venture. There were no significant assets recorded within the GC Joint Venture as of June 30, 2013 or 2012. There were however, current liabilities of approximately $ 1.2 million as of June 30, 2013 and 2012 related to unpaid settlements of amounts due to various contractors from the initial construction work for the project. The GC Joint Venture project is not currently being developed and the Company is in process of liquidating and dissolving the GC Joint Venture.

Note 4 — Risks and Uncertainties

Any future decrease in economic activity in China, India or in other regions of the world, in which the Company may in the future do business, could significantly and adversely affect its results of operations and financial condition in a number of other ways. Any decline in economic conditions may reduce the demand for prices from the products from our plants. In addition, the market for commodities such as methanol has been under significant pressure and the Company is unsure of how much longer this pressure will continue. As a direct result of these trends, the Company's ability to finance and develop its existing projects, commence any new projects and sell its products could be adversely impacted.

As disclosed in Note 3, under the terms of the ZZ Cooperation Agreement, Xuejiao will (i) provide the ZZ Joint Venture with use of their methanol plant for ten years at no cost to the ZZ Joint Venture, (ii) provide a bank loan guarantee of approximately $3.2 million for a majority of the financing necessary for the ZZ Joint Venture for the retrofit and related costs of the ZZ Joint Venture plant, (iii) waive certain advances previously made to the ZZ Joint Venture and (iv) supply discounted coke oven gas produced by its existing coke ovens to be used in combination with synthesis gas to produce refined methanol from the new ZZ Joint Venture integrated syngas methanol operation. The new integrated operation will be managed by the Company. Upon successful completion of certain conditions precedent described below, the Company will terminate and waive its claims to past due capacity fees owed by Xuejiao under the existing syngas purchase and sale agreement. The ZZ Cooperation Agreement will take full effect upon the completion of certain conditions precedent including: (i) all necessary consents and approvals being obtained by each of the parties, (ii) completion of final due diligence on the methanol plant, as well as the scheduled overhaul of the facility (as described in more detail in the Agreement) and the handover to the ZZ Joint Venture, and (iii) execution of the Xuejiao financing guarantee and the financial closing of the ZZ Joint Venture bank financing for the retrofit which occurred on September 10, 2013. There can be no assurances that the methanol production operations will be profitable.

The Yima Joint Venture plant's commissioning is in its final stages and methanol production has been ramped up to as high as 80% of total design capacity and is now selling its methanol product to a local industrial company. All three of the gasifiers have been operated at various ranges of throughput and pressure. The current focus is on completing the installations of char removal systems for the syngas production and commissioning of the downstream units that prepare the syngas for methanol production as well as the continued commissioning of the methanol production unit itself. The plant is designed to produce 300,000 tonnes per year of methanol from two operating gasifiers. Any delays in the commissioning could cause delays in full methanol production. The Company has limited influence on the operating and financial policymaking of the Yima Joint Ventures. There can be no assurances that the Yima Joint Ventures' operations will be profitable or that dividends will be paid to the Company. There have been a variety of minor construction related shutdowns which are normally seen in the startup of these units, but they have generally not been related to our gasifier systems.

The Company expects to continue for a period of time to have negative operating cash flows until it can generate sufficient cash flows from its technology, equipment and services business and SES China (including the ZZ Joint Venture and the Yima Joint Ventures) to cover its general and administrative expenses and other operating costs. In addition, the Company may need to aggressively pursue additional partners in China and may need to seek other equity financing or reduce its operating expenses. The Company will also limit the development of any further projects until it has assurances that acceptable financing is available to complete the project.

The Company currently plans to use its available cash for (i) general and administrative expenses, (ii) working capital; (iii) debt service for the ZZ Joint Venture; (iv) payments to GTI due under our licensing agreements including the $1.5 million royalty due for the Yima Joint Ventures' license which is expected to occur in late calendar 2013; and (v) general corporate purposes. The actual allocation and timing of these expenditures will be dependent on various factors, including changes in the Company's strategic relationships, commodity prices and industry conditions, and other factors that the Company cannot currently predict. In particular, any future decrease in economic activity in China or in other regions of the world in which the Company may in the future do business could significantly and adversely affect its results of operations and financial condition. Operating cash flows from joint venture operating projects can be positively or negatively impacted by changes in coal and methanol prices. These are commodities where market pricing can be cyclical in nature.

The Company does not currently have all of the financial and human resources to fully develop and execute on all of its other business opportunities; however, the Company intends to finance their development through paid services, technology access fees, equity financings and by securing financial and strategic partners focused on development of these opportunities. The Company can make no assurances that its business operations will provide it with sufficient cash flows to continue its operations. The Company will need to raise additional capital through equity and debt financing for any new ventures that are developed, to support its existing projects and possible expansions thereof and for its corporate general and administrative expenses. As a result of its focus on financing activities, particularly in China, the Company has identified strategic parties that have expressed interest in helping it grow SES China's business and the Company is evaluating these options. The Company is considering a full range of financing options in order to create the most value in the context of the increasing interest the Company is seeing in its technology. The Company cannot provide any assurance that any financing will be available to it in the future on acceptable terms or at all. Any such financing could be dilutive to its existing stockholders. If the Company cannot raise required funds on acceptable terms, it may not be able to, among other things, (i) maintain its general and administrative expenses at current levels including retention of key personnel and consultants; (ii) successfully develop its licensing and related service businesses; (iii) negotiate and enter into new gasification plant development contracts and licensing agreements; (iv) make additional capital contributions to its joint ventures; (v) fund certain obligations as they become due; and (vi) respond to competitive pressures or unanticipated capital requirements.

On August 2, 2013, the Company received a letter from NASDAQ informing us that the closing bid price of its common stock has been below $1.00 per share for a period of 30 consecutive trading days, which is outside the requirements of NASDAQ for continued listing. Under NASDAQ Listing Rule 5810(c)(3)(A), the Company has a grace period of 180 calendar days, or until January 29, 2014, in which to regain compliance with the minimum bid price rule. To regain compliance, the closing bid price of the Company's common stock must meet or exceed $1.00 per share for a minimum of ten consecutive business days during this grace period. If the Company does not regain compliance before January 29, 2014, it may be eligible for an additional grace period if we meet the initial listing standards, with the exception of bid price, for The NASDAQ Capital Market, and the Company successfully applies for a transfer of its securities to that market. Such a transfer would provide the Company with an additional 180 calendar day period to regain compliance with the minimum bid requirement.

The Company is subject to concentration of credit risk with respect to our cash and cash equivalents, which we attempt to minimize by maintaining our cash and cash equivalents with major high credit quality financial institutions. At times, our cash balances in a particular financial institution may exceed limits that are insured by the U.S. Federal Deposit Insurance Corporation or equivalent agencies in foreign countries such as Hong Kong.

Note 5 — Property, Plant and Equipment

Property, plant and equipment consisted of the following (in thousands):

	Estimated useful lives	June 30, 2013	June 30, 2012
Furniture and fixtures	2 to 3 years	$ 321	$ 319
Production equipment	20 years	35,480	34,661
Building — plant and office	30 years	8,083	7,895
Leasehold improvements	Lease term	122	120
Computer hardware	3 years	398	399
Computer software	3 years	959	956
Office equipment	3 years	251	253
Motor vehicles	5 years	217	212
		45,831	44,815
Less: Accumulated depreciation		(13,190)	(10,873)
Net carrying value		$ 32,641	$ 33,942

Depreciation expense for the years ended June 30, 2013, 2012 and 2011 was $2.1 million, $2.3 million and $2.4 million, respectively.

Note 6 — Detail of Selected Balance Sheet Accounts

Other long-term assets consisted of the following (in thousands):

	June 30, 2013	June 30, 2012
Land use rights	$ 760	$ 760
GTI license royalty, net — ZZ Joint Venture	626	754
Value added tax receivable — ZZ Joint Venture	1,106	1,072
Deferred finance costs (a)	—	1,091
Other	352	373
	$ 2,844	$ 4,050

(a) Deferred finance costs as of June 30, 2012 were principally costs incurred related to the share purchase agreement with ZJX and China Energy, which was terminated in June 2013.

Accrued expenses and other payables consisted of the following (in thousands):

	June 30, 2013	June 30, 2012
Construction and equipment costs	$ 645	$ 633
Accounts payable — trade	255	805
Accrued payroll, vacation and bonuses	555	876
Technical consulting, engineering and design services	521	528
Advances from Yima Joint Ventures toward purchase of gasifier equipment	2,391	1,801
Advances from Xuejiao	1,780	949
Advance from Hongye under share purchase agreement	—	1,000
Other	1,485	1,488
	$ 7,632	$ 8,080

Note 7 — Intangible Assets

GTI License Agreement

On November 5, 2009, the Company entered into an Amended and Restated License Agreement (the “GTI Agreement”) with GTI, replacing the Amended and Restated License Agreement between the Company and GTI dated August 31, 2006, as amended (the “Original GTI Agreement”). Under the GTI Agreement, the Company maintains its exclusive worldwide right to license the U-GAS® technology for all types of coals and coal/biomass mixtures with coal content exceeding 60%, as well as the non-exclusive right to license the original U-GAS® technology for 100% biomass and coal/biomass blends exceeding 40% biomass.

In order to sublicense any U-GAS ® system, the Company is required to comply with certain requirements set forth in the GTI Agreement. In the preliminary stage of developing a potential sublicense, the Company is required to provide notice and certain information regarding the potential sublicense to GTI and GTI is required to provide notice of approval or non-approval within ten business days of the date of the notice from the Company, provided that GTI is required to not unreasonably withhold their approval. If GTI does not respond within that ten business day period, they are deemed to have approved of the sublicense. The Company is required to provide updates on any potential sublicenses once every three months during the term of the GTI Agreement. The Company is also restricted from offering a competing gasification technology during the term of the GTI Agreement.

For each U-GAS® unit which the Company licenses, designs, builds or operates for itself or for a party other than a sublicensee and which uses coal or a coal and biomass mixture or biomass as the feed stock, the Company must pay a royalty based upon a calculation using the MMBtu per hour of dry syngas production of a rated design capacity, payable in installments at the beginning and at the completion of the construction of a project (the "Standard Royalty"). If the Company invests, or has the option to invest, in a specified percentage of the equity of a third party, and the royalty payable by such third party for their sublicense exceeds the Standard Royalty, the Company is required to pay to GTI, an agreed percentage split of third party licensing fees (the "Agreed Percentage") of such royalty payable by such third party. However, if the royalty payable by such third party for their sublicense is less than the Standard Royalty, the Company is required to pay to GTI, in addition to the Agreed Percentage of such royalty payable by such third party, the Agreed Percentage of its dividends and liquidation proceeds from its equity investment in the third party. In addition, if the Company receives a carried interest in a third party, and the carried interest is less than a specified percentage of the equity of such third party, the Company is required to pay to GTI, in its sole discretion, either (i) the Standard Royalty or (ii) the Agreed Percentage of the royalty payable to such third party for their sublicense, as well as the Agreed Percentage of the carried interest. The Company will be required to pay the Standard Royalty to GTI if the percentage of the equity of a third party that the Company (a) invests in, (b) has an option to invest in, or (c) receives a carried interest in, exceeds the percentage of the third party specified in the preceding sentence.

The Company is required to make an annual payment to GTI for each year of the term beginning December 31, 2010, with such annual payment due by the last day of January of the following year; provided, however, that the Company is entitled to deduct all royalties paid to GTI in a given year under the GTI Agreement from this amount, and if such royalties exceed the annual payment amount in a given year, the Company is not required to make the annual payment. The Company accrues the annual royalty expense ratably over the calendar year as adjusted for any royalties paid during year as applicable. The Company must also provide GTI with a copy of each contract that it enters into relating to a U-GAS® system and report to GTI with its progress on development of the technology every six months.

For a period of ten years, the Company and GTI are restricted from disclosing any confidential information (as defined in the GTI Agreement) to any person other than employees of affiliates or contractors who are required to deal with such information, and such persons will be bound by the confidentiality provisions of the GTI Agreement. The Company has further indemnified GTI and its affiliates from any liability or loss resulting from unauthorized disclosure or use of any confidential information that the Company receives.

The GTI Agreement expires on August 31, 2016, but may be extended for two additional ten-year periods at the Company's option.

