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

Form 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED AUGUST 31, 1997

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 0-9092

CHENIERE ENERGY, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	95-4352386
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1200 SMITH ST. SUITE 1710 HOUSTON, TEXAS (Address of principal executive offices)	77002-4312 (Zip code)

Registrant's telephone number, including area code: (713) 659-1361

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
COMMON STOCK, $ 0.003 PAR VALUE
(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the 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. [_]

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $ 26,572,965 as of October 1, 1997.

14,357,866 shares of the registrant's Common Stock were outstanding as of October 1, 1997.

Documents incorporated by reference: The 1997 Proxy Statement of the registrant is incorporated herein by reference.

CHENIERE ENERGY, INC.

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PART I

Items 1. AND 2. BUSINESS AND PROPERTIES

GENERAL

Cheniere Energy, Inc., a holding company ("Cheniere", together with Cheniere Operating (as defined below) and Cheniere California (as defined below), the "Company"), is the owner of 100% of the common stock of Cheniere Energy Operating Co., Inc. ("Cheniere Operating") and Cheniere Energy California, Inc. ("Cheniere California"). Cheniere is a Houston-based company formed for the purpose of oil and gas exploration, and if warranted, development and exploitation. Cheniere Operating is currently involved in a joint exploration program which is engaged in the exploration for oil and natural gas along the coast of Louisiana, onshore and in the shallow waters of the Gulf of Mexico. The Company commenced its oil and gas activities in April 1996 through such joint exploration program. Cheniere California was formed in December 1996 for the purposes of acquiring a working interest in undeveloped leases off Santa Barbara, California from Poseidon Petroleum, LLC ("Poseidon"). The acquisition did not occur and Cheniere California is currently inactive.

The Company has not yet established oil and gas production, nor has it booked proven oil and gas reserves. The Company is currently a development stage enterprise with no operating revenues and no expectation of generating meaningful operating revenues before calendar year 1998.

Cheniere Operating is involved with one major project, a joint exploration program pursuant to an Exploration Agreement between Cheniere Operating and Zydeco Exploration, Inc. ("Zydeco"), an operating subsidiary of Zydeco Energy, Inc. (the "Exploration Agreement"), with regard to a proprietary 3-D seismic exploration project in southern Louisiana (the "3-D Exploration Program"). Cheniere Operating has the right to earn a 50% participation in the 3-D Exploration Program. The 3-D seismic survey (the "Survey") covers 228 square miles within a 295 square-mile area running three to five miles north and generally five miles south of the coastline in the most westerly 28 miles of Cameron Parish, Louisiana (the "Survey AMI"). Field acquisition of the seismic data was completed in July 1997, and the data is currently being processed and interpreted.

Cheniere has been publicly traded since July 3, 1996 under the name Cheniere Energy, Inc. The Company's principal executive offices are located at 1200 Smith Street, Suite 1710, Houston, Texas 77002, and its telephone number is (713) 659-1361.

BUSINESS STRATEGY

The Company's objective is to expand the net value of its assets by building an oil and gas reserve base in a cost-efficient manner. The Company intends to pursue this objective by following an integrated strategy that includes the following elements:

. FOCUS ON FEW PROJECTS WITH LARGE RESERVE POTENTIAL. The Company plans to focus its resources on relatively few projects that possess large reserve potential and favorable risk/reward characteristics. The Company believes that attractive upstream oil and gas opportunities such as these are difficult to identify and develop, and that the expertise of management and staff is best utilized by focusing on like projects that may have a meaningful impact on the value of its shares. Cheniere Operating's current activities are focused on its 3-D Exploration Program in South Louisiana, an area which the Company

believes has significant remaining undiscovered oil and gas reserve potential. The Company continually evaluates new investment opportunities, including exploration projects similar to the 3-D Exploration Program, as well as acquisitions of producing and undeveloped properties.

. MAINTAIN A SIGNIFICANT WORKING INTEREST IN EACH PROJECT. Consistent with its intent to focus on a few meaningful projects, the Company aims to maintain a significant working interest in each project. As an example, Cheniere Operating has the right to earn up to a 50% participation in the 3-D Exploration Program.

Cheniere does not intend to be an operator in this project, but intends to maintain a significant working interest to better leverage its administrative and technical resources and to better influence operator decisions.

. UTILIZE THE LATEST EXPLORATION, DEVELOPMENT AND PRODUCTION TECHNOLOGY. The Company intends to use the latest technology to enhance the efficiency and economy of its exploration, development and production efforts. These include the use of advanced 3-D seismic acquisition and processing techniques in the Survey AMI. Toward that end, the 3-D Exploration Program is using a Hewlett Packard XCLASS SPP-2000 parallel processing system to process seismic data acquired in the Survey.

. CONTROL OVERHEAD COSTS. The Company plans to maintain a small, but experienced working staff, and to leverage its talents by seeking industry partners and outside consultants with appropriate geographic and technical experience. Zydeco, Cheniere's industry partner in the 3-D Exploration Program, has a technical staff that includes 12 geologists, geophysicists and landmen, including officers, with many years of experience in the south Louisiana exploration and production. In addition, INEXS (Interactive Exploration Solutions, Inc.), a leading seismic consulting firm in Houston, is complementing Zydeco's in-house interpretation effort.

THE 3-D EXPLORATION PROGRAM IN CAMERON PARISH, LOUISIANA TRANSITION ZONE

The 3-D Exploration Program, in which Cheniere Operating has the right to earn up to a 50% participation, consists of a 228-square mile proprietary seismic survey (the "Survey") shot within a 295 square-mile area running three to five miles north and generally five miles south of the coastline in the most westerly 28 miles of Cameron Parish, Louisiana (the "Survey AMI"). The Survey AMI includes areas outside and adjacent to the Survey over which the 3-D Exploration Program has purchased and plans to purchase non-proprietary seismic data.

The 3-D Exploration Program is located within an area referred to as the Transition Zone of Louisiana, which defines an area extending roughly three to five miles on either side of the coastline. The Company believes that the Transition Zone, including the westernmost 28 miles of Louisiana coastline that are within the Survey AMI, has significant remaining undiscovered oil and gas reserve potential. Substantial infrastructure along the Gulf Coast and in the shallow Gulf of Mexico should permit Cheniere Operating to lower its development costs compared to those in other geographic regions and facilitates timely development of oil and gas discoveries. The Company's officers and Zydeco have extensive experience both onshore and offshore in the Gulf Coast and believe the 3-D Exploration Program is well positioned to evaluate, explore and develop properties in the area.

Exploration Agreement

Under the terms of the Exploration Agreement and its Amendments, Cheniere Operating is obligated to pay 100% of the Seismic Costs (as defined below) up to $13.5 million, and 50% of the excess of any such costs, to acquire a 50% working interest participation in the leasing and drilling of all Prospects (as defined below) generated within the Survey AMI. "Seismic Costs" are defined in the Exploration Agreement to include the following, inter alia: acquiring and processing seismic data; legal costs; options to lease land and leases of land; and the cost of seismic permits including the seimic permit granted by the State of Louisiana discussed below.

Under the terms of the Exploration Agreement, Zydeco will perform, or cause to be performed, all of the planning, land, geologic, and interpretative functions necessary to the project and will design and oversee the acquisition and processing of seismic data, interpret results, acquire leases and generate Prospects. The term "Prospect" is defined in the Exploration Agreement as a block of acreage suitable for exploration including the leasehold, operating, nonoperating, mineral and royalty interests, licenses, permits, and contract rights thereto. Cheniere Operating has the right to review all data and may elect to generate its own Prospects. Neither party to the 3-D Exploration program is permitted to sell or license the data without the other party's approval.

Cheniere Operating has paid 100% of the first $13.5 million of Seismic Costs. Cheniere Operating's 50% share of excess Seismic Costs through December

31, 1997, is estimated in the Seventh Amendment to the Exploration Agreement to be approximately $2.9 million. The total of those costs is payable to Zydeco on

December 31, 1997. In the event Cheniere Operating fails to make the December 31, 1997, payment into the Exploration Program Account on a timely basis (a "Discontinuance"):

1) The obligation and right of Cheniere Operating to make such payment will terminate. Zydeco would have the right to complete the processing of seismic data with the cooperation or assistance of other companies. In addition, Cheniere Operating's Prospect ownership interest would be limited to the total amount of its contribution to the Exploration Program Account, divided by twice the amount of funds expended for Seismic Costs, expressed as a percentage;

2) If following a Discontinuance, Zydeco contributres funds that otherwise were required to have been provided by Cheniere Operating under the terms of the Exploration Agreement, Zydeco shall be entitled to receive back such funds, together with interest thereon at the prime interest rate, from revenues attributable to Cheniere Operating's interest in any Prospect (including, without limitation, any working interest or overriding royalty interest revenues from production or front-end proceeds attributable to such interest when owned by Cheniere Operating under the applicable operating agreement or proceeds from the sale or license of seismic data); and

3) If a Discontinuance occurs, and Zydeco does not itself fund the deficient Seismic Costs, Zydeco may sell, trade, farm-out, lease, sublease, or otherwise trade (collectively, a "Trade") the aggregate (i.e., both that of Zydeco and Cheniere Operating) Prospect interests to any party on arms'-length terms. For this purpose the aggregate Prospect interests includes all seismic data acquired, and revenues from a Trade include seismic data sale or license proceeds. Any revenues accruing from a Trade shall be applied toward the cost of completing the project contemplated under the Exploration Agreement.

Zydeco and Cheniere Operating have entered into an Exploration Program Agreement and a related default joint operating agreement which provide for the funding of prospect, exploratory and development costs subsequent to completion of the data acquisition, processing, and interpretation phases of the seismic work. Each party will pay its proportionate share of these costs and Zydeco, as operator, will conduct all operations in accordance with the terms of the Joint Operating Agreement.

Description of the Louisiana Transition Zone Survey AMI

The Survey AMI, which contains the Survey, lies within the Gulf Coast/Gulf of Mexico basin, a highly prolific hydrocarbon province. Nevertheless, the Transition Zone represents a relatively less explored area within that region as compared to exclusively onshore or offshore areas because of the high relative cost and logistical and technical difficulties associated with conducting modern seismic surveys over the diverse surface environments encountered along the coast. Compounding the problem of scarce seismic data is the fact that the State Waters area commonly fell between the jurisdictional responsibilities of onshore and offshore divisions of the major oil companies. These conditions have limited the drilling density of deep exploration wells within the Survey area to roughly one well per five square miles (outside of known fields). However, innovative design parameters for the Survey which lowered acquisition and processing costs below estimates from seismic contractors, thereby reducing the capital investment and the likelihood of economic development.

The entire Survey AMI is located within an existing pipeline infrastructure. As a result, it will generally be quicker and less costly to develop and connect reserves found onshore and in the shallow offshore areas to markets than would be the case for reserves found in the Federal Waters of the Gulf of Mexico. The Louisiana Gulf Coast/Gulf of Mexico region enjoys easy access to the premium-priced consumption markets of the East Coast.

Permit and Lease Status Within the Survey AMI

The Survey AMI covers onshore lands, State Waters, and Federal OCS (Outer Continental Shelf) acreage. The permit and lease status of the three areas is described below.

Onshore Area. Lease options have been obtained over 28,000 acres, and farmouts have been obtained over 5,000 acres of land lying onshore in the central portion of the Survey AMI.

State Waters. On February 14, 1996, the State of Louisiana awarded Zydeco the exclusive right (the "Louisiana Seismic Permit") to shoot and gather seismic data over the 51,360 net unleased acres of Louisiana State waters (running out

to a 3 1/2 mile limit located within the Survey AMI) in the western half of Cameron Parish. The term of the Louisiana Seismic Permit was for 18 months and has been extended for an additional six months. As discussed below in "Seismic Results to Date," the Company has completed the shooting and gathering of seismic data. During this term Zydeco has the exclusive right to nominate blocks of acreage for leasing in the covered State waters. The Company may, at its option, nominate blocks of acreage for leasing during this period of exclusive rights or at any time thereafter.

Federal Waters. The Survey AMI includes an area running southward generally up to 2 miles into Federal waters. Although Zydeco has no exclusive rights regarding leases in the Federal waters, two offshore lease blocks held by industry are scheduled to expire during 1997 and may be available for the 1998 Eastern Gulf OCS sale.

Seismic Results to Date

In the fall of 1996 approximately 12% of the Survey was shot prior to a shutdown for the winter. Shooting resumed in April of 1997 and was completed in July 1997. During the winter months, Zydeco processed the initial data, thereby determining the optimal processing sequence for the remainder of the data that was shot in 1997. At present, seismic interpretation is underway with respect to a first phase of processed data. A second phase of processed data, created using pre-stack time migration techniques, will begin to be available in November 1997. Interpretation of the Survey, including prospect generation, is being conducted by Zydeco geophysical personnel and by an INEXS (Interactive Exploration Solutions, Inc.) consulting geophysicist.

Schedule for the 3-D Exploration Program

Processing and interpretation of the Survey data will continue through year-end 1997 and into 1998. Zydeco and Cheniere expect to nominate and bid on State leases and exercise lease options onshore that underlie identified prospects during the first calendar quarter of 1998. First drilling within the Survey AMI is expected during the second calendar quarter of 1998.

