

# **SYNTHESIS ENERGY SYSTEMS, INC.**

## **INFORMATION STATEMENT**

For Broker-Dealer Due Diligence  
Pursuant to Rule 15c2-11  
under the Securities Exchange Act of 1934

Synthesis Energy Systems, Inc.  
(Exact name of issuer as specified in its charter)

A Delaware Corporation

The number of shares outstanding of each of the Registrant's classes of common equity, as of the date of this Information Statement, are as follows:

Common Stock: 100,000,000 authorized shares, 24,650,000 issued shares (as of June 30, 2006), \$0.01 par value

INFORMATION STATEMENT  
CUSIP NUMBER 871628 10 3

THE INFORMATION FURNISHED HEREIN HAS BEEN PREPARED FROM THE BOOKS AND RECORDS OF THE ISSUER BY THE OFFICERS AND DIRECTORS OF THE ISSUER IN ACCORDANCE WITH RULE 15c2-11 UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AND IS INTENDED ONLY AS A SECURITIES DEALER INFORMATION FILE; AND

NO DEALER, SALESMAN OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION, OR TO MAKE ANY REPRESENTATIONS NOT CONTAINED HEREIN IN CONNECTION WITH THE ISSUER, SUCH INFORMATION OR REPRESENTATIONS, IF MADE, MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE ISSUER; AND

DELIVERY OF THIS INFORMATION STATEMENT, AT ANY TIME DOES NOT IMPLY THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE FIRST WRITTEN ABOVE.

The information contained in this Information Statement has been compiled to fulfill the disclosure requirements of Rule 15c2-11 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The enumerated items and captions correspond to the format set forth in the Rule. The effective date of this information statement is June 30, 2006, and no inference can or may be drawn that the information contained herein is current as of any subsequent date. The financial statements herein contained are presumed to be "current" for a period of six months after their date, barring extraordinary circumstances. No inference can be drawn that the financial condition of the issuer has not changed since the effective date of any financial statement contained herein.

**Item I: The exact name of the issuer and its predecessor (if any).**

The exact name of the issuer is Synthesis Energy Systems, Inc. (the "Company" or "issuer"). The predecessor of the issuer is Tamborine Holdings, Inc.

**Item II: The address of its principal executive offices.**

ABCD

The issuer maintains its principal executive offices at:

- (1) 6330 West Loop South, Suite 300  
Houston, Texas 77401  
Tel: (1) 713-579-0600  
Fax: (1) 713-579-0610
- (2) 680 Zhao Jia Bang Road  
Unit 916 Jin Zhong Building  
Shanghai, P.R. China 200031  
Tel: (86) 21-6473-8020  
Fax: (86) 21-6415-5172

URL: [www.synthesisenergy.com](http://www.synthesisenergy.com)

Investor Relations:  
David A. Eichinger, Chief Financial Officer  
Tel: (713) 579-0600  
E-mail: david.eichinger@synthesisenergy.com

**Item III: The state of incorporation, if it is a corporation.**

State of Delaware

**Item IV: The exact title and class of the security.**

Common Voting Shares, Single Class  
CUSIP: 871628 10 3  
Trading Symbol: SYMX

**Item V: The par value or stated value of the security.**

The par value of the Company's common stock is \$0.01 per share.

**Item VI: The number of shares or total amount of the securities outstanding as of the end of the issuer's most recent fiscal year.**

As of June 30, 2006, the Company had 24,650,000 (twenty-four million, six hundred and fifty thousand) shares outstanding and 100,000,000 (one hundred million) authorized. There were 6,000,000 (six million) freely tradable shares in the float. As of July 21, 2006, the Company had approximately 167 shareholders.

**Item VII: The name and address of the transfer agent.**

Transfer Online, Inc.  
317 SW Alder Street, 2<sup>nd</sup> Floor  
Portland, Oregon 97204  
Tel: (1) 503-227-2950

This transfer agent is registered under the Exchange Act.

**Item VIII: The nature of the issuer's business.**

The Company is an emerging development stage company involved in the global development and commercialization of gasification technology. Its principal asset is a license with the Gas Technology Institute (“GTI”), a U.S. based non-profit research organization, for U-GAS® technology in several world-wide geographic markets, including China, the Appalachian Mountain regions of the United States, India, Pakistan, Australia and the United Kingdom. The Company’s strategy is to commercialize GTI’s technology. If successful, the Company’s plants, utilizing the U-Gas technology, will provide its customers with molecular feedstocks (e.g. hydrogen, carbon monoxide) or energy services (e.g. power, compression, steam) integrated with engine and/or turbine generators for power and steam production. In connection with the Company’s molecular feedstock and energy supply business, it may also provide equipment procurement and supply services, technology licensing services, technology development services and sales, and operations and maintenance services.

Gasification technology is an advanced technology available for producing synthesis gas from the gasification of coal, petroleum coke and other solid fuels. U-GAS®, a circulating fluidized bed gasification technology developed by GTI, is particularly attractive because of the flexibility to gasify very low cost coals with an ash content as high as 60% and utilize a wider range and mix of fuels relative to competing technologies. The U-GAS® system can use solid fuels, often in the range of \$0.25-1.20 per million Btus (i.e. coal wastes, high ash or high moisture coals) that other technologies cannot utilize, versus typical costs of \$1.00 to \$3.00 per million Btus for market steam coals and \$5.00 to \$8.00 per million Btus for natural gas and liquid fuels.