The cost and accumulated amortization of intangible assets were as follows (in thousands):

	June 30, 2013			June 30, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Use rights of U-GAS®	$ 1,886	$ 1,292	$ 594	$ 1,886	$ 1,103	$ 783
Other intangible assets	474	8	466	343	—	343
Total	$ 2,360	$ 1,300	$ 1,060	$ 2,229	$ 1,103	$ 1,126

The use rights of U-GAS® have an amortization period of ten years. Amortization expense was approximately $0.2 million for each of the years ended June 30, 2013, 2012 and 2011 and is recorded in depreciation and amortization expense. Estimated amortization expense for each of the three subsequent fiscal years is expected to be approximately $0.2 million.

Note 8 – Consulting Agreement with Crystal Vision Energy

Effective January 1, 2013, the Company entered into a consulting services agreement (the "CVE Agreement") with Crystal Vision Energy Limited ("CVE"), pursuant to which CVE provided strategic, executive leadership and management services for the Company and its China business platform. The CVE Agreement replaced a prior services agreement that the Company had in place with CVE dated effective April 1, 2012. CVE received a monthly services fee of $150,000 plus expense reimbursement, $100,000 of which is payable in cash each month and the remaining $50,000 accrues monthly and is payable quarterly in common stock. CVE was also entitled to incentive warrants upon signing. In connection with fundraising on behalf of the Company, CVE is entitled to a success fee for the total of any investment from a third party (subject to certain exclusions) for use in China, or directly invested into the Company's China business.

A warrant to purchase up to 1,200,000 shares of the Company's common stock with an exercise price of $1.50 was granted in February 2013 and becomes vested and fully exercisable on December 31, 2013 and has a term of five years. In addition, the Company was obligated to issue an additional warrant to purchase up to 1,200,000 shares of the Company's common stock with an exercise price of $1.50 if the CVE Agreement was not terminated before February 15, 2014. These warrants to CVE are collectively referred to as the "CVE Incentive Warrants".

In February 2013, the Company entered into and closed a Unit Purchase Agreement with CVE under which the Company received proceeds of $400,000 and issued 449,438 shares of its common stock and warrants to acquire 449,438 shares of the Company's common stock (the "CVE Unit Purchase Warrants"). The CVE Unit Purchase Warrants have an exercise price of $1.11 per share and have a term of 5 years.

As of June 30, 2013, the Company had issued 279,480 shares of common stock to CVE as part of their monthly compensation payable in common stock under the CVE Agreement. These shares are valued based upon the volume-weighted-average share price for the month preceding the month in which services are performed.

On July 29, 2013, the Company entered into an amendment (the "CVE Amendment") to the CVE Agreement between CVE and the Company dated effective January 1, 2013. Pursuant to the CVE Amendment, CVE made a $100,000 investment in the Company's common stock on August 1, 2013. The shares of the Company's common stock were issued at a price which was equal to 80% of the volume weighted average price of the Company's common stock on the NASDAQ Stock Market over the three months prior to August 1, 2013. The associated warrants shall have an exercise price which is equal to the volume weighted average price of the Company's common stock on the NASDAQ over the three months prior to August 1, 2013. The CVE Agreement was terminated effective as of August 31, 2013.

Note 9 — Income Taxes

For financial reporting purposes, net loss showing domestic and foreign sources was as follows (in thousands):

	Year Ended June 30,		
	2013	2012	2011
Domestic	$ (6,863)	$ (7,609)	$ (6,835)
Foreign	(13,060)	(12,463)	(8,785)
Net loss	$ (19,923)	$ (20,072)	$ (15,620)

Provision for income taxes

The following is a reconciliation of income taxes at the statutory federal income tax rate of 35% to the income tax provision (benefit) recorded (in thousands):

	Year Ended June 30,		
	2013	2012	2011
Net loss	$ (19,923)	$ (20,072)	$ (15,620)
Computed tax benefit at statutory rate	(6,973)	(7,025)	(5,467)
Tax on global activities	2,747	2,684	2,910
Other	(448)	(71)	178
Valuation allowance	4,674	4,412	2,379
	$ —	$ —	$ —

Deferred tax assets

Net deferred tax assets consisted of the following (in thousands):

	June 30,	
	2013	2012
Deferred tax assets (liabilities):		
Net operating loss carry forward	$ 27,554	$ 24,219
Depreciation and amortization	403	437
Stock-based compensation	5,972	5,476
Investment in joint venture	1,324	409
Accruals	748	786
Subtotal	36,001	31,327
Valuation allowance	(36,001)	(31,327)
Net deferred assets	$ —	$ —

At June 30, 2013, the Company had approximately $48.2 million of U.S. federal net operating loss ("NOL") carryforwards, and $35.8 million of China NOL carryforwards. The U.S. federal NOL carryforwards have expiration dates through the year 2032. The China NOL carry forwards have expiration dates through 2017. The utilization of U.S. federal NOLs and other tax attributes may be limited due to changes in ownership from equity offerings that occurred during the year and any future equity offerings.

The Company's tax returns are subject to periodic audit by the various taxing jurisdictions in which the Company operates, which can result in adjustments to its NOLs. There are no significant audits underway at this time.

In assessing the Company's ability to utilize its deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will not realize the benefits of these deductible differences. Future changes in estimates of taxable income or in tax laws may change the need for the valuation allowance.

The Company and one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. The Company has been subject to U.S. federal, state, and local, or non-U.S. income tax examinations by tax authorities for all tax years since its operations began in 2003. As of June 30, 2013, the Internal Revenue Service ("IRS") and the Chinese tax authorities have not proposed any adjustments to the Company's material tax positions. The Company establishes reserves for positions taken on tax matters which, although considered appropriate under the regulations, could potentially be successfully challenged by authorities during a tax audit or review. The Company did not have any liability for uncertain tax positions as of June 30, 2013 or 2012.

Note 10 — Net Loss Per Share Data

Historical net loss per share of common stock is computed using the weighted average number of shares of common stock outstanding. Basic loss per share excludes dilution and is computed by dividing net loss available to common stockholders by the weighted average number of shares of common stock outstanding for the period. Stock options, warrants and unvested restricted stock are the only potential dilutive share equivalents the Company had outstanding for the periods presented. For the year ended June 30, 2013 and 2012 and the period from November 4, 2003 (inception) to June 30, 2013, options and warrants to purchase common stock were excluded from the computation of diluted earnings per share as their effect would have been antidilutive as the Company incurred net losses during those periods.

Note 11 — Commitments and Contingencies

Litigation

The Company is currently not a party to any legal proceedings.

Operating leases

On October 4, 2012, the Company extended its corporate office lease term for twelve months ending June 30, 2014 with rental payments of $18,313 per month. The Company also leases approximately 6,000 square feet of office space in Shanghai, China on a short-term basis. Rental expenses incurred under operating leases for the years ended June 30, 2013, 2012, and 2011 were approximately $0.5 million, $0.5 million and $0.5 million, respectively.

Governmental and Environmental Regulation

The Company's operations are subject to stringent federal, state and local laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. Numerous governmental agencies, such as the U.S. Environmental Protection Agency (the "EPA"), and various Chinese authorities, issue regulations to implement and enforce such laws, which often require difficult and costly compliance measures that carry substantial administrative, civil and criminal penalties or may result in injunctive relief for failure to comply. These laws and regulations may require the acquisition of a permit before operations at a facility commence, restrict the types, quantities and concentrations of various substances that can be released into the environment in connection with such activities, limit or prohibit construction activities on certain lands lying within wilderness, wetlands, ecologically sensitive and other protected areas, and impose substantial liabilities for pollution resulting from our operations. The Company believes that it is in substantial compliance with current applicable environmental laws and regulations and it has not experienced any material adverse effect from compliance with these environmental requirements.

Note 12 — Stock-Based Compensation

As of June 30, 2013, the Company has outstanding stock option and restricted stock awards granted under the Company's Amended and Restated 2005 Incentive Plan, as amended (the "Incentive Plan"). On December 21, 2012, the Company's stockholders authorized an additional 1,800,000 shares of common stock for future awards under the Incentive Plan. As of June 30, 2013, there were 923,316 shares authorized for future issuance pursuant to the Incentive Plan. Under the Incentive Plan, the Company may grant incentive and non-qualified stock options, stock appreciation rights, restricted stock units and other stock-based awards to officers, directors, employees and non-employees. Stock option awards generally vest ratably over a one to four year period and expire ten years after the date of grant.

The number of shares of unvested restricted stock issued under the Incentive Plan was as follows:

	Shares of Restricted Stock
Nonvested at June 30, 2011	—
Granted	146,668
Vested	(73,332)
Nonvested at June 30, 2012	73,336
Granted	—
Vested	(73,336)
Nonvested at June 30, 2013	—

For the years ended June 30, 2013, 2012 and 2011, the Company recorded stock-based compensation expense of approximately $2.3 million, $0.9 million and $1.2 million, respectively. During the years ended June 30, 2012 and 2011, credits of approximately $0.3 million and $0.4 million were recognized to stock-based compensation expense due to the reversal of previously recognized expense due to forfeitures related to cancellations of terminated optionees' stock option awards.

Assumptions

The fair values for the stock options granted during the years ended June 30, 2013, 2012 and 2011 were estimated at the date of grant using a Black-Scholes-Morton option-pricing model with the following weighted-average assumptions.

	Year Ended June 30,		
	2013	**2012**	**2011**
Risk-free rate of return	0.81 %	1.35 %	2.31 %
Expected life of award	5.1 years	5.6 years	5.6 years
Expected dividend yield	0.00 %	0.00 %	0.00 %
Expected volatility of stock	106 %	107 %	109 %
Weighted-average grant date fair value	$ 0.84	$ 1.36	$ 1.35

The expected volatility of stock assumption was derived by referring to changes in the historical volatility of the company and comparable companies. We used the "simplified" method for "plain vanilla" options to estimate the expected term of options granted during the years ended June 30, 2013, 2012 and 2011.

Stock option activity during the three years ended June 30, 2013 was as follows:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in millions)
Outstanding at June 30, 2011	6,563,344	$ 0.91		
Granted	323,982	1.65		
Exercised	(20,312)	0.80		
Cancelled/forfeited	(116,813)	0.82		
Outstanding at June 30, 2012	6,750,201	0.94		
Granted	1,350,717	1.08		
Exercised	(558,726)	0.80		$ 0.3
Cancelled/forfeited	(137,500)	1.03		
Outstanding at June 30, 2013	7,404,692	0.98	6.87	0.6
Exercisable at June 30, 2013	6,053,530	0.90	6.40	0.6

The following table summarizes information with respect to stock options outstanding and exercisable at June 30, 2013:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Term (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.43 to $0.66	3,650,909	5.72	$ 0.62	3,650,909	$ 0.62
$0.67 to $1.00	1,065,648	6.92	0.90	878,660	0.89
$1.01 to $2.00	2,243,135	8.53	1.17	1,193,961	1.12
$2.01 to $3.00	45,000	7.02	2.35	30,000	2.34
$3.01 to $4.00	400,000	7.77	3.25	300,000	3.25
Total	7,404,692			6,053,530	

The fair values of the CVE Incentive Warrants and the CVE Unit Purchase Warrants were estimated using a Black-Scholes-Morton option-pricing model and their fair values were estimated to be approximately $1.2 million and $375,000, respectively, using an estimated forfeiture rate and the following weighted-average assumptions:

Risk-free rate of return	0.85 %
Expected life of award	5 years
Expected dividend yield	0.00 %
Expected volatility of stock	108 %
Weighted-average grant date fair value	$ 0.83

The Company recognizes the stock-based compensation expense related to the CVE Incentive Warrants over the requisite service period. The following table presents stock based compensation expense attributable to stock option awards issued under the Incentive Plan and attributable to warrants and stock issued to CVE (in thousands):

	Year Ended June 30,		
	2013	2012	2011
Incentive Plan	$ 1,046	$ 879	$ 1,234
CVE warrants and stock	1,271	—	—
Total stock-based compensation expense	$ 2,317	$ 879	$ 1,234

As of June 30, 2013, approximately $1.3 million of estimated expense with respect to non-vested stock option awards and warrants has yet to be recognized and will be recognized in expense over the remaining weighted average period of approximately one year.