Zydeco and Cheniere Operating have designated the entire Survey AMI (onshore and offshore) as an area of mutual interest for five years ending May 15, 2001, during which period the two companies may continue to drill, test, and develop prospects within the Survey AMI.

COMPETITION AND MARKETS

Competition in the industry is intense, particularly with respect to the acquisition of producing properties and proved undeveloped acreage. The Company competes with the major oil companies and other independent producers of varying sizes, all of which are engaged in the exploration, development and acquisition of producing and non-producing properties. Many of the Company's competitors have financial resources and exploration and development budgets that are substantially greater than those of the Company, which may adversely affect the Company's ability to compete.

The Company anticipates selling a portion of its interest in certain of the prospects within the Survey AMI as a means of funding its participation in the development of these properties. The Company anticipates that competition will arise from other companies also seeking drilling funds from potential working interest partners. There can be no assurance that the Company will be successful in securing funds in this manner.

The availability of a ready market for and the price of any hydrocarbons produced by the Company will depend on many factors beyond the control of the Company, including the extent of domestic production and imports of foreign oil, the marketing of competitive fuels, the proximity and capacity of natural gas pipelines, the

availability of transportation and other market facilities, the demand for hydrocarbons, the political conditions in international oil-producing regions, the effect of federal and state regulation of allowable rates of production, taxation, the conduct of drilling operations, and federal regulation of natural gas. In the past, as a result of excess deliverability of natural gas, many pipeline companies have curtailed the amount of natural gas taken from producing wells, shut-in some producing wells, significantly reduced gas taken under existing contracts, refused to make payments under applicable "take-or-pay" provisions, and have not contracted for gas available from some newly completed wells. The Company can give no assurance that such problems will not arise again. In addition, the restructuring of the natural gas pipeline industry has eliminated the gas purchasing activity of traditional interstate gas transmission pipeline buyers.

Producers of natural gas, therefore, have been required to develop new markets among gas marketing companies, end-users of natural gas, and local distribution companies. All of these factors, together with economic factors in the marketing area, generally may affect the supply and/or demand for oil and

gas and thus the prices available for sales of oil and gas.

GOVERNMENT REGULATION

The Company's oil and gas exploration, production, and related operations are subject to extensive rules and regulations promulgated by federal and state agencies. Failure to comply with such rules and regulations can result in substantial penalties. The regulatory burden on the oil and gas industry increases the Company's cost of doing business and affects its profitability. Because such rules and regulations are frequently amended or reinterpreted, the Company is unable to predict the future cost or impact of complying with such laws.

Production. In most areas, if not all, where the Company may conduct activities, there may be statutory provisions regulating the production of oil and natural gas under which administrative agencies may promulgate rules in connection with the operation and production of both oil and gas wells, determine the reasonable market demand for oil and gas, and establish allowable rates of production. Such regulation may restrict the rate at which the Company's wells produce oil or gas below the rate at which such wells would be produced in the absence of such regulation, with the result that the amount or timing of the Company's revenues could be adversely affected.

Regulation of Operations on Outer Continental Shelf. The Company may acquire oil and gas leases in the Gulf of Mexico. The Outer Continental Shelf Lands Act ("OCSLA") requires that all pipelines operating on or across the Outer Continental Shelf ("OCS") provide open-access, non-discriminatory service. Although the Federal Energy Regulatory Commission ("FERC") has opted not to impose the regulations of Order No. 509, in which FERC implemented OCSLA on gatherers and other non-jurisdictional entities, FERC has retained the authority to exercise jurisdiction over those entities if necessary to permit non-discriminatory access to service on OCS. In this regard, FERC recently issued a Statement of Policy ("Policy Statement") regarding the application of its jurisdiction under the Natural Gas Act of 1938 ("NGA") and OCSLA over natural gas facilities and service on OCS. In the Policy Statement FERC concluded that facilities located in water depths of 200 meters or more shall be presumed to have a primary purpose of gathering up to the point of interconnection with the interstate pipeline grid. FERC has determined that gathering facilities are outside of its jurisdiction. While it is not possible to determine what the actual impact of this new policy will be since FERC has determined that it will no longer regulate the rates and services of OCS transmission facilities under the NGA, it is possible that the Company could experience an increase in transportation costs associated with its OCS natural gas production and, possibly, reduced access to OCS transmission capacity.

Certain operations the Company conducts are on federal oil and gas leases, which the Minerals Management Service (the "MMS") administers. The MMS issues such leases through competitive bidding. These leases contain relatively standardized terms and require compliance with detailed MMS regulations and orders pursuant to OCSLA (which are subject to change by the MMS). For offshore operations, lessees must obtain MMS approval for exploration plans and development and production plans prior to the commencement of such operations. In addition to permits required from other agencies (such as the Coast Guard, the Army Corps of Engineers and the Environmental Protection Agency), lessees must obtain a permit from the MMS prior to the commencement of drilling. The MMS has promulgated regulation requiring offshore production facilities located

on the OCS to meet stringent engineering and construction specifications. It has proposed regulations to update production measurement and surface commingling requirements for gas produced in the OCS. In addition, the MMS has proposed additional safety-related regulations concerning the design and operating procedures for OCS production platforms and pipelines. The MMS has postponed its decision regarding the adoption of these regulations in order to gather more information on the subject. The MMS also has regulations restricting the flaring or venting of natural gas, and has recently amended such regulations to prohibit the flaring of liquid hydrocarbons and oil without prior authorization except under certain limited circumstances. Similarly, the MMS has promulgated other regulations governing the plugging and abandonment of wells located offshore and the removal of all production facilities. To cover the various obligations of lessees on the OCS, the MMS generally requires that lessees post substantial bonds or other acceptable assurances that such obligations will be met. The cost of such bonds or other surety can be substantial and there is no assurance that the Company can continue to obtain bonds or other surety in all cases.

In addition, the MMS has conducted an inquiry into certain contract agreements for which producers on MMS leases have received settlement proceeds that are royalty bearing and the extent to which producers have paid the appropriate royalties on those proceeds. The Company believes that this inquiry will not have a material impact on its financial condition, liquidity, or results of operations.

The MMS has recently issued a notice of proposed rule-making in which it

proposes to amend its regulations governing the calculation of royalties and the valuation of natural gas produced from federal leases. The principal feature in the amendments, as proposed, would establish an alternative market-index based method to calculate royalties on certain natural gas production sold to affiliates or pursuant to non-arm's-length sales contracts. The MMS has proposed this rule-making to facilitate royalty valuation in light of changes in the gas marketing environment. Recently, the MMS announced its intention to reconsider the proposal and reopen the comment period. The Company cannot predict what action the MMS will take on these matters, nor can it predict at this stage of the rule-making proceeding how the Company might be affected by amendments to the regulations.

The MMS recently issued a notice of proposed rule-making to modify the valuation procedures for crude oil transactions and to amend the valuation procedure for the sale of federal royalty oil. The Company cannot predict what action the MMS will ultimately take on these matters, nor can it predict at this stage of the rule-making proceeding how the Company might be affected by amendments to the regulations.

Bonding and Financial Responsibility Requirements. The Company is required to obtain bonding, or otherwise demonstrate financial responsibility, at varying levels by governmental agencies in connection with obtaining state or federal leases or acting as an owner or operator on such leases or of oil exploration and production related facilities. These bonds may cover such obligations as plugging and abandonment of unproductive wells, removal and closure of related exploration, production facilities, and pollution liabilities. The costs of such bonding and financial responsibility requirements can be substantial, and there can be no assurance that the Company will be able to obtain such bonds and/or otherwise demonstrate financial responsibility in all cases.

Natural Gas Marketing and Transportation. FERC regulates the transportation and sale for resale of natural gas in interstate commerce pursuant to the NGA and the Natural Gas Policy Act of 1978 (the "NGPA"). In the past the Federal government has regulated the prices at which oil and gas could be sold. Deregulation of wellhead sales in the natural gas industry began with the enactment of the NGPA in 1978. In 1989 Congress enacted the Natural Gas Wellhead Decontrol Act (the "Decontrol Act"). The Decontrol Act removed all NGA and NGPA price and nonprice controls affecting wellhead sales of natural gas effective January 1, 1993. While sales by producers of natural gas can currently be made at uncontrolled market prices, Congress could reenact price controls in the future.

On April 8, 1992, FERC issued Order No. 636, as amended by Order No. 636-A (issued in August 1992) and Order No. 636-B (issued in November 1992), as a continuation of its efforts to improve the competitive structure of the interstate natural gas pipeline industry and maximize the consumer benefits of a competitive wellhead gas market. Interstate pipelines were required by FERC to "unbundle," or separate, their traditional merchant sales services from their transportation and storage services and to provide comparable transportation and

storage services with respect to all gas supplies whether purchased from the pipeline or from other merchants such as marketers or producers. The pipelines must now separately state the applicable rates for each unbundled service (e.g., for natural gas transportation and for storage). This unbundling process has been implemented through negotiated settlement in individual pipeline services restructuring proceedings. Ultimately, Order Nos. 636, et al., may enhance the competitiveness of the natural gas market. Order Nos. 636, et al., have been substantially affirmed and remanded by the U.S. Court of Appeals for the D.C. Circuit. FERC's Order No. 636-C was recently issued as a result of that remand. On February 27, 1997, the Commission issued Order No. 636-C in response to the Court's remand. On remand, the Commission: (1) reaffirmed its decision to exempt pipelines from sharing in gas supply realignment ("GSR") costs; (2) reversed its requirement that pipelines allocate ten percent of GSR costs to interruptible ("IT") customers and required pipelines to propose the percentage of the GSR costs that their IT customers must absorb in light of individual circumstances in existence on each pipeline; (3) modified its non-notice policy, on a prospective basis, to the extent the prior policy restricts entitlement to non-notice service to any particular group of customers; (4) reversed its selection of a 20-year matching term for the right-of-first-refusal and adopted a five-year matching term; (5) reaffirmed its decision to first require customer-by-customer mitigation of the effects of SFV rate design; and (6) reaffirmed its decision to establish the eligibility of customers of downstream pipelines for the upstream pipeline's one-part, small-customer rate on a case-by-case basis. In the Order the Commission emphasized that circumstances had changed since it issued Order No. 636 in 1992, and stated that its determination in the Order on remand would reflect changes that have taken place in the industry. Several parties have filed requests for rehearing of the Order.

It is unclear what impact, if any, increased competition within the natural gas industry under Order Nos. 636, et al. will have on the Company's activities. Although Order No. 636 could provide the Company with additional market access and more fairly applied transportation service rates, Order No. 636 could also subject the Company to more restrictive pipeline imbalance tolerances and

greater penalties for violations of these tolerances.

FERC has announced its intention to re-examine certain of its transportation-related policies, including the appropriate manner in which interstate pipelines release transportation capacity under Order No. 636, and the use of the market-based rates for interstate gas transmission. While any resulting FERC action would affect the Company only indirectly, FERC's current rules and policy statements may have the effect of enhancing competition in natural gas markets by, among other things, encouraging non-producer natural gas marketers to engage in certain purchase and sale transactions. The Company cannot predict what action FERC will take on these matters, nor can it accurately predict whether FERC's actions will achieve the goal of increasing competition in markets in which the Company's natural gas is sold. However, the Company does not believe that it will be treated materially differently than other natural gas producers and marketers with which it competes.

On July 14, 1996, FERC issued Order No. 587 (RM96-1) which promulgated 140 business-practice standards developed by the Gas Industry Standards Board for interstate natural gas pipelines. The standards cover certain business practices such as nominations, flowing gas, invoicing and capacity release, as well as adoption of protocols and procedures for exchanging these business practices over the Internet. FERC denied rehearing in Order No. 587-A issued October 31, 1996. Order No. 587-B promulgated electronic communications standards on January 20, 1997. On April 18, 1997, in Order No. 587-B, FERC denied request for rehearing of the dates for complying with the requirements of Order No. 587-C, which requires pipelines to make pro forma tariff filings to implement the standards by May 1, 1997, implementation of the Internet Web Page Standards by August 1, 1997, and implementation of the Revised and New Business Practices by November 1, 1997. On May 6, 1997, in Order No. 587-E, FERC denied a request for rehearing of Order No. 587-B. An appeal of FERC Order Nos. 587 and 587-A is pending in the United States Court of Appeals for the District of Columbia Circuit. Oral arguments on this appeal are scheduled for April 20, 1998.

On February 28, 1997, FERC issued notice of a public conference to be held on May 29 and 30, 1997, to conduct a broad inquiry into important issues facing the natural gas industry and FERC's regulation of the industry. The Company cannot predict at this time what, if any, new standards or regulations may ultimately result from this conference or what impact any such changes may have on the industry.

Oil Sales and Transportation Rates. FERC regulates the transportation of oil in interstate commerce pursuant to the Interstate Commerce Act. Sales of crude oil, condensate, and gas liquids by the Company are not regulated and are made at market prices. However, the price a company receives from the sale of these products is affected by the cost of transporting the products to market. Effective as of January 1, 1995, FERC implemented regulations establishing an indexing system for transportation rates for oil pipelines, which would generally index such rates to inflation, subject to certain conditions and limitations. These regulations could increase the cost of transporting crude oil, liquids, and condensate by pipeline. The Company is not able to predict with certainty what effect, if any, these regulations will have on it; but other factors being equal, the regulations may tend to increase transportation costs or reduce wellhead prices for such commodities.

