

# SYNTHESIS ENERGY SYSTEMS INC

## FORM 10-K (Annual Report)

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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, 2014

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

(State or Other Jurisdiction of Incorporation or Organization)

20-2110031

(I.R.S. Employer Identification No.)

Three Riverway, Suite 300, Houston, Texas

(Address of Principal Executive Offices)

77056

(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

(Title of Class)

NASDAQ Stock Market

(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 or 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 \$30 million on December 31, 2013. The registrant had 73,224,330 shares of common stock outstanding on September 10, 2014.

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 ability of our ZZ Joint Venture (as defined below under “Description of Business – Current Operations and Projects – Zao Zhuang Joint Venture”) to effectively operate Xuejiao’s methanol plant and produce methanol; the ability of our project with Yima to produce earnings, pay dividends and collect the remaining receivable from the Yima Joint Venture (as defined below under “Description of Business – Current Operations and Projects – Yima Joint Ventures”); our ability to develop and expand business of the TSEC Joint Venture, as defined below, in the joint venture territory; our ability to develop our power business unit and marketing arrangement with GE and our other business verticals, steel and renewables; our ability to successfully develop our licensing business; to reduce operating costs; our limited history, and viability of our technology; commodity prices, and the availability and terms of financing; our ability to obtain the necessary approvals and permits for future projects; our ability to raise additional capital, if any, and our ability to estimate the sufficiency of existing capital resources; the sufficiency of internal controls and procedures; and our results of operations in countries outside of the U.S., where we are continuing to pursue and develop projects. 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 global energy and gasification technology company that provides proprietary gasification technology systems and solutions to the energy and chemical industries. Our business strategy 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 feed stocks 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<sup>®</sup> process developed by the Gas Technology Institute, or GTI, 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.

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. 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.

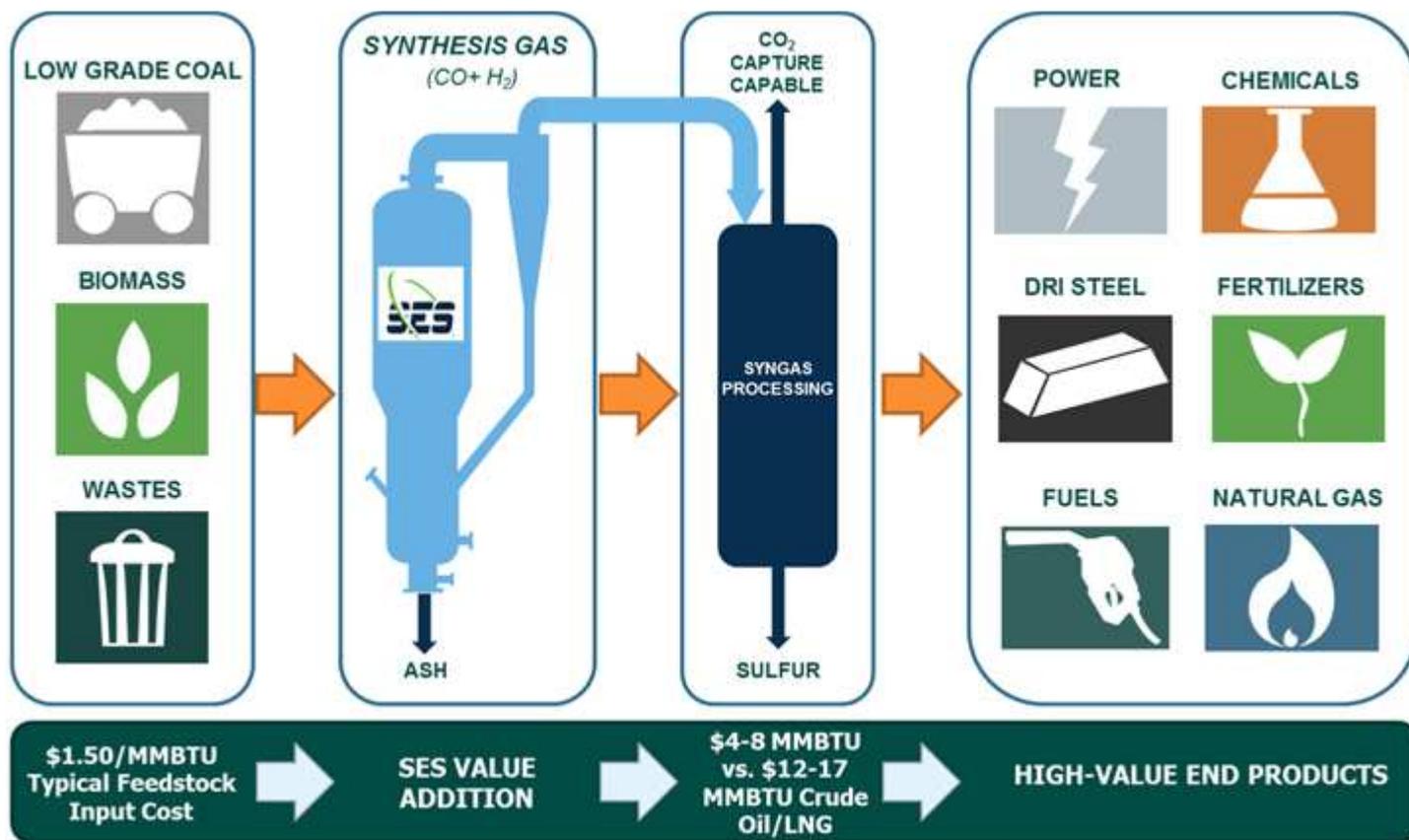
We believe our existing operating projects in China have clearly demonstrated that we have several advantages which differentiate our technology over other commercially available gasification technologies, such as entrained flow, fixed bed, and moving bed gasification technologies. The first of these 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 of 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 more favorable fabrication costs and resulting plant costs being lower compared to other commercially available technologies. We believe that these important cost, feedstock flexibility, and water consumption 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**

Our gasification technology uses oxygen, steam and heat to cleanly and economically extract carbon and hydrogen from coal resources, coal wastes and renewable forms of biomass and municipal wastes. This is a partial oxidation process where the carbon and hydrogen molecules are converted to gas in the form of hydrogen (H<sub>2</sub>), carbon monoxide (CO) and methane (CH<sub>4</sub>). Other components of syngas include water vapor, carbon dioxide (CO<sub>2</sub>), inerts such as nitrogen, and traces of compounds derived from other components in the feedstock. This combined gas mixture is called synthesis gas or "syngas".

Syngas is a valuable and extremely versatile product which can offer lower production costs than using traditional oil and natural gas alternatives. Syngas can be readily converted into a wide range of fundamental energy and chemical products. These products include but are not limited to electric power, natural gas (methane), transportation fuels such as gasoline, diesel and jet fuel, chemicals such as methanol, olefins, glycols and others, ammonia and urea for agricultural fertilizers and feedstocks for steel making.

**SES Gasification Technology**  
**Produces Syngas Used for Production of a Variety of Energy and Chemical Products**



Our technology is in the family of gasification technologies which have been used successfully in industrial applications for many years. However, our technology is meaningfully differentiated over previous forms of gasification technologies primarily through its ability to produce syngas from most forms of solid-form natural resources including low quality brown coals and lignites, high ash sub-bituminous coals, and including high quality bituminous and anthracite coals, high ash and high moisture coals, and biomass and other renewable waste materials.

Our feedstock advantage opens up new global coal resources to use for manufacturing energy and chemical products which otherwise could not be done with other commercial gasification technologies. Our technology's advanced fluidized bed design is also extremely tolerant to a wide range of 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 more favorable fabrication costs and resulting plant costs being lower compared to other commercially available technologies. We believe these important cost savings, feedstock flexibility, and water consumption factors position our technology for future deployment of gasification worldwide because our technology can enable projects to become a lower cost producer of products.

Our technology began with U-GAS<sup>®</sup> gasification technology. We obtained an exclusive worldwide license for the U-GAS<sup>®</sup> gasification technology, developed by GTI located near Chicago, Illinois, a leading non-profit energy technology research and development organization serving the gas industry. Beginning in 1975, GTI developed a fluidized bed gasification technology trademarked as U-GAS<sup>®</sup>. Our U-GAS<sup>®</sup> license grants us the worldwide exclusive right to manufacture, make, use and sell both U-GAS<sup>®</sup> 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 mixtures (with biomass content exceeding 40% by weight) gasification systems. We also have rights to sublicense U-GAS<sup>®</sup> 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 further innovated and developed the U-GAS<sup>®</sup> process into our technology by developing new intellectual property of our own. We are operating projects and further advancing our gasification technology based on innovations and improvements to the design made during the ZZ Joint Venture plant design and operations and in the design, construction, commissioning, and 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 most solid-form natural energy resources, including low quality brown coals and lignite to high quality bituminous and anthracite coals, high ash and high moisture coals, and biomass and other renewable waste materials. Our process is very effective at separating carbon from waste ash, which allows for the efficient processing of lower quality coals and many coal waste products that cannot otherwise be utilized efficiently or economically in gasifiers offered by our competitors. The ability to gasify these lower quality feedstocks unlocks economic advantages by allowing the clean and efficient use of lower cost, abundant, local feedstocks.

Our gasification process uses our advanced fluidized-bed technology for the production of valuable 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 most coals as well as coal, biomass and biomass blends.

In our gasification process, the feedstock is prepared and conveyed into the gasifier reactor. Within the fluidized bed inside the gasifier, the feedstock reacts with steam, air and/or oxygen and the temperature is controlled to maintain high carbon conversion and non-slugging 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 can be designed to range from 0 to 60 bar pressure (14.7 psia to 880 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 through a proprietary system for cooling, metering and depressurization. The ash is then typically sold as a raw material for construction and concrete products. The gasifier maintains a low level of carbon in the bottom ash discharge stream, generally achieving overall carbon conversions of over 95%. Cold gas efficiency is a measure of the amount of energy in the feed coal that is converted to syngas and is an important driver of gasification economics. Cold gas efficiencies of up to 83% on high ash coals and carbon conversions 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 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.

We believe that our gasification process also minimizes environmental emissions in all forms; air, water, and solid. As described above, due to unique and proprietary features, our gasification process can economically control the carbon content of the feed coal ash remaining after gasification such that the ash is a saleable product in most applications and markets. For wastewater emissions, the combination of dry processes for separation of fine solids from syngas, novel proprietary methods for ash cooling, and high cold gas efficiencies all reduce the water ultimately discharged as wastewater. Process water generated from our gasification units is readily treatable to enable recovery and recycling, such that ultimate wastewater discharge is minimized. Our gasification process and related syngas cleaning also captures the CO<sub>2</sub> stream, which can then be used in various applications, such as enhanced oil recovery operations, chemical industry feedstock, and other industrial processes. As regulations that restrict CO<sub>2</sub> emissions accelerate, we expect that coal gasification adoption will also accelerate as coal use expands globally.

## Competition

We believe that our technology offers an economical and cleaner approach for conversion of coal into energy and chemicals through our ability to economically gasify a wide range of solid-form natural resources including biomass, low quality coals, high quality coals, and coal wastes. We are not aware of commercially available gasifiers with such a wide range of feedstock flexibility. Our gasification technology operates efficiently with high ash and high moisture coals without 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 inferior performance and economics due to high capital costs, rejection of fine coal, high water usage and production of undesirable by-products such as tars and oils in the syngas which cause additional clean up expense.

The most predominant commercially deployed gasification technology providers are GE, Shell, Siemens and CB&I (formerly Phillips66). These entrained flow slagging gasification technologies operate on more expensive high grade bituminous and some sub-bituminous coals as feedstocks, but lack capability with the more difficult low heating value, high ash and high moisture coals and with biomass or other renewable waste materials. In addition, there are several Chinese companies that utilize entrained flow slagging gasification technologies which are derivatives of the western technologies, and these have been built in commercial scale plants in China. The markets for coal gasification are large with room for competition, however increased competition may impact our future share of the market.

Additionally, several companies, including KBR, are developing gasification technologies targeted for lignite coals which have progressed past the research and development phase but as yet have no commercially operating gasifiers.

### *SES Gasification Technology Competitive Comparison*

	<b>Biomass &amp; Peat</b>	<b>Lignite</b>	<b>Sub Bituminous</b>	<b>Bituminous &amp; Anthracite</b>	<b>Comments</b>
<b>SES Advanced Fluidized Bed</b>	Good Economics Good Efficiency Low Capex Low water use	Good Economics Good Efficiency Low Capex Low water use Good for high ash Good for high moisture Includes fine coal	Good Economics Good Efficiency Low Capex Low water use Good for high ash Good for high moisture Includes fine coal	Best Economics Good Efficiency Low Capex Low water use Good for high ash Good for high moisture Includes fine coal	SES Advanced Fluidized gasification maintains its efficiency across all feedstock qualities, and has lower water usage and low Capex and Opex. This leads to attractive economics on most of the world's solid-form natural resources.
<b>Entrained Flow</b>	Excluded due to technology capability or to poor economics	Reduced Economics Some are Efficient Low to High Capex Med to high water use Not suitable for high ash Not suitable for high moisture Includes fine coal	Reduced Economics Some are Efficient Low to High Capex Med to high water use Some have moisture or ash limits Includes fine coal	Good Economics Efficient Low to High Capex Med to high water use Not suitable for high ash Not suitable for high moisture Includes fine coal	Entrained flow technologies have been the most widely deployed over the past 4 decades. These technologies tend to perform well and are best suited for highest quality coal resources. They can be large water consumers depending on coal feed type and syngas cooling systems used. Low to high Capex due mainly to variations in gasification heat recovery and integration designs.
<b>Moving Bed</b>	Excluded due to technology capability or to poor economics	Acceptable Economics due to lower coal pricing Good Efficiency High Capex High water use Environmental issues due to tars and oils Lump coal only Excludes fine coal	Reduced Economics Good Efficiency High Capex High water use Environmental issues due to tars and oils Lump coal only Excludes fine coal	Reduced Economics Good Efficiency High Capex High water use Environmental issues due to tars and oils Lump coal only Excludes fine coal	Large installed base in South Africa and China. Prior to SES technology, this was the High Capex alternative for low quality coal where entrained flow technologies were uneconomic.
<b>Emerging Transport Reactor &amp; Other</b>	Non- Commercial	Non- Commercial	Non- Commercial	Non- Commercial	Emerging technologies have no commercial plants in operation such as the transport reactor which is best suited for low ash lignite coals. Many other emerging technologies attempting to gasify biomass and municipal wastes

Syngas itself is a competitive alternative to oil, natural gas and conventional coal. Syngas generation technologies such as our technology compete with oil, natural gas and conventional coal combustion technologies. Such competing technologies include reforming of natural gas for chemicals and hydrogen production, oil refining for fuels production and conventional natural gas, fuel oil and coal combustion in power generation equipment and other industrial applications. The competitive landscape and opportunity for all gasification technologies is primarily driven by the price and availability of natural gas and oil. Low natural gas and oil prices can significantly reduce the amount of new syngas capacity additions while high pricing for oil and natural gas or liquefied natural gas (LNG) can increase demand for syngas additions. Additionally, conventional coal combustion technologies such as coal fired boilers for power generation and other conventional coal fired industries compete on an installed cost basis with the much cleaner gasification based coal to syngas technologies. Therefore regulations that restrict pollutants such as sulfur oxides (SOx), nitrous oxides (NOx), particulate matter and heavy metals such as mercury, from conventional coal fired technologies create wider spread adoption of cleaner coal gasification technologies. The lack of regulation on conventional coal based technology conversely delays adoption of coal gasification technologies, especially in the power generation market.

