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SYNERGY TECHNOLOGIES CORP  
Form 10QSB  
August 14, 2001

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U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended: JUNE 30, 2001

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 0-26721

SYNERGY TECHNOLOGIES CORPORATION  
(Exact name of small business issuer  
as specified in its charter)

COLORADO  
(State or other jurisdiction  
of incorporation or organization)

84-1379164  
(IRS Employer  
Identification No.)

335 - 25th Street, S.E., Calgary, Alberta Canada T2A 7H8  
(403) 269-2274  
(Issuer's telephone number)

NOT APPLICABLE  
(Former name, former address and former  
fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the last practicable date:

33,073,275 shares of Common Stock, \$0.002 par value, as of August 9, 2001.

Transitional Small Business Disclosure Format  
(check one): Yes  No

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SYNERGY TECHNOLOGIES CORPORATION  
AND SUBSIDIARIES  
(A DEVELOPMENT STAGE COMPANY)

FINANCIAL STATEMENTS  
(UNAUDITED)  
PREPARED BY MANAGEMENT

JUNE 30, 2001

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SYNERGY TECHNOLOGIES CORPORATION  
AND SUBSIDIARIES  
(A DEVELOPMENT STAGE COMPANY)  
UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(PREPARED BY MANAGEMENT) FOR THE  
SIX MONTH PERIOD ENDED JUNE 30, 2001

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six months ended June 30, 2001 and 2000, and for the period from November 7, 1996 (Date of Inception) to June 30, 2001

Unaudited Consolidated Statement of Cash Flows for the three and six months ended June 30, 2001 and 2000, and for the period from November 7, 1996 (Date of Inception) to June 30, 2001

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### Notes to Unaudited Consolidated Financial Statements

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SYNERGY TECHNOLOGIES CORPORATION  
AND SUBSIDIARIES  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED BALANCE SHEETS  
ASSETS

	AS AT JUNE 30, 2001 (UNAUDITED)	AS AT
	-----	-----
CURRENT ASSETS		
Cash	\$ 120,812	\$
Receivables (Note 5)	24,955	
Receivables - related parties (Note 4a)	60,229	
Prepaid expenses	60,648	
	-----	-----
TOTAL CURRENT ASSETS	266,644	
INVESTMENTS (Note 3)		
SynGen technology	38,028,244	3
CPJ technology	1,386,500	
Investment in private U.S. corporation	1,000,000	
	-----	-----
TOTAL INVESTMENTS	40,414,744	4
Office equipment and computers, net of accumulated depreciation \$29,855	62,140	
	-----	-----
TOTAL ASSETS	\$ 40,743,528	\$ 4
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 706,303	\$
Accounts payable - related parties	115,960	
Accrued expenses	53,613	
Notes payable - related parties (Notes 4 (b))	89,827	

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Shareholders' deposits	266,521	
	-----	-----
TOTAL CURRENT LIABILITIES	1,232,224	
LONG TERM LIABILITIES (Note 6)		
Notes payable	2,250,000	
Notes payable - related parties	-	
Accrued interest on notes	254,758	
	-----	-----
	2,504,758	
Investment in joint ventures (Note 3)	36,839	
	-----	-----
TOTAL LIABILITIES	3,773,821	
STOCKHOLDERS' EQUITY		
Common stock, \$0.002 par value, 50,000,000 shares Authorized, 31,379,814 (29,541,164 -2000) issued and outstanding	63,740	
Additional paid in capital	47,617,956	4
Deferred compensation	(46,560)	
Accumulated deficit	(10,665,429)	(9)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	36,969,707	3
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 40,743,528	\$ 4
	=====	=====
Going Concern Note 2		

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

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SYNERGY TECHNOLOGIES CORPORATION  
AND SUBSIDIARIES  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE THREE MONTHS ENDED JUNE 30		FOR THE SIX ENDED JUN
	2001	2000	2001
	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
	-----		
OTHER INCOME			
Interest income	491	-	1,053
Consulting income	-	-	-
	-----	-----	-----
	491	-	1,053
EXPENSES			
General and administrative	608,940	412,377	1,004,522
Stock option compensation	21,603	74,687	43,210
Compensation related to warrants	-	-	-
Technology development	176,579	194,515	407,572