Note 13 – Share Purchase Agreements

Share Purchase Agreements with Hongye and Zhongmo

On June 18, 2012, the Company entered into a Share Purchase Agreement (the "Hongye Agreement") with Hongye International Investment Group Co., Ltd. ("Hongye"), pursuant to which Hongye acquired 6,175,093 shares (the "Hongye Shares") of the Company's common stock for $1.50 per share, for an aggregate purchase price of $9,262,639, and entered into a Share Purchase Agreement (the "Zhongmo Agreement") with Shanghai Zhongmo Investment Management Co., Ltd. ("Zhongmo"), pursuant to which Zhongmo acquired 4,177,335 shares (the "Zhongmo Shares," and together with the Hongye Shares, the "Shares") of common stock for $1.50 per share, for an aggregate purchase price of $6,266,002. In June 2012, the Company received a $1.0 million advance from Hongye towards the Share Purchase Agreement (which was repaid to Hongye in connection with the funding described below).

On September 21, 2012, the Company received gross proceeds of approximately $8.7 million from Hongye and issued 5,777,700 of the Hongye Shares to Hongye. On October 10, 2012, the Company received gross proceeds of approximately $6.3 million from Zhongmo and issued the Zhongmo Shares to Zhongmo. Also, on October 16, 2012, the Company received gross proceeds of approximately $0.6 million from Hongye and issued the remaining 397,393 of the Hongye Shares to Hongye. The Company incurred transaction costs of approximately $1.3 million related to closing the Hongye Agreement of which approximately $0.3 million was paid with shares of the Company's common stock in January 2013.

The Hongye Agreement and the Zhongmo Agreement include several post-closing covenants and agreements:

- Neither Hongye nor Zhongmo shall sell, assign or transfer any Shares until the twelve month anniversary of the closing date.

- For so long as either Hongye or Zhongmo owns at least 5% of the total issued and outstanding shares of Common Stock at any meeting of stockholders of the Company or at any adjournment thereof or in any other circumstances upon which a vote, consent or other approval (including by written consent) is sought, they shall, including by executing a written consent if requested by the Company, vote (or cause to be voted) the Shares in favor of each director nominated by the board of directors of the Company (the "Board").

- Until the third anniversary of the closing date, neither Hongye, Zhongmo nor any of their affiliates, shall, without the prior written consent of the Board, directly or indirectly, (i) effect or seek, offer or propose (whether publicly or otherwise) to effect, or cause or participate in or in any way assist any other person to effect or seek, offer or propose (whether publicly or otherwise) to effect or participate in, (A) any acquisition of any securities or rights to acquire any securities (or any other beneficial ownership thereof) or assets of the Company or any of its subsidiaries (provided that the foregoing shall not apply to any acquisition of securities under the terms hereof); (B) any merger or other business combination or tender or exchange offer involving the Company or any of its subsidiaries; or (C) any "solicitation" of "proxies" (as such terms are used in the proxy rules of the SEC) or consents to vote with respect to any voting securities of the Company, or any communication exempted from the definition of "solicitation" by Rule 14a-1(l)(2)(iv) under the Exchange Act); (ii) form, join or in any way participate in a "group" (as defined under the Exchange Act) with respect to the Company; (iii) have any discussions or enter into any arrangements, understandings or agreements (oral or written) with, or advise, finance, assist or actively encourage, any third party with respect to any of the matters set forth above, or make any investment in any other person that engages, or offers or proposes to engage, in any of such matters; (iv) take any action which might cause or require the Company, Hongye and/or their affiliates to make a public announcement regarding any of the types of matters set forth above; or (v) disclose any intention, plan or arrangement relating to any of the foregoing.

- The net proceeds received by the Company shall be fully applied to its operations and projects in China and shall be deposited into a bank account in China or Hong Kong controlled by the Company's China-centric business platform, SES China.

In addition, under the Hongye Agreement, the Company has agreed to certain additional post-closing covenants and agreements:

- After the closing date (as described below), the Company increased the size of the Board by two (2) and the Board appointed two (2) individuals identified by Hongye for service as directors on the Board (one of which will be appointed Vice Chairman of the Board) and agreed to annually nominate such individuals for continued service on the Board; provided, however, that if Hongye owns less than 9%, but more than 5%, of the total issued and outstanding shares of Common Stock at any point after the closing date, the Board agrees to appoint one (1) individual identified by Hongye for service as director on the Board and to annually nominate such individual for continued service on the Board, while if Hongye owns less than 5% of the total issued and outstanding shares of Common Stock at any point after the closing date, the Board shall have no further obligation to appoint or nominate any individual identified by Hongye for service as a director. Any person appointed or elected to the Board must meet minimum criteria for service on the Board under applicable Company guidelines, U.S. securities laws and the rules and regulations of the NASDAQ, as determined in the reasonable discretion of the Board, and shall follow all applicable policies and procedures of the Company. In September 2012, Mr. Gao Feng was appointed to the Board as a designee of Hongye and, in October 2012, Mr. Yang Guang was appointed to the Board as a designee of Hongye.

- After the closing date, and as long as Hongye owns more than 9% of the total issued and outstanding shares of common stock, Hongye has the right to appoint one Vice President and a Deputy Financial Director in the Company's China business. Such Vice President and Deputy Financial Director shall report to the Company's China Managing Director and China Financial Director, respectively. The qualification and employment terms and conditions of such positions will be subject to the approval of the China Managing Director and the appointees to such positions shall agree to follow all applicable policies and procedures of the Company. Although no such appointments have been made to date , the Company is in process of interviewing candidates appointed by Hongye.

Share Purchase Agreements with ZJX

On June 10, 2013, the Company provided notice to China Energy Industry Holdings Group Co, Ltd. ("China Energy") and Zhongjixuan Investment Management Company Ltd. ("ZJX") of the termination of the Share Purchase Agreement among the Company, ZJX and China Energy dated March 31, 2011, as amended on August 16, 2011 and December 30, 2011 (the "ZJX Agreement"), as permitted by the terms of the ZJX Agreement. No penalties or payments were due as a result of the termination of the ZJX Agreement, China Energy had not paid any of the purchase price and the Company has not issued any shares to ZJX or China Energy under the ZJX Agreement. We incurred approximately $1.0 million of legal and other professional fees and costs related to the ZJX Agreement which were deferred and written off upon termination of the ZJX Agreement.

Note 14 – Segment Information

The Company's reportable operating segments have been determined in accordance with the Company's internal management reporting structure and include SES China, Technology Licensing and Related Services, and Corporate. The SES China reporting segment includes all of the assets and operations and related administrative costs for China including the investment in the Yima Joint Ventures. The Technology Licensing and Related Services reporting segment includes all of the Company's current operating activities outside of China. The Corporate reporting segment includes the executive and administrative expenses of the corporate office in Houston. The Company evaluates performance based upon several factors, of which a primary financial measure is segment operating income or loss. Reclassifications have been made in the prior period financial statements to conform to the current period presentation.

The following table presents statements of operations data and assets by segment (in thousands):

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Year Ended June 30, 2013	Year Ended June 30, 2012
Revenue:				
SES China	$ —	$ —	$ 8	$ 2,415
Technology licensing and related services	192	284	571	647
Corporate	—	—	—	—
Total revenue	$ 192	$ 284	$ 579	$ 3,062
Depreciation and amortization:				
SES China	$ 518	$ 523	$ 2,056	$ 2,089
Technology licensing and related services	47	47	187	188
Corporate	4	13	49	209
Total depreciation and amortization	$ 569	$ 583	$ 2,292	$ 2,486
Operating loss:				
SES China	(2,540)	(2,133)	(10,126)	(9,157)
Technology licensing and related services	(484)	(940)	(1,976)	(3,207)
Corporate	(2,460)	(1,130)	(6,277)	(5,903)
Total operating loss	$ (5,484)	$ (4,203)	$ (18,379)	$ (18,267)
Interest expense:				
SES China	$ 54	$ 96	$ 302	$ 562
Technology licensing and related services	—	—	—	—
Corporate	—	—	—	—
Total interest expense	$ 54	$ 96	$ 302	$ 562
Equity in losses (earnings) of joint ventures:				
SES China	$ 241	$ 277	$ 820	$ 920
Technology licensing and related services	—	—	—	—
Corporate	(28)	360	552	961
Total equity in losses of joint ventures	$ 213	$ 637	$ 1,372	$ 1,881

	June 30, 2013	June 30, 2012
Assets:		
SES China	$ 76,316	$ 72,352
Technology licensing and related services	1,030	1,089
Corporate	11,018	19,406
Total assets	$ 88,364	$ 92,847

Note 15 — Quarterly Results of Operations (Unaudited) (in thousands, except per share amounts)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
2013:					
Revenues	$ 71	$ 13	$ 303	$ 192	$ 579
Operating loss	(3,881)	(3,940)	(5,074)	(5,484)	(18,379)
Net loss	(4,518)	(4,318)	(5,400)	(5,687)	(19,923)
Net loss attributable to stockholders	(4,485)	(4,403)	(5,380)	(5,665)	(19,933)
Net loss per share — basic and diluted	(0.09)	(0.07)	(0.09)	(0.09)	(0.33)
2012:					
Revenues	$ 2,495	$ 183	$ 100	$ 284	$ 3,062
Operating loss	(4,441)	(4,805)	(4,818)	(4,203)	(18,267)
Net loss	(4,606)	(5,121)	(5,351)	(4,994)	(20,072)
Net loss attributable to stockholders	(4,540)	(5,047)	(5,360)	(4,950)	(19,896)
Net loss per share — basic and diluted	(0.09)	(0.10)	(0.11)	(0.10)	(0.39)

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our annual and periodic reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. In addition, we designed these disclosure controls and procedures to ensure that this information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Accounting Officer, to allow timely decisions regarding required disclosures.

Our management, with the participation of the Chief Executive Officer and the Chief Accounting Officer, assessed the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934, as amended, or the Exchange Act, as of June 30, 2013. Based upon that evaluation, our Chief Executive Officer and Chief Accounting Officer have concluded that our disclosure controls and procedures were effective as of June 30, 2013.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements. Because of inherent limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, with the participation of the Chief Executive Officer and the Chief Accounting Officer, evaluated the effectiveness of our internal control over financial reporting as of June 30, 2013 based on criteria set forth in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation, management has concluded that we did maintain effective internal control over financial reporting as of June 30, 2013.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the year ended June 30, 2013 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated in this Annual Report by reference to our definitive proxy statement to be filed with the Securities and Exchange Commission not later than 120 days after the close of our fiscal year ended June 30, 2013.

Item 11. Executive Compensation

The information required by this item is incorporated in this Annual Report by reference to our definitive proxy statement to be filed with the

Securities and Exchange Commission not later than 120 days after the close of our fiscal year ended June 30, 2013.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated in this Annual Report by reference to our definitive proxy statement to be filed with the Securities and Exchange Commission not later than 120 days after the close of our fiscal year ended June 30, 2013.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated in this Annual Report by reference to our definitive proxy statement to be filed with the Securities and Exchange Commission not later than 120 days after the close of our fiscal year ended June 30, 2013.

Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated in this Annual Report by reference to our definitive proxy statement to be filed with the Securities and Exchange Commission not later than 120 days after the close of our fiscal year ended June 30, 2013.

Item 15. Exhibits and Financial Statement Schedules

1. *Financial Statements.* Reference is made to the Index to Consolidated Financial Statements at Item 7 of this annual report on Form 10-K.

2. *Financial Statement Schedules.* All schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes to the financial statements.