Environmental. The Company's operations are subject to numerous laws and regulations governing the discharge of oil and hazardous materials into the environment or otherwise relating to environmental protection. These laws and regulations may require the acquisition of various permits before drilling commences; restrict the types, quantities, and concentration of various substances that can be released into the environment in connection with drilling and production activities; limit or prohibit drilling activities on certain lands lying within wilderness, wetlands, and other protected areas; and impose substantial liabilities for pollution resulting from the Company's operations. In particular, under the Federal Oil Pollution Act of 1990 (the "OPA 90"), certain persons (including owners, operators, and demise-charterers of vessels; owners and operators of onshore facilities; and lessees, permittees and holders of rights-of-use and easements in areas in which offshore facilities are located ("responsible parties")) may be held liable for various costs and damages. These include removal costs and damages, damages to natural resources, damages for lost profits, impairment to earning capacity, and destruction of or injury to real or personal property. Liability can arise when oil is discharged or poses a substantial threat of discharge into United States waters. Liability under the OPA 90 is strict, joint and several, unless one of the specific defenses to liability applies, including an act of God, an act of war, or an act or omission of a third party. The OPA 90 also requires certain responsible parties to establish and maintain evidence of financial responsibility sufficient to meet the maximum amount of liability to which the responsible party could be subject under the liability limitation provisions. Moreover, the recent trend toward stricter standards in environmental legislation and regulation is likely to continue. In addition, legislation has been proposed in Congress from time to time that would reclassify certain oil and gas exploration and production wastes as "hazardous wastes," which would make the reclassified

wastes subject to much more stringent handling, disposal and clean-up requirements. If such legislation were to be enacted, it could have a significant impact on the operating costs of the Company, as well as the oil and gas industry in general. State initiatives to further regulate the disposal of oil and gas wastes are also pending in certain states, and these various initiatives could have a similar impact on the Company. See "Risk Factors - United States Governmental Regulation, Taxation and Price Control."

The Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"), also known as the "Superfund Law," imposes liability without regard to fault or the legality of the original conduct on certain classes of persons that are considered to have contributed to the release of a "hazardous substance" into the environment. These persons include the owner or operator of the disposal site or sites where the release occurred and companies that disposed or arranged for the disposal of the hazardous substances found at the site. Persons who are or were responsible for releases of hazardous substances under CERCLA may be subject to joint and several liability for the costs of cleaning up the hazardous substances that may have been released into the environment and for damages to natural resources, and it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage.

OPERATIONAL RISKS AND INSURANCE

The Company anticipates that any wells established by it will be drilled by proven industry contractors. Based on financial considerations, the Company may choose to utilize turnkey contracts that limit its financial and legal exposure. However, circumstances may arise where the Company is unable to secure a turnkey contract on satisfactory terms. In this case, the Company may decide to drill, or cause to be drilled, the applicable test well(s) on either a footage or day-work basis, and the drilling thereof will be subject to the usual drilling hazards such as cratering, explosions, uncontrollable flows of oil, gas or well fluids, fires, pollution, and other environmental risks. The Company's activities are also subject to perils specific to marine operations, such as capsizing, collision, and

damage or loss from severe weather. These hazards can cause personal injury and loss of life, severe damage to and destruction of property and equipment, pollution or environmental damage, and suspension of operations. In accordance with customary industry practices, the Company intends to maintain insurance against some, but not all, of such risks, and some, but not all, of such losses. The occurrence of a significant event not fully insured or indemnified against could materially and adversely affect the Company's financial condition and operations. Moreover, no assurance can be given that the Company will be able to maintain adequate insurance in the future at rates considered reasonable by the Company.

MAR VENTURES INC.

On July 3, 1996, Cheniere Operating underwent a reorganization by consummating the transactions (the "Reorganization") contemplated in the Agreement and Plan of Reorganization (the "Reorganization Agreement") dated April 16, 1996, between Cheniere Operating and Bexy Communications, Inc., a publicly held Delaware corporation ("Bexy"). Under the terms of the Reorganization Agreement, Bexy transferred its existing assets and liabilities to Mar Ventures, Inc., its wholly owned subsidiary ("Mar Ventures"). As part of such Reorganization, the stock of Mar Ventures was distributed to the original Bexy shareholders, and since that time Mar Ventures has not been affiliated with the Company. Buddy Young, the former President and Chief Executive Officer of Bexy, has agreed to indemnify the Company, the former shareholders of Cheniere Operating and their respective officers, directors, attorneys, and other agents from and against all claims which they may suffer, incur, or pay arising under or incurred in connection with: (i) the operation of the business of Bexy prior to the closing of the Reorganization; (ii) any error or omission with respect to a material fact stated or required to be stated in the proxy materials filed by Bexy in connection with the Reorganization or the registration statement filed by Mar Ventures in connection with the distribution of its common stock to the original Bexy stockholders; and (iii) certain taxes.

YOUNG CONSULTING AGREEMENT

Pursuant to a Consulting Agreement dated as of July 3, 1996, between Cheniere and Buddy Young, the former President and Chief Executive Officer of Bexy, the Company engaged Mr. Young as a consultant to provide management of the Company with advice regarding the management and business of the Company. Mr. Young agreed to provide such consulting services to the Company for two years ending on July 3, 1998, at a rate of $75,000 per year. Mr. Young is not an employee of the Company and serves only in the capacity of a consultant.

EMPLOYEES

The Company has two full-time employees, both administrative assistants, other than its executive officers. It also engages certain consultants from

time to time.

PROPERTIES

The Company subleases its Houston, Texas headquarters from Zydeco under a month-to-month sublease covering approximately 1,498 square feet at a monthly rental of $1,179. The Company believes that this arrangement gives it the necessary flexibility to adapt to the changing space requirements of its business.

FORWARD-LOOKING STATEMENTS

This annual report contains or incorporates by reference certain statements that may be deemed "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements, other than statements of historical facts so included in this annual report that address activities, events, or developments that the Company intends, expects, projects, believes, or anticipates will or may occur in the future, including, without limitation: statements regarding the Company's business strategy, plans and objectives; statements expressing beliefs and expectations regarding the ability of the Company to successfully raise the additional capital necessary to meet its obligations under the Exploration Agreement, the ability of the Company to secure the leases necessary to facilitate anticipated drilling

activities and the ability of the Company to attract additional working interest owners to participate in the exploration and development within the Survey AMI.

ITEM 3. LEGAL PROCEEDINGS

There are no legal proceedings currently pending against the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the stockholders of the Company during the fourth quarter of the fiscal year.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Common Stock has traded on The Nasdaq SmallCap Market under the symbol "CHEX" since April 11, 1997. From the time the company first traded publicly, July 3, 1996, until April 16, 1997, the Company traded on the OTC Bulletin Board. The table below presents the high and low daily closing sales prices of the Common Stock during each quarter. The quotes represent "inter-dealer" prices without retail markups, markdown, or commissions and may not necessarily represent actual transactions.

<TABLE>
<CAPTION>

	High ($)	Low ($)
<S>	<C>	<C>
Period From July 3, 1996 to August 31, 1996	3 7/8	3
Three Months Ended		
November 30, 1996	5 1/2	2 13/32
February 28, 1997	5 5/8	2 3/4
May 31, 1997	5 1/2	3
August 31, 1997	4 1/4	2 31/32

</TABLE>

As of October 1, 1997, there were 14,357,866 shares of the Company's Common Stock outstanding held by 781 stockholders of record.

The Company has never paid a cash dividend on its Common Stock. The Company currently intends to retain earnings to finance the growth and development of its business and does not anticipate paying any cash dividends on the Common Stock in the foreseeable future. Any future change in the Company's dividend policy will be made at the discretion of the Company's Board of Directors in light of the financial condition, capital requirements, earnings and prospects of the Company, and any restrictions under any credit agreements, as well as other factors the Board of Directors deem relevant.

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data set forth below are derived from the Consolidated Financial Statements of the Company that have been examined by Merdinger, Fruchter, Rosen and Corso, P.C., independent accountants, for the periods indicated. The financial data should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's Consolidated Financial Statements and Notes thereto included elsewhere in this report.

<TABLE>
<CAPTION>

	For the Periods Ended		From Inception
	August 31, 1997	August 31, 1996	(February 21, 1996) to August 31, 1997
<S>	<C>	<C>	<C>
Net operating revenues	$ -	$ -	$ -
(Loss) from operations	(1,732,629)	(123,647)	(1,856,276)
Net (loss)	(1,676,468)	(121,847)	(1,798,315)
Net (loss) per share of common stock	$(0.14)	$(0.01)	$(0.16)

	August 31, 1997	August 31, 1996
Cash	234,764	1,093,180
Oil & gas properties, unevaluated	13,500,000	4,000,000
Total assets	13,841,712	5,145,310
Long-term obligations	-	-
Total liabilities	888,291	718,855
Total shareholders' equity	12,953,421	4,426,455
Cash dividends declared per share of common stock	-	-

</TABLE>

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Cheniere Operating was incorporated in Delaware in February 1996 for the purpose of entering the oil and gas exploration business, initially on the Louisiana Gulf Coast. On July 3, 1996, Cheniere Operating underwent the Reorganization whereby Bexy Communications, Inc., a publicly held Delaware corporation ("Bexy"), received 100% of the outstanding shares of Cheniere Operating, and the former shareholders of Cheniere Operating received approximately 93% of the issued and outstanding Bexy shares. As a result of the share exchange, a change in the control of the Company occurred. The transaction was accounted for as a recapitalization of Cheniere Operating. Bexy spun off its existing assets and liabilities to its original shareholders and changed its name to Cheniere Energy, Inc.

Cheniere California signed a Purchase and Sale Agreement with Poseidon Petroleum, LLC ("Poseidon") to acquire Poseidon's 60% working interest in six undeveloped leases in the Bonito Unit of the Pacific Outer Continental Shelf offshore Santa Barbara County, California. During July 1997 Cheniere California and Poseidon mutually agreed to terminate the Purchase and Sale Agreement pursuant to the terms thereof and that upon termination, neither party thereto shall have liability thereunder.

RESULTS OF OPERATIONS - AUDITED STATEMENTS FROM INCEPTION (FEBRUARY 21, 1996) TO AUGUST 31, 1997

The Company's operating results reflected a loss of $1,798,315 or $0.16 per share, as the Company has yet to generate revenues from operations. General & Administrative ("G&A") expense of $1,817,275 included a one-time, non-cash charge of $624,400, incurred during the three-month period ended August 31, 1997, relating to 200,000 shares of Common Stock issued in exchange for

investment banking services. The balance of the G&A expense comprises primarily the costs of professional expenses, salary and compensation, insurance, occupancy and office expense. Interest expense of $39,001 was incurred with respect to two short-term promissory notes. Interest income of $57,961 was generated on the Company's cash balances.

RESULTS OF OPERATIONS - AUDITED STATEMENTS FOR THE PERIODS ENDED AUGUST 31, 1997 AND AUGUST 31, 1996

The Company's operating results for the fiscal year ended August 31, 1997, reflect a loss of $1,676,468 or $0.14 per share as compared to a loss of $121,847, or $0.01 per share for the roughly six-month period from inception (February 21, 1996) to August 31, 1996. The Company did not generate revenues from operations in either of the periods. The increased loss in the most recent fiscal year is primarily due to higher G&A expenses of $1,713,461, as compared to $103,814 in the period to August 31, 1996. The higher level of G&A expenses in the most recent period is the result of: (a) a one-time, non-cash charge of $624,400 (as discussed above), (b) increased professional fees related to registrations of the Company's Common Stock, (c) insurance expenses for coverages not carried in the earlier period, and (d) the inclusion of a full year of salary and compensation, occupancy and office expenses as compared to a partial year for the period ended August 31, 1996. The increased loss is additionally due to professional fees of $164,812 related to an acquisition (the "Poseidon" transaction) that was not consummated. Interest income of $56,161 in the latest period exceeded the $1,800 earned in the prior period, based on larger average cash balances and the comparatively longer period.

LIQUIDITY AND CAPITAL RESOURCES

During the fiscal year ended August 31, 1997, the Company raised $9.7 million proceeds net of placement fees from the sale of equity, which combined with $500,000 proceeds from a short-term promissory note and cash balances, were used to fund a $9.5 million investment in the Company's 3-D Exploration Program, to repay a short-term promissory note ($215,000) and to fund operating expenses.

At August 31, 1997, total assets were $13,841,712 compared to $5,145,310 at August 31, 1996. The increase is primarily from the sale of equity and investment of the proceeds into the 3-D Exploration Program, as discussed above. Current assets declined to $291,905 from $1,097,980, due to a reduction in the cash balance at August 31, 1997, as compared to August 31, 1996. Current liabilities increased to $888,291 from $718,855, due to a slightly higher level of accounts payable and accrued expenses, and loans payable, at August 31, 1997, as compared to August 31, 1996.