### **Barriers to New Competition**

Historically gasification technologies have required many years and development costs on the order of hundreds of millions of dollars to reach credible commercial deployment and such development was generally funded by users with strategic interests and deep pockets such as the oil companies or governments such as South Africa during economic sanctions. Most, if not all, gasification technologies have also received significant government subsidies in the early R&D stages. Our technology has been highly developed by both GTI and us over the past 40 years and commercially deployed. We believe that the current range of available technologies leaves little incentive for development of new technologies, and emerging competition for everyone in the industry is likely to be by imitators and adaptors. We believe that we are well positioned as compared to imitators and adaptors due to an operating platform at ZZ that allows rapid development and demonstration of improvements, a rapidly growing intellectual property portfolio, and a technology that requires extensive and deep understanding of a number of complex technical criteria to properly design and operate.

### **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. Under the GTI Agreement, we maintain our exclusive worldwide right to license the U-GAS<sup>®</sup> 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<sup>®</sup> technology for 100% biomass and coal/biomass blends exceeding 40% biomass.

In order to sublicense any U-GAS<sup>®</sup> 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<sup>®</sup> unit which we license, design, build or operate for ourselves or for a party other than a sub-licensee 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<sup>®</sup> 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:

### *Generate financial results from our existing joint venture assets in China.*

#### *ZZ Joint Venture*

Our ZZ JV/MeOH plant produces clean syngas which is blended with coke oven gas, or COG, to produce chemical-grade methanol, or MeOH. This methanol is sold into the local methanol market in Shandong Province, China. The history of the ZZ Joint Venture and the commercially restructured facility is described in more detail under “– Current Operations and Projects – Zao Zhuang Joint Venture. Key elements of our business strategy for the plant are:

- a) Operating at the highest possible production rates, based on market conditions, to maximize the financial results from the facility.
- b) Maximizing the operation of our gasification systems at the ZZ Joint Venture within local market constraints and continue to demonstrate the robustness and efficient capability of our technology.
- c) Secure alternative and increased sources of COG to aid increased production rates and lower production costs.
- d) Selective testing of new inventions at the ZZ Joint Venture that will benefit the joint venture and our future gasification projects.
- e) Continuously improving and innovating at the ZZ Joint Venture to lower production costs and improve operating margins.
- f) Evaluating, advancing and closing new partnering and/or expansion alternatives for improving the financial results which may include additional downstream technologies to produce high value products at the site and further enhance the financial results of the facility.

#### *Yima Joint Venture*

The Yima Joint Venture plant generated its first methanol production in December 2012. The Yima Joint Venture plant’s refined methanol section was fully commissioned in December 2013, and has operated at limited capacity since that date. The plant is designed to produce 300,000 tonnes per year of methanol from operating two of its three available gasifiers and has achieved 100% peak syngas production levels and 80% peak methanol production levels. This plant is intended to provide a commercial demonstration of our technology as deployed on a much larger scale than the ZZ Joint Venture plant.

We own 25% of the Yima Joint Ventures and Yima Coal Industry (Group) Co., Ltd., or Yima, owns 75%. Yima controls the construction, startup and operation of the plant. Recently, Yima put in place a new facility management structure, which we believe will significantly improve the operations of the facility. We believe the fundamental value of the Yima Joint Ventures is sound due to (1) the preferential coal pricing Yima can provide to the facility, (2) our technology’s capability to efficiently gasify this low quality coal and (3) the benefits derived from the plant’s large scale. More detail is available under “– Current Operations and Projects – Yima Joint Ventures”. Key elements of our business strategy for the Yima plant are:

- a) Achieving formal commercial acceptance of the entire facility including documented acceptance of the performance of our technology at Yima.
- b) Achievement of safe, full-design annual methanol production rates and overall profitable operation which can lead to dividend distributions to the shareholders of the joint venture.
- c) Increase the scrutiny of results from onsite JV management via cooperation with Yima and Henan Energy and Chemical Industry Group Co., Ltd., parent company of Yima, or HNECGC, senior leadership, maintaining our onsite staff, regular joint venture board meetings and related shareholder meetings.
- d) Continually assess long-term approach for us in the Yima Joint Ventures to maximize our financial return through achieving eventual dividends, restructuring alternatives and/or exit strategies.

*TSEC Joint Venture*

The purpose of the TSEC Joint Venture is to establish our gasification technology as the leading gasification technology in the TSEC Joint Venture territory (which is China, Indonesia, the Philippines, Vietnam, Mongolia and Malaysia) by becoming a leading provider of proprietary equipment for the technology. The scope of the TSEC Joint Venture is to market and license our gasification technology via project sublicenses; procurement and sale of proprietary equipment and services; coal testing; and engineering, procurement and research and development related to the technology. In addition, we believe our TSEC Joint Venture will also help build new partnerships within market segments such as DRI steel, power, transportation fuels and for longer term value creation, larger scale SNG projects utilizing low rank coal resources and biomass where our technology brings, and accelerate the commercialization of our technology on a global basis enabling us to reduce the capital requirements to achieve this acceleration. We own a 35% interest in the TSEC Joint Venture. More detail is available under “– Current Operations and Projects – TSEC Joint Venture”. Key elements of our business strategy for TSEC are:

- a) Achieve initial orders for new project license and equipment supply.
- b) Secure first customers for our higher pressure 40bar gasification platform, with a focus on brown field projects which could move quickly to install and operate the 40 bar system.
- c) Expand the scope of supply of the TSEC joint venture to grow from licenses and proprietary equipment supply into supply of non-proprietary process equipment into TSEC projects.
- d) Expand the TSEC engineering and construction capability together with ZCM to provide fully constructed fixed priced gasification systems in the territory.
- e) Endeavor to form collaborations and partnerships in market segments with known leaders in those markets to help advance our technology, such as our exclusive marketing agreement with the TSEC Joint Venture and Midrex Technologies for coal gasification-based DRI.
- f) Build implementation capability with TSEC to supply high quality, low cost equipment into our global projects outside the territory.

*Partnering with proven project development companies.*

We believe that partnering to enable the development of gasification projects, which can benefit from our technology’s capability regarding low cost feedstock flexibility, lower capital cost and reduce water usage footprint, can provide value through creating a channel for us to secure new orders and the ability to share in project development fees and/or achieve carried interests in projects. We believe that we have the greatest competitive advantage by using our gasification technology in situations where there is a ready source of low quality coal, coal waste or biomass to utilize as a feedstock. In many cases such low cost resources are not a viable energy source without our technology’s capability to convert the resource into syngas and resulting energy and chemical products.

*Increase our organizational and financial capability to deliver our technology, equipment and services.*

As our business verticals and other business initiatives develop and we secure new technology orders, we believe we may need to add significant implementation capability to follow through with fulfillment and implementation and increase our ability to provide the necessary financial and performance guarantees required by project customers and equity and debt financiers. We intend to seek new and impactful partnering opportunities to provide this needed capability in similar fashion to our TSEC Joint Venture in China.

### Continue to develop and improve our technology.

We are continually seeking to advance and improve 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. We are advancing our higher pressure 40bar to 60bar gasification system designs which can further enhance our capital and operating expenses effectiveness and allow our system to achieve much higher syngas output from a smaller sized gasifier. 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 High Pressure Gasifier, Fines Management System and Ash Management System which increase overall efficiency. We have several patent applications pending relating to these technology improvements in addition to a number of other improvements to increase the gasifier availability and to lower the costs of the gasifier installation and subsequent operations. For more information, see-“Patents” below.

### **Relationships with Strategic Partners and Business Verticals**

As part of our overall strategy we intend to continue to form new strategic market-based partnerships or business verticals and grow our existing partner relationships 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. This marketing arrangement 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 highly price 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, along with our distributed power collaborators, GE, ISTROENERGO GROUP, Inc. and TUTEN Ltd, have signed our first LOI with K-Electric, formerly known as Karachi Electric Supply Company. K-Electric is a large electric utility company in Karachi, Pakistan with over 2.3 GW of installed electric generating capacity. The exclusive LOI calls for an engineering and financial feasibility evaluation of a coal gasification power generation project with a capacity between 90 and 200 MW to be constructed near Karachi. The completed feasibility study can serve as the basis for further discussions and negotiations for a syngas power plant contract. We believe the distributed 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 also advancing developments via technology integration studies with potential partners for business verticals in DRI steel and “green” chemicals derived from municipal wastes, including through an exclusive agreement with TSEC and Midrex Technologies, Inc., or Midrex, a subsidiary of Kobe Steel Limited, for the joint marketing of coal gasification-based DRI facilities in China. These facilities will combine our gasification technology with the Direct Reduction Process of Midrex to create syngas from low quality coals in order to convert iron ore into high-purity DRI. As part of the agreement, we are working on developing a marketing package with which to address the potential China DRI market and are actively engaged in discussions with potential customers. The TSEC Joint Venture is participating in this marketing effort, as they will be integral to any projects that arise in that region. We are planning to begin a more detailed engineering study of our integrated solution in order to assist our marketing efforts with more robust technical solution data. We, Midrex and TSEC are having meetings with potential customers in China and the initial feedback from potential customers on the integrated process is generally positive.

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) 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 Adventz, 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. Additionally, Simon India Ltd is our exclusive engineering partner to assist us in completing our process design package (PDP) for the SES Gasification Technology for projects in India that utilize our technology. This relationship with Simon gives us a large and well-established network within India from which to develop and participate in projects using our technology. Our partnering approach in some cases is country specific and in other 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 provide us with advantages in deploying our technology. We are also actively pursuing business verticals in the diversified 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



## Target Markets

The energy and chemicals landscape has evolved rapidly over the past five to ten years with upward pressure on demand and increasing pressure to deliver outstanding environmental performance while simultaneously delivering economics that will attract investment capital. World energy consumption is expected to increase significantly over the next two decades. Demand is heavily driven by non-OECD nations where those developing economies require ever increasing access to more energy products to establish healthy economies that improve the living conditions of those populations. Energy and chemical products are needed for basic health, food and agricultural products, housing needs and infrastructure for safety and mobility. A 2013 EIA report projects that total worldwide energy consumption will exceed 800 quadrillion British thermal units, or BTU, by 2040 with non-OECD nations making up close to 75% of that consumption.

Growth in energy in non-OECD nations is expected to be led by growth in Asia. The same EIA reports projects Asia to make up close to 66% of that projected 2040 consumption. We believe we are well positioned in Asia where we have two operating projects using five of our gasification systems. In addition, the TSEC Joint Venture provides us with a strong Chinese partner already specialized in the manufacturing and design of processing industry equipment and projects. The TSEC Joint Venture territory initially covers China, Vietnam, Indonesia, Philippines, Malaysia and Mongolia.

Coal is required as a major source of energy for decades to come. Growth in coal usage is also expected to be led by the Non-OECD nations. Coal based energy in combination with other energy producing technologies is required to help alleviate energy poverty around the world. In 2011, approximately 1.3 billion people lived without access to electricity and significant investment is required to alleviate this energy poverty by 2030. This need for energy access is in addition to continued energy demand required by GDP growth in both OECD and Non-OECD nations. All combined coal is expected to continue to be a large scale source of affordable energy.

Figure 70. World coal consumption by region, 1980-2040

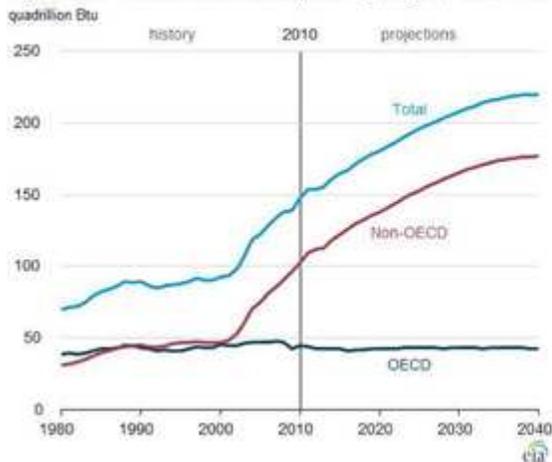
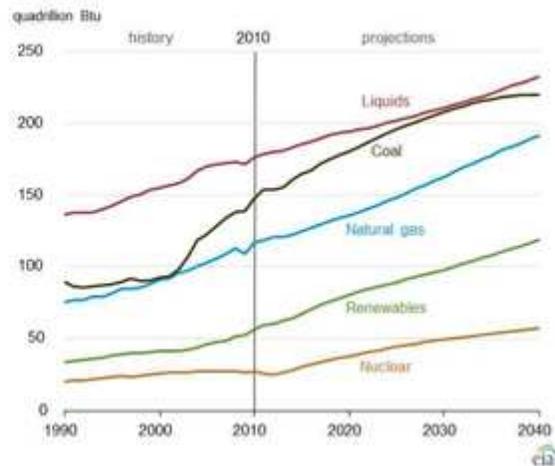
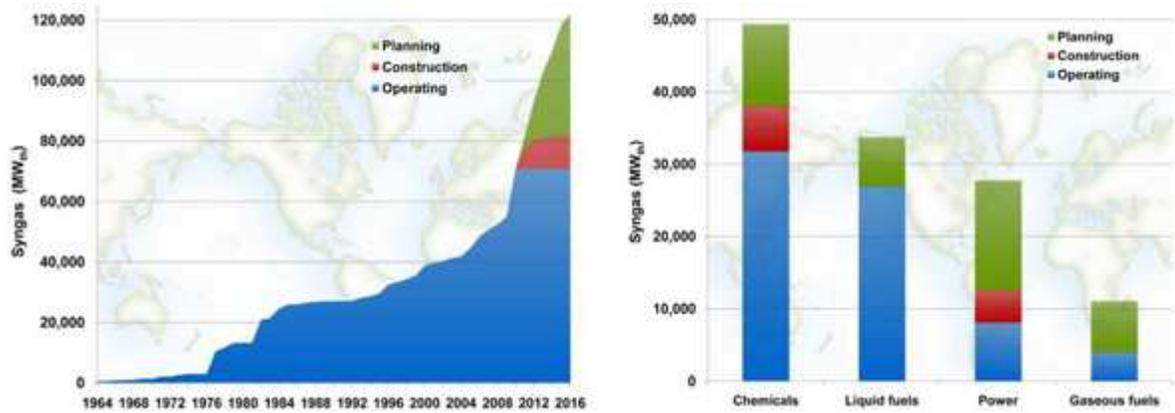


Figure 2. World energy consumption by fuel type, 1990-2040



Transforming coal into clean energy and chemical products. Against the backdrop of significant growth in global energy needs and the requirement for coal to supply a large portion of this energy emerges the need to transform coal into energy products in a clean and sustainable manner. Commercially proven gasification technologies such as our technology are able to cleanly extract the important carbon and hydrogen components from coal in the form of a clean syngas product. This syngas product is then readily converted into a variety of energy and chemical products. Transforming coal into clean energy and chemical products is a growing opportunity as can be seen from the charts below. Global syngas growth is expected to accelerate rapidly. In fact, we believe the versatility and capability of syngas to make such a variety of products has just begun to be tapped and the quantity of syngas capacity in operation today on a global basis is only a fraction of what is required to meet the growing global energy demand.