GTI is one of the world’s leading energy research and development organizations; it is not in the business of deploying technologies and thus has not commercialized its U-GAS® technology. As of the date of this Information Statement, the U-GAS® technology is still in the process of development. The Company has obtained a ten-year exclusive license through 2016 (with an option to extend for 10 years) from GTI to make, manufacture, use and sell medium and high-pressure U-GAS® technology in China, and as to low Btu coal, in the Appalachian Mountain regions of Ohio, Pennsylvania, Virginia, West Virginia, Kentucky, Tennessee and Alabama.

Gasification-based power plants have been recognized as having significant environmental advantages relative to conventional coal burning technologies including: very low particulate emissions; low sulphur and other acid gas emissions through the plant’s acid gas treatment process; and lower carbon dioxide emissions due to greater efficiencies (15-20% less CO<sub>2</sub>).

In addition gasification technologies can easily capture carbon dioxide during the acid gas removal process. Captured CO<sub>2</sub> has been injected into mature oil wells to enhance oil recovery. In addition, pilot projects for sequestering CO<sub>2</sub> in depleted oil wells and salt domes are underway in the US and the Middle East which may pave the way for zero CO<sub>2</sub> emission projects. Traditional coal combustion faces a disadvantage relative to coal gasification and other power generation technologies as regulators and policy makers move to reduce carbon dioxide emissions.

The Company will execute the following avenues to commercialize the U-GAS® technology.

Molecule Production and Distributed Generation. Industrial complexes such as chemical, ammonia, fertilizer and petrochemical plants, and refineries require a number of diverse commodities including steam, hydrogen, nitrogen, carbon monoxide, oxygen and highly reliable power supply. The Company plans to develop, own and operate inside the fence U-GAS® facilities at industrial complexes to sell molecules, power, compression, steam and other commodities to host customers. The Company will initially focus these efforts on China because of the opportunities afforded by China’s rapid growth in the chemical and petrochemical industries and the need for the basic building blocks in those industries such as hydrogen, carbon monoxide and energy. The Company intends to finance the projects using non-

recourse debt financing when it is available and negotiate supply and offtake agreements as appropriate to mitigate price risk otherwise inherent in the projects.

Strategic Partnerships. We are planning to develop relationships with wholesale coal mining, transport and processing firms to identify sources of low cost coal, and in some cases coal washings that result from the coal processing operations. We plan to develop multi megawatt facilities from which syngas or power could be sold into wholesale energy markets. In some markets, such as the U.S., hydrocarbon streams may go through a methanation process, which could allow the offtake methane gas to be sold into the natural gas transmission (i.e. pipeline) systems. As described above, we will attempt to secure non-recourse debt financing and contract with coal providers and customers to mitigate commodity price risk.

**Item IX: The nature of the products and services offered.**

Gasification technology is an advanced technology available for producing synthesis gas from coal, petroleum coke and other solid fuels. Circulating fluidized bed gasification technology has the ability to gasify very low cost coals with an ash content as high as 60% and utilize a wider range and mix of fuels relative to competing technologies.

In particular, within China and U.S. markets, the conversion of coal to gaseous fuels (i.e. coal gasification) represents an opportunity to improve air quality, curb greenhouse gas emissions and replace energy imports from politically unstable sources with indigenous coal supplies. China and U.S. coal reserves make up 50% of the global totals, respectively. China and the U.S. are also the largest importer of petroleum products. The Company believes a commercial opportunity exists for companies that can successfully introduce clean coal technologies. The Company is initially focusing on China since China offers immediate opportunities to develop U-GAS®-based projects and because the original development team was located in China. Coal is China's most abundant energy resource and is in high demand, which in turn causes economic and environmental pressures and forces the Chinese government and Chinese industries to re-think the way coal is used. In order to meet the demand for energy and industrial commodities, China is in the process of finding an environmentally acceptable method to convert coal into energy and commodities.

The Company's goal is to develop projects, technologies and systems to meet these needs and to establish U-GAS® as a reliable and efficient alternative source of power, hydrogen and other gasification by-products to Chinese manufacturers. The primary drivers for growth will be a large indigenous coal supply, heightened awareness of environmental issues, and a desire to develop a diversified energy mix and mitigate over-reliance on natural gas and crude oil.

**Item X: The nature and extent of the issuer's facilities:**

The Company presently does not own any material property. The Company's main leased offices are located in Houston, Texas and Shanghai, China and these offices are considered to be adequate for its present activities. A subsidiary is currently negotiating the purchase of land in China on which to construct a gasification plant. The leases of the Company's Shanghai and Houston offices expire in 2007 and in 2009, respectively. Future minimum lease payments are approximately \$76,000/year combined for the leases.