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Dry well expenses	-	-	-
TOTAL EXPENSES	807,122	681,579	1,455,304
LOSS FROM OPERATIONS	(806,631)	(681,579)	(1,454,251)
OTHER EXPENSES			
Amortization of debt discount and offering costs	-	(900,000)	-
Accrued interest on notes payable	(52,973)	-	(120,671)
Share of expenses incurred by joint venture	(137,379)	-	(174,694)
Gain on disposition (Notes 3(b))	90,263	-	114,643
NET LOSS BEFORE TAXES	(906,720)	(1,581,579)	(1,634,973)
PROVISION FOR INCOME TAX	-	-	-
NET LOSS	\$ (906,720)	\$ (1,581,579)	\$ (1,634,973)
BASIC AND DILUTED LOSS PER COMMON SHARE	\$ (0.03)	\$ (0.12)	\$ (0.05)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES USED IN CALCULATION	31,194,005	13,676,256	30,724,302

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

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SYNERGY TECHNOLOGIES CORPORATION AND SUBSIDIARIES  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENTS OF CASH FLOW

	FOR THE THREE MONTHS ENDED JUNE 30, 2001	FOR THE THREE MONTHS ENDED JUNE 30, 2000	FOR THE SIX MONTHS ENDED JUNE 30, 2001 (UNAUDITED)	FOR MONTH JUNE (UNA
CASH FROM OPERATING ACTIVITIES				
Net loss	(906,720)	(1,581,579)	(1,634,973)	
Adjustments to reconcile net loss				

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to net cash from operations			
Dry well expense	-	-	-
Depreciation	8,750	3,411	18,803
Amortization of unearned compensation	21,603	74,687	43,210
Amortization of debt discount and offering costs	-	900,000	-
Accrued interest on notes payable	52,973	-	120,671
Issuance of shares for services	565,806	-	565,806
Issuance of warrants for services	-	-	-
Investment in joint ventures	36,839	-	36,839
Exchange rate loss	(11,512)	7,922	930
Loss on disposition of assets	904	-	904
Changes in assets and liabilities			
Accounts receivable	34,162	(10,882)	59,804
Prepaid expenses and deposits	(14,289)	(1,567)	13,066
Accounts receivable - related parties	(4,187)	264,457	(57,386)
Accounts payable	127,205	59,830	169,509
Accounts payable - related parties	142,943	-	142,943
Accrued expenses	(37,325)	(2,824)	(31,825)
<hr/>			
NET CASH FLOWS FROM OPERATING ACTIVITIES	17,152	(286,545)	(551,699)
CASH FROM INVESTING ACTIVITIES			
Acquisition of oil and gas properties	-	-	-
Acquisition of property and equipment	152	(25,576)	(1,483)
Acquisition of equity security	-	-	-
<hr/>			
NET CASH FLOWS FROM INVESTING ACTIVITIES	152	(25,576)	(1,483)
CASH FROM FINANCING ACTIVITIES			
Proceeds from (payments to) notes payable - related parties	(214,139)	-	62,844
Proceeds from (payments to) notes payable	-	95,398	-
Proceeds from investor deposits	266,521	-	266,521
Proceeds from option income	-	-	-
<hr/>			
Net proceeds from convertible debt	-	855,000	-
Sales of common stock	39,000	18,999	269,500
<hr/>			
NET CASH FLOWS FROM FINANCING ACTIVITIES	91,382	969,397	598,865
EFFECT OF EXCHANGE RATE CHANGES ON CASH	11,512	(7,922)	(930)
NET CHANGE IN CASH	120,198	649,354	44,753
CASH AT BEGINNING OF PERIOD	614	161,412	76,059
<hr/>			
CASH AT END OF PERIOD	\$ 120,812	\$ 810,766	\$ 120,812
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THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