The Company anticipates that future liquidity requirements, including its commitment to the 3-D Exploration Program, will be met by cash balances, the sale of equity, further borrowings, and/or the sales of portions of its interest in the 3-D Exploration Program. At this time no assurance can be given that such sale of equity, future borrowings, or sales of portions of its interest in the 3-D Exploration Program will be accomplished.

On August 28, 1997, the Company amended the Exploration Agreement to extend the dates of further payments due to Zydeco relating to the 3-D Exploration Program to December 31, 1997. The Company has currently funded $13.5 million of Seismic Cost payments to the Program and is responsible for 50% of the remaining Seismic Costs ("Excess Costs") incurred through December 31, 1997, to earn a 50% working interest

participation in the seismic data and leasing and drilling activities of the the 3-D Exploration Program. The Company's share of Excess Costs, by its own and Zydeco's estimate, is approximately $2.9 million. Failure to pay any of the Excess Costs by December 31, 1997, would result in a reduction of the Company's working interest participation. The Company does not presently have sufficient capital to meet the December 31, 1997, payment, and there can be no assurance that it will successfully secure the funds.

PRIVATE PLACEMENTS OF EQUITY. Since its inception, Cheniere Operating's primary source of financing for operating expenses and payments to the 3-D Exploration Program has been, originally, the sale of its equity securities, and since the Reorganization with Bexy, funding from Cheniere through the sale of Cheniere's equity securities. Through August 31, 1997, $14.6 million of proceeds, net of placement fees, have been raised through the sale of equity, and $13.5 million of that amount was invested in the 3-D Exploration Program.

From inception through the Reorganization, Cheniere Operating raised $2.9 million net of placement fees from the sale of common stock (which was exchanged for Common Stock following the Reorganization) to "accredited investors" (as defined in Rule 501(a) promulgated under the Securities Act of 1933, as amended (the "Securities Act")) pursuant to Rule 506 of Regulation D promulgated under the Securities Act ("Regulation D"). The proceeds, together with cash balances, were used to fund Cheniere Operating's initial $3 million payment to the 3-D Exploration Program.

Subsequent to the Reorganization and prior to August 31, 1996, the Company raised $2.0 million net of placement fees from the sale of Common Stock pursuant to Regulation D and Common Stock and warrants to purchase Common Stock pursuant to Regulation S promulgated under the Securities Act ("Regulation S"). Proceeds were used to fund a $1 million payment to the 3-D Exploration Program during August.

During fiscal year 1997, the Company raised $9.7 million net of placement fees from the sale of Common Stock to accredited investors pursuant to Regulation D and to offshore investors pursuant to Regulation S. Of the $9.6 million proceeds, $9.5 million was invested in the 3-D Exploration Program.

SHORT TERM PROMISSORY NOTES. In June 1996, Cheniere Operating borrowed $425,000 (the "Bridge Loan") through a private placement of short-term Promissory Notes (the "Notes"). In connection with the placement of the Notes, Cheniere Operating issued warrants (the "June Warrants"), which following the Reorganization, were exchanged for an aggregate of 141,666 and 2/3 warrants to purchase shares of Common Stock, to the holders of the Notes (the "Noteholders"), each of which warrants entitles the holder to purchase one share of the Common Stock at an exercise price of $3.00 per share at any time on or before June 14, 1999. The exercise price was determined at a 100% premium to the sale price of Cheniere Operating stock by private placement during May 1996, as the Company's stock was not publicly traded at that time. The Company satisfied all of its obligations under the Notes in the principal amount of $210,000 by paying the accrued interest on such Notes and by agreeing to issue 105,000 shares of the Common Stock at a price of $2.00 per share to the holders of such Notes pursuant to Regulation D. In addition, an individual Noteholder (the "Remaining Noteholder") purchased several outstanding Notes, following which such Noteholder held Notes in the aggregate amount of $215,000. In exchange for such Notes, Cheniere Operating issued a new Promissory Note in the amount of $215,000 to the Remaining Noteholder, which Cheniere Operating paid on December 13, 1996. The Remaining Noteholder also received 64,500 warrants to purchase shares of the Common Stock in accordance with the terms of the original Note Agreement. Such additional warrants have identical terms as the June Warrants, in accordance with the terms of the original Note Agreement. The Remaining Noteholder was not an affiliate of the Company.

On July 31, 1997, Cheniere Operating borrowed $500,000 from a related party, evidenced by a promissory note bearing interest at 10% per annum and due on August 29, 1997. On August 28, 1997, the maturity date was extended to September 29, 1997. The promissory note was secured by an undivided 1.8519% working interest in seismic data and leases acquired under the Exploration Agreement relating to the 3-D Exploration Program and an undivided 3.7% interest in proceeds from the marketing of proprietary seismic data under the Exploration Agreement. The note was paid by the Company on September 22, 1997, including all incurred interest. The collateral securing the note has been released; and, according to the terms of the note, the maker's option to acquire an interest in the Seismic Data, Lease Interest, and Exploration Agreement has been terminated.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

CHENIERE ENERGY, INC. AND SUBSIDIARIES

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF CHENIERE ENERGY, INC. AND SUBSIDIARIES

We have audited the accompanying consolidated balance sheets of CHENIERE ENERGY, INC. AND SUBSIDIARIES (a Development Stage Company) as of August 31, 1997 and 1996 and the related consolidated statements of operations, stockholders' equity, and cash flows for the year ended August 31, 1997, and for the period from inception (February 21, 1996) to August 31, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CHENIERE ENERGY, INC. AND SUBSIDIARIES as of August 31, 1997 and 1996, and the consolidated results of its operations and its consolidated cash flows for the year ended August 31, 1997, and for the period from inception (February 21, 1996) to August 31, 1996, in conformity with generally accepted accounting principles.

MERDINGER, FRUCHTER, ROSEN & CORSO, P.C.
Certified Public Accountants

New York, New York
September 12, 1997,
except for Note 13, as
to which the date is
September 29, 1997.

CHENIERE ENERGY, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED BALANCE SHEET

<TABLE>
<CAPTION>

ASSETS	August 31, 1997	August 31, 1996
<S>	<C>	<C>
CURRENT ASSETS		
Cash	$ 234,764	$1,093,180
Prepaid Expenses and Other Assets	57,141	4,800
TOTAL CURRENT ASSETS	291,905	1,097,980
OIL AND GAS PROPERTIES		
Unevaluated	13,500,000	4,000,000
FIXED AND OTHER ASSETS		
Property and Equipment, Net	49,807	46,830
Other	-	500
TOTAL ASSETS	$13,841,712	$5,145,310
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 388,291	$ 292,894
Notes Payable	-	425,000
Note Payable - Related Party	500,000	-
Advance from Officers	-	961
TOTAL LIABILITIES	888,291	718,855
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' EQUITY		
Common Stock- $.003 Par Value Authorized 20,000,000 shares; 14,160,866 and 9,931,767 Issued and Outstanding at August 31,1997 and 1996, respectively	42,483	29,795
Preferred Stock- Authorized 1,000,000 Shares; None Issued and Outstanding	-	-
Additional Paid-in-Capital	14,709,253	4,518,507
Deficit Accumulated During the Development Stage	(1,798,315)	(121,847)

TOTAL STOCKHOLDERS' EQUITY	12,953,421	4,426,455
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$13,841,712	$5,145,310

</TABLE>

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

CHENIERE ENERGY, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENT OF OPERATIONS

<TABLE>
<CAPTION>

	For the Year Ended August 31, 1997	For the Period Ended August 31, 1996	Cumulative from the Date of Inception
<S>	<C>	<C>	<C>
Revenue	$ -	$ -	$ -
General and Administrative Expenses	1,713,461	103,814	1,817,275
Interest Expense	19,168	19,833	39,001
	1,732,629	123,647	1,856,276
Loss from Operations Before Other Income and Provision for Income Taxes	(1,732,629)	(123,647)	(1,856,276)
Interest Income	56,161	1,800	57,961
Loss From Operations Before Provision for Income Taxes	(1,676,468)	(121,847)	(1,798,315)
Provision for Income Taxes	-	-	-
Net Loss	$ (1,676,468)	$ (121,847)	$(1,798,315)
Loss Per Share	$ (0.14)	$ (0.01)	$ (0.16)
Weighted Average Number of Shares Outstanding	12,143,919	8,610,941	11,043,155

</TABLE>

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

CHENIERE ENERGY, INC. AND SUBSIDIARIES
(DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

	Common Stock			Additional		Total
	Per Share	Shares	Amount	Paid-In Capital	Retained Deficit	Stockholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Sale of Shares on April 9, 1996	$0.012	6,242,422	$18,727	$ 56,276	$ -	$ 75,003
Sale of Shares on May 5, 1996	1.50	2,000,000	6,000	2,994,000	-	3,000,000
Issuance of Shares to an Employee on July 1, 1996	1.00	30,000	90	29,910	-	30,000
Issuance of Shares in Reorganization to Former Bexy Shareholders	-	600,945	1,803	(1,803)	-	-
Sale of Shares on July 30, 1996	2.00	50,000	150	99,850	-	100,000
Sale of Shares on August 1, 1996	2.00	508,400	1,525	1,015,275	-	1,016,800
Sale of Shares on August 30, 1996	2.00	500,000	1,500	998,500	-	1,000,000
Expenses Related to Offering	-	-	-	(686,251)	-	(686,251)
Issuance of Warrants	-	-	-	12,750	-	12,750
Net Loss	-	-	-	-	(121,847)	(121,847)
Balance - August 31, 1996		9,931,767	29,795	4,518,507	(121,847)	4,426,455
Sale of Shares on September 12, 1996	2.00	50,000	150	99,850	-	100,000
Sale of Shares on September 16, 1996	2.00	80,250	241	160,259	-	160,500
Conversion of Debt	2.00	105,000	315	209,685	-	210,000
Sale of Shares on October 30, 1996	2.25	457,777	1,373	1,028,627	-	1,030,000
Issuance of Warrants	-	-	-	6,450	-	6,450
Sale of Shares on December 6, 1996	2.25	475,499	1,426	1,068,448	-	1,069,874
Sale of Shares on December 9, 1996	2.50	400,000	1,200	998,800	-	1,000,000
Sale of Shares on December 11, 1996	2.25	22,222	67	49,933	-	50,000
Sale of Shares on December 19, 1996	2.50	200,000	600	499,400	-	500,000
Sale of Shares on December 20, 1996	2.50	220,000	660	549,340	-	550,000
Sale of Shares on February 28, 1997	4.25 *	352,947	1,059	1,498,967	-	1,500,026
Sale of Shares on March 4, 1997	4.25 *	352,947	1,059	1,498,966	-	1,500,025
Sale of Shares on May 22, 1997	3.00	535,000	1,605	1,603,395	-	1,605,000
Issuance of Shares to Adjust Prices of Shares Sold on February 28 and March 4	- *	294,124	883	(883)	-	-
Sale of Shares on June 26, 1997	3.00	33,333	100	99,900	-	100,000
Sale of Shares on July 24, 1997	3.00	250,000	750	749,250	-	750,000
Issuance of Shares in Connection with Financial Advisory Services	3.125	200,000	600	624,400	-	625,000
Sale of Shares on July 30, 1997	3.00	100,000	300	299,700	-	300,000
Sale of Shares on August 19, 1997	3.00	100,000	300	299,700	-	

300,000					
Expenses Related to Offering	-	-	-	(1,153,441)	-
(1,153,441)					
Net Loss	-	-	-	-	(1,676,468)
(1,676,468)					
Balance - August 31, 1997	$14,160,866	$42,483	$14,709,253	$(1,798,315)	
$12,953,421					

All of the sales of shares indicated above were made pursuant to private placement transactions.

* Additional shares were issued to the purchasers of the shares sold on February 28, 1997 and March 4, 1997 pursuant to the terms of those sales.

The accompanying notes are an integral part of this report.

CHENIERE ENERGY, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENT OF CASH FLOWS

	For the Year Ended August 31, 1997	For the Period Ended August 31, 1996	Cumulative from Date of Inception
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Loss	$(1,676,468)	$ (121,847)	$(1,798,315)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities:			-
Depreciation	8,268	3,603	11,871
Compensation Paid in Common Stock	624,400	30,000	654,400
(Increase) in Prepaid Expenses and Other Current Assets	(52,341)	(4,800)	(57,141)
(Increase) Decrease in Other Assets	500	(500)	-
Increase in Accounts Payable and Accrued Expenses	95,387	292,904	388,291
Increase (Decrease) in Advance from Officers	(961)	961	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(1,001,215)	200,321	(800,894)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of Furniture, Fixtures and Equipment	(11,235)	(50,443)	(61,678)
Investment in 3-D Exploration Program	(9,500,000)	(4,000,000)	(13,500,000)
NET CASH USED BY INVESTING ACTIVITIES	(9,511,235)	(4,050,443)	(13,561,678)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from Note Issuance	500,000	425,000	925,000
Repayment of Note	(215,000)	-	(215,000)
Proceeds from Issuances of Common Stock	10,516,025	5,191,803	15,707,828
Issuance of Warrants	6,450	12,750	19,200
Offering Costs	(1,153,441)	(686,251)	(1,839,692)
NET CASH PROVIDED BY FINANCING ACTIVITIES	9,654,034	4,943,302	14,597,336
NET(DECREASE) INCREASE IN CASH	(858,416)	1,093,180	234,764
CASH- BEGINNING OF YEAR	1,093,180	-	-
CASH - END OF YEAR	234,764	1,093,180	234,764
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash Paid for Interest	$ 15,635	$ -	$ 15,635
Cash Paid for Income Taxes	$ -	$ -	$ -

SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCIAL ACTIVITIES:
Common stock totaling 105,000 shares was issued upon the conversion of $210,000 of debt.
Common stock totaling 200,000 shares was issued in exchange for financial advisory services and of $600. These shares have been valued at a total of $625,000, based on the quoted market price per share.