**Total Worldwide Gasification Capacity and Planned Growth and Planned Gasification Growth – by Product  
NETL 2010 Worldwide Gasification Database**

We believe that our technology is well positioned to be an important solution that addresses the market needs of the changing global energy landscape. Our gasification technology is unique in its ability to provide an economic, efficient and environmentally responsible alternative to many energy and chemical products normally derived from natural gas, LNG, crude oil, and oil derivatives.

Our target markets focus primarily on lower quality coals, biomass and municipal waste and our gasification technology allows energy in the widest range of feedstocks to be unlocked and converted into flexible and valuable syngas. We offer a compelling advantage because of our ability to use such wide range of solid fuel natural resources. Without our technology, regions where lignite coal, high moisture coal, high ash coal and/or high fines coals exist may face technology barriers that trap those resources. Our technology can transform most of these natural resources into a valuable and flexible syngas product. This clean syngas product can then be used in place of natural gas and oil for making most energy and chemical products.

Because of these market dynamics, we believe our gasification technology has broad strategic importance to:

- 1) **Countries and regions with developing economies** which have their own low cost domestic coal resources or easy access to imported low cost coal. Such countries and regions need access to low cost clean energy and chemical products to grow and in some cases to provide basic necessities that improve the health and well-being of their populations. These regions have limited access to affordable alternate energy sources like natural gas and oil, and can benefit from economic growth by using the lowest cost energy resources such as low cost domestic or imported coal for the production of vital products. Many Asian countries expect to see a surge in imported coal in addition to increased use of domestic coal to meet their energy product demand increase.
- 2) **Developed nations** in the west such as Australia, Europe and the US which possess significant low cost coal resources and which have a strategic need and desire to produce clean and affordable energy and chemicals from their own domestic resources.
- 3) **Existing operating companies** which deploy their own technologies for energy and/or chemicals production. These technologies have been well established for use with oil and natural gas resources but are constrained from growing in parts of the world where the oil and natural gas feedstocks are either not readily available due to missing infrastructure and/or very expensive such as LNG in much of Asia. Integrating those established technologies with our technology opens these technologies to a new low cost natural resource in low quality coals thereby transforming the economic opportunity. Such is the case for example in producing power, methanol, DRI steel product, ammonia and urea for fertilizers and many transportation fuels such as gasoline, diesel and jet fuel.

## *China Market*

The development of the modern coal chemical industry in China depended mainly on the country's resource possession status, i.e. coal-rich, oil-lean and gas-lacking, and has also been driven by the vast and increasing demand for energy and chemical products. Coal has been and is predicted to continue to be the most vastly used natural resource for energy production in China.

Other contributors to the growth of China's industrial sector include the government's ambition for economic development, unlimited access to coal resources including low cost coal, better profitability for utilizing these lowest cost and highly available resources, abundant capital flow, demand for the development of clean energy products to mitigate the severe air pollution problem, as well as China's historic experience and application of coal chemical processes.

The Chinese government puts particular emphasis on the "Introduction, Digestion & Absorption" of imported advanced technologies. The Chinese equipment industry and locally developed coal chemical processes have matured in recent years.

Gasification is the leading technology for coal chemical processes development in China. The development and improvement of gasification technology over the past decade in China is expected to contribute to the growth of the Chinese coal chemical industry. In comparison to fixed bed gasification processes, which have already been widely deployed in China, fluidized bed gasification is capable of using finer coal (with smaller coal particles), which greatly broadens the raw coal supply availability for projects based on SES Gasification Technology.

As China's energy demand is expected to nearly double over the next 25 years, the production of electricity, steel, chemicals and transportation fuels from Chinese coal and other imported coals will continue to grow and we believe will require the widespread use of coal gasification. The pressure that the Chinese government is under to improve the environmental quality, especially around the large metropolis areas, has put conventional coal utilization technologies under pressure.

In the power generation market, many provinces are not permitting new plants to utilize coal-fired boilers for small scale power generation due to the poor environmental performance of these boilers. For transportation fuels development, the National Development and Reform Commission of China has begun work on providing guidance to industrial companies for the generation of diesel and gasoline with stricter emissions regulations. The government is requiring industrial companies to become more conscious of water consumption and pollution, coal utilization with regards to using more efficient technologies, and tighter emissions controls in order to improve the current air quality situation.

While the Chinese government is encouraging improvement in environmental performance industry wide, the demand for energy products is continuing to increase at a remarkable pace. The intersection of these two driving forces, need for improved environment and need for more energy products based on China's most abundant natural resource, drives all major industry sectors in China towards the only clean use of coal – gasification.

ASIACHEM, the Coal Chemical Consultancy, summarized that the continued development of a Chinese macro economy and the tremendous demand for energy and chemical products in China creates a large market for clean coal conversion. Liquid fuels, substitute natural gas, chemicals including olefins, ethylene glycol, and aromatics, steel products and other insufficiently supplied products in China will be the greatest developing sectors in the modern coal chemical industry.

## *India*

We believe that India is poised for coal-based gasification growth, and is turning the corner to be capable to realize that growth. Although India has substantial low rank coal resources, many of which are not able to be used in conventional coal technologies without significant upgrading, 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. India continues to put a fixed tariff on its natural resources with multiple price points for different types of end users (i.e. by industry, residential, commercial).

For the last several years, our business development activities in India were slow due to the fallout from allegations of government corruption in India related to energy and resource distribution. One of the more highly publicized allegations is the so-called "coal-gate" scandal which alleged widespread government corruption in the awards and non-awards of Indian coal allocations to various companies. Many of coal 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. Many of our prospective customers were among these affected by the inability to get access to local Indian coal, and in these cases the customers' projects have experienced significant delays.

This year India held elections and brought in a new government with the goal of cleaning up corruption, and opening the pathways for companies to develop clean energy projects for the benefit of India. We have begun to see an increase in interest in our technology from potential customers in India, and we are working with our Indian partner Simon India Ltd to meet the near-term needs of these potential customers.

Once the availability of coal is resolved, the market for 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.

## **Current Operations and Projects**

### *Zao Zhuang Joint Venture*

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<sup>®</sup> 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 97.6% of the ZZ Joint Venture and Xuecheng Energy owns the remaining 2.4%. 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 ZZ Cooperation Agreement, which became effective on October 31, 2013, 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 \$3.3 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 ZZ Joint Venture.

Effective October 31, 2013, the ZZ Joint Venture terminated and waived its claims to past due capacity fees owed by Xuejiao under the prior syngas purchase and sale agreement. Pursuant to the ZZ Cooperation Agreement, prior payments of approximately \$1.8 million were applied to settling the prior payments due under the syngas purchase and sale agreement.

The ZZ Joint Venture began producing and selling methanol in November 2013 and sold 35,682 tonnes of methanol during the year ended June 30, 2014. We assumed operational control of the integrated methanol production facility in October 2013 under a restructured commercial arrangement. The ZZ Joint Venture has worked to complete the plant retrofits and equipment upgrades to enable increased methanol production from integrated syngas and coke oven gas feedstock. The ZZ Joint Venture is now operating an integrated plant which has two operating modes where it (i) converts coke oven gas directly to methanol and (ii) converts coal to syngas, then blends the syngas and coke oven gas at a specific ratio to produce additional quantities of methanol. The ZZ Joint Venture began producing and selling methanol in November 2013 from coke oven gas. The ZZ Joint Venture restarted its syngas plant for approximately two weeks during December 2013. In January 2014, the ZZ Joint Venture produced methanol only from coke oven gas due to lower coke oven gas supplies during the cold weather. The ZZ Joint Venture intends to manage syngas production in order to optimize results. The syngas facility will generally operate when adequate coke oven gas supplies are available to achieve the correct syngas to coke oven gas blend ratio. The ZZ Joint Venture also recently executed agreements to secure an additional minimum 4,000 normal cubic meters per hour of coke oven gas from a local supplier, with a target of 5,000 normal cubic meters per hour, in order to increase methanol production and reduce supply risks. This additional coke oven gas represents approximately a 30% increase in feedstock supply for the ZZ Joint Venture Plant. In addition, we are focused on lowering our operating costs, as well as reducing forced outages at the facility.

Additionally, we are also evaluating alternative products and partnership structures for a possible expansion of the ZZ Joint Venture plant. In 2010, the ZZ Joint Venture received the necessary government approval for an expansion into monoethylene glycol production. This expansion project remains under evaluation by us. We are also evaluating certain new downstream technologies to produce high value products.

#### *Current ZZ Operating Description and Capability*

As described above, we assumed operational control of the integrated methanol production facility in October 2013 under a restructured commercial arrangement pursuant to the ZZ Cooperation Agreement. The ZZ Joint Venture completed plant retrofits and equipment upgrades to enable increased methanol production from integrated syngas and COG feedstock. The ZZ Joint Venture began producing and selling methanol in November 2013 and sold 35,682 tonnes of methanol during the year ended June 30, 2014 generating approximately \$13.3 million of revenue. The ZZ Joint Venture restarted its syngas plant for approximately two weeks during December 2013. In January 2014, the facility produced methanol from coke oven gas only due to coke oven gas supplies disruptions during the cold weather when COG was diverted to the city gas loop for residential heating needs. We expect such diversions of COG into residential heating during the winter months to be reduced or eliminated in the future due to local town gas system being upgraded to use pipeline natural gas.

Between January and August 2014, methanol prices in China and at our ZZ facility have been near historic lows. Under these conditions the facility has operated primarily in the COG only mode. We believe methanol prices have been at these recent low levels primarily related to the general economic conditions in China as demonstrated by China's current low PMI. We are aware of new facilities soon to startup in local Shandong province area which will increase local demand for methanol to be used for olefins production, which we believe will be reflected in improving methanol prices over time.

Other non-market based factors affect economic expectations at the ZZ Joint Venture facility such as but not limited to unscheduled maintenance, forced outages, catalyst degradation and performance in both the COG reformer and methanol synthesis loop and third party coke oven outages which can curtail available COG feedstock. The ZZ facility is limited to approximately 24 hours of COG storage.

Although we intend for the ZZ Joint Venture to sustain itself through its own earnings, we may need to make additional contributions to the ZZ Joint Venture in order for it to meet its obligations. In September 2014, we made a capital contribution of \$1.5 million to the ZZ Joint Venture. This capital contribution was used to pay a portion of the ZZ Short-term Loan, which was due on September 9, 2014. We are currently in discussions with Zao Zhuang Bank Co., Ltd to replace the ZZ Short-term Loan with another similar loan and line of credit.

During meetings with the local government at Xuecheng in June, 2014 and separate meetings with Xuejiao, the ZZ Joint Venture has been advised that the existing Xuejiao coke oven facility may be permanently shutdown in the future. A definitive timeline has not been established for this shutdown and the ZZ Joint Venture was informed that it may occur in the next 3 to 4 years. Xuejiao has constructed and new coking coal facility about 20KM away for the current facility and this new facility is intended to eventually replaced the current facility which has come under scrutiny for pollution from its old generation coking coal technology used. Because of this the ZZ Joint Venture intends to develop its alternatives for continued production of methanol and other products from the facility. The ZZ Joint Venture is expected to qualify as a clean industrial producer of chemicals such as methanol which can be expanded into a clean industrial park once the existing coke ovens are removed. We are evaluating alternative products and partnership structures for partnering and/or expansion of the ZZ Joint Venture plant. In 2010, the ZZ Joint Venture received the necessary government approval for an expansion into mono-ethylene glycol production. This expansion project remains under evaluation by us. We are also evaluating new downstream technologies to produce high value products at the site.

#### *Yima Joint Ventures*

In August 2009, we entered into amended joint venture contracts with 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 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 are 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 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 operating license and shall end 30 years after commercial operation of the plant.

The Yima Joint Venture plant generated its first methanol production in December 2012. The Yima Joint Venture plant's refined methanol section was fully commissioned in December 2013, and has operated at limited capacity since that date. The plant is designed to produce 300,000 tonnes per year of methanol from operating two of its three available gasifiers and has achieved 100% peak syngas production levels and 80% peak methanol production levels. This plant is intended to provide a commercial demonstration of our technology as deployed on a much larger scale than the ZZ Joint Venture plant.

The Yima Joint Venture initiated an outage in March that was intended to allow the plant to make broad and miscellaneous improvements to many areas of the entire methanol producing facility which had not been completed or properly installed. Many of these improvements were punch-list items left over from construction, along with improvements which have been learned from the past year's operation at the plant. Additionally, it was identified during this time that the Yima Joint Venture has not installed all the required units related to removal of sulfur compounds from syngas. A portion of these repairs were completed and the facility was restarted in late June, 2014. After three weeks of operation the plant was shut down again due to improper repair techniques on its Heat Recovery System Generator.

We believe there is a consistent pattern of the Yima Joint Venture management not demonstrating an understanding of the methanol facility operations and not sourcing available expertise in China to improve the overall operations. We have witnessed operation of its gasifier systems at Yima with design and operating parameter deviations from our existing technology recommendations. We have previously experienced limited ability to influence the Yima Joint Ventures' operating performance. 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.

As a result of these issues, HNECGC restructured the management of the Yima Joint Ventures under the direction of the Henan Coal Gasification Company or Henan, which is an affiliated company reporting directly to HNEGC. The ownership of the Yima Joint Ventures is unchanged. Henan currently has full authority of day to day operational and personnel decisions at the Yima Joint Venture. The goal of the management restructuring is to provide for a more experienced and efficient operations management system. The management team at Henan is experienced at running and optimizing coal gasification facilities, and they currently operate other coal gasification facilities. We currently plan to rely upon and assist Henan's management to achieve optimized operations and will continue to attempt to improve our influence on the Yima Joint Ventures. Despite this, we believe the fundamental value of the Yima Joint Ventures remains sound due to (1) the preferential coal pricing Yima can provide to the facility, (2) our technology's capability to efficiently gasify this low quality coal and (3) the benefits derived from the plant's large scale.

### *TSEC Joint Venture*

On February 14, 2014, SES Asia Technologies Limited, one of our wholly owned subsidiaries, entered into a Joint Venture Contract (the “JV Contract”) with Zhangjiagang Chemical Machinery Co., Ltd. (“ZCM”) to form Jiangsu Tianwo-SES Clean Energy Technologies Limited (the “TSEC” Joint Venture”). The purpose of the TSEC Joint Venture is to establish our gasification technology as the leading gasification technology in the TSEC Joint Venture territory (which is initially China, Indonesia, the Philippines, Vietnam, Mongolia and Malaysia) by becoming a leading provider of proprietary equipment for the technology. The scope of the TSEC Joint Venture is to market and license our gasification technology via project sublicenses; procurement and sale of proprietary equipment and services; coal testing; and engineering, procurement and research and development related to the technology. ZCM is contributing RMB 100,000,000 (approximately USD \$16 million) in cash to the TSEC Joint Venture, and owns 65% of the TSEC Joint Venture, and we have contributed an exclusive license to use of our technology in the TSEC Joint Venture territory pursuant to the terms of a Technology Usage and Contribution Agreement entered into among the TSEC Joint Venture, ZCM and us (the “TUCA”) on the same date, and own 35% of the TSEC Joint Venture.