3. *Exhibits.*

Number	Description of Exhibits
3.1	Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement (Registration No. 333-140367) on Form SB-2 filed on January 31, 2007).
3.2	Certificate of Amendment to the Certificate of Incorporation of the Company dated effective December 16, 2009 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on December 17, 2009).
3.3	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to Amendment No. 2 to the Company's Registration Statement (Registration No. 333-140367) on Form SB-2 filed on March 30, 2007).
4.1	Specimen Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement (Registration No. 333-140367) on Form SB-2 filed on January 31, 2007).
10.1	Cooperative Joint Venture Contract of SES (Zao Zhuang) New Gas Company Ltd. between Shandong Hai Hua Coal & Chemical Company Ltd. and Synthesis Energy Systems Investments, Inc. dated July 6, 2006 — English translation from original Chinese document (incorporated by reference to Exhibit 10.4 to the Company's Registration Statement (Registration No. 333-140367) on Form SB-2 filed on January 31, 2007).
10.2	Amendment to Cooperative Joint Venture Contract of SES (Zao Zhuang) New Gas Company Ltd. between Shandong Hai Hua Coal & Chemical Company Ltd. and Synthesis Energy Systems Investments, Inc. dated November 8, 2006 — English translation from original Chinese document (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement (Registration No. 333-140367) on Form SB-2 filed on January 31, 2007).
10.3**	Contract for Synthesis Gas Purchase and Sales by and between Shandong Hai Hua Coal & Chemical Company Ltd. and Synthesis Energy Systems (Zao Zhuang) New Gas Company Ltd. dated October 22, 2006 — English translation from original Chinese document (incorporated by reference to Exhibit 10.6 to Amendment No. 4 to the Company's Registration Statement (Registration No. 333-140367) on Form SB-2 filed on May 23, 2007).
10.4+	Consulting Agreement between the Company and Lorenzo Lamadrid dated May 30, 2006 (incorporated by reference to Exhibit 10.11 to the Company's Registration Statement (Registration No. 333-140367) on Form SB-2 filed on January 31, 2007).
10.5+	Amended and Restated 2005 Incentive Plan (incorporated by reference to Exhibit 10.13 to Amendment No. 3 to the Company's Registration Statement (Registration No. 333-140367) on Form SB-2 filed on May 1, 2007).
10.6	Fixed Assets Loan Contract between Synthesis Energy Systems (Zao Zhuang) New Gas Company Ltd. and Industrial and Commercial Bank of China dated March 27, 2007 — English translation from original Chinese document (incorporated by reference to Exhibit 10.16 to Amendment No. 2 to the Company's Registration Statement (Registration No. 333-140367) on Form SB-2 filed on March 30, 2007).
10.7	Second Amendment to Cooperative Joint Venture Contract of SES (Zao Zhuang) New Gas Company Ltd., between Shandong Hai Hua Coal & Chemical Company Ltd. and Synthesis Energy Systems Investments, Inc., dated February 12, 2007 — English translation from original Chinese document (incorporated by reference to Exhibit 10.6 to Amendment No. 3 to the Company's Registration Statement (Registration No. 333-140367) on Form SB-2 filed on May 1, 2007).

10.8	Co-Operative Joint Venture Contract of SES — GCL (Inner Mongolia) Coal Chemical Co., Ltd. between Inner Mongolia Golden Concord (Xilinhot) Energy Investment Co., Ltd. and Synthesis Energy Systems Investments, Inc. dated May 25, 2007 — English translation from original Chinese document (incorporated by reference to Exhibit 10.21 to Amendment No. 5 to the Company's Registration Statement (Registration No. 333-140367) on Form SB-2 filed on June 6, 2007).
10.9	Form of Indemnification Agreement between the Company and its officers and directors (incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-KSB for the year ended June 30, 2007).
10.10	Lease Agreement between Synthesis Energy Systems, Inc. and AVPF Riverway Ltd. dated January 14, 2008 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 31, 2008).
10.11+	First Amendment to the Amended and Restated 2005 Incentive Plan (incorporated by reference to Annex B to the Company's Proxy Statement on Schedule 14A filed on November 15, 2007).

10.12	Form of Nonstatutory Stock Option Agreement (incorporated by reference herein to Exhibit 10.8 to the Company's Current Report on Form 8-K dated April 2, 2009).
10.13	Form of Equity Joint Venture Contract between Yima Coal Industry (Group) Co., Ltd. and Synthesis Energy Investment Holdings, Inc. dated August 27, 2009 — English translation from original Chinese document. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 2, 2009).
10.14**	Amended and Restated License Agreement by and between the Company and the Gas Technology Institute dated November 5, 2009 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 12, 2009).
10.15+	Letter Agreement between the Company and Lorenzo Lamadrid dated August 15, 2010 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on August 17, 2010).
10.16+	Amended and Restated Employment Agreement between the Company and Robert W. Rigdon dated April 8, 2011 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 12, 2011).
10.17	Share Purchase Agreement dated June 9, 2011 between the Company and Zuari Industries Limited (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 10, 2011).
10.18+	Heads of Agreement for Business Development Services between SES Resource Solutions and Donald P. Bunnell (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 30, 2012).
10.19+	Amendment to Heads of Agreement for Business Development Services between SES Resource Solutions and Donald P. Bunnell (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on March 30, 2012).
10.20	Share Purchase Agreement dated June 18, 2012 among Synthesis Energy Systems, Inc. and Hongye International Investment Group Co., Ltd. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 19, 2012).
10.21	Share Purchase Agreement dated June 18, 2012 among Synthesis Energy Systems, Inc. and Shanghai Zhongmo Investment Management Co., Ltd. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 19, 2012).
10.22+	Employment Letter between the Company and Kevin Kelly dated effective October 10, 2012 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 16, 2012).
10.23	Second Amendment to the Amended and Restated 2005 Incentive Plan (incorporated by reference to Annex A to the Company's Proxy Statement on Schedule 14A filed on October 26, 2012).
10.24	Consulting Services Agreement between the Company and Crystal Vision Energy Limited dated effective January 1, 2013 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 27, 2012).
10.25+	Letter Agreement between Robert Rigdon and the Company dated February 27, 2013 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on March 4, 2013).
10.26	Notice of Termination dated June 10, 2013 of Share Purchase Agreement dated March 31, 2011, as amended, among Synthesis Energy Systems, Inc., China Energy Industry Holdings Group Co, Ltd. and Zhongjixuan Investment Management Company Ltd. (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on June 10, 2013).
10.27+	Employment Letter between the Company and Donald P. Bunnell dated July 16, 2013 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 17, 2013).
10.28**	Cooperation Agreement among SES (Zaozhuang) New Gas Co., Ltd., Shandong Weijiao Group Xuecheng Energy Co., Ltd. and Shandong Xuejiao Chemical Co., Ltd. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on July 26, 2013).

10.29*	Amendment to Consulting Services Agreement between the Company and Crystal Vision Energy Limited dated July 29, 2013.
10.30+	Employment Letter between the Company and Charles Costenbader dated effective September 3, 2013 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 4, 2013).
10.31*	Loan Agreement between Synthesis Energy Systems (Zaozhuang) New Gas Co., Ltd and Zaozhuang Bank dated September 10, 2013 — English translation from original Chinese document.
21.1*	Subsidiaries of the Company.
23.1*	Consent of UHY LLP
23.2*	Consent of PricewaterhouseCoopers LLP.
23.3*	Consent of KPMG LLP.
31.1*	Certification of Chief Executive Officer of Synthesis Energy Systems, Inc. pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Chief Accounting Officer of Synthesis Energy Systems, Inc. pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
32.1*	Certification of Chief Executive Officer of Synthesis Energy Systems, Inc. pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.
32.2*	Certification of Chief Accounting Officer of Synthesis Energy Systems, Inc. pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.
101.INS	XBRL Instance Document.***
101.SCH	XBRL Taxonomy Extension Schema Document.***
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.***
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.***
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.***
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.***

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* Filed herewith.

** Portions of this exhibit have been omitted pursuant to a request for confidential treatment accepted by the Securities and Exchange Commission and this exhibit has been filed separately with the Securities and Exchange Commission in connection with such request.

*** In accordance with Rule 406T of Regulation S-T, the XBRL information in Exhibit 101 to this annual report on Form 10-K shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended ("Exchange Act"), or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

\+ Management contract or compensatory plan or arrangement.

SIGNATURES

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

SYNTHESIS ENERGY SYSTEMS, INC.

Date: September 24, 2013

By: /s/ Robert Rigdon
Robert Rigdon, President
and Chief Executive Officer

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

Signature	Capacity In Which Signed	Date
/s/ Robert Rigdon Robert Rigdon	President and Chief Executive Officer and Director (Principal Executive Officer)	September 24, 2013

/s/ Kevin Kelly Kevin Kelly	Chief Accounting Officer, Controller and Secretary (Principal Accounting Officer)	September 24, 2013
/s/ Donald Bunnell Donald Bunnell	Chief Commercial Officer and Director	September 24, 2013
/s/ Lorenzo Lamadrid Lorenzo Lamadrid	Director	September 24, 2013
/s/ Denis Slavich Denis Slavich	Director	September 24, 2013
/s/ Harry Rubin Harry Rubin	Director	September 24, 2013
/s/ Xu, Ziwang Xu, Ziwang	Director	September 24, 2013
/s/Gao, Feng Gao, Feng	Director	September 24, 2013
/s/ Yang, Guang Yang, Guang	Director	September 24, 2013

Exhibit 10.29

July 26, 2013

Crystal Vision Energy Limited
3708, 37th Floor, The Center
99 Queen's Road Central
Hong Kong SAR
Attention: Colin Tam

Re: Amendment of Consulting Services Agreement

Dear Colin:

This letter will constitute an amendment to the Consulting Services Agreement between Crystal Vision Energy Limited ("CVE") and Synthesis Energy Systems, Inc. (the "Company") dated effective January 1, 2013 (the "Consulting Agreement"), effective as of the date signed below. By execution of this letter, CVE acknowledges and agrees that, as of the date hereof:

- The following definition in Clause 3.5 of the Consulting Agreement is amended and restated in its entirety as follows:

  "Capital Funding Date" means the date when either the China Services Funding or any Capital that is raised for SES or SES China is received by SES, SES China or their respective Affiliates.

- Clause 4.2 of the Consulting Agreement is amended and restated in its entirety as follows:

  "4.2 CVE shall provide funding of capital to SES in the amount of $300,000 and on the terms and conditions set out in Schedule 6 (the "China Services Funding") by 3 separate installments in July, September and November 2013 respectively. For the avoidance of doubt, although the China Services Funding will be paid in three separate installments, the shares of common stock shall be issued at a price which is equal to 80% of the volume weighted average price of the SES common stock on the NASDAQ Stock Market over the three months prior to the date of the July installment of the China Services Funding. The associated warrants shall have an exercise price which is equal to the volume weighted average price of the SES common stock on the NASDAQ Stock Market over the three months prior to the date of the July installment of the China Services Funding.

  In the event that CVE or its nominee fails to provide the China Services Funding as per the terms herein, SES may terminate this Agreement by giving 10 days written notice.

  Without prejudice to the rights of the parties in Clause 4.1 of the Consulting Agreement, CVE may terminate this Agreement for any reason by giving 10 days written notice to SES at any time after 1 July 2013.

- Clause 13(a) is amended and restated in its entirety as follows:

  "(a) engage in any activities that are adverse to the interests of business of SES; provided, that, for the avoidance of doubt, SES acknowledges and agrees that CVE may, from time to time, provide consulting or advisory services to Solena Fuels and that such services shall not be a violation of this Clause 13(a) if the provision of such services does not distract, limit or otherwise interfere with the provision of the Services by CVE; and

- Schedule 1 to the Consulting Agreement is amended and restated in its entirety and replaced with Exhibit A hereto.

This letter does not affect any other terms of the Consulting Agreement. If you have any questions regarding this matter, please let me know.

SYNTHESIS ENERGY SYSTEMS, INC.

/s/ Robert Rigdon
Robert Rigdon
President and Chief Executive Officer

ACKNOWLEDGED AND AGREED
as of July 29, 2013

CRYSTAL VISION ENERGY LIMITED

By:	/s/ Colin S. Tam
Printed Name:	Colin S. Tam
Title:	Executive Chairman

Exhibit 10.31

ZAOZHUANG BANK

Contract No.: *2013* Zao Yin Jie Zi *09100602* No. *00003*

Working Capital Loan Contract

Lender: Zaozhuang Bank *Co., Ltd. Junshan Road Sub-branch*

Borrower: *Synthesis Energy Systems (Zaozhuang) New Gas Co., Ltd.*

Special notes: This Contract is entered into by and between the Lender and the Borrower through consultation based on equality and free will, and all terms and conditions hereof are genuine intentions of both the Lender and the Borrower. In order to protect the legitimate rights and interests of the Borrower, the Lender hereby asks the Borrower to give full attention to the contents of all terms regarding the rights and obligations of both parties.

Borrower (Party A): *Synthesis Energy Systems (Zaozhuang) New Gas Co., Ltd.*
Domicile: *No. 2 Hengshan Road, Xuecheng District*
Legal representative: *John Winter*
Account-opening financial institution and account No.:
Tel or fax: *0632-4161799*
Postal code: *277000*
Lender (Party B): *Zaozhuang Bank Co., Ltd. Junshan Road Sub-branch*
Domicile: *No. 67 North Zhenxing Road*
Legal representative: *Zhou Changtao*
Tel or fax: *3398035*
Postal code: *277100*

Upon the equal consultation of both parties, the Lender and the Borrower, in order to specify the rights and obligations of both parties, hereby sign and enter into this Contract after reaching an agreement in respect of the Lender's granting of loans to the Borrower in accordance with relevant national laws and regulations.