</TABLE>

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

CHENIERE ENERGY, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 1997

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Cheniere Energy, Inc., a holding company ("Cheniere," together with Cheniere Operating (as defined below) and Cheniere California (as defined below), the "Company"), is the owner of 100% of the outstanding common stock of Cheniere Energy Operating Co., Inc. ("Cheniere Operating") and Cheniere Energy California, Inc. ("Cheniere California"). Cheniere Operating is a Houston-based company formed for the purpose of oil and gas exploration and, if warranted, development and exploitation. The Company is currently involved in a joint exploration program which is engaged in the exploration for oil and natural gas along the Gulf Coast of Louisiana, onshore and in the shallow waters of the Gulf of Mexico. The Company commenced its oil and gas activities through such joint program in April 1996. Cheniere California was formed in December 1996 to acquire a working interest in undeveloped leases off Santa Barbara County, California. This acquisition did not occur and Cheniere California is currently inactive.

The Company is currently a development stage enterprise under the provisions of SFAS No. 7. As described above and in Note 5, the Company's future business will be in the field of oil and gas exploration, development, and exploitation.

Basis of Consolidation

The consolidated financial statements include the accounts of Cheniere Energy, Inc. and its 100% owned subsidiaries, Cheniere Energy Operating Co., Inc. and Cheniere Energy California, Inc. Accordingly, all references herein to Cheniere Energy, Inc. or the "Company" include the consolidated results of its subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

Basis of Presentation

On July 3, 1996, Cheniere, formerly Bexy Communications, Inc., acquired all of the outstanding capital stock of Cheniere Operating as described in Note 3. For accounting purposes, this acquisition has been treated as a recapitalization of Cheniere Operating.

The financial statements presented include only the accounts of the Company since Cheniere Operating's inception (February 21, 1996). While Cheniere Operating did obtain a presence in the public market through the recapitalization, it did not succeed to the business or assets of Bexy. For this reason, the value of the shares issued to the former Bexy shareholders has been deemed to be de minimis and, accordingly, no value has been assigned to those shares.

Oil and Gas Properties

The Company follows the full cost method of accounting for oil and gas properties. Accordingly, all costs associated with acquisition, exploration, and development of oil and gas reserves, including directly related overhead costs, are capitalized.

All capitalized costs of oil and gas properties, including the estimated future costs to develop proved reserves, will be amortized on the unit-of-production method using estimates of proved reserves. Investments in unproved properties and major development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized.

In addition, the capitalized costs are subject to a "ceiling test," which basically limits such costs to the aggregate of the "estimated present value," discounted at a 10 percent interest rate, of future net revenues from proved

reserves, based on current economic and operating conditions, plus the lower of cost or fair market value of unproved properties.

Sales of proved and unproved properties are accounted for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in income.

Abandonments of properties are accounted for as adjustments of capitalized costs with no loss recognized.

Property and Equipment

Property and equipment are recorded at cost. Repairs and maintenance costs are charged to operations as incurred. Depreciation is computed using the straight line method calculated to amortize the cost of assets over their estimated useful lives. Upon retirement or other disposition of property and equipment, the cost and related depreciation will be removed from the accounts and the resulting gains or losses recorded.

Concentration of Credit Risk

The Company places its cash in what it believes to be credit-worthy financial institutions. However, cash balances may exceed FDIC insured levels at various times during the year.

Cash Equivalents

The Company classifies all investments with original maturities of three months or less as cash equivalents.

Income Taxes

Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled as prescribed in FASB Statement No. 109, "Accounting for Income Taxes." As changes in tax laws or rate are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Investments

The Company continually reviews its investments to determine that the carrying values have not been impaired.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Per Share of Common Stock

Per share amounts have been computed based on the average number of common shares outstanding during the period.

Offering Costs

Offering costs consist primarily of placement fees, professional fees and printing costs. These costs are charged against the proceeds of the sale of common stock in the periods in which they occur.

Stock-Based Compensation

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to

Employees," and related Interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock.

Long-Lived Assets

In March 1995, Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," was issued (SFAS No. 121). SFAS No. 121 requires that long-lived assets and certain identifiable intangibles to be held and used or disposed of by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company has adopted this statement and determined that no impairment loss need be recognized for applicable assets of continuing operations.

Impact of Recently Issued Accounting Standards

In February 1997, the Financial Accounting Standards Board issued a new statement titled, "Earnings Per Share" (SFAS No. 128). This statement is effective for both interim and annual periods ending after December 15, 1997 and specifies the computation, presentation, and disclosure requirements for earnings per share for entities with publicly held common stock or potential common stock. After the effective date, all prior-period EPS data presented shall be restated to conform with the provisions for SFAS No. 128.

If the provisions of SFAS No. 128 had been adopted in these financial statements, there would not have been any impact on loss per share, since the effect of the options and warrants would have been antidilutive.

NOTE 2-PROPERTY AND EQUIPMENT

Property and equipment at August 31 consist of the following:

<TABLE>
<CAPTION>

	1997	1996
<S>	<C>	<C>
Furniture and Fixtures	$29,914	$26,006
Office Equipment	31,764	24,427
	61,678	50,433
Less Accumulated Depreciation	11,871	3,603
Property and Equipment - Net	$49,807	$46,830
Depreciation Expense Recorded In the Statement of Operations	$ 8,268	$ 3,603

</TABLE>

NOTE 3-REORGANIZATION

On July 3, 1996, Cheniere Operating underwent a reorganization by consummating the transactions (the "Reorganization") contemplated in the Agreement and Plan of Reorganization (the "Reorganization Agreement") dated April 16, 1996, between Cheniere Operating and Bexy Communications, Inc., a publicly held Delaware corporation ("Bexy"). Under the terms of the Reorganization Agreement, Bexy transferred its existing assets and liabilities to Mar Ventures, Inc., its wholly owned subsidiary ("Mar Ventures"). Bexy received 100% of the outstanding shares of Cheniere Operating (which aggregated 824.2422 common shares outstanding prior to a 10,000-to-1 stock split which was effected immediately prior to the Reorganization) and the former shareholders of Cheniere Operating received 8,242,422 newly issued shares of Bexy common stock, representing 93% of the then issued and outstanding Bexy shares. Immediately following the Reorganization, the Original Bexy Stockholders held the remaining 600,945 shares (7%) of the outstanding Bexy stock. The mentioned stock split has been given retroactive effect in the financial statements. As a result of the completion of the share exchange a change in the control of the Company occurred. The transaction has been accounted for as a recapitalization of Cheniere Operating. In accordance with the terms of the Reorganization

Agreement, Bexy changed its name to Cheniere

Energy, Inc. Subsequently, the Company distributed the outstanding capital stock of Mar Ventures to the original holders of Bexy common stock.

NOTE 4-OIL AND GAS PROPERTIES NOT SUBJECT TO AMORTIZATION

The Company is currently participating in oil and gas exploration activities onshore and in the state waters of Cameron Parish, Louisiana, and in the adjacent federal waters of the West Cameron Area. At August 31, 1997, a determination cannot be made about the extent of any gas oil and gas reserves that should be classified as proved reserves as a result of this project. Consequently, the associated property costs and exploration costs have been excluded in computing amortization of the full cost pool. The Company estimates that amortization of these costs will begin during the calendar year 1998.

Unevaluated properties of $13,500,00 and $4,000,000 at August 31, 1997 and 1996, respectively, consist primarily of expenditures for leasehold and seismic costs.

NOTE 5-INVESTMENT IN JOINT EXPLORATION PROGRAM

The Company has entered into a joint exploration program pursuant to an Exploration Agreement between the Company and Zydeco Exploration, Inc. ("Zydeco"), an operating subsidiary of Zydeco Energy, Inc. (the "Exploration Agreement"), with regard to a proprietary 3-D seismic exploration project in southern Louisiana (the "3-D Exploration Program"). The Company has the right to earn up to a 50% participation in the 3-D Exploration Program.

The 3-D seismic survey (the "Survey") covers 228 square miles within a 295 square-mile area running three to five miles north and generally five miles south of the coastline in the most westerly 28 miles of Cameron Parish, Louisiana (the "Survey AMI"). Field acquisition of the seismic data was completed in July 1997, and the data is currently being processed and interpreted.

As of August 31, 1997 and 1996, payments made to the 3-D Exploration Program totaled $13,500,000 and $4,000,000 respectively.

Under the terms of the Exploration Agreement and its amendments, the Company is required to make an additional payment estimated to be approximately $2.9 million to Zydeco on December 31, 1997, to earn its full 50% participation in the 3-D Exploration Program. The Company's potential participation in the 3-D Exploration Program could be reduced in the event of a failure by the Company to make such required payment when due.

The Company's investment (reserves) in the 3-D Exploration Program will be accounted for under the full cost method. The Company's financial statements will reflect its proportionate interest in the revenues, costs, expenses, and capital with respect to the 3-D Exploration Program.

NOTE 6-NOTES PAYABLE

1) On July 31, 1997, Cheniere Operating borrowed $500,000 from a related party, evidenced by a promissory note bearing interest at 10% per annum and due on August 29, 1997. On August 28, 1997, the maturity date was extended to September 29, 1997. (See Note 13).

   The promissory note is secured by:

   A) An undivided 1.8519 interest in seismic data acquired pursuant to the Exploration Agreement. (See Note 5.)
   B) An undivided 1.8519% interest in the leases covered by the Exploration Agreement.
   C) An undivided 3.7038% interest in proceeds from the marketing of seismic data under the Exploration Agreement.

CHENIERE ENERGY, INC. AND SUBSIDIARIES
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The Company has granted the maker of the note an option to acquire an interest in the Seismic Data, Lease Interests, and Exploration Agreement through the conversion of the note as follows:

a. The interest acquired upon conversion in Seismic Data and Lease Interests is determined by dividing the amount due under the note by $13,500,000, and multiplying the result by 50% (the "Data Ownership Percentage").

b. The interest acquired upon conversion in the proceeds from the marketing of proprietary seismic data under the Exploration Agreement would be a fraction equal to twice the Data Ownership Percentage.

c. Upon conversion, the maker will agree to pay a fractional share of Excess Costs (per the Exploration Agreement) equal to the Data Ownership Percentage.

d. The Option may be exercised only after September 29, 1997. Should the Note be repaid before such time, the Option would terminate.

e. The Option will terminate at the earlier of 180 days from July 31, 1997, or upon repayment of the note.

2) During June 1996, Cheniere Operating borrowed $425,000 through a private placement of short-term promissory notes with an initial interest rate of 8% (the "Notes"). The notes were due on September 14, 1996 (the "Maturity Date"). In connection with the placement of the Notes, Cheniere Operating issued warrants, which, following the Reorganization, were exchanged for an aggregate of 141,666 and 2/3 (as adjusted for the 10,000-to-1 stock split referred to in Note 3) warrants to purchase shares of the Common Stock, to the holders of the notes (the "Noteholders"), each of which warrants entitles the holder to purchase one share of the Common Stock at an exercise price of $3.00 per share at any time on or before June 14, 1999. Pursuant to APB 14, the warrants issued have been valued at the differential rate between the initial interest rate (8%) and the estimated market rate (20%), applied to the principal balance. This value, $12,750, has been credited to additional paid-in capital.

Terms of the Notes indicate that a failure by the Company to pay all amounts due and payable under the Notes by the Maturity Date constitutes an event of default thereunder. In such an event of default, the interest rate applicable to any outstanding Notes would increase to 13%. In addition, the holders of such outstanding Notes would be entitled to receive up to an aggregate of 42,500 additional warrants (on similar terms) for each month, or partial month any amounts remain due and payable following the Maturity Date, up to a maximum aggregate number of 170,000 such additional warrants. The proceeds from the placement of the Notes were applied toward professional expenses and used for working capital.

Effective as of September 14, 1996, certain of the Noteholders converted their Notes into Common Stock at a price of $2.00 per share. As a result, 105,000 shares of Common Stock were issued to retire $210,000 of Notes.

In addition, an individual Noteholder purchased the promissory notes of the remaining Noteholders. The holder thus held Notes totaling $215,000. As per the terms of the Notes (as described above), the interest rate on these outstanding Notes increased to 13% per annum, effective September 14, 1996. The holder of the Notes was also entitled to receive up to an aggregate of 21,500 additional warrants for each month or partial month any amounts remain due and payable after September 14, 1996, up to a maximum aggregate number of 86,000 such additional warrants.

On December 13, 1996, the Company repaid the $215,000 Notes and related accrued interest. Upon repaying the Notes, the Company issued 64,500 warrants in accordance with the loan agreement. Pursuant to APB14, these additional warrants have been valued at the differential rate between the rate charged (13%) and the then estimated market rate (25%), applied to the principal balance for each month outstanding after September 14, 1996. This value, $6,450, has been credited to additional paid-in capital.