Through the TSEC Joint Venture, we have partnered a significant portion of our China business with ZCM, a financially strong and highly skilled Chinese chemical equipment manufacturing company which desired to invest into the growth of China’s clean energy space and which recognized the opportunity afforded by our technology capability and business model. We believe partnering with ZCM can accelerate the commercialization of our technology on a global basis and will enable us to reduce our capital requirements to achieve this acceleration. In addition, our China business will not only support the growth of our TSEC Joint Venture but we believe will also build new partnerships in China within market segments such as DRI steel, power, transportation fuels and for longer term value creation, larger scale SNG projects utilizing low rank coal resources and biomass which our technology brings. We intend to form business verticals where we can secure ownership positions in these market vertical partnerships that both help build value for the TSEC Joint Venture and for our China business.

### *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 Xilinghaote 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 currently working to liquidate and dissolve the GC Joint Venture.

### *SES Resource Solutions*

SES Resource Solutions, Ltd., or SRS, is an inactive 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 were 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 we are in the process of winding up this business.

## **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 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.

### **Business Concentration**

Our assets in China accounted for approximately 94% of our total assets as of June 30, 2014, which includes property, plant and equipment of the ZZ Joint Venture, our investment in the Yima Joint Ventures and other assets.

### **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.

### **Patents**

We currently hold multiple U.S. and international patents and have a number of pending patent applications, primarily relating to new technology developments that we have made to the U-Gas<sup>®</sup> technology. This includes our gasification process, the integration of our gasification process with downstream uses and the equipment design for our gasification facilities. Although in the aggregate our patents are important to us, we do not regard any single patent as critical or essential to our business as a whole.

Prior to us entering into the GTI Agreement, U-Gas<sup>®</sup> had not been commercially deployed on coal above approximately 150 tons per day per gasification system nor had it been commercially deployed on coal using pure oxygen as a reactant. Today, we have commercially deployed the technology at a scale of 1200 tons per day of coal feed using pure oxygen as a reactant. We also have new designs underway today, and we are quoting gasification systems that would increase our gasification capacity to approximately 3000 tons per day of coal using pure oxygen as a reactant. We have made improvements that we have either patented or are in the process of patenting, or we are holding as trade secrets. In addition, we have several new improvements in development associated with designs of our higher pressure and higher capacity systems that further enhance the efficiency of the process or reduce capital or operating expenses.

### **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 burning fossil fuels such as coal, is an example of a greenhouse gas. Regardless of technology used in gasification facilities, there is carbon dioxide released whenever the syngas is cleaned and prepared for energy or chemicals production. We believe that gasification is currently the most desirable technology for processing coal if CO2 emissions become regulated. This is because gasification and the adjacent syngas cleaning technologies separate the CO2 produced from the final products and thereby create a rich CO2 stream that can be captured, sequestered and/or sold. However, greenhouse gas regulations can add production and capital cost to all fossil fuel technologies and 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.

Also at the time of applying for SAFE registration (including any change registration), foreign-invested enterprises will be required to represent 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. If Chinese residents who are beneficial holders of our shares, make, or have previously made, direct or indirect round tripping investments through a SPV which falls within the scope of the registration under the SAFE Circular 37 (SAFE circular Relating to Foreign Exchange Administration of Offshore Investment, Financing and Round tripping Investment by Domestic Residents utilizing Special Purpose Vehicles), the Chinese residents must make foreign exchange registration for their offshore investments, failing which, the Chinese residents may be ordered to return the capital to China and be imposed a fine by SAFE for such misconduct.

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 represent 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. The foreign invested company may not distribute profits until the losses of the previous fiscal years have been made up. Additionally, the foreign invested company shall make allocations of after-tax profits to a reserve fund and a bonus and welfare fund for their employees. In the case of a Sino-foreign equity joint venture, in addition to the reserve fund and the bonus and welfare fund, the company shall also make allocations to a venture expansion fund. The amount to be contributed to the reserve fund shall be no less than 10% of the after-tax profits unless the aggregate amount exceeds 50% of the registered capital of the company. The amount to be contributed to other funds may be determined by the board of the company in accordance with the applicable laws. Any amounts to be contributed to such funds shall be set aside prior to distribution of after-tax profit.

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 12<sup>th</sup> 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, Yima Joint Ventures, and the TSEC Joint Venture, 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, 2014, we had approximately 213 full-time employees, including 190 employees at the ZZ Joint Venture plants, 2 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](http://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, 2014, we had \$19.4 million in cash and cash equivalents. We currently plan to use our available cash for (i) securing orders and other associated tasks associated with our distributed power initiatives such as in Pakistan with General Electric; (ii) executing our strategy to develop market based business verticals, (iii) the ZZ Short-term Loan for \$3.3 million, which was repaid in September 2014; (iv) general and administrative expenses and (v) working capital and other general corporate purposes. Although we intend for the ZZ Joint Venture to sustain itself through its own earnings, we may also need to make additional contributions to the ZZ Joint Venture in order for it to meet its obligations until the ZZ Joint Venture generates sufficient cash flows to cover its operating costs and debt service. 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 is often cyclical in nature.

Although we made significant progress recently on partnering our China business through the TSEC Joint Venture, 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 our China business (including the ZZ Joint Venture, the Yima Joint Ventures and the TSEC Joint Venture) 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 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. We may consider a full range of financing options in order to create the most value in the context of the increasing interest we are witnessing in our proprietary 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.

***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 focus on the development of our recently formed TSEC Joint Venture. Although we have begun to develop our power vertical through our relationship with GE and our DRI steel vertical with Midrex, 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 successfully grow the TSEC Joint Venture, 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 these strategies and our inability to do so could have a material adverse effect on our business and results of operation.

***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. Through the TSEC Joint Venture, we have partnered a significant portion of our China business with ZCM, a financially strong and highly skilled Chinese company which desires to invest into the growth of China's clean energy space and which recognizes the opportunity afforded by our technology capability and business model. We believe partnering with ZCM can accelerate the commercialization of our technology on a global basis and will enable us to reduce our capital requirements to achieve this acceleration. 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 the TSEC Joint Venture, our projects, including the ZZ Joint Venture and Yima Joint Ventures and our marketing arrangement with GE and Midrex, and may have a material adverse effect on our business and financial condition.

***Our liquidity and capital resources are highly dependent on Chinese methanol prices.***

The majority of our current revenues are derived from the sale of methanol in China. We do not have long term offtake agreements for these sales, so revenues fluctuate based on local market spot prices, which have been under significant pressure, and we are unsure of how much longer this will continue. Our revenues, liquidity and capital resources will be materially adversely affected if markets remain under pressure, and we are unable to obtain satisfactory prices for these commodities or if prospective buyers do not purchase these commodities.

***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 and Midrex, 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, and have recently entered into our TSEC Joint Venture. 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.

***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 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 our U-GAS<sup>®</sup> 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.

***An inability to attract and retain qualified personnel could harm our business, financial condition and results of operations.***

We do not currently have all of the personnel to fully develop and execute on all of our business opportunities, including our various business verticals and other partnering arrangements. Also, our technology design and implementation capability relies on years of gasification specific and U-Gas specific experience and expertise in key staff members. Our future success depends, in part, on our ability to identify, attract and retain highly skilled technical personnel. We face intense competition for qualified individuals from numerous other companies, some of which have far greater resources than we do. We may be unable to identify, attract and retain suitably qualified individuals, or we may be required to pay increased compensation in order to do so. If we were to be unable to attract and retain the qualified personnel we need to succeed, our business, financial condition and results of operations could suffer.

***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<sup>®</sup> 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.

***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<sup>®</sup> 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<sup>®</sup> technology to five other entities, all of which have been terminated. We rely on our exclusive license with GTI for U-GAS<sup>®</sup> 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<sup>®</sup> technology by any of these prior licensees or sub-licensees, it is possible that the exclusivity of our license of U-GAS<sup>®</sup> 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. In the case of the TSEC Joint Venture, to which we have transferred the exclusive right to our technology within the joint venture territory, we are relying on the covenants and protections included in the TUCA. 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.

***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 and in our joint venture agreements (including as to the TSEC Joint Venture to which we have transferred the exclusive right to our technology within the joint venture territory) 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.

***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, and, in the case of the TSEC Joint Venture, if the joint venture does not establish positive net income within 24 months of formation. 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.

***The majority 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.

***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 TSEC Joint Venture, the Yima Joint Ventures and our ZZ Joint Venture; (ii) our ability to obtain new customers and retain existing customers; (iii) the cost of coal and electricity; (iv) the success and acceptance of our technology; (v) our ability to successfully develop our licensing business verticals for power, steel and renewables, as well as execute on our projects; (vi) the ability to obtain financing for our projects; (vii) shortages of equipment, raw materials or feedstock; (viii) approvals by various government agencies; (ix) the volatility of local Chinese methanol markets; and (x) general economic conditions as well as economic conditions specific to the energy industry.

***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 for us and the economy as a whole. 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 Operating Officer, Francis Lau, our Chief Technology Officer, Roger Ondreko, our Chief Financial 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 in both the US and China 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.

***International operations have uncertain political, economic, and other risks.***

The majority of our operations are located in China, and we are looking at development opportunities in other countries as well. As a result, a significant portion of our revenue is subject to the increased political and economic risks and other factors associated with international operations including, but not limited to:

- general strikes and civil unrest;
- the risk of war, acts of terrorism, expropriation and resource nationalization, forced renegotiation or modification of existing contracts;
- import and export regulations;
- taxation policies, including royalty and tax increases and retroactive tax claims, and investment restrictions;
- price control;
- transportation regulations and tariffs;
- constrained methanol markets dependent on demand in a single or limited geographical area;
- exchange controls, currency fluctuations, devaluation, or other activities that limit or disrupt markets and restrict payments or the movement of funds;
- laws and policies of the United States affecting foreign trade, including trade sanctions;
- the possibility of being subject to exclusive jurisdiction of foreign courts in connection with legal disputes relating to licenses to operate and concession rights in countries where we currently operate;
- the possible inability to subject foreign persons, especially foreign oil ministries and national oil companies, to the jurisdiction of courts in the United States; and
- difficulties in enforcing our rights against a governmental agency because of the doctrine of sovereign immunity and foreign sovereignty over international operations.

Foreign countries have occasionally asserted rights to assets held by foreign entities. If a country claims superior rights to our assets, our interests could decrease in value or be lost. Various regions of the world in which we operate have a history of political and economic instability. This instability could result in new governments or the adoption of new policies that might result in a substantially more hostile attitude toward foreign investments such as ours. In an extreme case, such a change could result in termination of contract rights and expropriation of our assets. This could adversely affect our interests and our future profitability.

The impact that future terrorist attacks or regional hostilities may have on our industry in general, and on our operations in particular, is not known at this time. Uncertainty surrounding military strikes or a sustained military campaign may affect operations in unpredictable ways, including disruptions of feedstock supplies and markets, and the possibility that infrastructure facilities, including production facilities, could be direct targets of, or indirect casualties of, an act of terror or war. We may be required to incur significant costs in the future to safeguard our assets against terrorist activities.

***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 our 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**

#### ***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. In addition, we have recently entered into our TSEC Joint Venture, in which ZCM may own up to a 65% interest, and although certain decisions require unanimous approval of its board of directors, and we have representatives in management of the joint venture, we have more limited influence in decision making. 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.

#### ***Chinese investment regulations and other 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. If Chinese residents, who are beneficial holders of our shares, make or have previously made direct or indirect round tripping investments through a SPV which falls within the scope of the registration under the SAFE Circular 37 (SAFE circular Relating to Foreign Exchange Administration of Offshore Investment, Financing and Round tripping Investment by Domestic Residents utilizing Special Purpose Vehicles), the Chinese residents must make foreign exchange registration for their offshore investments, failing which, the Chinese residents may be ordered to return the capital to China and be imposed a fine by SAFE for such misconduct. At the time of applying for SAFE registration (including any change registration), the foreign-invested enterprises will be required to represent 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 the ability to distribute dividends to or obtain foreign-exchange dominated loans from our company. Given that SAFE Circular 37 is a newly issued regulation, 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.

***China's anti-corruption campaign may adversely impact our Chinese partners and our Chinese joint ventures***

The Chinese government has recently initiated a nationwide anti-corruption campaign to improve governance in China. The primary focus of this campaign has largely been on state-owned enterprises, or SOEs. Certain of our joint ventures are majority owned by an SOE. If one or more of the senior executives of our SOE joint venture partner or related entities are questioned or come under investigation, this could limit our participation in the on-going operations of the facilities and could adversely affect our realization of our investment in such joint ventures and facilities. This would materially affect our financial condition and results of operations.

***We may have difficulty making distributions and repatriating earnings from our Chinese operations***

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. The foreign invested company may not distribute profits until the losses of the previous fiscal years have been made up. Additionally, the foreign invested company shall make allocations of after-tax profits to a reserve fund and a bonus and welfare fund for their employees. In the case of a Sino-foreign equity joint venture, in addition to the reserve fund and the bonus and welfare fund, the company shall also make allocations to a venture expansion fund. The amount to be contributed to the reserve fund shall be no less than 10% of the after-tax profits unless the aggregate amount exceeds 50% of the registered capital of the company. The amount to be contributed to other funds may be determined by the board of the company in accordance with the applicable PRC laws. Any amounts to be contributed to such funds shall be set aside prior to distribution of after-tax profit. If we are unable to make distributions and repatriate earnings from our Chinese operations, it could have a materially adverse effect on our financial condition and results of operation.

***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. In addition, we have recently entered into our TSEC Joint Venture, in which ZCM may own up to a 65% interest, and although certain decisions require unanimous approval of its board of directors, and we have representatives in management of the joint venture, we have more limited influence in decision making. 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.

*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 or 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. 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, 2014:		
First Quarter	\$ 1.03	\$ 0.66
Second Quarter	\$ 0.87	\$ 0.60
Third Quarter	\$ 2.49	\$ 0.63
Fourth Quarter	\$ 2.44	\$ 1.39
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

As of September 10, 2014, our authorized capital stock consisted of 200,000,000 shares of common stock, of which 73,224,330 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 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, 2014.

Plan Category	Equity Compensation Plan Information		
	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)	7,702,550 (2)	\$ 1.07	2,021,708 (2)
Equity compensation plans not approved by security holders	6,616,667 (3)	\$ 1.88	—
Total as of June 30, 2014	14,319,217	\$ 1.44	2,021,708

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

(2) Of the total 12,000,000 shares under the Plan, options to acquire 7,702,550 shares of common stock were outstanding at June 30, 2014 and 152,468 shares of restricted stock had been granted under the Plan.

(3) As of June 30, 2014, warrants to acquire up to 1,950,000 shares of our common stock were outstanding to consulting firms (Crystal Vision Energy Limited and Market Development Consulting Group, Inc.).

#### 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,				
	2014	2013	2012	2011	2010
Total revenue	\$ 17,507	\$ 579	\$ 3,062	\$ 10,158	\$ 9,301
Operating loss	(13,649)	(18,379)	(18,267)	(15,730)	(24,964)
Net loss	(13,997)	(19,923)	(20,072)	(15,620)	(25,415)
Less: net loss attributable to non-controlling interests	(246)	(10)	176	157	3,667
Net loss attributable to stockholders	(14,243)	(19,933)	(19,896)	(15,463)	(21,748)
Net loss per share:					
Basic and diluted	\$ (0.22)	\$ (0.33)	\$ (0.39)	\$ (0.32)	\$ (0.45)
Weighted average common shares outstanding:					
Basic and diluted	66,118	60,171	51,024	48,584	48,230

**Balance Sheet Data**

(in thousands)

	June 30,				
	2014	2013	2012	2011	2010
Total working capital	\$ 11,403	\$ 8,448	\$ 9,874	\$ 27,851	\$ 37,223
Total assets	91,706	88,364	92,847	109,974	120,581
Total liabilities	10,418	10,060	12,887	13,190	16,542
Total equity	81,288	78,304	79,960	96,784	104,039

## 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 global energy and gasification technology company that provides proprietary gasification technology systems and solutions to the energy and chemical industries.