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SYNERGY TECHNOLOGIES CORPORATION  
AND SUBSIDIARIES  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	SHARES	AMOUNT	ADDITIONAL PAID IN CAPITAL	ACCUMULATED DEFICIT
BALANCE AT DECEMBER 31, 1999	11,989,327	\$23,980	\$ 1,484,455	\$ (2,958,385)
Cancellation of founders shares	(496,736)			
Issuance of shares for cash	710,000	1,420	353,580	
Issuance of shares for royalty education	500,000	1,000	1,061,500	
Issuance of stock options			981,330	
Issuance of warrants for services September 29, 2000			343,744	
Issuance of convertible debt			2,137,500	
Issuance of shares from escrow	14,943,510	29,887	37,998,357	
Warrants for stock, January through December 2000	431,000	862	430,138	
Issuance of shares for services February 16, 2000 at average prices	1,359,063	2,718	890,919	
Options exercised	105,000	210	104,790	
Unearned compensation				

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Net loss for the period				(6,072,071)
	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 2000	29,541,164	\$60,077	\$45,786,313	\$ (9,030,456)
	=====	=====	=====	=====
Units for stock - debenture	1,000,000	2,000	998,000	
Unites for stock - Cash	264,000	528	263,472	
Options exercised	5,500	11	5,489	
Re-issue of founders shares	7,143			
Shares for services	562,007	1,124	564,682	
Unearned compensation				
Net loss for the period				(1,634,973)
	-----	-----	-----	-----
BALANCE AT JUNE 30, 2001	31,379,814	\$63,740	\$47,617,956	\$ (10,665,429)
	=====	=====	=====	=====

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

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SYNERGY TECHNOLOGIES CORPORATION AND SUBSIDIARIES  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All dollar amounts used herein refer to U.S. dollars unless otherwise indicated.

These statements are prepared using Generally Accepted Accounting Principals as well as the terms outlined or explained in the year end 10-KSB filing along with any changes as noted in the March 31, 2001 10-QSB.

All significant transactions among the parent and consolidated subsidiaries have been eliminated. The consolidated quarterly financial statements are unaudited. These statements include all adjustments (consisting of normal recurring accruals) considered necessary by management to present a fair statement of the results of operations, financial position and cash flows. The results reported in these consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

NOTE 2 - GOING CONCERN

BUSINESS CONDITION - The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of Synergy as a going concern. However, Synergy has had no significant income and has had negative cash flows from operating activities during the quarter ended June 30, 2001 and cumulatively from inception through June 30, 2001, which conditions raise substantial doubt about Synergy's ability to continue as a going concern. Synergy's continued existence is dependent upon its ability to obtain additional financing. The Company will attempt to continue to raise funds from the public and private markets and through arrangements with certain related and unrelated companies with which it is negotiating mutually beneficial agreements for the use of the technologies. However, there is no



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assurance that additional financing will be realized. If Synergy is unable to realize this additional financing, it could cease to be a going concern.

Development Stage Company - Since inception, the Company has spent most of its efforts raising capital and financing the research and development of certain technologies; however, it has not yet had sales sufficient to sustain operations and has relied upon cash flows from financing activities (primarily debt and equity issuances) to sustain operations. To date the Company has had minimal revenues and has substantial debt, therefore, the Company is considered to be in the development stage.

For the current developments taking place within the organization, refer to the Plan of Operation section following the notes to the financial statements.

### NOTE 3 - INVESTMENTS, ACQUISITIONS AND TECHNOLOGY DEVELOPMENT

Investments reported on the Consolidated Balance Sheet of the Company include the following:

	JUNE 30, 2001	DECEMBER 31, 2000
	-----	-----
Investment in SynGen Technology (See Note 3(a) below)	\$ 38,028,244	\$ 38,028,244
Investment in CPJ Technology (See Note 3(b) below)	1,386,500	1,062,500
Investment in private U.S. corporation (See Note 3(b) below)	1,000,000	1,000,000
	-----	-----
	\$ 40,414,744	\$ 40,090,744
	=====	=====

(a) SynGen: There were no changes during the current quarter.