NOTE 7-INCOME TAXES

The components of the provision for income taxes are as follows:

<TABLE>
<CAPTION>

	August 31,

	1997	1996
<S>	<C>	<C>
Current Tax Expense		
U.S. Federal	$ -	$ -
State and Local	-	-
Total Current	-	-
Deferred Tax Expense		
U.S. Federal	-	-
State and Local	-	-
Total Deferred	-	-
Total Tax Provision from Continuing Operations	$ -	$ -

</TABLE>

The reconciliation of the effective income tax rate to the federal statutory rate is as follows:

<TABLE>

<S>	<C>	<C>
Federal Income Tax Rate	(34.0)%	(34.0)%
Deferred Tax Charge (Credit)	-	-
Effect of Valuation Allowance	34.0 %	34.0 %
State Income Tax, Net of Federal Benefit	-	-
Effective Income Tax Rate	0.0 %	0.0 %

</TABLE>

At August 31, 1997, the Company had net carryforward losses of approximately $2,545,000. A valuation allowance equal to the tax benefit for deferred taxes has been established due to the uncertainty of realizing the benefit of the tax carryfoward.

Deferred tax assets and liabilities reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at August 31 are as follows:

<TABLE>
<CAPTION>

	August 31,	
	1997	1996
<S>	<C>	<C>
Deferred Tax Assets		
Loss Carryforwards	$ 865,000	$ 295,000
Less: Valuation Allowance	(865,000)	(295,000)
Net Deferred Tax Assets	$ -	$ -

</TABLE>

Net operating loss carryforwards expire starting in 2006 through 2011. Per year availability of losses incurred prior to July 3, 1996, of approximately $747,000 is subject to change of ownership limitations under Internal Revenue Code Section 382.

NOTE 8-WARRANTS

The Company has issued and outstanding 386,666 and 2/3 warrants described herein.

The Company has issued and outstanding 141,666 and 2/3 warrants (collectively, the "June Warrants"), each of which entitles the registered holder thereof to purchase one share of Common Stock. The June Warrants are

exercisable at any time on or before June 14, 1999, at an exercise price of $3.00 per share (subject to customary antidilution adjustments). The exercise price was determined at a 100% premium to the sale price of Cheniere Operating stock by private placement during May, 1996. The June Warrants were originally issued by Cheniere Operating and were converted to warrants of Cheniere following the Reorganization. The June Warrants were issued to a group of 11 investors in connection with a private placement of unsecured promissory notes. Pursuant to APB 14, the warrants issued have been valued at the differential rate between the initial interest rate (8%) and the estimated market rate (20%), applied to the principal balance. This value, $12,750, has been credited to additional paid-in capital.

Effective September 14, 1996, the Company had not paid all amounts due and payable under the Notes by the Maturity Date. Certain of the noteholders converted their notes into 105,000 shares of common stock. An individual note holder purchased the Promissory Notes of the remaining noteholders. As per the terms of the Notes, the holder was entitled to receive up to an aggregate of 21,500 additional warrants for each month, or partial month, any amounts remained due and payable after September 14, 1996, up to a maximum aggregate number of 86,000 such additional warrants. These Notes were repaid on December 14, 1996, and upon repayment the Company issued 64,500 warrants in accordance with the loan agreement. The terms of the warrants are similar to the June Warrants. Pursuant to APB 14, these additional warrants have been valued at the differential rate between the rate charged (13%) and the then estimated market rate (25%), applied to the principal balance for each month outstanding after September 14, 1996. This value, $6,450, has been credited to additional paid-in capital.

In consideration of certain investment advisory and other services to the Company, pursuant to warrant agreements, each dated as of August 21, 1996, the Company issued warrants to purchase 13,600 and 54,400 shares of Common Stock, (collectively the "Adviser Warrants"). The Adviser Warrants are exercisable at any time on or before May 15, 1999, at an exercise price of $3.00 per share (subject to customary anti-dilution adjustments). The exercise price represents the approximate market price of the underlying Common Stock at the time of the transaction.

In connection with the July and August 1996 placement of 508,400 shares of Common Stock, the Company issued warrants to purchase 12,500 shares of Common Stock to one of two distributors who placed the shares. Such warrants are exercisable on or before the second anniversary of the sale of the shares of Common Stock at an exercise price of $3.125 per share (subject to customary anti-dilution adjustments). The exercise price represents the approximate market price of the underlying Common Stock at the time of the transaction.

The warrants do not confer upon the holders thereof any voting or other rights of a stockholder of the Company.

NOTE 9-STOCK OPTIONS

The Company had granted certain options to purchase shares of Common Stock to two executives during the period ended August 31, 1996. Such options aggregate 300,000 shares at an exercise price of $3.00 per share. The options vest and are exercisable as follows:

1) 75,000 qualified options vest and become exercisable on June 1, 1997, and expire June 1, 2001.

2) 75,000 qualified options vest and become exercisable on June 1, 1998, and expire June 1, 2001.

3) 150,000 qualified options vest and become exercisable in equal annual installments of 25% each on the first through fourth anniversary of July 16, 1996, and expire July 16, 2001.

In addition, the Company has granted qualified options to a former President of Bexy, Mr. Buddy Young, during the period ended August 31, 1996. The holder has the option to acquire 19,444 and 2/3 shares of Common Stock at an exercise price of $1.80 per share. The options expire November 11, 2003.

Also, the Company had granted 12,000 non-qualified options to an employee at an exercise price of $3.00 per share during the fiscal year ended August 31, 1997. These options vested and became exercisable in equal annual installments of 25% each on the first through the fourth anniversary of January 23, 1997, and expire January 23, 2002. This employee left the Company in May, 1997, and these options have been canceled.

The disclosure provisions of SFAS No. 123 do not have a material effect on

the financial statements.

Stock option activity is summarized as follows:

<TABLE>
<CAPTION>

CHENIERE ENERGY, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 1997

	August 31,	
	1997	1996
<S>	<C>	<C>
Outstanding at beginning of year	319,444 2/3	-
Options granted at an exercise price of $3.00 per share	12,000	300,000
Options granted at an exercise price of $1.80 per share	-	19,444 2/3
Options canceled	(12,000.00)	-
Outstanding at end of year	319,444 2/3	319,444 2/3
Exercisable at end of year	131,944 2/3	19,444 2/3
Weighted average exercise price of options outstanding	$ 2.93	$ 2.93
Weighted average exercise price of options exercisable	$ 2.82	$ 1.80
Weighted average remaining contractual life of options outstanding	4.0 years	4.0 years

</TABLE>

CHENIERE ENERGY, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 1997

NOTE 10-COMMON STOCK RESERVED

The Company has reserved 386,666 and 2/3 shares of Common Stock for issuance upon the exercise of outstanding warrants (See Note 8).

The Company has reserved 319,444 and 2/3 shares of Common Shares for insurance upon the exercise of outstanding options (See Note 9).

NOTE 11-RELATED PARTY TRANSACTIONS

On July 31, 1997, the Company borrowed $500,000 in a transaction more fully described in Note 6. The maker of this Note is Sam B. Myers, Jr., Chief Executive Officer of Zydeco Energy, Inc., a subsidiary of which is Zydeco Exploration, a party to the Joint Exploration Program described in Note 6.

NOTE 12-COMMITMENTS AND CONTINGENCIES

1) The Company subleases its Houston, Texas headquarters from Zydeco under a month-to-month sublease.

Rent expense recorded in the financial statements is as follows:

<TABLE>
<CAPTION>

	August 31,	
	1997	1996

Office Rental (including parking)	$22,403	$ 3,884
Other Rental Property (terminated June, 1997)	48,000	13,920
	$70,403	$17,804

</TABLE>

2) Pursuant to a Consulting Agreement dated as of July 3, 1996, between the Company and Buddy Young, the former President and Chief Executive Officer of Bexy; the Company engaged Mr. Young as a consultant to provide management of the Company with advice regarding the management and business of the Company. Mr. Young agreed to provide such consulting services to the Company for two years ending on July 3, 1998, at a rate of $75,000 per year. Mr. Young is not an employee of the Company and serves only in the capacity of a consultant.

3) As discussed in Note 5, the Company is required to make an additional payment estimated to be approximately $2.9 million to Zydeco on December 31, 1997 to earn its full 50% participation in the 3-D Exploration Program. The Company's potential participation in the 3-D Exploration Program could be reduced in the event of a failure by the Company to make such required payment when due.

NOTE 13-SUBSEQUENT EVENTS

1) On September 22, 1997, the Company repaid the $500,000 promissory note described in Note 6, including all accrued interest. The collateral securing the Note has been released and, according to the terms of the Note, the maker's option to acquire an interest in the Seismic Data, Lease Interest and Exploration Agreement has been terminated.

2) During September 1997, pursuant to Regulation S promulgated under the Securities Act of 1933, the Company sold an aggregate of 197,000 shares of the Company's Common Stock for gross proceeds of $591,000 and net proceeds of $531,900.

3) On September 29, 1997, the Company's Board of Directors elected a new outside director. This director was granted options to purchase 25,000 shares of the Company's Common Stock at an exercise price of $3.00 per share, the quoted market price on the date of the grant. These options vest 12,500 on September 29, 1998, and 12,500 on September 29, 1999, and will expire on September 29, 2002.

4) On September 29, 1997, the Company granted to each of two outside directors options to acquire 10,000 shares of the Company's Common Stock at an exercise price of $3.00 per share, the quoted market price on the date of grant. These options will vest one year from the date of grant and will expire five years after the date of the grant.

ITEM 9. CHANGES IN AND DISAGREEMENT WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

A current report on Form 8-K was filed June 9, 1997, relating to a change in the Registrant's Certifying Accountant.

On July 3, 1996, Cheniere Operating consummated the transactions (the "Reorganization") contemplated in the Agreement and Plan of Reorganization (the "Reorganization Agreement") dated April 16, 1996, between Cheniere Operating and Bexy Communications, Inc., a publicly held Delaware corporation ("Bexy"). Under the terms of the Reorganization Agreement, Bexy transferred its existing assets and liabilities to Mar Ventures Inc., its wholly owned subsidiary ("Mar Ventures"), Bexy received 100% of the outstanding shares of Cheniere Operating (which aggregated 824.2422 common shares outstanding prior to a 10,000-to-1 stock split which effected immediately prior to the reorganization) and the former shareholders of Cheniere Operating received 8,242,422 newly issued shares of Bexy common stock, representing 93% of the then issued and outstanding Bexy shares. Immediately following the Reorganization, the Original Bexy Stockholders held the remaining 600,945 (7%) of the outstanding Bexy stock. As a result of the completion of the share exchange a change in the control of the Company occurred. The transaction has been accounted for as a recapitalization of Cheniere Operating. In accordance with the terms of the Reorganization Agreement, Bexy changed its name to Cheniere Energy, Inc. Subsequently, the Company distributed the outstanding capital stock of Mar Ventures to the original holders of Bexy common stock.

Prior to the Reorganization, Bexy had retained Farber & Haas as Bexy's independent auditors and Cheniere Operating had retained Merdinger, Fruchter,

Rosen & Corso P.C. as Cheniere Operating's independent auditors. Due to the fat that it was the business of Cheniere Operating, and not Bexy, which survived the Reorganization, management of Cheniere deemed it to be in the best interest of Cheniere to continue Cheniere Operating's relationship with Merdinger, Fruchter, Rosen & Corso PC. And to terminate Cheniere Operating's relationship with Farber & Hass as of July 3, 1996.

The reports of Farber & Hass on the financial statements of Bexy for the past two fiscal years did not contain an adverse opinion or a disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

The decision to change accountants was not formally approved by the board of directors of Cheniere, due to the fact that management of Cheniere did not consider the dismissal of Farber & Hass and the continuation of Cheniere Operating's relationship with Merdinger, Fruchter, Rosen & Corso P.C. to be a substantive change in accountants.

During the two most recent fiscal years of Bexy, and the interim period prior to dismissal of Farber & Hass, there were no disagreements with Farber & Hass on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to the satisfaction of Farber & Hass, would have caused Farber & Hass to make reference to the subject matter of the disagreement in connection with its report.

At no time prior to the Reorganization did Bexy have any relationship with Merdinger, Fruchter, Rosen & Corso P.C.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

As permitted by General Instruction G, the information called for in this item with respect to the Company's directors is incorporated by reference from the Company's definitive proxy statement to be filed pursuant to Regulation 14A within 120 days after the end of the fiscal year. Information with respect to the Company's executive officers is set forth in Part 1 of this Annual Report on Form 10-K under the heading "Executive Officers of the Registrant."

ITEM 11. EXECUTIVE COMPENSATION

As permitted by General Instruction G, the information called for in this item is incorporated by reference from the Company's definitive proxy statement to be filed pursuant to Regulation 14A within 120 days after the end of the last fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

As permitted by General Instruction G, the information called for in this item is incorporated by reference from the Company's definitive proxy statement to be filed pursuant to Regulation 14A within 120 days after the end of the last fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

As permitted by General Instruction G, the information called for in this item is incorporated by reference from the Company's definitive proxy statement to be filed pursuant to Regulation 14A within 120 days after the end of the last fiscal year.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Financial Statements, Schedules and Exhibits

(1) Financial Statements

(2) Financial Statement Schedule

All consolidated financial statement schedules have been omitted

because they are not required, are not applicable, or the information has been included elsewhere.