Our business strategy 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<sup>®</sup> 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.

Our technology can cleanly and economically extract carbon and hydrogen from all types of coal resources, coal wastes and renewable forms of biomass and municipal wastes. This carbon and hydrogen is extracted in the form of synthesis gas, called syngas. Our syngas is then readily converted into a wide range of fundamental energy and chemical products. These products include, but are not limited to, electric power, natural gas (methane), transportation fuels such as gasoline, diesel and jet fuel, chemicals such as methanol, olefins, and glycols, ammonia and urea for agricultural fertilizers and feedstocks for steel making. Our technology is part of a family of gasification technologies which have been used successfully in industrial applications for many years. However, our technology is meaningfully differentiated over these older forms of gasification primarily through its ability to create clean and economical syngas from most forms of coal resources—from the lowest quality brown coals and lignites, high ash sub-bituminous coals and including the highest quality bituminous and anthracite coals—as well as biomass and other renewable waste materials.

We intend to further commercialize our technology through supplying our gasification systems, which consist of technology, equipment and services to projects globally via value accretive partnerships and collaborations with other companies operating in the energy and chemical market segments in which 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. To date our principal operating activities have focused in China where we have invested and built two commercial projects and recently entered into a joint venture designed to establish our gasification technology as the leading gasification technology in China and other territories in Asia. 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 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. 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 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 which manufactures methanol from the syngas. Under the new commercial structure completed effective October 31, 2013, we assumed control of XE's methanol facilities and the ZZ Joint Venture plant is operating as an integrated plant which converts coal to syngas and then converts syngas and coke oven gas into methanol, as described in more detail under "Item 1. Description of Business – 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 "Item 1. Description of Business - Current Operations and Projects." The Yima Joint Venture plant's refined methanol section was fully commissioned in December 2013, and has operated at limited capacity since that date. Methanol production was approximately 27% of its capacity during the year ended June 30, 2014. The plant is designed to produce 300,000 tonnes per year of methanol from operating two of its three available gasifiers and has achieved 100% peak syngas production levels and 80% peak methanol production levels.

We also recently completed the formation of the TSEC Joint Venture, our China joint venture with ZCM. The purpose of the TSEC Joint Venture is to establish our gasification technology as the leading gasification technology in the TSEC Joint Venture territory (which is initially China, Indonesia, the Philippines, Vietnam, Mongolia and Malaysia) by becoming a leading provider of proprietary equipment for the technology. The scope of the TSEC Joint Venture is to market and license our gasification technology via project sublicenses; procurement and sale of proprietary equipment and services; coal testing; and engineering, procurement and research and development related to the technology.

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, along with our distributed power collaborators, GE, ISTROENERGO GROUP, Inc. and TUTEN Ltd, have signed our first letter of intent, or LOI, with K-Electric (formerly known as Karachi Electric Supply Company), or KESC. KESC is a large electric utility company in Karachi, Pakistan with over 2.3 GW of installed electric generating capacity. The exclusive LOI calls for a feasibility engineering and financial evaluation of a coal gasification power generation project with a capacity between 90 and 200 MW to be constructed near Karachi. The completed feasibility study will serve as the basis for further discussions and negotiations for a syngas power plant contract. We believe the distributed 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 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 with Simon India Ltd., a subsidiary of the Adventz Group, for marketing our technology in India which we believe is an important growth region for which our technology is uniquely well suited.

We have also entered into an exclusive agreement with TSEC and Midrex for the joint marketing of coal gasification-based DRI facilities in China. These facilities will combine our gasification technology with the Direct Reduction Process of Midrex to create syngas from low quality coals in order to convert iron ore into high-purity DRI. TSEC will aid in the marketing of these DRI facilities in China and will supply the gasification equipment and licensing of the technology.

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 of 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 more favorable fabrication costs and resulting plant costs being lower compared to other commercially available technologies. We believe that these important cost, feedstock flexibility, and water consumption 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

### *Year Ended June 30, 2014 Compared to the Year Ended June 30, 2013*

*Revenue* . Total revenue increased to \$17.5 million for the year ended June 30, 2014 compared to \$0.6 million for the year ended June 30, 2013.

Our ZZ Joint Venture began producing and selling methanol in November 2013 and sold over 35,682 tonnes of methanol during the year ended June 30, 2014 generating approximately \$13.3 million of revenue. Pursuant to the ZZ Cooperation Agreement, prior payments of approximately \$1.8 million from Xuejiao were applied to settling the prior payments due under the syngas purchase and sale agreement. As a result, the ZZ Joint Venture recognized these related party advances as product sales of approximately \$1.5 million, net of value-added taxes as of December 31, 2013. 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.

Related party sales revenue was \$2.6 million for the year ended June 30, 2014 resulting from gasifiers sold to our Yima Joint Ventures. In January 2011, we signed gasifier sales agreements with the Yima Joint Ventures to sell gasifiers and gasifier related equipment for an aggregate contract price of \$3.0 million. A portion of the equipment associated with these orders was ordered from ZCM. The gasifiers were completed and delivered in January 2012 to the Yima Joint Ventures. As of June 30, 2014, the Yima Joint Ventures had paid \$2.4 million of the total contract price and still owed the remaining payment approximately of \$0.7 million to us. We still owed \$0.7 million to both ZCM and an additional vendor associated with the equipment purchase, which is accrued as a current liability on our consolidated balance sheet.

There were no technology licensing and related services revenues for the year ended June 30, 2014, compared to \$0.5 million of technology licensing and related services revenues for the year ended June 30, 2013. These revenues resulted from engineering feasibility studies and coal testing services for primarily 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 product sales and plant operating expenses.* Costs of sales and plant operating expenses increased by \$16.6 million to \$17.4 million for the year ended June 30, 2014 compared to \$0.8 million for year ended June 30, 2013. The increase was primarily related to the costs of \$2.6 million incurred for building the gasifiers for our Yima Joint Ventures, \$14.7 million incurred for ZZ Joint Venture's production of methanol from coke oven gas purchased from Xuecheng Energy and from syngas produced by the ZZ Joint Venture's syngas plant, those costs include electricity, coke oven gas, coal feedstock to produce syngas, labor and other operating costs. Although the ZZ Joint Venture restarted its syngas plant for approximately two weeks during December 2013, it has since stopped syngas production and is using coke oven gas only as its feedstock until additional coke oven gas supply is available. The ZZ Joint Venture plans to resume syngas production in the near term and is also working to secure additional sources of coke oven gas from a local supplier in order to increase its methanol production capability.

*General and administrative expenses.* General and administrative expenses decreased \$3.7 million to \$9.9 million for the year ended June 30, 2014 compared with \$13.6 million for the year ended June 30, 2013. The decrease was due primarily to a reduction of consulting fees resulting from the termination of our consulting agreement with CVE as of August 31, 2013, a reduction in royalty expense due under our licensing agreement with GTI, and other reductions in employee related compensation cost resulting from reducing headcount in China during fiscal year 2014. There was also \$1.0 million write off of deferred financing costs related to the Share Purchase Agreement with Zhongjixuan Investment Management Company which was terminated on June 10, 2013.

*Stock-based compensation expense.* Stock-based compensation expense decreased by \$0.1 million to \$2.2 million for the year ended June 30, 2014 compared to \$2.3 million for the year ended June 30, 2013 and related to the expensing the estimated fair values of stock options and stock warrants awarded to consulting firms, directors and employees during the period. The decrease was due primarily to awarding fewer stock-based compensation, resulting in part from the termination of our consulting agreement with CVE in fiscal year 2014.

*Depreciation and amortization expense.* Depreciation and amortization expense was \$2.3 million for both the year ended June 30, 2014 and June 30, 2013 and was primarily related to depreciation of our ZZ Joint Venture plant's assets.

*Other income.* There were \$0.7 million other gains for the year ended June 30, 2014 due to the write-off of unpaid settlements to various contractors from the initial construction work for our GC Joint Venture according to current local business contract law. There were no other gains in the year ended June 30, 2013.

*Equity in losses of joint ventures.* The equity in losses of joint ventures was \$2,000 incurred for SRS's registration expense for the year ended June 30, 2014, compared with \$1.4 million for the year ended June 30, 2013. The decrease was due primarily to the suspension of the SRS Joint Venture activities since December 2012 and due to our change from the equity method to the cost method of accounting for Yima Joint Ventures as of June 1, 2013. The \$1.4 million of equity in losses of joint ventures for the year ended June 30, 2013 related 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, commissioning 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 were \$2,000 for the year ended June 30, 2014 compared to \$80,000 for the year ended June 30, 2013. The foreign currency gains have resulted from the appreciation of the Renminbi Yuan relative to the U.S. dollar.

*Interest income.* Interest income was \$33,000 for the year ended June 30, 2014 compared to \$50,000 for the year ended June 30, 2013. The decrease was primarily due to lower cash equivalent investments.

*Interest expense.* Interest expense was \$0.4 million for the year ended June 30, 2014 compared to \$0.3 million for the year ended June 30, 2013. Our interest expense relates to the ZZ Short-term bank loan (as defined below) and its long-term bank loan with ICBC. The ZZ Joint Venture repaid its final principal payment of RMB 7.3 million (approximately \$1.2 million) to ICBC in January 2014. The increase in interest expense was due primarily to the higher interest rate and higher remaining balance on the ZZ Short-term bank loan borrowed in September 2013.

## **Liquidity and Capital Resources**

We have financed our operations to date through private placements of our common stock and in three public offerings: one in November 2007, one in June 2008 and one in March 2014. 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, (as described below) the ZZ Joint Venture had a loan agreement with ICBC which funded certain of its plant's construction costs, and the ZZ Short-term Loan funded in September 2013 to finance costs related to the ZZ Cooperation Agreement.

As of June 30, 2014, we had \$19.4 million in cash and cash equivalents and \$11.4 million of working capital available to us. During the year ended June 30, 2014, we used \$9.5 million in operating activities compared to \$13.0 million for the year ended June 30, 2013. The decrease in cash used in operating activities was due principally to the termination of our consulting service agreement with CVE in August 2013. We used \$2.4 million in investing activities for the year ended June 30, 2014 including \$0.9 million for capital expenditures related to the ZZ Cooperation Agreement and \$1.5 million for royalties due to GTI for the Yima Joint Venture's license accounted for as part of our investment in the Yima Joint Ventures.

The majority of our revenues are derived from the sale of methanol in China. We do not have long term offtake agreements for these sales, so revenues fluctuate based on local market spot prices, which have been under significant pressure, and we are unsure of how much longer this will continue. Our liquidity and capital resources will be materially adversely affected if markets remain under pressure, and we are unable to obtain satisfactory prices for these commodities or if prospective buyers do not purchase these commodities.

For both the years ended June 30, 2014 and 2013, we used \$2.4 million in financing activities for the scheduled semi-annual principal payments on the ZZ Joint Venture's loan with ICBC, described below. On September 10, 2013, the ZZ Joint Venture received proceeds of approximately \$3.3 million under a short-term bank loan with Zao Zhuang Bank, or the ZZ Short-term Loan, which is due and payable on September 9, 2014. In September 2014, we repaid the ZZ Short-term Loan, and we are currently in discussions with Zao Zhuang Bank Co., Ltd to replace the ZZ Short-term Loan with another similar loan and line of credit. On March 24, 2014, we received \$15 million of gross proceeds from the sale of 8,333,341 shares of our common stock plus warrants to acquire 4,166,667 shares of common stock in a registered direct offering. On August 1, 2013, we received proceeds of \$100,000 and issued 136,986 shares of our common stock and issued warrants to acquire 136,986 shares of our common stock under a Unit Purchase Agreement with CVE. 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.

We currently plan to use our available cash for (i) securing orders and other associated tasks associated with our distributed power initiatives such as in Pakistan with General Electric; (ii) executing our strategy to develop market based business verticals, (iii) the ZZ Short-term Loan for \$3.3 million, which was repaid in September 2014; (iv) general and administrative expenses and (v) working capital and other general corporate purposes. Although we intend for the ZZ Joint Venture to sustain itself through its own earnings, we may also need to make additional contributions to the ZZ Joint Venture in order for it to meet its obligations until the ZZ Joint Venture generates sufficient cash flows to cover its operating costs and debt service.

#### *Loan Agreement with ICBC*

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 ICBC to complete the project financing for the ZZ Joint Venture. Interest was adjusted annually based upon the standard rate announced each year by the People's Bank of China. The final principal payment of RMB 7.3 million (approximately \$1.2 million) was repaid in January 2014.

#### *Short-term Loan Agreement with Zao Zhuang Bank Co., Ltd*

On September 10, 2013, the ZZ Joint Venture entered into the ZZ Short-term Loan and received approximately \$3.3 million of loan proceeds for the retrofit and related costs contemplated by the ZZ Cooperation Agreement. Key terms of the ZZ Short-term Loan are as follows:

- Loan term is one year, due on September 9, 2014;
- Interest is payable monthly at an annual rate of 10.8%;
- Certain assets of the ZZ Joint Venture, including land use rights and the administration building, are pledged as collateral; and
- Subject to customary events of default which, should one or more of them occur and be continuing, would permit Zao Zhuang Bank Co., Ltd. to declare all amounts owing under the agreement to be due and payable immediately.

In September 2014, we have paid off the ZZ Short-term Loan, and we are currently in discussions with Zao Zhuang Bank Co., Ltd to replace it with another similar loan and line of credit.

#### **Outlook**

Our strategies are focused on the continuing progress of the ZZ Joint Venture's methanol production and commercial sales including the syngas plant's restart, improving operations at the Yima Joint Venture, developing our ZCM Joint Venture and sourcing suitable partners for our other business verticals. 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, power, 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 as demonstrated at both 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 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. We believe China is a good example of this new direction in coal gasification. The energy and chemicals landscape has been evolving rapidly with upward pressure on demand and increasing pressure to deliver improved environmental performance while simultaneously delivering economics that will attract investment capital. World energy consumption is expected to increase significantly over the next two decades and demand is heavily driven by non-OECD nations where developing economies require ever increasing access to more energy products to establish healthy economies that improve the living conditions of those populations. Our market research indicates that coal will be required as a major source of energy for decades to come and growth in coal usage is expected to be led by the non-OECD nations. Because of these market dynamics, we believe our gasification technology has strategic importance to countries and regions with developing economies which have their own low cost domestic coal resources and need access to low cost clean energy and chemical products to grow. We believe this also applies to developed nations in the west such as Australia, Europe and US which possess significant low cost coal resources and which have a strategic need and desire to produce clean and affordable energy and chemicals from their own domestic resources and to existing operating companies which deploy their own technologies for energy and/or chemicals production. We believe that our technology is well positioned to address the market needs of the changing global energy landscape and we believe we are well positioned in Asia where we have two operating projects using five of our gasification systems. In addition, the TSEC Joint Venture provides us with a strong Chinese partner already specialized in the manufacturing and design of processing industry equipment and projects.