(b) CPJ: During the quarter ended June 30, 2001, the Company recorded a liability of \$324,000 to the inventor, Dr. Jorgensen, based on the amended royalty agreement signed in fiscal 2000, whereby, Dr. Jorgensen was to receive proceeds of not less than \$250,000 from the sale of 100,000 shares of Synergy Technologies Corporation by February 28, 2001 and an additional \$250,000 from the sale of a further 100,000 shares by February 28, 2002. As of June 30, 2001, Dr. Jorgensen had not sold any of the shares and therefore, based on the June 29, 2001 closing stock price of \$0.88 per share, the difference in net proceeds is \$324,000.

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For the purposes of these financial statements, all operations of Carbon have been fully consolidated up to November 1, 2000, and subsequently, the Company's interest in Carbon has been recorded using the Equity Method.

Investment in Carbon as at June 30, 2001:

-----  
o Shares of Carbon

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2,500 shares valued at Cyprus(pound)1.00 per share	\$	5,029
o Advances to Carbon		671,296
o 50% of net liabilities of Carbon		(713,164)
o Deferred gain on disposition of shares		-
		-----
	\$	(36,839)

During the quarter ended June 30, 2001 the deferred gain reported in the previous quarter has been totally allocated against the Company's 50% interest in the post disposition losses of Carbon of \$341,582 (Synergy's portion - \$170,791).

### NOTE 4 - RELATED PARTY TRANSACTIONS

- (a) Related party receivables as reported on the Consolidated Balance Sheets of the Company as at June 30, 2001 include amounts advanced to Drake Synergy Petroleum Ltd., a Nigerian corporation and 50% owned joint venture between the Company and Drake Oil Limited, less the Company's 50% interest in the loss from those operations.

As at June 30, 2001 amounts included in the related party receivable due from Drake Synergy Petroleum are as follows:

o Shares of Drake Synergy Petroleum Ltd.		
2,500,000 shares valued at 1 Naira per share	\$	22,727
o Advances to Drake Synergy Petroleum		67,236
o 50% of net liabilities of Drake Synergy Petroleum		(29,734)
		-----
	\$	60,229

- (b) Notes payable of \$89,827 reported on the Consolidated Balance Sheets of the Company as at June 30, 2001 represent total cumulative amounts advanced to Synergy for general operations from its 50% owned joint-venture with Carbon Resources Limited. The notes bear interest at a rate of prime plus 1% per annum and have no specific terms of repayment.
- (c) During the six-month period ended June 30, 2001, the Company and its subsidiaries were charged a total of \$71,604 in consulting fees by Glidarc Technologies Inc. (a Texas corporation) for process management services and technical personnel. Mr. Thomas Cooley, an officer of Glidarc Technologies, is also the Company's Chief Executive Officer and a member of the Board of Directors. Mr. Cooley also serves on the Board of Directors of Syngen Technologies Limited, a wholly owned subsidiary of the Company, and Carbon, the Company's 50% joint venture. An amount of \$18,124 relating to services provided by Glidarc Technologies through June 30, 2001 remained due and payable to Glidarc as at the end of the quarter.
- (d) During the twelve month period ended December 31, 2000, the Company was charged \$15,083 for consulting services and reimbursement of actual expenses by Huntingtown Associates LLC (a Connecticut corporation) of which Mr. Baumert is the sole proprietor. Mr. Baumert is a member of the Company's Board of Directors. Huntingtown Associates charges consulting services provided by Mr. Baumert at a rate of \$1,500 per day plus expenses. An amount of \$7,230 remained due and payable to Huntingtown Associates as at June 30, 2001.

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- (e) Stone Canyon Resources Ltd.: Accrued interest on the promissory note of \$32,096 up to the date of retirement remained due and payable as at June 30, 2001. In addition, an amount of \$115,960 is reported on the Consolidated Balance Sheet of the Company as at June 30, 2001, which amount represents cash advances to Synergy in respect of general operations. This amount has no set terms of repayment.

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### NOTE 5- RECEIVABLES

Certain expenses for services rendered and supplies acquired in Canada are subject to a federal Goods and Services Tax of 7% which is refundable to the Company at fiscal year end. This amount is refundable to the Company in Canadian Dollars upon filing of a GST return. Total receivables of \$24,955 include a GST refund due to the Company of \$10,137, as well as certain other receivables totaling \$14,818.