Article 1 Definitions and interpretation

1.1 Unless otherwise provided in this Contract, the following terms herein shall have the following meanings:

1.1.1 Loan amount: the total amount of loans provided by the Lender to the Borrower pursuant to this Contract.

1.1.2 Loan term: the period of time extending from the granting date of the first loan to the day when the Borrower pay off all the loan principal and interest as provided herein.

1.1.3 Available period: the period of time that the Borrower withdraws loans as agreed herein, including the period of time that both parties agree to postpone the withdrawal through consultation.

1.1.4 Eligible withdrawal period: the period of time extending from the effective date of this Contract to the day when the Borrower specified in this Contract makes the first withdrawal.

1.1.5 Date of withdrawal: the day when each loan hereunder is transferred to the account of the Borrower.

1.1.6 Repayment period: the period of time extending from the time when the Borrower specified in this Contract repays the loan principal and interest the first time to the time when the Borrower pays off all the loan principal and interest, including the period of repayment decided anew by both parties through consultation.

1.1.7 Grace period: the period of time extending from the first loan granting date agreed in this Contract to the day when the Borrower repays the loan principal the first time.

1.1.8 Shareholder: investor of the Borrower holding the equity of the Borrower, including the successor and assignee of equity.

1.1.9 Workday: working days of the Lender excluding the legal festivals/holidays and public holidays set by the state.

1.1.10 Guarantee-related document: legal documents and relevant materials signed for the purpose of assuring the performance of this Contract, including letter of guarantee/standby letter of credit, contract of guarantee, mortgage contract, pledge contract, and letter of commitment, etc.

1.2 Unless otherwise provided herein, this Contract shall be interpreted in accordance with the following rules:

1.2.1 Loan ratio of the Lender: the proportion of loans provided by the Lender herein to all of its loans.

1.2.2 "Maturity" includes the circumstances where the Lender announces the early maturity of debts in accordance with the provisions of this Contract or national laws and regulations.

1.2.3 "Substantially unfavorable circumstances" include but not limited to the following ones: the Borrower has fully or partly loses its repayment capacity; the guarantor's guaranteeing capacity decreases significantly due to its deteriorated financial situation or other causes; the decrease in the value, destruction, loss, or expropriation of the guaranties or dispute over their ownership is enough to have an impact over the Lender's exercise of hypothec; the decrease in the value of the pledge is enough to have impact over the Lender's exercise of the right of pledge.

1.2.4 The term "include" does not contain restrictive meaning under this Contract.

1.2.5 "Laws and regulations" include laws, administrative regulations, local regulations, rules, judicial interpretation and any provisions of legal effect of the People's Republic of China.

Article 2 Loan purpose

The loans hereunder may be used for the following purpose, and without the written consents of the Lender, the Borrower shall not use them for any other purposes. The Lender has the right to supervise the use of the funds concerned.

Loan purpose: *purchase of raw materials*.

Article 3 Loan amount, term and type

3.1 The loan currency hereunder is *RMB*, and the amount is *RMB 20,000,000.00* (in words: *Renminbi twenty million*) (should there be any inconsistency between the amounts represented in numbers and words, the latter shall prevail).

3.2 The loan term hereunder extends from *September 10, 2013 to September 9, 2014*, starting from the actual date of withdrawal (starting from the date of first withdrawal if withdrawal is made in installments), and the actual date of withdrawal is subject to the IOU.

3.3 The loan type hereunder is *short-term loan*.

Article 4 Guarantee

Except the credit loan, the Borrower shall provide legitimate and valid guarantee recognized by the Lender for the performance of its obligations hereunder. The contract of guarantee shall be signed separately.

4.1 Where the loan hereunder is guarantee-based, the guarantee shall be a *joint and several liability guarantee*.

4.2 Where the loan guarantee hereunder is provided in the mode of ceiling amount guarantee, the corresponding contract of ceiling amount guarantee shall be made as below:

No. of the contract of ceiling amount guarantee: ____________________

Guarantor: ____________________

4.3 Where the loan hereunder is mortgage or pledge based, the corresponding mortgage or pledge contract shall be made as follows:

No. of mortgage or pledge contract: *2013 Zao Yin Di Zi 09100602 No. 00003*

Mortgager or pledger: *Synthesis Energy Systems (Zaozhuang) New Gas Co., Ltd.*

4.3.1 Should the guaranties hereunder are damaged, depreciated, involved in any ownership dispute, impounded or sealed up, or the mortgager disposes the guaranties without authorization, or the guarantor providing the assurance guarantee encounters unfavorable changes in its financial situation or other changes harmful to the creditor's right of the Lender, the Borrower shall lose no time to notify the Lender and otherwise provide other guarantee recognized by the Lender.

4.3.2 Where the loan hereunder is guaranteed by pledging the accounts receivable, within the effective period of this Contract, the Lender is entitled to announce the early maturity of the loans in question and ask the Borrower to repay the loan principal and interest immediately in part or in whole, or to add legitimate, valid and sufficient guarantee recognized by the Lender, under any of the following circumstances:

(1) The bad debt rate of the accounts receivable payable to the payee of accounts receivable (the pledger) by the payer keeps rising continuously for 2 months;

(2) The amount of accounts receivable from the payer which are mature but not collected by the payee of accounts receivable (the pledger) accounts for more than 5% of the remaining amount of accounts receivable from the payer;

(3) The payee of accounts receivable (the pledger) has any trade dispute (including, without limitation, disputes over quality, technology and service) or debt dispute with the payer or any other third party, resulting in that the accounts receivable cannot be paid as scheduled upon maturity.

Article 5 Interest rate and the interest accruing and settling methods

5.1 Loan interest rate

5.1.1 The *first* of the following methods shall be adopted to determine the interest rate of the loan in RMB:

(1) Fixed interest rate: The loan rate floats (up√/down) *80*% based on the benchmark interest rate of the same level in the same period published by the People's Bank of China that corresponds to the date of withdrawal of each loan *September 10, 2013* (the term of the loan/the loan term specified in Article 3.2 hereof), till the date of loan maturity. The specified interest rate adopted shall be subject to the corresponding loan certificate.

(2) Floating interest rate: The loan rate floats (up/down) __/__% based on the benchmark interest rate of the same level in the same period published by the People's Bank of China that corresponds to the date of withdrawal of each loan _____/______ (the term of the loan/the loan term specified in Article 3.2 hereof). The specified interest rate shall be subject to the corresponding loan certificate in line with the interest rate floating rules as agreed in this Contract.

The interest rate shall be adjusted every_____/____ (in words) month(s). During the repayment period, in the event that the People's Bank of China adjusts the benchmark interest rate of loan, from the loan corresponding date in the first month of the next period after the adjustment of benchmark interest rate, the Lender may determine the new loan interest rate according to the benchmark interest rate of the same level for the corresponding period after adjustment and the floating extent agreed in this Contract without a separate notice to the Borrower. In the event the adjustment date of benchmark interest rate falls on the loan granting date or the loan corresponding date in the first month of such adjustment period, the new loan interest rate shall be determined since the adjustment date of benchmark interest rate. Where there is no such loan corresponding date, the last day in the first month of the period shall be deemed as the loan corresponding date.

5.1.2 The ____/___ of the following methods shall be adopted to determine the interest rate of loan in a foreign currency:

(1) The interest rate formed by __/_ (in words)-month __/_ (LIBOR/HIBOR) + /_ % of spread shall be adjusted every __/_ (in words) month(s). LIBOR/HIBOR here refers to the London Interbank Offer Rate / Hong Kong Interbank Offer Rate for the corresponding term two workdays immediately prior to the value date announced by Reuters.

(2) The adopted monthly interest rate is _ /_ ‰, valid till the loan maturity date.

(3) Other methods ________________/___________________________.

5.2 Punitive interest rate

5.2.1 In the event that the Borrower fails to use the loan for the purposes as stipulated herein, the Lender shall, from the default date, collect the punitive interest for the default part at the rate of *80*% of the adopted loan interest rate agreed herein to the extent that all principal and interest have been paid off. During the default period, in the event that the benchmark interest rate for RMB loan of the same period is raised by the People's Bank of China, the rate for such punitive interest shall be raised from the adjustment date of the benchmark interest rate accordingly.

5.2.2 In the event that the Borrower fails to repay the loan principal in accordance with the term stipulated herein, the Lender shall, from the overdue date, collect the punitive interest for the overdue part at the rate of *40*% of the adopted loan interest rate stipulated herein to the extent that all principal and interest have been satisfied. During the overdue period, in the event that the benchmark interest rate for RMB loan of the same period is raised by the People's Bank of China, the rate for such punitive interest shall be raised from the adjustment date of the benchmark interest rate accordingly.

5.3 Compound interest

For the interest that the Borrower does not pay as scheduled, the Lender shall collect the compound interest from the day when the interest is not paid as scheduled on a _/_ (quarterly/monthly) basis. For the interest not paid as scheduled within the loan term, compound interest will be collected at the loan interest rate as agreed in this Contract, but starting from the loan maturity date, compound interest will be collected at the overdue punitive interest rate as agreed herein. For the interest not paid as scheduled in the period of overdue or default use of loan, compound interest will be collected at the punitive interest rate as agreed herein.

5.4 Interest accruing and settling methods

5.4.1 The interest of loan hereunder shall be settled on a ___*monthly*___ (monthly/quarterly) basis, and the settlement date shall be the 20th day of every ___*month*___ (month/last month of every quarter).

5.4.2 The loan interest hereunder shall, on the basis of 360 days a year, be collected according to the actual loan balance and the number of days used from the day when the Borrower withdraws the loan.

5.4.3 The Borrower shall, prior to the settlement date, transfer the payable interest into the account stipulated in Article 10.1 of this Contract, and irrevocably entrust the Lender to deduct such interest from the account directly. If the last repayment date of the loan principle does not fall on the interest settlement date, the unpaid interest shall be paid off with the principal.

5.4.4 For the loan to which a fixed interest rate is applied, the interest shall be calculated at the agreed interest rate upon the settlement of interest. For the loan to which a floating interest rate is applied, the interest rate shall be calculated at the interest rate determined in each floating period. Where the interest rate floats more than once within a single interest settlement period, the interest in each floating period shall be calculated first, and then the interest within the interest settlement period shall be calculated by summing the interest in all floating periods on the date of interest settlement.

Article 6 Revolving loan

6.1 Where the loan hereunder may be used in a revolving manner, within the use term of revolving loan line, the loan balance of the Borrower at any time may not exceed the revolving loan line; the loan term for each withdrawal of the Borrower shall extend from the actual withdrawal date to the agreed repayment date, subject to what is written on the IOU, and the repayment date of each withdrawal may not exceed the use term of revolving loan line.

6.2 Where the loan hereunder may be used in a revolving manner, the Lender is entitled to cancel the revolving loan line if the Borrower fails to make any withdrawal for three consecutive months starting from the execution of this Agreement.

Article 7 Special provisions on revolving loan (optional clause, this article is ☐ applicable ☐ not applicable)

7.1 Where the loan hereunder may be used in a revolving manner, the loan amount and loan term set out in Article 3 above shall be the revolving loan line and use term of revolving loan line. Specifically, the use term of revolving loan line shall start from the effective date of this Contract.

7.2 For the RMB revolving loan to which a floating interest rate is applied, the benchmark interest rate shall be determined according to the benchmark interest rate of the People's Bank of China for the level corresponding to each loan term.

7.3 In addition to interest, the Borrower shall also pay commitment charges to the Lender. The commitment charges shall be paid in the __/__ of the following methods:

(1) to be paid to the Lender in a lump sum upon the effective date of this Contract at __/_% of the revolving loan line.

(2) after this Contract comes into effect, to be paid to the Lender in installments on the 20th day of each __/__(month/quarter/half year) according to the difference between the revolving loan line and the amount withdrawn by the Borrower (daily mean balance within the charging period) and the annual fee rate of __/__%, until the day when the use term of the revolving loan line expires.

（3） __________________/__________________________

Article 8 Terms of withdrawal

8.1 Prior to the first withdrawal, the Borrower has provided the documents, including articles of incorporation, duplicate of business license, identity certificate of the legal representative, as required by the Lender. If copies are provided, the corresponding originals shall be ensured to be true, complete and valid.