**Item XI: The name of the chief executive officers and members of the board of directors:**

**A. Executive Officers:**

President and Chief Executive Officer – Timothy E. Vail

Mr. Vail joined the Company as a Director on September 20, 2005, and accepted the President and Chief Operating Officer position on May 30, 2006. Prior to joining the Company, Mr. Vail served as the director of commercialization for Fuel Cell Development for General Motors Corporation (“GM”). At GM, Mr. Vail was responsible for the worldwide commercializing GM’s multi-billion dollar technology investment. To that end, Mr. Vail led a team delivering a broad range of commercial objectives, from the world’s largest fuel cell agreement with Dow Chemical to the creation of a fleet of fuel-cell-powered U.S. Postal service vehicles. Mr. Vail was also responsible for the preparation and presentation of fuel cell commercialization plans to GM’s Senior Management team on a quarterly basis. His duties included the development of GM’s Shanghai fuel cell office as well as coordination of engineering facilities in the US, Germany, Japan and China. Prior to his position at GM, Mr. Vail was the Vice President of product development for New Power Corporation, a start-up subsidiary of Enron Corporation. In his role at New Power, Mr. Vail was responsible for the development of new products and services to be delivered to New Power’s million plus customer base. Before working at New Power, Mr. Vail was a Vice President at Enron Energy Services. Mr. Vail was also a securities law associate with the firm Andrews Kurth, LLP. Mr. Vail holds a J.D. from the University of Houston Law Center and a B.A. in Economics from The University of Texas at Austin.

Chief Financial Officer – Mr. David A. Eichinger

Prior to joining the Company, Mr. Eichinger was a consultant to the Company since November 1, 2005, in which capacity he advised us on technology license negotiations and global expansion beyond the Chinese market. He accepted the position of Chief Financial Officer on May 30, 2006. Prior to his role as an advisor to the Company, he served in a broad range of Corporate Development and Corporate Finance positions. At Exxon, Mr. Eichinger spent five years in the Corporate Treasury function as an analyst in Corporate Finance and Tax at Exxon Corporation and Exxon Chemicals. While at Enron, Mr. Eichinger led merger and acquisition teams in the deregulating wholesale and retail markets in North and South America. In addition, Mr. Eichinger led the spin off of The New Power Company as a founder. He led teams that raised over \$700 million through two private placements and a public offering in October 2000. While at New Power, Mr. Eichinger led Corporate Development as an Executive Officer. Mr. Eichinger has also advised a number of energy related firms including CAM Energy (a New York based hedge fund) and General Hydrogen. Mr. Eichinger is a Founder of Kelvin Networks, an intelligent building controls company, and currently sits on its board. Mr. Eichinger holds B.S. and M.S. in Chemistry from The College of William and Mary, and an M.B.A. from Carnegie Mellon.

Chief Executive Officer/Asia Pacific Region - Mr. Donald P. Bunnell

Before co-founding SES, Mr. Bunnell was the Asia Business Development Vice President for BHP Billiton's aluminum group. Prior to BHP, Mr. Bunnell served as Country Manager, China for Enron's power development team in charge of Enron's China Power Group. During this time, Mr. Bunnell spent three years leading the Enron/Messer/Texaco consortium for the Nanjing BASF Project. Mr. Bunnell also led the acquisition of a 375-megawatt co-generation power plant in Sichuan Province and served as the joint venture's Chairman of the Board. Mr. Bunnell began his career in China energy career as a manager with Coastal Power Corp. (now part of El Paso Corp.) Mr. Bunnell is a US-qualified lawyer whom practiced law in Hong Kong, and is fluent in Mandarin Chinese. He has lived in China for 11 years, and has 10 years of experience in the China power industry developing projects and managing joint ventures. Mr. Bunnell graduated from Miami University with a BA and from the William & Mary School of Law with a JD. Mr. Bunnell is the beneficial owner of approximately 25.53% of the issuer’s shares.

**B. Directors:**

Mr. Vail and Mr. Bunnell listed under section A above are also the Company's directors. In addition, other directors of the Company are:

Chairman - Mr. Lorenzo C. Lamadrid

Mr. Lamadrid is an international energy investor and advisor who has developed major energy and power projects in Asia for more than 15 years. He previously served as Managing Director and Founding Partner of the Worldwide Power Group, Ltd., a developer of large-scale energy and power generation projects in Asia and Latin America, and is also a member of the International Advisory Board and the Executive Committee of Sirocco Aerospace. Mr. Lamadrid previously served as President and Chief Executive Officer of Arthur D. Little, Inc., as well as President of Western Resources International, Inc., and Managing Director of The Wing Group, a subsidiary of Western Resources that developed large-scale international electric power projects. Mr. Lamadrid was Vice Chairman of four Sino-foreign joint ventures in power generation, as well as Executive Vice President and founding board member of CPI-Western Power Holdings, Ltd., one of China's leading power developers. Mr. Lamadrid spent seven years with General Electric, the last two as a Corporate Officer. He served as Vice President and General Manager of GE Aerospace (GEA), Mr. Lamadrid also served on the Board of Directors of the General Electric Trading Company, GE/RCA Licensing Operation, Toshiba Electronic Systems Company (Japan), Ltd., and the Philadelphia World Affairs Council. Before joining General Electric, Mr. Lamadrid was a Manager at The Boston Consulting Group, and was also a founding investor of the Boston Beer Company (Samuel Adams). Mr. Lamadrid graduated from Yale University with a B.S. in Chemical Engineering and Administrative Sciences, Massachusetts Institute of Technology with a M.S. in Chemical Engineering, and from Harvard with an M.B.A. Mr. Lamadrid is the beneficial owner of approximately 10.86% of the issuer's shares.