### NOTE 6 - LONG TERM LIABILITIES

- (a) Convertible promissory note's interest in the amount of \$222,662 has been accrued to June 30, 2001 and is included on the Consolidated Balance Sheet as Accrued interest on notes.
- (b) The promissory note issued to Stone Canyon Resources Ltd. has accrued interest of \$32,096 which remained outstanding at the end of the quarter.

### NOTE 7 - COMMON STOCK

- (a) Cash proceeds of \$39,000 were received for the purchase of 39,000 Units at \$1.00 per Unit pursuant to an offering commenced first quarter 2000 and made pursuant to Regulation S. Each Unit consists of a share of common stock and a warrant to purchase an additional share for \$3.50, exercisable at any time two years from the time of subscription. There are no further Units available for purchase under this offering.
- (b) During the quarter ended June 30, 2001 the remaining 7,143 shares that had not been converted into Synergy stock from the transfer of Stone Canyon Resources Inc. in August 1997, were received and issued.
- (c) During the quarter ended June 30, 2001, 375,000 shares were issued to a certain investment firm for investor relations and promotional support. The shares are recorded in the Consolidated Statement of Operations under the General and administrative category at the value of the stock on the date of execution of the agreement.
- (d) During the quarter ended June 30, 2001, 187,007 shares were issued pursuant to an S-8 registration for Directors and senior personnel who had accrued salaries during the first six months of the current fiscal year. The shares were issued at the average trading value of the stock during the term of the accrued salaries.
- (e) The following table summarizes the warrants issued, exercised and expired during quarter ended June 30, 2001 and the fiscal year ended December 31, 2000 and those warrants which remain outstanding as at June 30, 2001:

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	SIX MONTHS ENDED JUNE 30, 2001	YEAR ENDED DECEMBER 31, 2000
	=====	=====
Warrants to purchase common shares, beginning of year	914,666	1,863,000
Warrants issued during the period		
At \$1.00 per share	-	710,000
At \$3.00 per Unit	-	84,666
At \$3.50 per share (Note 7(a))	1,264,000	-
Warrants exercised during the period, \$1.00 per share	-	(431,000)
Warrants cancelled during the period, \$1.00 per share	-	(1,264,000)
Warrants expired unexercised during the period, \$1.00 per share	(130,000)	(48,000)
	-----	-----
Warrants to purchase common shares, end of period	2,048,666	914,666
	=====	=====

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STOCK OPTIONS

The Company has four stock option plans as follows:

- o 1998 Directors and Employees Stock Option Plan (approved by shareholders June 5, 1998) (Plan "A");
- o 1999 Directors and Employees Stock Option Plan (approved by shareholders June 29, 1999 (Plan "B");
- o 1999 Directors and Advisory Board Members Stock Option Plan (approved by shareholders September 30, 1999) (Plan "C"); and,
- o 2000 Employees Stock Option and Stock Award Plan (approved January 5, 2000) (Plan "D").

The following table will summarize options and awards granted, and options and awards available for grant to the quarter ended June 30, 2001:

	PLAN A 1998	PLAN B 1999	PLAN C 1999
	-----	-----	-----
Total shares authorized under plan:	900,000	1,000,000	1,100,000
Options/awards granted:			
Employees (i)	250,000	335,000	-
Directors (i)	400,000	425,000	400,000
Non-employees, consultants (ii)	250,000	200,000	-
Advisory Board members (ii)	-	-	500,000
	-----	-----	-----
Total options granted	900,000	960,000	900,000
	-----	-----	-----
Available for grant at June 30, 2001	-	40,000	200,000

- (i) Options granted to employees and directors for their services as directors and employees are accounted for using the intrinsic value method. There was no value attributed to options granted during the quarter.
- (ii) The options granted to non-employees and advisory board members are accounted for by the fair value method. The aggregate fair value of options granted and shares issued pursuant to these plans during the fiscal year ended December 31, 2000 was \$803,830, of which \$714,060 was charged to earnings in 2000, \$43,210 during the current fiscal year and \$46,560 was deferred until future periods. The fair value of the options was determined by using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 0.0%, weighted average expected volatility of 170%, weighted average risk-free interest rate of 6.44% and expected life of 1 year.