8.2 Prior to the first and each withdrawal, the Lender shall meet the following requirements:

8.2.1 An account has been opened as provided in Article 10.1 of this Contract.

8.2.2 The Borrower presents to the Lender the "application of withdrawal" conforming with the provisions of this Agreement, indicating the information including the reason, purpose and amount of withdrawal, method of payment, and name and account number of the counterparty, provides duplicates of relevant transaction certificates and other materials, and go through relevant withdrawal formalities in accordance with relevant provisions and requirements of the Lender.

8.2.3 Where the loan hereunder is borrowed in a foreign currency, the Borrower has properly completed the formalities of approval, registration, delivery and other statutory formalities related to the said loan hereunder in accordance with the provisions of relevant laws and regulations.

8.2.4 Where the loan hereunder involves mortgage or pledge, relevant formalities for guarantee and insurance needed before the withdrawal as may be required by the Lender have been duly completed, and such guarantee and insurance shall continuously remain effective. In the event that the loan hereunder involves an assurance guarantee, the contract of guarantee shall have been executed and come into force.

8.2.5 No event of default specified herein has happened, nor has any other event which may constitute a default occurred.

8.2.6 Not any substantially unfavorable circumstance as defined herein has occurred.

8.2.7 Any and all representations and warranties made by the Borrower upon the execution of this Contract shall still keep effective upon the date of withdrawal, and no any substantially unfavorable change has occurred thereto.

8.2.8 If the Borrower borrows money from any shareholder, the shareholder shall have made a written promise that the principal, interest and payable fees of the borrowed money will not be collected from the Borrower in part or in whole until the Borrower has paid all the loan principal, interest and payable fees hereunder.

8.2.9 Other requirements for withdrawal agreed by both parties:

____

Article 9 Withdrawal

9.1 The Borrower of the loan hereunder shall withdraw loan according its actual needs. The withdrawal period shall extend from *September 10, 2013* to *September 12, 2013*. Specifically, the first withdrawal must be made prior to *September 10, 2013*, and the last withdrawal prior to *September 12, 2013*. Otherwise, the Lender is entitled to cancel the loans in part or in whole. (This article is not applicable to revolving loan)

9.2 Procedure of withdrawal

9.2.1 The Borrower shall open a special account for working capital loan with the Lender, which shall be specially used for loan granting and payment, as well as capital recovery (see Article 10.1 for details).

9.2.2 The Borrower shall make withdrawal according to its capital turnover needs for day-to-day production and operation. Upon withdrawal, the Borrower shall submit an "Application of Withdrawal" (in duplicate) to the business department of our bank and provide corresponding transaction certification. The written documents provided shall be original; if any original cannot be provided, a copy with the corporate seal of the Borrower may be provided with the consent of the Lender.

9.2.3 The Lender may decide whether to grant the loan or not after examining the materials provided by the Borrower in line with its internal procedure.

9.3 If the Borrower fails to go through the formalities for withdrawal within the withdrawal period as agreed, nor applies for postponing the withdrawal, the Lender may notify the Borrower, requesting it to go through relevant formalities within five workdays. Should the Borrower still fail to completing such formalities, the Lender is entitled to cancel or partly cancel the loan not withdrawn, and collect compensations at the rate of 1% of cancelled amount.

Article 10 Account supervision

10.1 The Borrower shall, prior to withdrawal, open a *general settlement account* with the Lender and keep such account until the accounts payable hereunder are all paid off and all obligations and responsibilities of the Borrower hereunder are completely performed.

10.2 The Borrower shall deposit the amounts, including but not limited to the following money, into the account agreed in Article 10.1 of this Contract:

(1) Loan under this Contract;

(2) The Borrower's corresponding sales income or money planned for repayment. If the corresponding sales income is settled in a non-cash manner, the Borrower shall ensure that the money can be transferred into the said account in a timely manner.

(3) Income of the Borrower obtained during the process of production and operation;

(4) Other money related to operating income required by the Lender.

10.3 In order to the ensure the exercise of the rights hereunder and the performance of the obligations hereunder, the Lender has the right to supervise the account opened by the Borrower in accordance with Article 10.1 of this Contract within the effective term hereof in accordance with relevant provisions on the administration of bank settlement accounts and stipulations hereof.

10.4 The account supervision includes, without limitation:

10.4.1 The withdrawal of loan and supervision over the use of loan

(1) When using the funds borrowed, the Borrower must provide materials including the application of withdrawal as required by the Lender, and the fund will be granted to the account with the consent of the Lender after examination and paid externally in the method of payment as stipulated herein;

(2) Where the Borrower's application for the use of loan fails to conform to the fund use plan or purpose, the Lender is entitled to refuse the granting of the loan, but it shall give written notice to the Borrower, indicating the reason for refusal.

10.4.2 The Borrower shall cooperate with the inquiry and supervision over the incomes and expenses of the account. Upon the request of the Lender, the Borrower shall sign a special account supervision agreement with the Lender.

10.4.3 Supervision over production and operating incomes

(1) The incomes made by the Borrower during its day-to-day production and operation, shall be deposited into the account stipulated in Article 10.1 of this Contract __/__ (fully/at the amount not less than the loan ratio of the Lender).

(2) Supervision over the repayment of loan with incomes. Except some necessary expenses, the Borrower shall use the operating income first for repaying the loan hereunder.

10.5 The Borrower undertakes that all the money withdrawn and transferred out of the account stipulated in Article 10.1 of this Contract shall only be used for the following payments:

(1) The loan principal, interest, penalty, compensation, payable expenses and other money hereunder;

(2) Other necessary expenses that the Borrower shall pay for its business operation.

10.6 The Lender will not assume any legal liabilities for such measures as refusal of granting loan and restriction over expenditure taken for the purpose of implementing account supervision as agreed in this Contract.

Article 11 Loan granting and payment

11.1 To withdraw the loan hereunder, the Borrower must satisfy the following preconditions, otherwise the Lender is not obligated to grant any funds to the Borrower, excluding those funds that the Lender agrees to grant in advance:

(1) Except the credit-based loan, the Borrower has, as required by the Lender, provided corresponding guarantee and gone through relevant formalities for guarantee;

(2) No event of default under the Contract or other contracts signed by the Borrower and the Lender has happened;

(3) The certification for the loan purpose provided conforms to the agreed purpose.

11.2 If the Borrower meets the preconditions for withdrawal, or with the consent of the Lender to grant loan in advance, the Lender transfers the loan into the designated account of the Borrower, it shall be deemed that the Borrower has granted the loan to the Borrower as provided herein.

11.3 The Borrower shall pay the loan externally by way of "payment by the Lender upon entrustment" or "payment by the Borrower itself". In accordance with relevant regulatory provisions and management requirements of the Lender, the loan exceeding certain amount or meeting other conditions shall be paid in the manner of "payment by the Lender upon entrustment", and the Lender will, according to the Borrower's application of withdrawal and payment entrustment, pay the loan to the payee conforming to the purpose agreed herein. For this reason, the Borrower shall sign a separate agreement on entrustment-based payment with the Lender as an annex hereto, and open or designate a special account with the Lender to handle the matters concerning the entrustment-based payment.

11.4 Payment by the Lender upon entrustment: It means that the Lender pays the loan funds to the counterparty of the Borrower conforming to the purpose as stipulated herein according to the Borrower's application of withdrawal and payment entrustment.

11.4.1 In the case of "payment by the Lender upon entrustment", the Lender shall submit a "letter of payment entrustment" (in duplicate) to the Lender while submitting the "application of withdrawal", expressing its intention to entrust the Lender to make external payment.

11.4.2 The Lender may decide whether to make external payment as entrusted after examining the contents of entrusted payment in line with its own internal procedure. If accepting the entrustment, the Lender shall lose no time to pay the money concerned externally in line with the "letter of payment entrustment" after the funds are granted to the special account of the Borrower.

11.5 Payment by the Borrower itself: It means that the Borrower, on its own, pays the loan funds to the counterparty thereof meeting the purpose as agreed herein after the said funds are granted by the Lender to the Borrower's account upon its application for withdrawal.

11.5.1 In the case of "payment by the Borrower itself", the Borrower shall, after the loan funds are granted to the special account of the Borrower, lose no time to pay the said money to counterparty thereof determined for the payment concerned, and the Lender has the right to supervise the payment act of the Borrower. If it is required to withdraw cash, the Borrower shall lose no time to transfer the funds from the special account into the basic account.

Article 12 Repayment

12.1 Source of repayment

12.1.1 The financial source of the Borrower for repaying the loan principal and interest hereunder include, without limitation:

(1) *Operating incomes* ____________________;

(2) ____________________;

(3) ____________________.

12.2 Sequence of repayment

12.2.1 Any repayment of the Borrower hereunder shall be made in the sequence to the repay the previous loans first and then the current loans. That is to say, the sequence of repayment is based on date of maturity: first the loans which become mature earlier, and then those which become mature later.

12.2.2 In case that the amount repaid by the Borrower is not sufficient to discharge the payables hereunder, the Lender may elect to use such amount to repay the principal, interest, punitive interest, compound interest or relevant fees.

12.3 Repayment schedule

12.3.1 The grace period hereunder is ___/____(in words, year/month), starting from the day the first loan is granted. During the grace period, the Borrower is not required to repay the loan principal.

12.3.2 The Borrower shall fully pay the interest as provided herein, and repay the loan principal as agreed in the *first* of the following methods: (optional)

(1) Repayment of loan principal in a lump sum on *September 9, 2014*.

(2) Repayment of loan principal in installments in a period extending from __/__(date) to __/__(date). The specific repayment schedule is shown as follows:

Time of repayment	Amount of repayment

(Notes: ① The time of repayment in the table may be based on time point and time range. ② A sheet added due to the limited space of the table shall constitute a part hereto, and shall have articles linking hereto.)

12.4 Method of repayment

The Borrower shall fully repay the loan principal, interest, and other payables on schedule as agreed herein. The payables in the current period shall, at a banking workday prior to the repayment date and each interest settlement date, be deposited into the account as agreed in Article 10.1 hereof, and the Lender is entitled to deduct such money on its own on the repayment date or interest settlement date, or require the Borrower to provide cooperation in going through relevant formalities for such funds transfer so that it may perform its repayment obligations in full. If the money in the repayment account is not enough to pay all the Borrower's mature payables, the Lender is entitled to decide the sequence of repayment.

12.5 Early repayment

12.5.1 In the event of early repayment, the Borrower shall submit a written application to the Lender 10 workdays in advance, and make the early repayment after reaching an agreement with Lender upon consultation.

12.5.2 Upon the early repayment of the Borrower, the interest for the early-repaid part shall be collected in the __/_ of the following methods, with interest being paid off with the principal.

(1) to collect the interest according to the actual loan term and the interest rate agreed herein;

(2) to collect the interest according to the loan term and interest rate agreed herein;

(3) to collect the interest in accordance with actual loan term at the interest rate stipulated herein plus__/___(in words) percent (but the actual amount of interest collected may not exceed the amount of interest accrued according to the loan term and interest rate stipulated herein.

(4) other method

12.5.3 Where the Borrower makes early repayment, the principal repaid may not be less than RMB ____/___ and shall also be integral multiple of RMB 100,000.

12.5.4 If the Lender agrees with the early repayment, the Borrower shall, upon the early repayment date, also pay off the payable loan principal, interest and other money accrued until the early repayment date as stipulated herein.

12.5.5 Where the actual loan term is shortened because the Borrower makes early repayment or the Lender takes back loans as provided herein, the corresponding level of interest rate will not be adjusted and the original loan interest rate shall still be adopted.

12.6 Extension

Where the Borrower cannot repay loans in line with the repayment schedule as agreed herein, it may apply to the Lender for extension. The Borrower shall submit the application for extension to the Lender at least 15 workdays prior to the loan maturity date, and after the Lender's examination and approval, the Lender may enter into a loan extension agreement with the Borrower.

12.7 The Lender has the right to take back loans according to the capital recovery situation of the Borrower.

Article 13 Inspection over the use of loan funds

13.1 After granting loans, the Lender is entitled to inspect the use of loan funds hereunder either in an on-site or off-site manner. The Borrower shall, as required by the Lender, submit the report on use of loan funds, corresponding certificates for payment of funds, and performance of trading contract, etc. in a timely manner. The Lender's inspection and supervision shall cover the following areas, including without limitation:

(1) Whether the Borrower has used the loans for the purposes stipulated herein, and whether the loans have been used for engaging in speculation in the areas, including equity capital investment, marketable securities, and futures, which are prohibited by the state explicitly;

(2) Other circumstances over which the Lender deems it necessary to carry out inspection.