Director – Michael Storey

Mr. Storey has over 25 years of experience pioneering dynamic, early growth businesses and directing successful long-term strategic planning at the highest levels of various global communications industries. From 2000, he served as President and CEO of Inmarsat Ventures, creators of the world's first total global satellite system for mobile and remote communications services, with revenues of \$500 million. Mr. Storey was recruited to lead the former intergovernmental consortium reorganized as a private company to commercialize operations and to set the strategic vision for the next decade. Due to the groundbreaking nature of Inmarsat structure and operations, Mr. Storey's work charted important new territory in the global communications industry. He prepared the company for several public offerings before, due to market conditions and certain unique aspects of the business, recommending to the board and then conducting an extremely competitive private equity sale of the company. In what was described by the firm's investment bankers, Morgan Stanley, as "the most complicated transaction our team has ever been involved with," the sale raised \$1.5 billion -- a 50% premium to what Morgan Stanley expected in a public market transaction. Under his direction, annual revenues and operating profit both increased by more than \$100 million and a fourth generation of satellites were developed at a capital cost of \$1.6 billion. His mission solidly accomplished, he resigned in March of 2004, but continues as Advisor to the Chairman. Prior to his position at Inmarsat, Mr. Storey ran several telecommunications businesses during European deregulation that eventually became MCI Europe. Under his direction, the businesses operated in eight national markets with over 1300 employees, and grew annual revenues from \$5 million to \$1 billion in the period from 1994 to 1999 through an even mixture of organic growth and strategic acquisitions. Mr. Storey also established a business in cable television and telecommunications in the early 1980s, leading the push to create the required regulatory framework for an entire industry. He grew his business and acquired several franchises before selling his interests in 1992 to Videotron and Bell Canada. He served as a Director and then Chairman of the Cable Communications Association from 1983 to 1990, representing all the investors in the U.K. cable industry. Prior to entering the communications industry, he worked in the healthcare industry, operating hospitals in the U.K., Middle East, and North America. Mr. Storey served for 10 years as a Vice President and Partner of Booz Allen Hamilton International Management Consultants, directing more than 100 strategic consulting assignments globally across a wide range of industries. Mr. Storey obtained his M.B.A. from the University of Chicago in 1968.

Director – Denis Slavich

Mr. Slavich has over 35 years of experience in large-scale power generation development. He is currently an international consultant to a number of U.S. and China-based companies engaged in cross border transactions, as well as an advisor and board member for a number of additional firms. Prior to his current activities, Mr. Slavich was the CFO and director of KMR Power Corporation and was responsible for the development of an international IPP company that developed projects in Columbia as well as other areas. Mr. Slavich also served as acting President for Kellogg Development Corporation helping to start this new division of M.W. Kellogg. Mr. Slavich served as a member of the management team that successfully accomplished a financial turnaround of the well-known EPC firm, Morrison Knudsen Corporation, now the Washington Group. Mr. Slavich was also a Vice President of Marketing for Flour Daniel. Prior to working at Flour Daniel, Mr. Slavich served in many roles, culminating as a Corporate Director and Senior Vice President of International Power, of Bechtel Group. Mr. Slavich received his Ph.D. from Massachusetts Institute of Technology, M.B.A. from the University of Pittsburgh and his B.S. in Electrical Engineering from the University of California at Berkeley.

Director – Stephen M. Terry

Mr. Terry currently serves as the Finance Director of Azure International, Ltd., where he is responsible for the firm and its clients' investment and financing strategies. Since joining Azure International, Ltd., as a Partner in 2003, he has led efforts to finance commercialization of several sustainable energy technologies in China including manufacturing and utility investments. From 2002 to 2003, Mr. Terry was a Research Fellow at the United Nations Industrial Development Organization in Beijing where he completed research and funding assignments for the United Nations for sustainable industrial development projects focused on SME financing, non-performing loans, FDI and venture capital. Prior to serving with the United Nations, from 1996 to 2001, Mr. Terry was an investment banker with Goldman Sachs International in both New York and London where he completed corporate finance and mergers and acquisitions transactions across a range of industries including telecommunications, cable, chemicals, industrial equipment, metals & mining and retail. Prior to Goldman Sachs International, Mr. Terry worked in the steel industry in various capacities. Mr. Terry is proficient in Mandarin Chinese and Spanish, has lived in China for 3 years, and has extensive experience in international investment, valuation, mergers and acquisitions, corporate restructuring, venture capital and business development strategies. Mr. Terry graduated from Massachusetts Institute of Technology with a Bachelor in Science and is a Chartered Financial Analyst.

**C. General Partners:**

None

**D. Promoters:**

None

**E. Control Persons:**

See description above.

**F. Counsel:**

The Company has appointed Porter & Hedges, LLP, 1000 Main Street, Houston, Texas 77002, as its external counsel. Other legal work is performed in-house.

**G. Accountant or Auditor:**

The Company has appointed KPMG Huazhen of 8<sup>th</sup> Floor, Tower E2, Oriental Plaza, 1 East Chang An Avenue, Beijing 100738, China as its external auditors of its annual financial statements. Other accounting work is performed in-house.

**H. Public Relations Consultant:**

None.

**I. Advisory:**

None.

**Item XII: The issuer's most recent balance sheet and profit and loss and retained earnings statements:**

See attached financial statements.

**Item XIII: Similar financial information for such part of the two (2) preceding fiscal years of issuer's existence:**

See attached financial statements.

**Item XIV: Whether the broker/dealer or any associated person is affiliated, directly or indirectly, with the issuer:**

Management of the Company is not aware of any broker/dealer or associated persons or entities affiliated, either directly or indirectly, with the Company.