The following table summarizes the status of the Company's stock options (excluding stock awards) and changes thereto during the quarter ended June 30, 2001:

	SHARES	WEIGHTED AVERAGE EXERCISE PRICE, JUNE 30, 2001
	-----	
Outstanding at beginning of year	2,795,000	-
Granted during period	200,000	1.05
Cancelled during period	(200,000)	1.50
Exercised during period	(5,500)	1.00
	-----	
Outstanding at end of quarter	2,789,500	\$ 1.09
	=====	

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NOTE 8 - OTHER EVENTS

On June 15, 2001, Ms. Jacquie Danforth resigned her positions as a Director of Synergy and any and all of its subsidiaries as well as Secretary Treasurer of Synergy.

Mr. Cameron Haworth resigned as President of Synergy effective June 30, 2001. Mr. Haworth remains a Director of Synergy.

As part of its strategy to list on a major exchange, Synergy has appointed Burg Simpson Eldredge Hersh Jardine PC in Denver as its corporate counsel. In addition, Synergy will appoint Ruffa & Ruffa, P.C. in New York as securities counsel in early third quarter 2001.

There has been no material changes in the on-going litigation of the organization during the quarter. Refer to the March 31, 2001 10-QSB for details on outstanding issues.

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### PLAN OF OPERATION

Synergy's business is the development and licensing of technologies related to the oil and gas industry. Capital from equity issues or borrowings or partnering with industry is necessary to fund Synergys future operations and technology development.

During July and August, 2001, Synergy received subscriptions of \$1,500,000, of which \$192,932 is to be collected during August 2001, via a private placement from Synergy employees, Directors and various funding companies. These funds will cover the next twelve (12) months of operations based on current projections. Plans to raise additional funds when needed are very well advanced.

Synergy has three (3) discrete technologies consisting of:

- (1) conversion of stranded natural gas into synthetic naphtha and diesel called GTL;
- (2) the CPJ process which upgrades heavy oil to more valuable and easily refined lighter oils; and
- (3) SynGen, the cold plasma technology to produce hydrogen rich streams from natural gas, PLG, gasoline, and diesel.

#### GTL

Synergy continues to evaluate opportunities to participate in a plant utilizing all or some of its GTL technology in the near future. Its Drake Synergy Petroleum Limited joint-venture company in Nigeria is pursuing such an opportunity. For such a venture to be successful, the gas supply for a 20-year term must first be secured. Discussions to-date with firms as potential sources of financing, have been promising pending a gas contract. Sulfur free and aromatic free products produced from a plant, will be shipped by tanker from Nigeria to market in the US and/or Europe.

#### CPJ

Discussions continue with operators in Alberta to site a 5000 bpd upgrader at a host site, which will provide some degree of infrastructure. The upgraded product from the plant will likely be used as synthetic diluent to ship additional heavy crude to market by pipeline. Such a plant will have a commercial basis but will also serve as a pilot plant for the very large heavy oil upgraders planned for the later part of the decade. For example, one Albertan operator plans to put in service trains of 100,000 bpd in size. For them, the 5000 bpd unit is considered a necessary size pilot unit to instill confidence for their intended program.

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#### SYNGEN

Beginning in the first quarter of 2001, Synergy has really focused on the fuel cell potential for its SynGen reforming technology. It has become readily apparent that commercial fuel cell applications, both stationary and onboard, will be fossil fuel based for the foreseeable future. A 5-litre size SynGen reactor has been installed in the Synergy Calgary laboratory. Tests have shown that natural gas, gasoline, and diesel can be reformed into hydrogen rich streams suitable for MCFC and SOFC fuel cells. Discussions are underway to

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develop a relationship via formal licensing of SynGen with a SOFC manufacturer. Work continues on Synergy's other SynGen systems, including the Bantry test site.