13.2 Where the Lender, during its inspection, discovers that the production and operation of the Borrower is affected by the improper use of funds, it may request the Borrower to make corrections with a given period. If the Borrower fails to make corrections within the given period, the Lender may require the Borrower to assume the liability for breach of contract as provided in Article 17 hereof.

13.3 The Lender may visit the Borrower on a regular or irregular basis, to learn relevant information in the following ways:

(1) listening to the report of the Borrower on its business scope, core businesses, production and operation, business plan and major investment plans within the loan term, etc.;

(2) introduction about the Borrower' industry made by the Borrower;

(3) the Borrower's total need of working capital and current financing liabilities;

(4) real financial situation of the Borrower in respect of accounts receivable, accounts payable, and stock-in-trade, etc.

(5) Information on the related parties and related transactions of the Borrower;

(6) Information on the specific loan purposes and capital usage of the counterparty related to the loan purposes;

(7) Information on the source of repayment, including the cash flow, consolidated incomes and other legitimate incomes generated from production and operation;

(8) Checking the financial and accounting data of the Borrower such as financial statement, accounting documents, and account books, as well as other relevant information, and checking the financial and capital situation of the Borrower.

Article 14 Representations and warranties of the Borrower

The Borrower makes the following representations and warranties to the Lender and keeps them valid throughout the effective term of this Contract:

14.1 It lawfully has the right as principal of a Borrower, and is qualified and able to sign and perform this Contract.

14.2 It has obtained all necessary authorizations or approvals to sign this Contract, and the execution and performance hereof will not go against the provisions of its articles of incorporation and relevant laws and regulations, nor be in conflict with the obligations that it shall assume under other contracts.

14.3 Other payable debts have been paid off on schedule and it does not have any malicious act to default on the loan principal and interest of any bank.

14.4 It has well-established organizational structure and financial management rules. In the latest year, no substantial breaching behavior has occurred during its production and operation, and none of the current senior executives has any substantially bad record.

14.5 All the documents and data provided to the Lender are true, accurate, complete and valid, free of any falsified record, material omissions or misleading information.

14.6 The financial accounting reports provided to the Lender are compiled in accordance with the Chinese Accounting Standards, reflecting the operation conditions and liabilities of the Borrower truthfully, fairly and completely, and no substantially unfavorable changes have occurred to the financial situation of the Borrower since the closing date for the latest financial accounting report.

14.7 It has not concealed any litigation, arbitration or claim for compensation that it has got involved in.

Article 15 Undertakings of the Borrower

15.1 It shall withdraw and use the loans in line with the term and purposes agreed herein, and the funds borrowed will not be used for investment in fixed assets and equity, nor flow into the securities market and futures market in any ways, nor be used for other purposes that are prohibited or restricted by relevant laws and regulations in any ways.

15.2 It shall pay off the loan principal, interest and other payables as stipulated in this Contract.

15.3 It will accept and actively cooperate with the inspection and supervision of the Lender over the use of loan funds (including the purpose) by way of account analysis, inspection of certificates, and on-site investigation, and report the use of loan funds as required by the Lender on a regular basis.

15.4 It will accept the credit investigation of the Lender, provide financial and accounting data including balance sheet and income statement and other materials which may reflect the solvency of the Borrower as required by the Lender, and actively provide assistance and cooperation to the Lender to investigate, understand and supervise its production, operation, and financial situation.

15.5 It will not distribute any dividends and bonus in any form before paying off the loan principal and interest and other payables hereunder.

15.6 When launching any action that may cause unfavorable impact to the rights and interests of the Lender, such as merger, split-off, capital reduction, changes in equity, substantial transfer of assets and creditor's rights, substantial foreign investment, substantial increase in debt financing, the Borrower shall first get the written consent of the Lender or make arrangement regarding the realization of creditor's rights of the Lender that is satisfactory to the Lender.

15.7 Under any of the following circumstances, the Borrower shall send a timely notice to the Lender:

(1) Change in articles of incorporation, business scope, registered capital, and legal representative;

(2) Shutdown, dissolution, liquidation, business suspension for rectification, and revocation of business license, cancellation, or application (being applied) for bankruptcy;

(3) Involvement or possible involvement in substantial economic dispute, litigation, arbitration, or sealing-up, sequestration or control of assets under law;

(4) Involvement of any shareholder, director or current senior executive in any major cases or economic disputes.

15.8 It shall disclose the relations with any related parties and the related transactions to the Lender in a timely, comprehensive and accurate manner.

15.9 It shall sign and receive the relevant notices sent or served in other ways by the Lender in a timely manner.

15.10 It may not dispose its own assets by reducing its solvency, nor provide any guarantee for any third party that will impair the rights and interests of the Lender.

15.11 Where the loans hereunder are granted in a credit-based manner, it shall regularly report the external guarantee information to the Lender fully, truthfully, and accurately, and sign an account supervision agreement as required by the Lender. Where the external guarantee may affect its performance of obligations hereunder, it shall obtain the written consent of the Lender.

15.12 It shall bear all the costs for the execution and performance of this Contract and the expenses that have been paid or are payable by the Lender with a view to realizing the creditor's right hereunder, including, without limitation, litigation or arbitration fees, property preservation fees, lawyer's fees, execution cost, assessment charges, auction fees, and announcement expenses.

15.13 The debts hereunder shall be paid off in an order taking priority over those debts owed to shareholders, and remain at least at an equal level compared with other similar debts of the Borrower to other creditors.

Article 16 Undertakings of the Lender

16.1 It shall grant the loans to the Borrower as agreed herein.

16.2 It shall keep all the non-public information and data provided by the Borrower confidential, except for those as otherwise provided in relevant laws and regulations and in this Contract.

Article 17 Liability for breach of Contract

17.1 Any of the following circumstances shall constitute the default of the Borrower:

(1) The Borrower fails to repay the loan principal and interest as well as other payables hereunder as agreed herein, or fails to perform any other obligations hereunder, or breaches any representation, warranty or undertaking hereunder;

(2) In the event of any change in the guarantee hereunder which is unfavorable to the creditor's rights of the Lender, the Borrower fails to otherwise provide other guarantee acceptable to the Lender;

(3) The Borrower fails to pay off any other mature debts (including those about which an early maturity are announced), or fails to perform or goes against the obligations under other agreements, which has affected or may affect its performance of the obligations hereunder;

(4) The financial indicators of the Borrower such as profit-making capacity, solvency, operating capacity and cash flow break the stipulated criteria, or become deteriorated, which has impaired or may impair its performance of obligations hereunder;

(5) A substantially unfavorable change happens to the shareholding structure, production and operation, and foreign investment of the Borrower, which has impaired or may impair its performance of obligations hereunder;

(6) The Borrower gets involved or is likely to get involved in any substantial economic dispute, litigation, arbitration, or has its assets sealed up, sequestrated or under any specific performance, or it is investigated in a case placed on file or imposed punitive measures by any judicial authority or administrative authority under law, or it is exposed by media as a result of violating relevant national provisions or policies, which has impaired or may impair its performance of obligations hereunder;

(7) The main individual investors and key executives of the Borrower undergo abnormal change, get lost, or are investigated or have their freedom restricted by any judicial authority pursuant to laws, which has impaired or may impair its performance of obligations hereunder;

(8) The Borrower fraudulently obtains the funds or credit from the Lender by making use of false contracts with the related parties and transactions without real trading background, or intentionally evades the creditor's rights of the Lender relying on related transactions;

(9) The Borrower has got or may get involved in shutdown, dissolution, liquidation, business suspension for rectification, and revocation of business license, cancellation, or application (being applied) for bankruptcy;

(10) The Borrower has caused any negligent accident due to its violation of relevant laws and regulations, regulatory provisions or industrial standards on food safety, production safety and environmental protection, which has impaired or may impair its performance of obligations hereunder;

(11) Where the loans hereunder are granted in a credit-based manner, the indicators of the Borrower, including credit rating, profitability, asset-liability ratio, and net cash flow from business activities, fail to meet the credit-based loan requirements of the Lender; or without the written consent of the Lender, the Borrower sets its effective business assets as mortgage/pledge guarantee for others, or provides external guarantee, which has impaired or may impair its performance of obligations hereunder;

(12) Other circumstances that may result in unfavorable impact to the Lender in realizing its creditor's right hereunder.

17.2 Upon the default of the Borrower, the Lender is entitled to take one or more of the following measures:

(1) Requiring the Borrower to correct its breaching behavior within a time limit;

(2) Stopping extending to the Borrower loans or other financing funds under this Contract or other contracts reached by and between the Lender and the Borrower, and canceling in part or in whole the loans and other financing funds that the Borrower has not withdrawn;

(3) Announcing that the unpaid loans under this Contract or other contracts reached by and between the Lender and the Borrower become mature immediately and take back the unpaid money immediately;

(4) Requiring the Borrower to compensate all losses suffered by the Lender owing to the former's breach of contract;

(5) Other measures provided in relevant laws and regulation, stipulated in this Contract, or deemed to be necessary by the Lender.

17.3 Where the Borrower fails to make repayment as agreed upon the loan maturity (including the early maturity announced), the Lender is entitled to collect any punitive interest at the overdue punitive interest rate stipulated in this Contract since the overdue date. For the interest not paid by the Borrower on schedule, compound interest will be collected at the overdue punitive interest rate.

17.4 Where the Borrower fails to use the loans for the purposes stipulated herein, the Lender is entitled to collect punitive interest for the misappropriated part at the punitive interest rate for misappropriation of loans as stipulated herein since the date when the loan is misappropriated, and for the interest not paid on schedule within the period of misappropriation, compound interest will be collected at the punitive interest rate for misappropriation of loans.

17.5 Where the Borrower gets involved in the circumstances as mentioned both in Articles 17.3 and 17.4 above, the higher punitive interest rate rather than the superposed rate will be adopted.

17.6 Where the Borrower fails to repay the loan principal, interest (including punitive interest and compound interest) or other payables, the Lender is entitled to expedite the collection via announcement on media.

17.7 Where there is any change in relations of controlling and being controlled between the related parties of the Borrower and the Borrower, or the related parties of the Borrower get involved in circumstances other than those mentioned in Items (1) and (2) of Article 17.1 above, which has or may have affected the performance of the obligations hereunder by the Borrower, the Lender is entitled to take various measures as stipulated herein.

Article 18 Deduction

18.1 Where the Borrower fails to repay the mature debts hereunder (including those which are announced to be mature immediately) as agreed in this Contract, the Lender is entitled to deduct the corresponding funds from all the accounts both in home and foreign currencies opened by the Borrower with other sub-braches of our bank for repayment till all the debts of the Borrower hereunder are paid off completely.

18.2 When the deducted funds are not of the same currency as that provided herein, the said money will be converted at the applicable exchange rate of the Lender upon the date of deduction. The interest and other fees accruing during the period from the date of deduction to the date of clearance (the day when the Lender converts the deducted funds into the currency hereunder in accordance with national policies on administration of foreign exchange and has the debts hereunder cleared actually), as well as the difference arising from the fluctuation in foreign exchange rate during this period shall all be borne by the Borrower.

18.3 Where the funds deducted by the Lender are not enough to clear all debts of the Borrower, the Lender is entitled to decide the sequence of clearance.

Article 19 Rights and obligations of the Borrower

19.1 It may withdraw and use the loans in line with the terms agreed herein.

19.2 It shall repay the loan principal and interest in full on schedule.

19.3 It shall deal with the settlement of account current and deposits related to the loans hereunder through the account stipulated in Article 10 hereof.

19.4 Where the loan hereunder is borrowed in a foreign currency, it shall duly go through the formalities of approval and registration as well as other statutory formalities related to the said loan in accordance with relevant provisions; for the loan in foreign currency, the Borrower cannot use it for foreign exchange settlement.

19.5 The Borrower shall accept and actively cooperate with the inspection and supervision carried out by the Lender and the entities or individuals entrusted thereby over its financial activities and the use of loan funds hereunder.