**Item XV: Whether the quotation being published/submitted on behalf of any other broker/dealer, and if so, the name of such broker or dealer:**

Management of the issuer is not aware of any broker/dealer submitting quotations with respect to the issuer's common stock on behalf of any other broker or dealer.

**Item XVI: Whether the quotation being submitted or published directly or indirectly on behalf of the issuer, or any director, officer or any person directly/indirectly the beneficial owner of more than 10% of the outstanding units or shares of any equity security of the issuer, and, if so, the name of such person, and the basis for any exemption under the federal securities laws for any sales of such securities on behalf of such person:**

Management of the Company is not aware of any quotation or quotations being submitted on behalf of the Company or any director, officer or ten percent (10%) shareholder of the Company.

**Item XVII: Details of securities offerings by the issuer during the past two years:**

None.

**Forward Looking Statements.** Except for purely historical information, the statements contained in the foregoing disclosure are forward-looking and have been made in accordance with the requirements of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Readers are cautioned that these forward-looking statements are inherently subjective and reflect assumptions, known and unknown risks, uncertainties and other factors that may affect the Company's business and prospects and cause its actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements. These factors are difficult or impossible to predict accurately, and many of them are outside of the Company's control. These factors include: the timely receipt of required governmental approvals for various aspects of the Company's business; market demand for and acceptance of its services; actions of its existing and any new competitors; the impact of competitive products, services and pricing; the adequacy of its proprietary information technology to support its business plan; general or specific economic conditions; government monetary policy; and other factors. The Company's forward-looking statements are made as of the date of this disclosure document, and except as may be required by law, we undertake no obligation to update our forward-looking statements as a result of any future events or developments.

*ABCD*

THE UNDERSIGNED HAS READ ALL OF THE ITEMS SET FORTH HEREIN AND, AS TO THE BEST OF THE UNDERSIGNED'S KNOWLEDGE AND BELIEF, THE INFORMATION CONTAINED HEREIN IS ACCURATE AND COMPLETE.

DATED THIS 4TH DAY OF AUGUST, 2006.

/s/ DAVID A EICHINGER

David A. Eichinger  
Chief Financial Officer

# Synthesis Energy Systems, Inc.

(A Development Stage Enterprise)

**Consolidated Financial Statements  
Three Months Ended June 30, 2006**



**Changing the way**  
the world thinks about energy





**SYNTHESIS ENERGY SYSTEMS, INC. AND SUBSIDIARIES**

(A Development Stage Enterprise)

Consolidated Balance Sheets

In US Dollars

	<u>Jun 30, 2006</u>	<u>Jun 30, 2005</u>
	(Unaudited)	(Unaudited)
<b>Assets</b>		
Current assets:		
Cash	\$ 3,154,096	2,706,602
Prepaid expenses and other current assets (note 3)	48,255	30,818
Total current assets	<u>3,202,351</u>	<u>2,737,420</u>
Property, plant and equipment, net (note 4)	9,854	5,929
Intangible assets, net (note 5)	7,561	8,561
Total assets	<u><u>3,219,766</u></u>	<u><u>2,751,910</u></u>
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Accrued expenses and other payables (note 6)	361,785	114,003
Loan from a shareholder	-	1,150
Total liabilities	<u>361,785</u>	<u>115,153</u>
Stockholders' equity		
Common stock, \$0.01 par value (Note 8);		
100,000,000 shares authorized;		
24,650,000 shares issued and outstanding	246,500	280,300
Additional paid-in capital (note 8)	5,136,600	2,714,810
Deficit accumulated during development stage	<u>(2,525,119)</u>	<u>(358,353)</u>
Total stockholders' equity	<u>2,857,981</u>	<u>2,636,757</u>
Commitments and contingencies (note 7)	-	-
Total liabilities and shareholders' equity	<u><u>\$ 3,219,766</u></u>	<u><u>2,751,910</u></u>

See accompanying notes to consolidated financial statements.



**SYNTHESIS ENERGY SYSTEMS, INC. AND SUBSIDIARIES**

(A Development Stage Enterprise)

Consolidated Statements of Operations

In US Dollars

	Three Months ended Jun 30, 2006 (Unaudited)	Three Months ended Jun 30, 2005 (Unaudited)	Nov 4, 2003 to Jun 30, 2006 (Unaudited)
Net sales	\$ -	-	-
Cost of goods sold	<u>-</u>	<u>-</u>	<u>-</u>
Gross profit	-	-	-
General and administrative expenses and other expenses			
General and administrative expenses	(519,319)	(236,006)	(1,283,000)
Project development cost	(222,376)	(43,679)	(940,838)
Technical development cost	<u>(65,266)</u>	<u>(87,954)</u>	<u>(435,472)</u>
Operating loss	<u>(806,961)</u>	<u>(367,639)</u>	<u>(2,659,310)</u>
Other income			
Financial income	33,824	13,623	142,619
Financial expenses	<u>(1,153)</u>	<u>(857)</u>	<u>(8,428)</u>
Net loss for the period	\$ <u><u>(774,290)</u></u>	<u><u>(354,873)</u></u>	<u><u>(2,525,119)</u></u>

See accompanying notes to consolidated financial statements.