Although we have made significant progress recently on partnering our China business through our TSEC Joint Venture, 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 our China business (including our ZZ Joint Venture, the Yima Joint Ventures and TSEC Joint Venture) 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) securing orders and other associated tasks associated with our distributed power initiatives such as in Pakistan with General Electric; (ii) executing our strategy to develop market based business verticals, (iii) the ZZ Short-term Loan for \$3.3 million, which was repaid in September 2014 (iv) general and administrative expenses and (v) working capital and other general corporate purposes. Although we intend for the ZZ Joint Venture to sustain itself through its own earnings, we may also need to make additional contributions to the ZZ Joint Venture in order for it to meet its obligations until the ZZ Joint Venture generates sufficient cash flows to cover its operating costs and debt service. 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 is often cyclical in nature.

We do not currently have all of the financial and human resources necessary to fully develop and execute on all of our business opportunities; however, we intend to finance our development through paid services, technology access fees, equity and debt financings and by securing financial and strategic partners focused on the 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 may 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. We may consider 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.

## 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.

Undiscounted Expected Future Cash Flows. 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.

**Fair Value.** 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*

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 production capacity, methanol price, raw materials consumption and 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 nine-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. There were no significant changes occurred during the year ended June 30, 2014.

#### *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 TSEC is a VIE and that ZCM is the primary beneficiary since ZCM has a 65% ownership interest in the Joint Venture. 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 June 2014, we amended and extended the lease agreement for our corporate offices in Houston, Texas which now expires on June 30, 2015.

#### **Contractual Obligations**

Our material contractual obligations at June 30, 2014 were as follows (in thousands):

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 Year</b>	<b>1-3 Years</b>	<b>4-5 Years</b>	<b>After 5 Years</b>
ZZ Short-term Loan with Zao Zhuang Bank	\$ 3,251	\$ 3,251	\$—	\$—	\$—
Operating leases	264	264	—	—	—
<b>Total</b>	<b>\$ 3,515</b>	<b>\$ 3,515</b>	<b>\$—</b>	<b>\$—</b>	<b>\$—</b>

## Recently Issued Accounting Standards

In June 2014 the Financial Accounting Standards Board (the “FASB”) issued ASU 2014-10, which amended disclosure requirements for development stage entities (“DSEs”). The FASB concluded that users of financial statements of DSEs considered the inception-to-date information and certain other disclosures required by U.S. generally accepted accounting principles (“GAAP”) had little relevance and is generally not decision useful. As a result, the FASB issued ASU 2014-10, which removed the definition of a DSE from the Master Glossary of the Accounting Standards Codification, thereby removing the financial reporting distinction between development stage entities and other reporting entities from U.S. GAAP. In addition, ASU 2014-10 eliminates the requirements for DSEs to (i) present inception-to-date information in the statements of income, cash flows, and shareholder equity, (ii) label the financial statements as those of a development stage entity, (iii) disclose a description of the development stage activities in which the entity is engaged, and (iv) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage. For public business entities, the ASU 2014-10 amendments are effective for annual reporting periods beginning after December 15, 2014, and interim periods therein; however, early application is permitted for any annual reporting period for which the entity’s financial statements have not yet been issued. We adopted these new presentation requirements as of June 30, 2014.

## 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.

The majority of our revenues are derived from the sale of methanol in China. We do not have long term offtake agreements for these sales, so revenues fluctuate based on local market spot prices, which have been under significant pressure, and we are unsure of how much longer this will continue. Our liquidity and capital resources will be materially adversely affected if markets remain under pressure, and we are unable to obtain satisfactory prices for these commodities or if prospective buyers do not purchase these commodities.

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.

### *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**

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## 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. and subsidiaries (collectively, the “Company”) as of June 30, 2014 and 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, 2014 and 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 12, 2014

**SYNTHESIS ENERGY SYSTEMS, INC.**  
**Consolidated Balance Sheets**  
(In thousands)

	<b>June 30, 2014</b>	<b>June 30, 2013</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 19,407	\$ 15,870
Accounts receivable-related party, net	676	2
Prepaid expenses and other current assets	873	2,636
Inventory	865	—
Total current assets	<u>21,821</u>	<u>18,508</u>
Property, plant and equipment, net	31,499	32,641
Intangible asset, net	1,049	1,060
Investment in joint ventures	34,856	33,311
Other long-term assets	2,481	2,844
Total assets	<u>\$ 91,706</u>	<u>\$ 88,364</u>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accrued expenses and accounts payable	\$ 7,167	\$ 7,632
Short-term bank loan	3,251	\$—
Current portion of long-term bank loan	—	2,428
Total current liabilities	<u>10,418</u>	<u>10,060</u>
Total liabilities	10,418	10,060
Commitment and contingencies		
Equity:		
Common stock, \$0.01 par value - 200,000 shares authorized – 73,107 and 63,583 shares issued and outstanding, respectively	731	636
Additional paid-in capital	241,125	224,337
Accumulated Deficit	(165,984)	(151,741)
Accumulated other comprehensive income	6,062	5,958
Total stockholders' equity	<u>81,934</u>	<u>79,190</u>
Noncontrolling interests in subsidiaries	(646)	(886)
Total equity	<u>81,288</u>	<u>78,304</u>
Total liabilities and equity	<u>\$ 91,706</u>	<u>\$ 88,364</u>

See accompanying notes to the consolidated financial statements.

**SYNTHESIS ENERGY SYSTEMS, INC.**  
**Consolidated Statements of Operations**  
(In thousands, except per share amounts)

	<b>Year Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Revenue:</b>		
Product sales and other — related parties	\$ 14,880	\$ 45
Technology licensing and related services	—	534
Related party sale	2,627	—
<b>Total revenue</b>	<b>17,507</b>	<b>579</b>
<b>Costs and Expenses:</b>		
Costs of sales and plant operating expenses	17,361	750
General and administrative expenses	9,958	13,599
Stock-based compensation expense	2,219	2,317
Depreciation and amortization	2,293	2,292
Other income	(675)	—
<b>Total costs and expenses</b>	<b>31,156</b>	<b>18,958</b>
<b>Operating loss</b>	<b>(13,649)</b>	<b>(18,379)</b>
<b>Non-operating (income) expense:</b>		
Equity in losses of joint ventures	2	1,372
Foreign currency gains, net	(2)	(80)
Interest income	(33)	(50)
Interest expense	381	302
<b>Net loss</b>	<b>(13,997)</b>	<b>(19,923)</b>
Less: net income (loss) attributable to non-controlling interests	(246)	(10)
<b>Net loss attributable to stockholders</b>	<b>\$ (14,243)</b>	<b>\$ (19,933)</b>
<b>Net loss per share:</b>		
Basic and diluted	<b>\$ (0.22)</b>	<b>\$ (0.33)</b>
<b>Weighted average common shares outstanding:</b>		
Basic and diluted	<b>66,118</b>	<b>60,171</b>

See accompanying notes to the consolidated financial statements.

**SYNTHESIS ENERGY SYSTEMS, INC.**  
**Consolidated Statements of Comprehensive Loss**  
(In thousands)

	<b>Year Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Net loss, as reported	\$ (13,997)	\$ (19,923)
Cumulative translation adjustment	98	1,159
Comprehensive loss	(13,899)	(18,764)
Less comprehensive loss attributable to non-controlling interests	(240)	(13)
Comprehensive loss attributable to the Company	\$ (14,139)	\$ (18,777)

See accompanying notes to the consolidated financial statements.

**SYNTHESIS ENERGY SYSTEMS, INC.**  
**Consolidated Statement of Equity**  
(In thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Non- controlling Interest	Total
	Shares	Common Stock					
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
Net loss	—	—	—	(14,243)	—	246	(13,997)
Currency translation adjustment	—	—	—	—	104	(6)	98
Comprehensive loss							(13,899)
Net proceeds from issuance of common stock	8,470	84	14,065	—	—	—	14,149
Stock-based compensation	—	—	2,219	—	—	—	2,219
Exercise of stock options and warrants	1,054	11	504	—	—	—	515
Balance at June 30, 2014	73,107	\$ 731	\$ 241,125	\$ (165,984)	\$ 6,062	\$ (646)	\$ 81,288

See accompanying notes to the consolidated financial statements.

**SYNTHESIS ENERGY SYSTEMS, INC.**  
**Consolidated Statements of Cash Flows**  
(In thousands)

	<b>Year Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (13,997)	\$ (19,923)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Stock-based compensation expense	2,219	2,317
Depreciation of property, plant and equipment	2,041	2,075
Amortization of intangible and other assets	252	217
Equity in losses of joint ventures	2	1,372
Foreign currency gains	(2)	(80)
Loss on disposal of property, plant and equipment	—	1
Write-off of GCL account payable	(675)	—
Write-off of deferred financing costs	—	1,004
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(672)	314
Prepaid expenses and other current assets	1,892	(566)
Inventory	(873)	26
Other long-term assets	201	(113)
Accrued expenses and payables	112	334
Net cash used in operating activities	<u>(9,500)</u>	<u>(13,022)</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(892)	(12)
Equity investment in joint ventures	(1,547)	(596)
Proceeds from sale of fixed assets	—	1
Net cash provided by used in investing activities	<u>(2,439)</u>	<u>(607)</u>
<b>Cash flows from financing activities:</b>		
Payments on long-term bank loan	(2,448)	(2,442)
Refund of advance toward sale of common stock	—	(1,000)
Proceeds from exercise of (repurchase of) stock options, net	515	7
Proceeds from issuance of common stock, net	14,149	14,877
Proceeds from short-term bank loan	3,253	—
Net cash provided by financing activities	<u>15,469</u>	<u>11,442</u>
Net increase (decrease) in cash	3,530	(2,187)
Cash and cash equivalents, beginning of period	15,870	18,035
Effect of exchange rates on cash	7	22
Cash and cash equivalents, end of period	<u>\$ 19,407</u>	<u>\$ 15,870</u>

See accompanying notes to the consolidated financial statements.

**SYNTHESIS ENERGY SYSTEMS, INC.**  
**(A Development Stage Enterprise)**  
**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<sup>®</sup> 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. Non-controlling 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):*

	<b>Years Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Interest paid	\$ 344	\$ 260
<b>Non-cash transactions:</b>		
Fair value of stock and warrants issued to consultants and employees	636	346

(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, 2014 and 2013, 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 finished goods and 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, 2014.

*(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.

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 production capacity, methanol price, raw materials consumption and 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 nine-year period. If we are not successful in 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. There were no significant changes occurred during the year ended June 30, 2014.

*(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 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, 2014 and 2013, 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, including the capacity fee and energy fee earned at the ZZ Joint Venture plant and sales 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. 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, 2014 and 2013 which are consolidated within the Company’s consolidated balance sheets (in thousands):

	<b>June 30, 2014</b>		
	<b>Consolidated</b>	<b>ZZ Joint Venture (1)</b>	<b>%(2)</b>
Current assets	\$ 21,821	\$ 2,256	10%
Long-term assets	69,885	33,193	48%
Total assets	<u>\$ 91,706</u>	<u>\$ 35,449</u>	<u>39%</u>
Current liabilities	\$ 10,418	\$ 7,462	72%
Equity	81,288	27,987	34%
Total liabilities and equity	<u>\$ 91,706</u>	<u>\$ 35,449</u>	<u>39%</u>

**June 30, 2013**

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

(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 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, 2014 and is inactive. Therefore the Company is in the process of winding up this business.

The Company has determined that the TSEC Joint Venture (as defined in Note 3 – Current Projects – TSEC Joint Venture) is VIE and that ZCM, the joint venture partner, is the primary beneficiary since ZCM has a 65% ownership interest in the TSEC Joint Venture and has the power to direct the activities of the TSEC Joint Venture that most significantly influence its performance.

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. There were no significant assets recorded within the GC Joint Venture as of June 30, 2014 or June 30, 2013. There were however, current liabilities of approximately \$0.6 million as of June 30, 2014 and \$1.2 million as of June 30, 2013, related to unpaid settlements of amounts due to various contractors from the initial construction work for the project. In June 2014, the Company wrote off approximately \$0.6 million of these unpaid settlements according to current local business contract law. The GC Joint Venture project is not currently being developed and the Company is continuing to work to liquidate and ultimately 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, 2014 and 2013 (in thousands):

	June 30, 2014			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Certificates of Deposit	\$ —	\$ 50(1)	\$ —	\$ 50
Money Market Funds	—	16,971(2)	—	16,971
<b>Liabilities:</b>				
Short-term bank loan	—	3,251(3)	\$ —	3,251
	June 30, 2013			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Certificates of Deposit	\$ —	\$ 50(1)	\$ —	\$ 50
Money Market Funds	—	8,752(2)	—	8,752
<b>Liabilities:</b>				
Long-term bank loan	—	2,428(4)	\$ —	2,428

- (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 included in current liabilities on the Company's consolidated balance sheets.
- (4) Current portion of long-term bank loan included in current liabilities 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.

## Note 2 — Recently Issued Accounting Standards

In June 2014 the Financial Accounting Standards Board (the "FASB") issued ASU 2014-10, which amended disclosure requirements for development stage entities ("DSEs"). The FASB concluded that users of financial statements of DSEs considered the inception-to-date information and certain other disclosures required by U.S. generally accepted accounting principles ("GAAP") had little relevance and is generally not decision useful. As a result, the FASB issued ASU 2014-10, which removed the definition of a DSE from the Master Glossary of the Accounting Standards Codification, thereby removing the financial reporting distinction between development stage entities and other reporting entities from U.S. GAAP. In addition, ASU 2014-10 eliminates the requirements for DSEs to (i) present inception-to-date information in the statements of income, cash flows, and shareholder equity, (ii) label the financial statements as those of a development stage entity, (iii) disclose a description of the development stage activities in which the entity is engaged, and (iv) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage. For public business entities, the ASU 2014-10 amendments are effective for annual reporting periods beginning after December 15, 2014, and interim periods therein; however, early application is permitted for any annual reporting period for which the entity's financial statements have not yet been issued. We adopted these new presentation requirements as of June 30, 2014.

## 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<sup>®</sup> 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 97.6% of the ZZ Joint Venture and Xuecheng Energy owns the remaining 2.4%. 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 ZZ Cooperation Agreement, which became effective on October 31, 2013, 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 \$3.3 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 ZZ Joint Venture.

Effective October 31, 2013, the ZZ Joint Venture terminated and waived its claims to past due capacity fees owed by Xuejiao under the prior syngas purchase and sale agreement. Pursuant to the ZZ Cooperation Agreement, prior payments of approximately \$1.8 million were applied to settling the prior payments due under the syngas purchase and sale agreement. As a result, the ZZ Joint Venture recognized these related party advances as product sales of approximately \$1.5 million, net of value-added taxes, during the year ended June 30, 2014.