(3) Exhibits

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of Cheniere Energy, Inc. ("Cheniere") (Incorporated by reference to Exhibit 3.1 of the Company's Registration Statement under the Securities Act of 1933 on Form S-1 filed on August 27, 1996 (File No. 333-10905))
3.2	By-laws of Cheniere (Incorporated by reference to Exhibit 3.2 of the Company's Amendment No. 1 on Form S-1 filed on August 27, 1996 (File No. 333-10905))
4.1	Specimen Common Stock Certificate of Cheniere (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement under the Securities Act of 1933 on Form S-1 filed on August 27, 1996 (File No. 333-10905))
10.1	Exploration Agreement between FX Energy, Inc. (now known as Cheniere Energy Operating Co., Inc. ("Cheniere Operating")) and Zydeco Exploration, Inc. ("Zydeco") (Incorporated by reference to Exhibit 10.1 of the Company's Registration Statement under the Securities Act of 1933 on Form S-1 filed on August 27, 1996 (File No. 333-10905))
10.2	First Amendment to the Exploration Agreement between FX Energy, Inc. (now known as Cheniere Operating) and Zydeco (Incorporated by reference to Exhibit 10.2 of the Company's Registration Statement under the Securities Act of 1933 on Form S-1 filed on August 27, 1996 (File No. 333-10905))
10.3	Second Amendment to the Exploration Agreement between FX Energy, Inc. (now known as Cheniere Operating) and Zydeco (Incorporated by reference to Exhibit 10.3 of the Company's Registration Statement under the Securities Act of 1933 on Form S-1 filed on August 27, 1996 (File No. 333-10905))
10.4	Third Amendment to the Exploration Agreement between FX Energy, Inc. (now known as Cheniere Operating) and Zydeco (Incorporated by reference to Exhibit 10.4 of the Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 on Form 10-K filed on November 27, 1996 (File No. 2-63115))
10.5	Form of Regulation D Subscription Agreement between Cheniere Operating and certain "accredited investors" (Incorporated by reference to Exhibit 10.5 of the Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 on Form 10-K filed on November 27, 1996 (File No. 2-63115))

10.6	Form of Noteholders Agreement between Cheniere and the holders of promissory notes in the aggregate principal amount of $425,000 (Incorporated by reference to Exhibit 10.4 of the Company's Registration Statement under the Securities Act of 1933 on Form S-1 filed on August 27, 1996 (File No. 333-10905))
10.7	Form of Warrant Agreement governing warrants of Cheniere issued in exchange for warrants of Cheniere Operating (which were issued pursuant to the Noteholders Agreement) (Incorporated by reference to Exhibit 10.5 of the Company's Registration Statement under the Securities Act of 1933 on Form S-1 filed on August 27, 1996 (File No. 333-10905))
10.8	Asset Transfer, Assignment and Assumption Agreement between Bexy Communications, Inc. and Mar Ventures, Inc. (Incorporated by reference to Exhibit 10.6 of the Company's Registration Statement under the Securities Act of 1933 on Form S-1 filed on August 27, 1996 (File No. 333-10905))
10.9	Indemnification Agreement between Buddy Young, Cheniere, Cheniere Operating and the shareholders of Cheniere Operating named therein (Incorporated by reference to Exhibit 10.7 of the Company's Registration Statement under the Securities Act of 1933 on Form S-1 filed on August 27, 1996 (File No. 333-10905))
10.10	Form of Warrant Agreement between Cheniere and each of C.M. Blair, W.M. Foster & Co., Inc. and Redliw Corp. (Incorporated by reference to Exhibit 10.8 of the Company's Registration Statement under the Securities Act of 1933 on Form S-1 filed on August 27,

1996 (File No. 333-10905))

10.11 Consulting Agreement between Cheniere and Buddy (Incorporated by reference to Exhibit 10.9 of the Company's Registration Statement under the Securities Act of 1933 on Form S-1 filed on August 27, 1996 (File No. 333-10905))

10.12 Letter Agreement between Cheniere and Buddy Young regarding reverse splits of the Common Stock (Incorporated by reference to Exhibit 10.10 of the Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 on Form 10- filed on November 27, 1996 (File No. 2-63115))

10.13 Fourth Amendment to the Exploration Agreement between FX Energy, Inc. (now known as Cheniere Operating) and Zydeco (Incorporated by reference to Exhibit 10.12 of the Company's Registration Statement under the Securities Act of 1933 on Form S-1 filed on March 17, 1997 (File No. 333-23421))

10.14 Form of Letter Agreement between Cheniere and certain purchasers of Common Stock pursuant to Regulation S (Incorporated by reference to Exhibit 10.13 of the Company's Registration Statement under the Securities Act of 1933 on Form S-1 filed on March 17, 1997 (File No. 333-23421))

10.15 Form of Warrant Agreement governing warrants issued in unit offering to each of Western Slopes, Ltd. and Great Heritage Holdings, Ltd.

10.16 Form of Warrant Agreement between Cheniere and Reefs & Co., Ltd.

10.17 Form of Warrant Agreement governing warrants issued pursuant to Noteholders Agreement

10.18 Fifth Amendment to the Exploration Agreement between FX Energy, Inc. (now known as Cheniere Operating) and Zydeco

10.19 Sixth Amendment to the Exploration Agreement between FX Energy, Inc. (now known as Cheniere Operating) and Zydeco

10.20 Form of Letter Agreement between Cheniere and Sam B. Myers, Jr. regarding Promissory Note in the principal amount of $500,000

10.21 Form of Noteholder Agreement between Cheniere and Sam B. Myers, Jr. relating to Promissory Note in the principal amount of $500,000

10.22 Form of Security Agreement between Cheniere and Sam B. Myers, Jr. relating to Promissory Note in the principal amount of $500,000

10.23 Seventh Amendment to the Exploration Agreement between FX Energy, Inc. (now known as Cheniere Operating) and Zydeco

10.24 Form of Letter Agreement between Cheniere and Sam B. Myers, Jr. regarding Promissory Note Extension

21.1 Subsidiaries of Cheniere Energy, Inc.

27.1 Financial Data Schedule

(b) Reports On Form 8-K

The Company filed Current Reports on Form 8-K on June 9, 1997, regarding a change in accountants, and on August 7, 1997, and August 25, 1997, each regarding Sales of Equity Securities Pursuant to Regulation S.

The Company filed a Current Report on Form 8-K on June 25, 1997, regarding amended interim financials.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

CHENIERE ENERGY, INC.

By: /s/ Walter L. Williams

President and Chief Executive Officer

EXHIBIT INDEX

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of Cheniere Energy, Inc. ("Cheniere") (Incorporated by reference to Exhibit 3.1 of the Company's Registration Statement under the Securities Act of 1933 on Form S-1 filed on August 27, 1996 (File No. 333-10905))
3.2	By-laws of Cheniere (Incorporated by reference to Exhibit 3.2 of the Company's Amendment No. 1 on Form S-1 filed on August 27, 1996 (File No. 333-10905))
4.1	Specimen Common Stock Certificate of Cheniere (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement under the Securities Act of 1933 on Form S-1 filed on August 27, 1996 (File No. 333-10905))
10.1	Exploration Agreement between FX Energy, Inc. (now known as Cheniere Energy Operating Co., Inc. ("Cheniere Operating")) and Zydeco Exploration, Inc. ("Zydeco") (Incorporated by reference to Exhibit 10.1 of the Company's Registration Statement under the Securities Act of 1933 on Form S-1 filed on August 27, 1996 (File No. 333-10905))
10.2	First Amendment to the Exploration Agreement between FX Energy, Inc. (now known as Cheniere Operating) and Zydeco (Incorporated by reference to Exhibit 10.2 of the Company's Registration Statement under the Securities Act of 1933 on Form S-1 filed on August 27, 1996 (File No. 333-10905))
10.3	Second Amendment to the Exploration Agreement between FX Energy, Inc. (now known as Cheniere Operating) and Zydeco (Incorporated by reference to Exhibit 10.3 of the Company's Registration Statement under the Securities Act of 1933 on Form S-1 filed on August 27, 1996 (File No. 333-10905))
10.4	Third Amendment to the Exploration Agreement between FX Energy, Inc. (now known as Cheniere Operating) and Zydeco (Incorporated by reference to Exhibit 10.4 of the Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 on Form 10-K filed on November 27, 1996 (File No. 2-63115))
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Securities Act of 1933 on Form S-1 filed on August 27, 1996 (File No. 333-10905))

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21.1 Subsidiaries of Cheniere Energy, Inc.

27.1 Financial Data Schedule

Exhibit 10.15

THESE SECURITIES HAVE BEEN ISSUED (AND THE SECURITIES TO BE ISSUED UPON THE EXERCISE OF THESE SECURITIES, ASSUMING COMPLIANCE WITH THE SUBSCRIPTION AGREEMENT (AS DEFINED BELOW) AND THE TERMS HEREOF, WILL BE ISSUED) PURSUANT TO REGULATION S AS AN EXEMPTION TO THE PROVISIONS UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THESE SECURITIES CANNOT BE TRANSFERED, OFFERED OR SOLD IN THE UNITED STATES OR TO U.S. PERSONS (AS SUCH TERMS ARE DEFINED IN REGULATION S), AND MAY NOT BE EXERCISED BY OR ON BEHALF OF ANY U.S. PERSON (AS SO DEFINED), UNLESS SUCH SECURITIES ARE REGISTERED UNDER THE SECURITIES ACT AND ALL APPLICABLE STATE SECURITIES AND BLUE SKY LAWS OR AN EXEMPTION FROM REGISTRATION IS AVAILABLE.

CHENIERE ENERGY, INC.

WARRANT TO PURCHASE SHARES OF COMMON STOCK

The transferability and resale of this Warrant is restricted as set forth herein and in the related Subscription Agreement (as defined below), a copy of which may be obtained from the Company (as defined below) at its principal office.

No. WA-15 Up to 50,000 Shares

THIS CERTIFIES THAT for value received WESTERN SLOPES1 LTD. (the "Holder") or its registered assigns is the owner of a Warrant to purchase during the period exhibit no later than 5:00 p.m. New York time on September 1, 1999, the number of fully paid and nor-assessable shares of Common Stock, $.003 par value per share (the "Common Stock"), of Cheniere Energy, Inc., a Delaware corporation (hereinafter called the "Company"), specified above (the "Warrant Shares") upon payment of U.S. $3.125 per Warrant Share (the "Warrant Price") in accordance with Section 2 below. This Warrant is issued under, and the rights represented hereby are subject to, the terms and provisions contained in the Subscription Agreement dated August 27, 1996 (the "Subscription Agreement") between the Holder and the Company.

1. Exercise of Warrant. This Warrant may be exercised, from time to time,,in whole or in part, at any time prior to the expiration hereof. Upon the exercise of this Warrant,, a Purchase Form substantially in the form attached hereto as Annex 1 must be properly completed and executed and surrendered to the Company or its transfer agent. In the event that this Warrant is exercised in respect of fewer than all of the Warrant Shares, a new Warrant for the remaining number of the Warrant Shares, substantially in the form hereof, will be issued upon such exercise and surrender of this Warrant.

If this Warrant shall be surrendered for exercise within any period during which the transfer books for shares of the Common Stock of the Company or other securities purchasable upon the

exercise of this Warrant are closed for any purpose, the Company shall not be required to make delivery of certificates for the securities purchasable upon such exercise until the date of the reopening of said transfer books.

THIS WARRANT MAY NOT BE EXERCISED BY ANY U.S. PERSON (AS DEFINED IN REGULATION S PROMULGATED UNDER THE SECURITIES ACT OF 1933, AS AMENDED).

2. Payment of Purchase Price Upon Exercise, At the time of any exercise of this Warrant the purchase price for the Warrant Shares shall be paid in full to the Company by check or wire transfer or other immediately available funds.

3. Adjustments. In the event of any change in the outstanding Common Stock of the Company by reason of any stock recapitalization, merger, consolidation,,, combination or exchange of shares, the kind of shares subject to this Warrant and their purchase price per share (but not the number of shares) shall be appropriately adjusted consistent with such change in such manner as the Board of Directors of the Company may deem equitable. In the event of a stock dividend or stock split, the kind of shares, the purchase price per share and number of shares shall be appropriately adjusted, consistent with such change in such manner as the Board of Directors may deem equitable. Any adjustments that are made by the Board of Directors shall be final and binding on the Holder.

4. No Rights of Stockholder. The Holder shall have no rights as a

stockholder with respect to any Warrant Shares prior to the date of purchase thereof and issuance to him of a certificate or certificates for such Warrant Shares.

5. Compliance With Law and Regulations. The obligation of the Company to sell and deliver the Warrant Shares shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required. If, at any time, the Board of Directors of the Company shall determine that (a) the listing, registration or qualification of the Warrant Shares upon any securities exchange or under any state or federal law or (b) the consent or approval of any government regulatory body, is necessary or desirable as a condition to, or n connection with, the offer, sale and issuance of the Warrant Shares, this Warrant shall not be exercised by the Holder in whole or in part unless such listing registration, qualification, consent or approval shall have been effected or obtained, free of any conditions not acceptable to the Board of Directors of the Company.