**SYNTHESIS ENERGY SYSTEMS, INC. AND SUBSIDIARIES**

(A Development Stage Enterprise)

Consolidated Statements of Stockholders' Equity

In US Dollars

	Common <u>Stock</u>	Additional <u>Paid-in Capital</u>	<u>Deficit Accumulated During Development Stage</u>	<u>Total</u>
Balance at November 4, 2003 (inception)	\$ -	-	-	-
Net loss for the period	-	-	(358,353)	(358,353)
Investor contributions	264,190	235,810	-	500,000
Debt to equity	5,810	5,190	-	11,000
Net proceeds from private placement offering (Note 8)	<u>10,300</u>	<u>2,473,810</u>	<u>-</u>	<u>2,484,110</u>
Balance at June 30, 2005 (Unaudited)	\$ <u>280,300</u>	<u>2,714,810</u>	<u>(358,353)</u>	<u>2,636,757</u>
Net loss for the quarter ended September 31, 2005	-	-	(189,733)	(189,733)
Net proceeds from private placement offering (Note 8)	<u>9,700</u>	<u>2,378,290</u>	<u>-</u>	<u>2,387,990</u>
Balance at September 30, 2005 (Unaudited)	\$ <u>290,000</u>	<u>5,093,100</u>	<u>(548,086)</u>	<u>4,835,014</u>
Net loss for the quarter ended December 31, 2005	-	-	(522,512)	(522,512)
Balance at December 31, 2005 (Unaudited)	\$ <u>290,000</u>	<u>5,093,100</u>	<u>(1,070,598)</u>	<u>4,312,502</u>
Net loss for the quarter ended March 31, 2006	-	-	(680,231)	(680,231)
Balance at March 31, 2006 (Unaudited)	\$ <u>290,000</u>	<u>5,093,100</u>	<u>(1,750,829)</u>	<u>3,632,271</u>

**SYNTHESIS ENERGY SYSTEMS, INC. AND SUBSIDIARIES**

(A Development Stage Enterprise)

Consolidated Statements of Stockholders' Equity (Continued)

In US Dollars



		Common Stock	Additional Paid-in Capital	Deficit Accumulated During Development Stage	Total
Balance at March 31, 2006 (Unaudited)	\$	<u>290,000</u>	<u>5,093,100</u>	<u>(1,750,829)</u>	<u>3,632,271</u>
Adjustment related to return of shares (Note 8)		(43,500)	43,500	-	-
Net loss for the quarter ended June 30, 2006		-	-	(774,290)	(774,290)
Balance at June 30, 2006 (Unaudited)	\$	<u>246,500</u>	<u>5,136,600</u>	<u>(2,525,119)</u>	<u>2,857,981</u>

See accompanying notes to consolidated financial statements.



**SYNTHESIS ENERGY SYSTEMS, INC. AND SUBSIDIARIES**

(A Development Stage Enterprise)

Consolidated Statements of Cash Flows

In US Dollars

	Three Months ended Jun 30, 2006 (Unaudited)	Three Months ended Mar 31, 2006 (Unaudited)	Nov 4, 2003 to Jun 30, 2006 (Unaudited)
Cash flows from operating activities:			
Net loss	\$ (774,290)	(680,231)	(2,525,119)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation of property, plant, and equipment	1,173	1,055	4,262
Amortization of intangible assets	249	247	2,439
Decrease (Increase) in prepaid expenses and other current assets	13,824	90,656	(48,255)
(Decrease) Increase in accrued expenses and other payables	<u>247,096</u>	<u>(35,552)</u>	<u>361,785</u>
Net cash used in operating activities	<u>(511,948)</u>	<u>(623,825)</u>	<u>(2,204,888)</u>
Cash flows from investing activities:			
Capital expenditures	<u>(1,873)</u>	<u>(788)</u>	<u>(24,116)</u>
Net cash used in investing activities	<u>(1,873)</u>	<u>(788)</u>	<u>(24,116)</u>
Cash flows from financing activities:			
Investor contributions	-	-	500,000
Proceeds from private placement offering	-	-	4,872,100
Increase in loans from shareholders	<u>-</u>	<u>-</u>	<u>11,000</u>
Net cash provided by financing activities	<u>-</u>	<u>-</u>	<u>5,383,100</u>
Net (decrease) increase in cash	(513,821)	(624,613)	3,154,096
Cash at beginning of period	<u>3,667,917</u>	<u>4,292,530</u>	<u>-</u>
Cash at end of period	\$ <u>3,154,096</u>	<u>3,667,917</u>	<u>3,154,096</u>

See accompanying notes to consolidated financial statements.



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**(1) Management Discussion and Analysis of Financial Statements**

**(a) Introduction**

Synthesis Energy Systems, Inc. is a company quoted on the Pink Sheets over-the-counter market (Symbol: SYMX) and was originally incorporated in the State of Mississippi on May 28, 2004. On April 27, 2005, the Company changed its name from "Tamborine Holdings, Inc." to "Synthesis Energy Systems, Inc.". On June 24, 2005, more than 98% of shareholders approved in a special meeting of the shareholders the change of the state of the Company's incorporation from Mississippi to Delaware. On July 7, 2005, the Certificate of Ownership for the Company's reincorporation from Mississippi to Delaware was accepted by and filed with the State of Delaware.

Unless the context otherwise indicates, all references in the footnotes to consolidated financial statements of "the Company", "we", "us" are to Synthesis Energy Systems, Inc., and all references to "the Group" are to the Company, its wholly-owned subsidiary, Synthesis Energy Holdings, Inc. ("SEH"), and the wholly-owned subsidiaries of SEH.