The ZZ Joint Venture began producing and selling methanol in November 2013 and sold 35,682 tonnes of methanol during the year ended June 30, 2014, generating approximately \$13.3 million of revenue. The Company assumed operational control of the integrated methanol production facility in October 2013 under a restructured commercial arrangement. The ZZ Joint Venture has worked to complete the plant retrofits and equipment upgrades to enable increased methanol production from integrated syngas and coke oven gas feedstock. The ZZ Joint Venture is now operating an integrated plant which has two operating modes where it (i) converts coke oven gas directly to methanol and (ii) converts coal to syngas, then blends the syngas and coke oven gas at a specific ratio to produce additional quantities of methanol. The ZZ Joint Venture began producing and selling methanol in November 2013 from coke oven gas. The ZZ Joint Venture restarted its syngas plant for approximately two weeks during December 2013. In January 2014, the ZZ Joint Venture produced methanol only from coke oven gas due to lower coke oven gas supplies during the cold weather. The ZZ Joint Venture intends to manage syngas production in order to optimize results. The syngas facility will generally operate when adequate coke oven gas supplies are available to achieve the correct syngas to coke oven gas blend ratio. The ZZ Joint Venture also recently executed agreements to secure an additional minimum 4,000 normal cubic meters per hour of coke oven gas from a local supplier, with a target of 5,000 normal cubic meters per hour, in order to increase methanol production and reduce supply risks. This additional coke oven gas represents approximately a 30% increase in feedstock supply for the ZZ Joint Venture Plant. In addition, the Company is focused on lowering our operating costs, as well as reducing forced outages at the facility.

Additionally, the Company is also evaluating alternative products and partnership structures for a possible expansion of the ZZ Joint Venture plant. In 2010, the ZZ Joint Venture received the necessary government approval for an expansion into monoethylene glycol production. This expansion project remains under evaluation by us. The Company is also evaluating certain new downstream technologies to produce high value products.

Although we intend for the ZZ Joint Venture to sustain itself through its own earnings, we may need to make additional contributions to the ZZ Joint Venture in order for it to meet its obligations. In September 2014, we made a capital contribution of \$1.5 million to the ZZ Joint Venture. This capital contribution was used to pay a portion of the ZZ Short-term Loan, which was due on September 9, 2014. We are currently in discussions with Zao Zhuang Bank Co., Ltd to replace the ZZ Short-term Loan with another similar loan and line of credit.

#### *Loan Agreement with ICBC*

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. Interest was adjusted annually based upon the standard rate announced each year by the People’s Bank of China. The final principal payment of RMB 7.3 million (approximately \$1.2 million) was repaid in January 2014.

### *Short-term Loan Agreement with Zao Zhuang Bank Co., Ltd*

On September 10, 2013, the ZZ Joint Venture entered into a short-term loan agreement with Zao Zhuang Bank Co., Ltd., (the “ZZ Short-term Loan”), and received approximately \$3.3 million of loan proceeds for the retrofit and related costs contemplated by the ZZ Cooperation Agreement. Key terms of the ZZ Short-term Loan are as follows:

- Loan term is one year, due on September 9, 2014;
- Interest is payable monthly at an annual rate of 10.8%;
- Xuecheng Energy is the guarantor of the entire loan;
- Certain assets of the ZZ Joint Venture, including land use rights and the administration building, are pledged as collateral; and
- Subject to customary events of default which, should one or more of them occur and be continuing, would permit Zao Zhuang Bank Co., Ltd. to declare all amounts owing under the agreement to be due and payable immediately.

In September 2014, the Company has paid off the ZZ Short-term Loan, and the Company is currently in discussions with Zao Zhuang Bank Co., Ltd to replace it with another similar loan and line of credit.

### *Yima Joint Ventures*

In August 2009, the Company entered into amended joint venture contracts with 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 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 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. The Company is responsible for our share of any cost overruns on the project.

In exchange for such 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 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 operating license and shall end 30 years after commercial operation of the plant.

The Yima Joint Venture plant generated its first methanol production in December 2012. The Yima Joint Venture plant's refined methanol section was fully commissioned in December 2013, and has operated at limited capacity since that date. The plant is designed to produce 300,000 tonnes per year of methanol from operating two of its three available gasifiers and has achieved 100% peak syngas production levels and 80% peak methanol production levels. This plant is intended to provide a commercial demonstration of the Company's technology as deployed on a much larger scale than the ZZ Joint Venture plant.

The Yima Joint Venture initiated an outage in March that was intended to allow the plant to make broad and miscellaneous improvements to many areas of the entire methanol producing facility which had not been completed or properly installed. Many of these improvements were punch-list items left over from construction, along with improvements which have been learned from the past year's operation at the plant. Additionally, it was identified during this time that the Yima Joint Venture has not installed all the required units related to removal of sulfur compounds from syngas. A portion of these repairs were completed and the facility was restarted in late June, 2014. After three weeks of operation the plant was shut down again due to improper repair techniques on its Heat Recovery System Generator.

The Company has included approximately \$3.0 million of royalty costs due to GTI for the Yima Joint Ventures' U-GAS<sup>®</sup> license as part of its investment in joint ventures on its consolidated balance sheet, including a \$1.5 million payment paid to GTI in June 2009 (when the amended joint venture contracts were signed), a \$0.5 million payment in October 2013, and \$1.0 million of payments in January 2014.

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. There was no equity in losses of the Yima Joint Ventures recognized for financial reporting purposes for the three months and nine months ended March 31, 2014 since the Company changed from the equity method to the cost method of accounting as of June 1, 2013. The Company's equity in losses of the Yima Joint Ventures for the three months and nine months ended March 31, 2013 were \$0.2 million and \$0.6 million, respectively.

Additionally, in January 2011, the Company signed gasifier sales agreements with the Yima Joint Ventures to sell gasifiers and gasifier related equipment for an aggregate contract price of \$3.0 million. A portion of the equipment associated with these orders was ordered from ZCM (as defined under "Joint Venture with ZCM" in this Note 2). The gasifiers were completed and delivered in January 2012 to the Yima Joint Ventures. As of June 30, 2014, the Yima Joint Ventures had paid \$2.4 million of the total contract price and still owed the remaining payment approximately of \$0.67 million to the Company. The Company still owed \$0.67 million to both ZCM and an additional vendor associated with the equipment purchase, which is accrued as a current liability on the Company's consolidated balance sheet.

## ***TSEC Joint Venture***

### *Joint Venture Contract*

On February 14, 2014, SES Asia Technologies Limited, one of the Company's wholly owned subsidiaries, entered into a Joint Venture Contract (the "JV Contract") with Zhangjiagang Chemical Machinery Co., Ltd. ("ZCM") to form Jangsu Tianwo-SES Clean Energy Technologies Limited (the "TSEC" Joint Venture"). The purpose of the TSEC Joint Venture is to establish the Company's gasification technology as the leading gasification technology in the TSEC Joint Venture territory (which is initially China, Indonesia, the Philippines, Vietnam, Mongolia and Malaysia) by becoming a leading provider of proprietary equipment for the technology. The scope of the TSEC Joint Venture is to market and license the Company's gasification technology via project sublicenses; procurement and sale of proprietary equipment and services; coal testing; and engineering, procurement and research and development related to the technology. ZCM is contributing RMB 100,000,000 (approximately USD \$16 million) in cash to the TSEC Joint Venture, and owns 65% of the TSEC Joint Venture, and the Company has contributed an exclusive license to use of its technology in the TSEC Joint Venture territory pursuant to the terms of a Technology Usage and Contribution Agreement entered into among the TSEC Joint Venture, ZCM and the Company (the "TUCA") on the same date. The Company owns 35% of the TSEC Joint Venture.

Under the JV Contract, neither party may transfer their interests in the TSEC Joint Venture without first offering such interests to the other party. Notwithstanding this, the Company has the right until 30 days after the first project sublicense is entered into by the TSEC Joint Venture to transfer 5% of its interest to a financial investor. If the Company elects not to transfer such 5% interest during that period, ZCM has the option to purchase such interest from the Company for RMB 10,000,000 (approximately USD\$1.6 million).

The JV Contract also includes a non-competition provision which requires that the JV be the exclusive legal entity within the TSEC Joint Venture territory for the marketing and sale of any gasification technology or related equipment that utilizes low quality coal feedstock. Notwithstanding this, ZCM has the right to manufacture and sell gasification equipment outside the scope of the TSEC Joint Venture within the TSEC Joint Venture territory. In addition, the Company has the right to develop and invest equity in projects outside of the TSEC Joint Venture within the TSEC Joint Venture territory. After the termination of the TSEC Joint Venture, ZCM must obtain written consent from the Company for the market development of any gasification technology that utilizes feedstock in the TSEC Joint Venture territory.

The JV Contract may be terminated upon, among other things, (i) a material breach of the JV Contract which is not cured, (ii) a violation of the TUCA, (iii) the failure to obtain positive net income within 24 months of establishing the TSEC Joint Venture or (iv) mutual agreement of the parties.

On March 18, 2014, the TSEC Joint Venture received the required 20-year business license from the State Administration for Industry & Commerce of the People's Republic of China (SAIC) in Zhangjiagang. On April 8, 2014, the transactions were completed and the TSEC Joint Venture began operations.

#### *Technology Usage and Contribution Agreement*

Pursuant to the TUCA, the Company has contributed to the TSEC Joint Venture the exclusive right to the Company's gasification technology in the TSEC Joint Venture territory, including the right to: (i) grant site specific project sub-licenses to third parties; (ii) use the Company's marks for proprietary equipment and services; (iii) engineer and/or design processes that utilize the Company's technology or other Company intellectual property; (iv) provide engineering and design services for joint venture projects and (v) take over the development of projects in the TSEC Joint Venture territory that have previously been developed by the Company and its affiliates.

The TSEC Joint Venture will be the exclusive operational entity for business relating to the Company's technology in the TSEC Joint Venture Territory. If the TSEC Joint Venture loses exclusivity due to a Company breach, ZCM is to be compensated for direct losses and all lost project profits. The Company will also provide training for technical personnel of the TSEC Joint Venture through the second anniversary of the establishment of the TSEC Joint Venture. The Company will also provide a review of engineering works for the TSEC Joint Venture. If modifications are suggested by the Company and not made, the TSEC Joint Venture bears the liability resulting from such failure. If the Company suggests modifications and there is still liability resulting from the engineering work, it is the liability of the Company.

Any party making, whether patentable or not, improvements relating to the Company technology after the establishment of the TSEC Joint Venture, grants to the other Party an irrevocable, non-exclusive, royalty free right to use or license such improvements and agrees to make such improvements available to the Company free of charge. All such improvements shall become part of the Company's technology and both parties shall have the same rights, licenses and obligations with respect to the improvement as contemplated by the TUCA.

The TSEC Joint Venture will establish an Intellectual Property Committee, with two representatives from the TSEC Joint Venture and two from the Company. This Committee shall review all improvements and protection measures and recommend actions to be taken by the TSEC Joint Venture in furtherance thereof. Notwithstanding this, each party is entitled to take actions on its own to protect intellectual property rights.

Any breach of or default under the TUCA which is not cured on notice entitles the non-breaching party to terminate. The parties can suspend performance of the TUCA in the event of a dispute if the dispute poses a significant adverse impact on performance. The TSEC Joint Venture indemnifies the Company for misuse of the Company's technology or infringement of the Company's technology upon rights of any third party.

The following table presents summarized unconsolidated financial information for the TSEC Venture (in thousands):

	<b>Year Ended June 30, 2014</b>	
<b><u>Income Statement data:</u></b>		
Revenue	\$	—
Operating loss		(466)
Net Loss		(466)
	<b>June 30, 2014</b>	
<b><u>Balance sheet data:</u></b>		
Current assets	\$	8,573
Noncurrent assets		8,458
Current liabilities		3
Noncurrent liabilities		—
Equity		17,028

### ***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 the Company's 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. In December 2012, SRS suspended its activities due to the unavailability of financing for coal resources. Therefore we are in the process of winding up this business.

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):

	<b>Three Months Ended June 30,</b>		<b>Year Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b><u>Income statement data:</u></b>				
Revenue	\$	—	\$	130
Operating income (loss)		—	55	(5)
Net income (loss)		—	55	(5)

### ***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 ether ("DME") production plant utilizing U-GAS<sup>®</sup>. (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, 2014 or 2013. There were however, current liabilities of approximately \$0.6 million as of June 30, 2014 and \$1.2 million as of June 30, 2013 related to unpaid settlements of amounts due to various contractors from the initial construction work for the project. In June 2014, The Company wrote off approximately \$0.6 million of these unpaid settlements according to current local business contract law. The GC Joint Venture project is not currently being developed and the Company is continuing to work to liquidate and ultimately dissolve 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, thus 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, the ZZ Joint Venture began producing and selling methanol in November 2013 and sold 35,682 tonnes of methanol during the year ended June 30, 2014 generating approximately \$13.3 million of revenue. The ZZ Joint Venture has worked to complete the plant retrofits and equipment upgrades to enable increased methanol production from integrated syngas and coke oven gas feedstock. There can be no assurances that the methanol production operations contemplated by the ZZ Cooperation Agreement will be profitable. Profitability will be dependent on, among other things, our management of the operations of the plant, pricing of methanol, coal and power, and maintaining necessary government approvals.



The Yima Joint Venture plant's refined methanol section was fully commissioned in December 2013, and has operated at limited capacity since that date. Methanol production was approximately 27% of its capacity during the twelve months ended June 30, 2014. The plant is designed to produce 300,000 tonnes per year of methanol from operating two of its three available gasifiers and has achieved 100% peak syngas production levels and 80% peak methanol production levels. Yima has recently initiated an outage in March that should allow the plant to make improvements to the upstream and downstream units adjacent to the Company's gasification systems at the Yima Joint Venture plant. Some of these are punch-list items, along with the improvements which have been learned from the past year's operation at the plant. The improvements are currently scheduled to be completed in the next several months. 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 types of facilities, but the shutdowns have generally not been related to the gasifier systems. In addition, the Yima Joint Ventures still owe the Company approximately \$0.67 million for certain gasifiers and gasifier related equipment delivered in 2012, a portion of which is due from the Company to ZCM and the balance to a second vendor for providing equipment associated with the gasifiers. It is unclear when or if the balance of this money will be paid to the Company from the Yima Joint Venture.

Although the Company has made significant progress recently on partnering its China business through the TSEC Joint Venture, the Company expects to continue 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, the Yima Joint Ventures and the TSEC Joint Venture) 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 majority of our revenues are derived from the sale of methanol in China. We do not have long term offtake agreements for these sales, so revenues fluctuate based on local market spot prices, which have been under significant pressure and are generally not consistent or predictable, and we are unsure of how much longer this will continue. Our liquidity and capital resources will be materially adversely affected if markets remain under pressure, and we are unable to obtain satisfactory process for these commodities or if prospective buyers do not purchase these commodities

The Company currently plans to use its available cash for (i) securing orders and other associated tasks associated with the Company's distributed power initiatives such as in Pakistan with General Electric; (ii) executing the Company's strategy to develop market based business verticals, (iii) the ZZ Short-term Loan for \$3.3 million, which was repaid in September 2014; (iv) general and administrative expenses and (v) working capital and other general corporate purposes. Although the Company intends for the ZZ Joint Venture to sustain itself through its own earnings, the Company may also need to make additional contributions to the ZZ Joint Venture in order for it to meet its obligations until the ZZ Joint Venture generates sufficient cash flows to cover its operating costs and debt service. 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 our results of operations and financial condition. Operating cash flows from the Company's joint venture operating projects can be positively or negatively impacted by changes in coal and methanol prices. These are commodities where market pricing is often 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 and debt 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 may 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. 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 witnessing in its proprietary 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; or (vi) respond to competitive pressures or unanticipated capital requirements.