19.6 Where the Borrower has any of the following acts within the effective term of this Contract, it shall send a prior written notice to the Lender, and with the consent of the Lender, implement the measures for paying off debts or pay off debts in advance:

(1) acts enough to result in change in the relation between creditor's rights and liabilities hereunder or affect the realization of creditor's rights by the Lender, including contracting, lease, joint-stock transformation, joint operation, consolidation, merger, split-off, reduction in registered capital, joint venture, transfer of assets, foreign investment, application for business suspension for rectification, application for dissolution, application for bankruptcy;

(2) acts that may affect its solvency hereunder, such as providing guarantee for debts of others, or mortgaging and pledging its primary assets for a third person;

(3) acts to mortgage and pledge the project assets formed with the loan hereunder for any third party.

19.8 Where the Borrower gets involved in any of the following events, it shall, within five workdays after the occurrence of such events, notify the Lender in writing and implement the measures for preserving the creditor's rights acceptable to the Lender:

(1) Its legal representative or chief executive involving in any illegal activities;

(2) Production halt, shutdown, cancellation of registration, revocation of business license, being cancelled, or being applied for bankruptcy;

(3) Deterioration of financial situation or serious difficulty in production and operation, or involvement in substantial litigation or arbitration event;

(4) Other events that are of substantially unfavorable impact to the realization of creditor's rights by the Lender.

19.9 Upon any of the following events, the Borrower shall, within five workdays after the occurrence of such event, notify the Lender in writing:

(1) Change in subordination relation and top management members, as well as adjustment in organizational structure;

(2) Alteration to matters regarding industrial and commercial registration such as its name, domicile, legal representative, and business scope;

(3) Increase in registered capital and modification to articles of incorporation;

(4) Change in other major matters of the Borrower.

19.10 The Borrower and its investors shall not draw out their capital illegally, transfer their assets or assign their shares without permission to evade the Borrower's debts owed to the Lender.

19.11 The Borrower may not sign any agreement or document that is enough to impair the interests of the Lender, or engage in any matter that is enough to damage the interests of the Lender.

19.12 The Borrower shall timely report to the Lender any breaching behavior specified herein that has happened or will happen.

19.13 Where the guarantor for the loans hereunder gets involved in the circumstances including production halt, shutdown, cancellation of registration, revocation of business license, bankruptcy or being cancelled and business losses, which makes the guarantor lose its guaranteeing capacity related to the loans hereunder in part or in whole, or the value of the guaranties or pledged assets as a security for the loans hereunder is reduced, damaged or lost accidentally, the Borrower shall forthwith provide other guarantee acceptable to the Lender.

19.14 The Borrower shall bear all the charges and expenses for legal service, insurance, transport, assessment, registration, safe-keeping, authentication, and notarization, etc. related to this Contract and the guarantee hereunder.

Article 20 Rights and obligations of the Lender

20.1 It is entitled to inspect and supervise the Borrower's financial situation, inventory and use of loan funds, and demand the Borrower to provide the documents, materials and information such as financial statement periodically.

20.2 Where the Borrower has any unfavorable acts or gets involved in any unfavorable situation which is enough to endanger the safety of the loans hereunder, including but not limited to those specified in Article 18 hereof, the Lender may stop granting loans and take back the part granted in advance.

20.3 When taking back or taking back in advance the loan principal, interest, punitive interest, compound interest and other payables from the Borrower in accordance with the terms hereunder, the Lender may make direct deduction from any account of the Borrower.

20.4 The Lender shall grant loans to the Borrower in full and on schedule in accordance with the terms stipulated herein, but excluding the postponement owing to the fault of the Borrower or other persons rather than the Lender.

20.5 The Lender shall give a reply to the application of the Borrower within the time limit as agreed in this Contract. In the event that it fails to do so, it shall be deemed that the Lender reject the application of the Borrower unless otherwise provided herein.

20.6 For any substantial breaching behavior of the Borrower such as escaping the supervision of the Lender, and default on the loan principal and interest, the Lender is entitled to impose credit sanction, report to relevant authorities or entities, and disclose the said behavior to the public.

20.7 The Lender has the right to transfer its rights hereunder in part or in whole to any third party, and such transfer does not need the consent of the Borrower. Without the written consent of the Lender, the Borrower may not transfer any of its rights and obligations hereunder.

Article 21 Confidentiality

21.1 Either party is obligated to keep confidential the business secrets or other interest-related information of the other party known in the execution and performance of this Contract. Unless otherwise provided in laws and administrative regulations, without the permission of the other party, none of the aforesaid information may be disclosed or divulged to a third party.

21.2 Unless otherwise provided herein, without the consent of the other party, either party may not disclose any information of this Contract and non-public information related hereto to any third party.

To extent permitted by relevant laws and regulations, the Lender may disclose data or information related hereto to the regulatory authorities, its superior bank, branches, and assignee of the creditor's right.

Article 22 Effectiveness, alteration, and rescinding of Contract

22.1 This Contract shall come into effect as from the date of execution and keep effective till the day when the Borrower performs all obligations hereunder.

22.2 Any alteration to this Contract shall be made in a writing based on an agreement reached by both parties through consultation. The altered clauses or agreements shall constitute a part hereto and be of the same legal effect as that of this Contract. Except the altered part, the remaining part of this Contract shall remain effective, and the original clauses remain effective before the altered part comes into effect.

22.3 The alteration and rescinding of this Contract shall have no impact on the rights of either party to claim compensations for losses. The rescinding of this Contract will not affect the effect of the clauses on dispute settlement.

22.4 This Contract is made in *two* counterparts of the equal legal effect, with the Borrower, the Lender and __/__ holding *one* copy respectively.

Article 23 Governing laws and settlement of dispute

The execution, effect, interpretation, performance and dispute settlement of this Contract shall be subject to the laws of the People's Republic of China. For all disputes and dissensions arising out of this Contract or related hereto, both Party A and Party B shall try to settle them through consultation. Shall such consultation fail, they shall be settled in the method stipulated herein.

Article 24 Notification

24.1 All notices hereunder shall be sent in a written form. Unless otherwise provided, the domiciles specified herein by both parties shall be the addresses for communication and correspondence. Where either party's address for communication or other contact method changes, it shall write to notify the other party in a timely manner.

24.2 Where either party hereto refuses to sign a notice or there is any notice failing to be served, the notifying party may have the notice in question served by way of notarization or announcement.

Article 25 Miscellaneous

25.1 If the Lender fails to exercise, or exercise in part, or delay its exercise of any right hereunder, it shall not constitute its waiver or change of the right concerned or other rights, nor shall it affect its further exercise of such right or other rights.

25.2 The ineffectiveness or unenforceability of any clause hereof may not affect the effectiveness and enforceability of other clauses hereof, nor the effect of this Contract as a whole.

25.3 The Lender is, in accordance with the provisions of relevant laws and regulations and the requirements of financial regulatory authorities, entitled to provide information related hereto and other relevant information of the Borrower to the credit reference system established by the People's Bank of China and other credit information databases established under law for inquiry and use by entities and individuals with appropriate qualifications. The Lender also has the right to inquire relevant information of the Borrower through the credit reference system established by the People's Bank of China and other credit information databases established under law for purposes of executing and performing this Contract.

25.4 The terms mentioned herein, including "related party", "relation with related party", "related transaction", "main individual investor", and "key executive", are of the same meanings as the identical terms defined in the *Accounting Standards for Business Enterprises No. 36 – Disclosure of Related Parties* (Cai Kuai [2006] No. 3) promulgated by the Ministry of Finance of the PRC and the revised versions thereof.

25.5 The documents and certificates of loans hereunder prepared and kept by the Lender according to its business rules shall constitute effective evidences for proving the relation of creditor's rights and liabilities between the Lender and Borrower, and have a binding force to the Borrower.

25.6 In this contract, (1) the references to this Contract shall also cover the alteration or supplementation hereto; (2) the titles of articles are only for reference, not constituting any interpretation to this Contract, nor restricting the contents under such titles or the scope thereof; (3) if the withdrawal date or repayment date is not a banking workday, it shall be postponed to the next banking workday accordingly.

Article 26 Settlement of dispute

26.1 In the event of any dispute arising during the performance of this Contract, the parties shall try to settle it through consultation. Shall such consultation fail, either party is entitled to lodge a lawsuit with the people's court where the Lender is located for settlement through litigation.

26.2 During any litigation, other clauses herein unrelated to the dispute shall be performed as normal.

Article 27 Other matters as agreed upon by both parties

____

____

Article 28 Notes

The Lender has asked the Borrower to understand the clauses specified herein completely and accurately, and has made explanations on certain clauses as requested by the Borrower. Both parties hereto have reached agreement on the meaning of this Contract.

In addition, the Borrower hereby represents that it has given special attention to its obligations and those clauses unfavorable to itself and confirmed to accept the same.

Party A: (corporate seal):

Synthesis Energy Systems (Zaozhuang) New Gas Co., Ltd.

Legal representative (signature or seal):

John Winter

[seal]

September 10, 2013

Party B: (corporate seal):

Zaozhuang Bank Co., Ltd. Junshan Road Sub-branch

Legal representative (signature or seal):

Zhou Changtao

[seal]

September 10, 2013

Exhibit 21.1

Subsidiaries of the Company

- Synthesis Energy Holdings, Inc. (Florida corporation)
  - Owns 100% of:
    - Synthesis Energy Systems, Inc. (British Virgin Islands corporation)
      - Owns 100% of:
        - Synthesis Energy Systems Investments, Inc. (Mauritius corporation)
        - Synthesis Energy Investment Holdings, Inc. (Mauritius corporation)
        - Synthesis Energy Technology Holdings, Inc. (Mauritius corporation)
        - SES New Energy Technologies, (Shanghai) Co., Ltd. (Chinese corporation)

    - Synthesis Energy Systems Technologies, LLC (Delaware limited liability company)

    - SES Resources, LLC (Delaware limited liability company)

      Owns 50% of:
        - SES Resource Solutions, Ltd. (British Virgin Islands corporation)

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-187760) and Form S-8 (Nos. 333-147490, 333-148544, and 333-185617) of Synthesis Energy Systems, Inc. and subsidiaries (a development stage enterprise) of our report dated September 24, 2013 relating to the financial statements, which appears in this Form 10-K.

/s/ UHY LLP

Houston, Texas
September 24, 2013

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-187760) and Forms S-8 (Nos. 333-147490, 333-148544, and 333-185617) of our report dated September 26, 2012 relating to the consolidated financial statements, which appears in Synthesis Energy Systems, Inc. and subsidiaries' (a development stage enterprise) Annual Report on Form 10-K for the year ended June 30, 2013.

PricewaterhouseCoopers LLP
Houston, Texas
September 24, 2013

Exhibit 23.3

Consent of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Synthesis Energy Systems, Inc.:

We consent to the incorporation by reference in the registration statement on Form S-3 (No. 333-187760) and Form S-8 (Nos. 333-147490 , 333-148544, and 333-185617) of Synthesis Energy Systems, Inc. and subsidiaries (a development stage enterprise) of our report dated September 12, 2008, with respect to the consolidated statements of operations, equity, and cash flows of Synthesis Energy Systems, Inc. and subsidiaries for the period from November 4, 2003 (inception) to June 30, 2008, which report appears in the June 30, 2013 annual report on Form 10-K of Synthesis Energy Systems, Inc.

/s/ KPMG LLP

Houston, Texas
September 24, 2013

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO RULE 13a-14(a)/15d-14(a) PROMULGATED UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Robert Rigdon, certify that:

1. I have reviewed this annual report on Form 10-K of Synthesis Energy Systems, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 24, 2013

/s/ Robert Rigdon
Robert Rigdon
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO RULE 13a-14(a) PROMULGATED UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Kevin Kelly, certify that:

1. I have reviewed this annual report on Form 10-K of Synthesis Energy Systems, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 24, 2013

/s/ Kevin Kelly
Kevin Kelly
Chief Accounting Officer, Controller and Secretary

Exhibit 32.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Synthesis Energy Systems, Inc. (the “Company”) on Form 10-K for the period ended June 30, 2013 (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, I, Robert Rigdon, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert Rigdon
Robert Rigdon
President and Chief Executive Officer

September 24, 2013

Exhibit 32.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Synthesis Energy Systems, Inc. (the "Company") on Form 10-K for the period ended June 30, 2013 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Kevin Kelly, Chief Accounting Officer and Corporate Controller of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kevin Kelly
Kevin Kelly
Chief Accounting Officer, Controller and Secretary

September 24, 2013