The Group holds exclusive licensing rights in certain markets for a leading gasification technology and develops technologies for the production of low cost hydrogen, power, and other utilities. These technologies will be deployed to produce affordable, reliable and environmentally friendly power and utility solutions. Our planned gasification-based poly generation plants, using some of the world's most advanced and efficient technologies, are designed to gasify lower quality coal and other low cost solid fuels to provide electricity, steam, hydrogen, carbon monoxide, nitrogen, oxygen, compressed air and other utilities for petrochemical plants, chemical facilities, refineries, and other industrial complexes. The Group also plans to employ advanced technologies to convert waste gases from large industrial facilities into power, steam, and other commodities.

**(b) Merger Transactions**

Through a business combination transaction which closed on April 18, 2005, (a) 94,000,000 out of the total 100,000,000 shares of the issued and outstanding common stock of the Company were forfeited by the Company's original majority shareholder; (b) the original owners of SEH, a Florida corporation, exchanged all their issued and outstanding capital stock in SEH for 21,000,000 shares or approximately 75% of the Company's common stock; and (c) SEH became the Company's wholly owned subsidiary. As a result of the merger, the original owners of SEH as a group became the majority owners of the Company.



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As a condition of the merger, SEH completed a restructuring whereby companies originally owned by original major investors of SEH became wholly owned subsidiaries of SEH.

### (c) Equity and Debt Guarantee Transactions

In 2005, the Company offered for private placement 2,000,000 shares of common stock at a price of \$2.50 per share for a maximum aggregate amount of US\$5,000,000 to certain accredited investors. The offering was fully subscribed and, after deducting the legal and other related expenses, net proceeds of \$4,872,100 were received by the Company in connection with the private placement offering.

As of June 30, 2006, we are further offering for private placement a maximum of 5,714,286 shares of our common stock at a price of \$5.25 per share for a maximum aggregate amount of US\$30,000,000 to certain accredited investors.

We received a commitment for financial guarantees in individual tranches of up to \$15,000,000 each, for a period not to exceed three years, for coal gasification projects, which we are developing in China.

### (d) Results of Operations

The Group is currently in development stage and has not generated operating revenue as of June 30, 2006.

## (2) Summary of Significant Accounting Policies and Practices

### (a) Principles of Consolidation

The consolidated financial statements are prepared in accordance with Accounting Principles Generally Accepted in the United States of America. Entities are consolidated when the Group either (i) has the ability to control the operating and financial decisions and policies of that entity or (ii) is allocated a majority of the entity's losses and/or returns through its variable interests in that entity. The determination of the Group's ability to control or exert significant influence over an entity and if the Group is allocated a majority of the entity's losses and/or returns involves the use of judgment. All significant intercompany balances and transactions have been eliminated in consolidation.

The Group accounted for the business combination transaction where the original owners of SEH became the majority owners of the Group (see Note 1(b)) using the purchase method of accounting, in accordance with FASB Statement No. 141, *Business Combinations*. SEH is identified as the acquiring entity and the Company as the acquired entity. The results of operations of the Company from the acquisition date of April 18, 2005 are included in the consolidated financial statements. The Company was inactive prior to the consummation of this transaction, and no goodwill



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was recorded as a result of this transaction. This combination allowed SEH to have better access to the capital markets and allowed the Company to be an energy technology holding company.

The Group accounts for the restructuring of SEH (see Note 1(b)) as a transaction between entities under common control, in accordance with FASB Statement No. 141, *Business Combinations, Appendix D*. The results of operations of these subsidiaries of SEH are included in the consolidated financial statements as if the present Group structure was formed on November 4, 2003 (earliest inception date of the subsidiaries).

(b) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Depreciation on plant and equipment is calculated on the straight-line method over the estimated useful lives of the assets. The estimated useful life of computer equipment is 3 years, while furniture and fixtures are between 2 and 3 years. Leasehold improvements are amortized on a straight line basis over the shorter of the lease term or estimated useful life of the asset.

(c) Intangible Assets

Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with FASB Statement No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*.

(d) Research and Development Costs

Research and development costs are expensed as incurred.

(e) Use of Estimates

The preparation of the consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment and intangible assets. Actual results could differ from those estimates.



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(f) Impairment of Long-Lived Assets

In accordance with Statement 144, long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

(g) Commitments and Contingencies

Liabilities for loss contingencies, including environmental remediation costs not within the scope of FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Recoveries of environmental remediation costs from third parties, which are probable of realization, are separately recorded as assets, and are not offset against the related environmental liability, in accordance with FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*.

(h) Stock Option Plan

The Company applies the intrinsic-value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations including FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation*, an interpretation of APB Opinion No. 25, to account for its fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. FASB Statement No. 123, *Accounting for Stock-Based Compensation* and FASB Statement No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*, an amendment of FASB Statement No. 123, established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans.



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As permitted by existing accounting standards, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above.

(i) Recently Issued Accounting Standards

In December 2004, the FASB issued FASB Statement No. 123 (revised 2004), *Share-Based Payment*, which addresses the accounting for transactions in which an entity exchanges its equity instruments for goods or services, with a primary focus on transactions in which an entity obtains employee services in share-based payment transactions. This Statement is a revision to Statement 123 and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. For nonpublic companies, this Statement will require measurement of the cost of employee services received in exchange for stock compensation based on the grant-date fair value of the employee stock options. Incremental compensation costs arising from subsequent modifications of awards after the grant date must be recognized. The Statement will be effective for the Group for the financial year commencing on July 1, 2006.