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,	
		2014	2013
Furniture and fixtures	2 to 3 years	\$ 315	\$ 321
Production equipment	20 years	36,286	35,480
Building — plant and office	30 years	8,117	8,083
Leasehold improvements	Lease term	113	122
Computer hardware	3 years	408	398
Computer software	3 years	975	959
Office equipment	3 years	257	251
Motor vehicles	5 years	218	217
		46,689	45,831
Less: Accumulated depreciation		(15,190)	(13,190)
Net carrying value		\$ 31,499	\$ 32,641

Depreciation expense for both the years ended June 30, 2014 and 2013 was \$2.1 million.

#### Note 6 — Detail of Selected Balance Sheet Accounts

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

	June 30,	
	2014	2013
Land use rights	\$ 746	\$ 760
GTI license royalty, net — ZZ Joint Venture	611	626
Value added tax receivable — ZZ Joint Venture	773	1,106
Other	351	352
	\$ 2,481	\$ 2,844

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

	June 30,	
	2014	2013
Construction and equipment costs	\$ 427	\$ 645
Accounts payable — raw material	2,853	—
Accounts payable — trade	336	255
Accrued payroll, vacation and bonuses	586	555
Technical consulting, engineering and design services	179	521
Advances from Yima Joint Ventures toward purchase of gasifier equipment	825	2,391
Advances from Xuejiao	—	1,780
GTI royalty expenses due to GTI	250	250
Other	1,711	1,235
	\$ 7,167	\$ 7,632

#### 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. Under the GTI Agreement, the Company maintains its exclusive worldwide right to license the U-GAS<sup>®</sup> 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<sup>®</sup> technology for 100% biomass and coal/biomass blends exceeding 40% biomass.



In order to sublicense any U-GAS<sup>®</sup> 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<sup>®</sup> 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, 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<sup>®</sup> 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, 2014			June 30, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Use rights of U-GAS <sup>®</sup>	\$ 1,886	\$ 1,480	\$ 406	\$ 1,886	\$ 1,292	\$ 594
Other intangible assets	684	41	643	474	8	466
<b>Total</b>	<b>\$ 2,570</b>	<b>\$ 1,521</b>	<b>\$ 1,049</b>	<b>\$ 2,360</b>	<b>\$ 1,300</b>	<b>\$ 1,060</b>

The use rights of U-GAS<sup>®</sup> have an amortization period of ten years. Amortization expense was approximately \$0.2 million for each of the years ended June 30, 2014 and 2013 and is recorded in depreciation and amortization expense. Estimated amortization expense for each of the remaining two subsequent fiscal years is expected to be approximately \$0.2 million.

## Note 8 — Income Taxes

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

	<b>Year Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Domestic	\$ (4,730)	\$ (6,863)
Foreign	(9,513)	(13,060)
Net loss	<u>\$ (14,243)</u>	<u>\$ (19,923)</u>

### *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);

	<b>Year Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Net loss	\$ (14,243)	\$ (19,923)
Computed tax benefit at statutory rate	(4,985)	(6,973)
Tax on global activities	5,472	2,747
Other	192	(448)
Valuation allowance	(679)	4,674
	<u>\$ —</u>	<u>\$ —</u>

### *Deferred tax assets*

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

	<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>
Deferred tax assets (liabilities):		
Net operating loss carry forward	\$ 23,835	\$ 27,554
Depreciation and amortization	365	403
Stock-based compensation	6,059	5,972
Investment in joint venture	4,396	1,324
Accruals	667	748
AMT credit	55	—
Subtotal	<u>35,377</u>	<u>36,001</u>
Valuation allowance	<u>(35,377)</u>	<u>(36,001)</u>
Net deferred assets	<u>\$ —</u>	<u>\$ —</u>

At June 30, 2014, the Company had approximately \$43.6 million of U.S. federal net operating loss (“NOL”) carry forwards, and \$18.6 million of China NOL carry forwards. The U.S. federal NOL carry forwards have expiration dates through the year 2033. The China NOL carry forwards have expiration dates through 2018. 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, 2014, 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, 2014 or 2013.

#### **Note 9 — 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, 2014 and 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 10 — Commitments and Contingencies**

##### *Litigation*

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

##### *Operating leases*

On June 3, 2014, the Company extended its corporate office lease term for twelve months ending June 30, 2015 with rental payments of approximately \$22,000 per month (monthly rent changes depending on actual utility usage each month). Rental expenses incurred under operating leases for the years ended June 30, 2014 and 2013 were approximately \$0.4 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 11 — Stock-Based Compensation**

On August 1, 2013, Crystal Vision Energy Limited (“CVE”) made a \$100,000 investment in the Company’s common stock and received 136,986 shares and warrants to purchase 136,986 shares of the Company common stock. The shares of the Company’s common stock were issued at a price of \$0.73. The associated warrants have an exercise price of \$0.91. The fair value of the August 1, 2013 transaction, including the shares and warrants, was estimated to be approximately \$0.1 million. Under a consulting agreement with the Company, CVE was also entitled to non-forfeitable incentive warrants. 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<sup>1</sup>, became vested and fully exercisable on December 31, 2013 and has a term of five years.

On November 1, 2013, the Company entered into a management consulting agreement (the “MDC Agreement”) with Market Development Consulting Group, Inc. d/b/a MDC Group (“MDC”) for communications and investor relations advisory services. As part of MDC’s consideration, MDC received an initial warrant to acquire 750,000 shares of common stock on November 1, 2013 at an exercise price of \$.70 per share. The fair value of these warrants was estimated to be approximately \$0.4 million. MDC will receive additional warrants (“Anniversary Warrants”) to acquire 1% of the then fully diluted common stock on each annual anniversary prior to termination of the MDC Agreement. The exercise price of each such Anniversary Warrant shall be equal to the average closing price over the twenty consecutive trading days immediately preceding the anniversary. MDC is prohibited from exercising the initial warrant until the first anniversary of the date of the Agreement, other than in connection with a change of control of the Company.

On March 24, 2014, the Company raised gross proceeds of approximately \$15 million through the sale of 8,333,341 shares of common stock plus warrants to acquire 4,166,667 shares of common stock. The aggregate fair value of these warrants was approximately \$3.97 million. The warrants have an exercise price of \$2.16 per share and a three-year term from the date of issuance. In connection with this offering, the Company paid commissions and other offering-related expenses of approximately \$1.0 million in cash and also issued warrants to the placement agent to acquire 500,000 shares of common stock. The aggregate fair value of these warrants was approximately \$0.6 million. The warrants have an exercise price of \$2.25 per share and a five-year term from the date of issuance.

As of June 30, 2014, 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 May 29, 2014, the Company’s stockholders authorized an additional 2,200,000 shares of common stock for future awards under the Incentive Plan. As of June 30, 2014, there were 2,021,708 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.

For the years ended June 30, 2014 and 2013, the Company recorded stock-based compensation expense of approximately \$2.2 million and \$2.3 million, respectively.

#### Assumptions

The fair values for the stock options granted during the years ended June 30, 2014 and 2013 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,	
	2014	2013
Risk-free rate of return	1.63%	0.81%
Expected life of award	5.3 years	5.1 years
Expected dividend yield	0.00%	0.00%
Expected volatility of stock	99%	106%
Weighted-average grant date fair value	\$ 1.03	\$ 1.36

The expected volatility of stock assumption was derived by referring to changes in the historical volatility of the company. We used the “simplified” method for “plain vanilla” options to estimate the expected term of options granted during the years ended June 30, 2014 and 2013.

Stock option activity during the two years ended June 30, 2014 and 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, 2012	6,750,201	\$ 0.94		
Granted	1,350,717	1.08		
Exercised	(558,726)	0.80		
Cancelled/forfeited	(137,500)	1.03		
Outstanding at June 30, 2013	7,404,692	0.98	6.87	\$ 0.6
Granted	1,172,858	1.38		
Exercised	(803,750)	0.64		
Cancelled/forfeited	(71,250)	1.70		
Outstanding at June 30, 2014	7,702,550	1.07	6.50	6.8
Exercisable at June 30, 2014	6,749,047	1.02	6.17	6.3

The following table summarizes information with respect to stock options outstanding and exercisable at June 30, 2014:

Range of Exercise Prices	Number Outstanding	Weighted Average Contractual Term (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.43 to \$0.66	2,963,409	4.6	\$ 0.63	2,963,409	\$ 0.63
\$0.67 to \$1.00	1,443,062	6.9	0.85	1,195,576	0.87
\$1.01 to \$2.00	2,881,079	8.3	1.32	2,175,062	1.22
\$2.01 to \$3.00	15,000	0.1	2.32	15,000	2.32
\$3.01 to \$4.00	400,000	6.8	3.25	400,000	3.25
Total	<u>7,702,550</u>			<u>6,749,047</u>	

The fair values of the warrants issued were estimated using a Black-Scholes-Morton option-pricing, and the following weighted-average assumptions for the year ended June 30, 2014 and 2013:

	Year Ended June 30,	
	2014	2013
Risk-free rate of return	1.25%	0.85%
Expected life of award	4.2 years	5 years
Expected dividend yield	0.00%	0.00%
Expected volatility of stock	88%	108%
Weighted-average grant date fair value	\$ 0.92	\$ 0.83

The Company recognizes the stock-based compensation expense related to the Incentive Plan awards and 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 issued and sold to consulting firms (in thousands):

	Year Ended June 30,	
	2014	2013
Incentive Plan	\$ 1,186	\$ 1,046
Warrants and stock	1,033	1,271
Total stock-based compensation expense	<u>\$ 2,219</u>	<u>\$ 2,317</u>

As of June 30, 2014, approximately \$0.5 million of estimated expense with respect to non-vested stock option awards has yet to be recognized and will be recognized in expense over the remaining weighted average period of approximately one year.

## Note 12 – 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 initial closing costs relating to our 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.



## **Note 14 — Subsequent Events**

As stated in Note 3 of Notes to the Consolidated Financial Statements, on September 10, 2013 the Company entered into a short-term loan with Zao Zhuang Bank Co., Ltd., and received approximately \$3.3 million in proceeds. In September 2014, the Company has paid off the ZZ Short-term Loan, and the Company is currently in discussions with Zao Zhuang Bank Co., Ltd to replace it with another similar loan and line of credit.

## **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 Financial Officer, to allow timely decisions regarding required disclosures.

Our management, with the participation of the Chief Executive Officer and the Chief Financial 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, 2014. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of June 30, 2014.

### **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 Financial Officer, evaluated the effectiveness of our internal control over financial reporting as of June 30, 2014 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, 2014.

### **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, 2014 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, 2014.

### Item 11. Executive Compensation (Note Smaller Company Reporting change)

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, 2014.

### 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, 2014.

### 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, 2014.

### 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, 2014.

### 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.*

<b>Number</b>	<b>Description of Exhibits</b>
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).
4.2	Form of Warrant (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on March 25, 2014).
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 Non-statutory 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 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).
- 10.18 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).
- 10.19+ 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).
- 10.20 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).
- 10.21 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).
- 10.22+ 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).
- 10.23 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).
- 10.24+ 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).
- 10.25\*\* Cooperation Agreement among SES (Zao Zhuang) 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).
- 10.26 Amendment to Consulting Services Agreement between the Company and Crystal Vision Energy Limited dated July 29, 2013 (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended June 30, 2013).
- 10.27+ 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).
- 10.28 Loan Agreement between Synthesis Energy Systems (Zao Zhuang) New Gas Co., Ltd and Zao Zhuang Bank dated September 10, 2013 — English translation from original Chinese document (incorporated by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K for the year ended June 30, 2013).
- 10.29 Management Consulting Agreement between the Company and Market Development Consulting Group, Inc. dated November 1, 2013 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 5, 2013).
- 10.30 Joint Venture Contract between Zhangjiagang Chemical Machinery Co., Ltd. and SES Asia Technologies, Ltd., dated February 14, 2014 – English translation from Chinese document (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 14, 2014). \*\*
- 10.31 Technology Usage and Contribution Agreement among SES-ZCM Clean Energy Technologies Limited, Zhangjiagang Chemical Machinery Co., Ltd. and SES Asia Technologies, Ltd., dated February 14, 2014 – English translation from Chinese document (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 14, 2014). \*\*

10.32	Form of Securities Purchase Agreement among the Company and the purchasers identified therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 25, 2014).
10.33+	Employment Letter between the Company and Roger Ondreko dated April 29, 2014 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 5, 2014).
10.34+	Letter Agreement between the Company and Robert Rigdon dated August 22, 2014 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on form 8-K filed on August 25, 2014).
21.1*	Subsidiaries of the Company.
23.1*	Consent of UHY 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 Financial 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 Financial 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.***

\* 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 12, 2014

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.

<u>Signature</u>	<u>Capacity In Which Signed</u>	<u>Date</u>
<u>/s/ Robert Rigdon</u> Robert Rigdon	President and Chief Executive Officer and Director (Principal Executive Officer)	September 12, 2014
<u>/s/Roger Ondreko</u> Roger Ondreko	Chief Financial Officer, Controller and Secretary (Principal Financial and Accounting Officer)	September 12, 2014
<u>/s/ Lorenzo Lamadrid</u> Lorenzo Lamadrid	Director	September 12, 2014
<u>/s/ Denis Slavich</u> Denis Slavich	Director	September 12, 2014
<u>/s/ Harry Rubin</u> Harry Rubin	Director	September 12, 2014
<u>/s/ Xu, Ziwang</u> Xu, Ziwang	Director	September 12, 2014
<u>Gao, Feng</u>	Director	September 12, 2014
<u>/s/ Yang, Guang</u> Yang, Guang	Director	September 12, 2014
<u>Charles M. Brown</u>	Director	September 12, 2014

**Subsidiaries of the Company**

- Synthesis Energy Holdings, Inc. (Florida corporation)
    - o Owns 100% of:
      - Synthesis Energy Systems, Inc. (British Virgin Islands corporation)
        - Owns 100% of:
          - o Synthesis Energy Systems Investments, Inc. (Mauritius corporation)
            - Owns 97.6% of:
              - Synthesis Energy Systems (Zao Zhuang) New Gas Company Ltd. (Chinese corporation)
          - o Synthesis Energy Investment Holdings, Inc. (Mauritius corporation)
          - o Synthesis Energy Technology Holdings, Inc. (Mauritius corporation)
          - o SES New Energy Technologies, (Shanghai) Co., Ltd. (Chinese corporation)
  - Synthesis Energy Systems Technologies, LLC (Delaware limited liability company)
    - o Owns 100% of:
      - SES Asia Technologies, Ltd. (Delaware limited liability company)
  - SES Resources, LLC (Delaware limited liability company)
    - o Owns 50% of:
      - SES Resource Solutions, Ltd. (British Virgin Islands corporation)
-

**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 of our report dated September 12, 2014 relating to the financial statements, which appears in this Form 10-K.

/ s/ UHY LLP

Houston, Texas  
September 12, 2014

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**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 12, 2014

s/ Robert Rigdon

Robert Rigdon

President and Chief Executive Officer

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

I, Roger Ondreko, 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 12, 2014

/s/ Roger Ondreko

Roger Ondreko  
Chief Financial Officer and Secretary

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**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, 2014 (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 12, 2014

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**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, 2014 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Roger Ondreko, Chief Financial 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/ Roger Ondreko

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Roger Ondreko  
Chief Financial Officer and Secretary

September 12, 2014

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