(3) Prepaid expenses and other current assets

	<u>Jun 30, 2006</u>
Prepaid insurance	\$ 13,158
Prepayment for legal and consulting services	17,781
Deposits relating to rented office	9,460
Advances to employees	4,389
Prepayments for email and internet services	2,181
Other prepayments and deposits	<u>1,286</u>
Total	<u>\$ 48,255</u>

(4) Property, plant and equipment

Property, plant, and equipment and related accumulated depreciation are listed as follows:

	<u>Jun 30, 2006</u>
Furniture and fixtures	\$ 3,129
Leasehold improvement	2,298



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Computer equipment	<u>8,689</u>
	14,116
Less: Accumulated depreciation	<u>(4,262)</u>
Net book value	<u>\$ 9,854</u>



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(5) Intangible Assets

The cost, accumulated amortization and net book value of intangible assets are as follows:

	<u>Jun 30, 2006</u>
Cost	\$ 10,000
Less: Accumulated amortization	<u>(2,439)</u>
Net book value	<u>\$ 7,561</u>

The annual estimated amortization expense for the intangible assets for the next five calendar years is as follows:

2006	\$ 500
2007	1,000
2008	1,000
2009	1,000
2010	<u>1,000</u>
Total	<u>\$ 4,500</u>

(6) Accrued expenses and other payables

Components of accrued expenses and other payables are as follows:

	<u>Jun 30, 2006</u>
Payables for technical, engineering and design services	\$ 102,141
Accrued audit, tax and other consulting fees	47,370
Salaries Payable	22,645
Reimbursable business expenses	185,378
Others	<u>4,251</u>
Total	<u>\$ 361,785</u>



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(7) Commitments and Contingencies

**Lease commitments**

Future minimum lease payments under non-cancellable operating lease (with initial or remaining lease terms in excess of one year) as of June 30, 2006 are as follows:

	<u>Minimum Lease Payments</u>
2006	\$ 12,855
2007	<u>6,380</u>
Total	<u>\$ 19,235</u>

Rental expenses incurred under operating lease for the three months ended June 30, 2006 were approximately \$6,476.

(8) Common stock

The authorized capital stock of the Company consists of 100,000,000 shares of common stock. Prior to the merger transaction between the Company and SEH effective on April 18, 2005 as described in Note 1(b), the Company's total issued and outstanding common stock was 100,000,000 shares. After the effective date of the merger, 94,000,000 shares of the issued and outstanding common stock of the Company were forfeited, and 21,000,000 shares of the Company were issued to the original shareholders of SEH as consideration of the merger. As a result, 27,000,000 shares of the Company's common stock were issued and outstanding on the effective date of the merger.

Subsequent to the merger, the Company offered for private placement a maximum of 2,000,000 shares of its common stock at a price of \$2.50 per share for a maximum aggregate amount of \$5,000,000 to certain accredited investors in 2005. The offering was fully subscribed and, after deducting for legal and other related expenses, net proceeds of \$4,872,100 were received by the Group. The difference between the offered price and the Company's par value is recorded under "additional paid-in capital". As a result, 29,000,000 shares of the Company's common stock were issued and outstanding after the close of the private placement.

As part of the reincorporation of the Company from Mississippi to Delaware as described in Note 1(a), the par value of the Company's common stock was converted from \$0.001 per



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share to \$0.01 per share, with the total number of outstanding shares remaining unchanged. The “capital stock” amount and the “additional paid-in capital” amount in the accompanying financial statements, including the prior period comparative figures, have been reclassified and recapitalized to reflect such par value change, with nil net impact on stockholders’ equity.

During the quarter ended June 30, 2006, certain shareholders of the Company agreed to surrender an aggregate of 4,350,000 shares of the Company’s common stock for return to the Company’s treasury. As a result, the issued and outstanding shares of the Company were reduced from 29,000,000 shares to 24,650,000 shares. The “capital stock” amount and the “additional paid-in capital” amount in the accompanying financial statements have been reclassified and recapitalized to reflect such reduction in the number of issued and outstanding shares, with nil net impact on stockholders’ equity.

As of June 30, 2006, we are offering a maximum of 5,714,286 shares of our common stock at a price of \$5.25 per share for a maximum aggregate amount of \$30,000,000 to certain accredited investors. If such offering is fully subscribed, the issued and outstanding shares of our common stock will be increased from 24,650,000 shares to 30,364,286 shares.

(9) Stock option plan

As of June 30, 2006, approximately 4.6 million shares of our common stock are subject to currently outstanding options, with exercise prices ranging from \$2.50 to \$3.00.

(10) Related party transactions

Companies are considered to be related if a company has the ability, directly or indirectly, to control a second company or exercise significant influence over a second company in making financial and operating decisions. Companies are also considered to be related if they are subject to common control or common significant influence. There were no related party transactions during the three months ended June 30, 2006.



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**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, David A. Eichinger, Chief Financial Officer of Synthesis Energy Systems, Inc., hereby certify that the consolidated financial statements filed herewith and any notes thereto, fairly present, in all material respects, the financial position, results of operations and cash flows for the periods presented, and in conformity with accounting principles generally accepted in the United States.

/s/ David A. Eichinger  
July 31, 2006