6. Tax Withholding Requirements. The Company shall have the right to require the holder to remit to the Company an amount sufficient to satisfy any federal, state or local withholding or other tax requirements applicable to any sale of this Warrant or the issuance and sale of the Warrant Shares prior to the delivery of any certificate representing this Warrant or any certificate for the Warrant Shares.

7. Fractional Shares. To the extent required, fractional shares of Common Stock shall be issued upon the exercise of this Warrant up to but not more than the nearest thousandth of a

share (.001). The Company shall not be under any obligation to compensate the Holder in any way for fractional shares in less than such amounts.

8. Assignment of Warrant. (a) By acceptance of an assignment of this Warrant any assignee agrees and assents to all the terms and provisions hereof and the relevant terms and provision of the Subscription Agreement.

9. Ownership of Warrant. The Company may deem and treat the person in whose name this Warrant is registered as the holder and owner hereof (notwithstanding any notations of ownership or writing hereon made by any person other than the Company) for all purposes and shall not be affected by any notice to the contrary, until presentation of this Warrant for registration of transfer as provided in section 10 hereof.

10. Transfer of Warrant. The Company agrees to maintain at the office of the Company (or of its transfer agent) books for the registration of transfers of Warrants, and transfer of this. Warrant and all rights hereunder shall be registered, in whole or in part, on such books, subject to the limitations on transfer and resale contained in the Subscription Agreement, upon surrender of this Warrant at such office, together with an Assignment Form substantially in the form attached hereto as Annex 2, duly executed by the Holder or his duly authorized agent or attorney-in-fact, and payment of any transfer taxes. Upon surrender of this Warrant the Company shall execute and deliver a new Warrant or Warrants of like tenor and representing in the aggregate the right to purchase the same number of shares of Common Stock in the name of the assignee or assignees and in the denominations specified In the Assignment Form, and this Warrant shall promptly be canceled. Notwithstanding the foregoing, a Warrant may be exercised by a new holder without having a new Warrant issued.

11. Division or Combination of Warrants. This Warrant may be divided or combined with other Warrants upon surrender hereof and of any Warrant or Warrants with which this Warrant is to be combined at the once of the Company (or its transfer agent), together with a written notice specifying the names and denominations in which the new Warrant or Warrants are to be issued1 signed by the holders hereof and thereof or their respective duly authorized agents or attorneys-in-fact. Subject to compliance with Section 10 hereof as to any transfer which may be involved in the division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice.

12. Loss, Theft, Destruction, or Mutilation of Warrant Certificates. Upon receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss, theft or destruction, upon receipt of indemnity or security reasonably satisfactory to the Company, or. in the case of any such mutilation,

upon surrender and cancellation of such Warrant, the Company will make and deliver, In lieu of such lost, stolen, destroyed or mutilated Warrant, a new Warrant of like tenor and representing the right to purchase the same aggregate number of shares of Common Stock.

13. Expenses of Delivery of Warrants. The Company shall pay all expenses

(other than transfer taxes) and other charges payable in connection with the preparation, issuance and delivery of Warrants and Warrant Shares hereunder.

14. Severability. Whenever possible, each provision of this Warrant will be interpreted in such manner as to be effective and valid wider applicable law, but if any provision of this Warrant is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Warrant.

15. Descriptive Headings. The descriptive headings of this Warrant are inserted for convenience only and do not constitute a part of this Warrant and shall not be used in the interpretation hereof.

16. Successors and Assigns. This Warrant shall be binding upon any and all successors and assigns of the Company.

17. Governing Law. This Warrant shall be construed according to the laws of the State of New York without giving effect to the conflict of law provisions thereof, and all provisions hereof shall be administered according to and its validity shall be determined under, the laws of such state, except where preempted by federal laws.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its representative, thereunto duly authorized, as of this 29th day of August, 1996.

CHENIERE ENERGY, INC.

By:

William D. Forster
President

Annex 1

PURCHASE FORM

Dated _____

Annex 1

The undersigned hereby irrevocably elects to exercise the attached Warrant to the extent of purchasing _____ shares of Common Stock (as defined in the attached Warrant) and hereby makes payment in full by check or wire transfer or other immediately available funds totaling U.S. $_____.

INSTRUCTIONS FOR REGISTRATION OF COMMON STOCK

Name

Address
(please typewrite or print in block letters)

REPRESENTATIONS AND WARRANTIES

In connection with the exercise of the attached Warrant, the undersigned hereby represents and warrants that:

a. it is not a U.S. person (as defined under Regulation S ("Regulation S") promulgated under the Securities Act of 1933, as amended (the "Securities Act) and the attached Warrant is not being exercised on behalf of a U.S. person (as defined under Regulation S);

b. it recognizes that the shares of Common Stock issuable pursuant to the attached Warrant have not been registered under the Securities Act and may not sold, pledged or otherwise transferred except in accordance with the t~ and provisions of the Subscription Agreement (as defined in the attached Warrant);

c. it has received all material information with respect to Cheniere Energy, Inc. (the "Company") which it deems necessary in connection with its decision. to exercise the attached Warrant and it has been given an opportunity to ask questions and receive answers from representatives of the Company;

d. this purchase order for the Common Stock has been originated outside the United States; and

e. it is purchasing the shares of Common Stock for its own account and not as a nominee for or for the benefit of a U.S. person or citizen of the United States (as such

terms are defined in Regulation S), and for investment and not with a view to resale or distribution or any present intention to resell or distribute, except in compliance with the Securities Act and all applicable state securities laws.

ISSUANCE OF NEW WARRANT

If said number of shares shall not be all the shares issuable upon exercise of the attached Warrant, a new Warrant is to be issued in the name of the undersigned for the balance remaining of such shares.

Signature

Annex 2

ASSIGNMENT FORM

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto:

Name
(Please typewrite or print in block letters)

Address

the right to purchase Common Stock (as defined in the attached Warrant) represented by the attached Warrant to the extent of_____ shares as to which such right is exercisable and does hereby irrevocably constitute and appoint _____ Attorney-in-Fact, to transfer the same on the books of Cheniere Energy, Inc. with full power of substitution in the premises.

Date 19

Signature

THESE SECURITIES HAVE BEEN ISSUED (AND THE SECURITIES TO BE ISSUED UPON THE EXERCISE OF THESE SECURITIES, ASSUMING COMPLIANCE WITH THE SUBSCRIPTION AGREEMENT (AS DEFINED BELOW) AND THE TERMS THEREOF, WILL BE ISSUED) PURSUANT TO REGULATION S AS AN EXEMPTION TO THE PROVISIONS UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THESE SECURITIES CANNOT BE TRANSFERRED, OFFERED OR SOLD IN THE UNITED STATES OR TO U.S. PERSONS (AS SUCH TERMS ARE DEFINED IN REGULATION S), AND MAY NOT BE EXERCISED BY OR ON BEHALF OF ANY U.S. PERSON (AS SO DEFINED), UNLESS SUCH SECURITIES ARE REGISTERED UNDER THE SECURITIES ACT AND ALL APPLICABLE STATE SECURITIES AND BLUE SKY LAWS OR AN EXEMPTION FROM REGISTRATION IS AVAILABLE.

CHENIERE ENERGY, INC.

WARRANT TO PURCHASE SHARES OF COMMON STOCK

The transferability and resale of this Warrant is restricted as set forth herein and in the related Subscription Agreement (as defined below), a copy of which may be obtained from the Company (as determined below) at its principal office.

No. WA-14 Up to 50,000 Shares

THIS CERTIFIES THAT for value received GREAT HERITAGE HOLDINGS, LTD. (the "Holder") or its registered assigns is the owner of a Warrant to purchase during the period expiring no later than 5:00 p.m. New York time on September 1, 1999, the number of fully paid and non-assessable shares of Common Stock, $.003 par value per share (the "Common Stock"), of Cheniere Energy, Inc., a Delaware corporation (hereinafter called the "Company"), specified above (the "Warrant Shares") upon payment of U.S. $3.125 per Warrant Share (the Warrant Price") in accordance with Section 2 below. This Warrant is issued under, and the rights represented hereby are subject to, the terms and provisions contained in the Subscription Agreement dated August 27, 1996, (the "Subscription Agreement") between the Holder and the Company.

1. Exercise of Warrant. This Warrant may be exercised, from time to time, in whole or in part, at any time prior to the expiration hereof. Upon the exercise of this Warrant, a Purchase Form substantially in the form attached hereto as Annex 1 must be properly completed and executed and surrendered to the Company or its transfer agent. In the event that this Warrant is exercised in respect of fewer than all of the Warrant Shares. a new Warrant for the remaining number of the Warrant Shares, substantially in the form hereof, will be issued upon such exercise and surrender of this Warrant.

If this Warrant shall be surrendered for exercise within any period during which the transfer

books for shares of the Common Stock of the Company or other securities purchasable upon the exercise of this Warrant are closed for any purpose, the Company shall not be required to make delivery of certificates for the securities purchasable upon such exercise until the date of the reopening of said transfer books.

THIS WARRANT MAY NOT BE EXERCISED BY ANY U.S. PERSON (AS DEFINED IN REGULATION S PROMULGATED UNDER THIE SECURITIES ACT OF 1933, AS AMENDED).

2. Payment of Purchase Price Upon Exercise. At the time of any exercise of this Warrant the purchase price for the Warrant Shares shall be paid in full to the Company by check or wire transfer or other immediately available funds.

3. Adjustments. In the event of any change in the outstanding Common Stock the Company by reason of any stock recapitalization, merger1 consolidation, combination or exchange of shares, the kind of shares subject to this Warrant and their purchase price per share (but not the number of shares) shall be appropriately adjusted consistent with such change in' such manner as the Board of Directors of the Company may deem equitable. In the event of a stock dividend or stock split, the kind of shares, the purchase price per share and number of shares shall be appropriately adjusted, consistent with such change in such manner as the Board of Directors may deem equitable. Any adjustments that are made by the Board of Directors shall be final and binding on the Holder.

4. No Rights of Stockholder. The Holder shall have no rights as a stockholder with respect to any Warrant Shares prior to the date of purchase thereof and issuance to him of a certificate or certificates for such Warrant Shares.

5. Compliance With Law and Regulations. The obligation of the Company to sell and deliver the Warrant Shares shall be subject to all applicable federal and state laws, rules regulations and to such approvals by any government or regulatory agency as may be required. If, at any time, the Board of Directors of the Company shall determine that (a) the listing, registration or qualification of the Warrant Shares upon any securities exchange or under any state or federal law or (b) the consent or approval of any government regulatory body, is necessary or desirable as a condition to, or in connection with, the offer, sale and issuance of the Warrant Shares, this Warrant shall not be exercised by the Holder in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained, free of any conditions not acceptable to the Board of Directors of the Company.

6. Tax Withholding Requirements. The Company shall have the right to require the Holder to remit to the Company an amount sufficient to satisfy any federal, state or local withholding or other tax requirements applicable to any sale of this Warrant or the issuance and sale of the Warrant Shares prior to the delivery of any certificate representing this Warrant or any certificate for the Warrant Shares.

7. Fractional Shares. To the extent required, fractional shares of Common Stock shall be issued upon the exercise of this Warrant up to but not more than the nearest thousandth of a share (.001). The Company shall not be under any obligation to compensate the Holder in any way for fractional shares in less than such amounts.

8. Assignment of Warrant. (a) By acceptance of an assignment of this Warrant any assignee agrees and assents to all the terms and provisions thereof and the relevant terms and provision of the Subscription Agreement.

9. Ownership of Warrant. The Company may deem and treat the person in whose name this Warrant is registered as the holder and owner hereof (notwithstanding any notations of ownership or writing hereon made by any person other than the Company) for all purposes and shall not be affected by any notice to the contrary, until presentation of this Warrant for registration of transfer as provided in Section 10 hereof.

10. Transfer of Warrant. The Company agrees to maintain at the office of the Company (or of its transfer agent) books for the registration of transfers of Warrants, and transfer of this Warrant and all rights hereunder shall be registered1 in whole or in part, on such books, subject to the limitations on transfer and resale contained in the Subscription Agreement, upon surrender of this Warrant at such office, together with an Assignment Form substantially in the form attached hereto as Annex 2, duly executed by the Holder or his duly authorized agent or attorney-in-fact, and payment of any transfer taxes. Upon surrender of this Warrant the Company shall execute and deliver a new Warrant or Warrants of like tenor and representing in the aggregate the right to purchase the same number of shares of Common Stock in the name of the assignee or assignees and in the denominations specified in the Assignment Form, and this Warrant shall promptly be canceled. Notwithstanding the foregoing, a Warrant may be exercised by a new holder without having a new Warrant issued.

11. Division or Combination of Warrants. This Warrant may be divided or combined with other Warrants upon surrender hereof and of any warrant or Warrants with which this Warrant is to be combined at the office of the Company (or its transfer agent), together with a written notice specifying the names and denominations in which the new Warrant or Warrants are to be issued, signed by the holders hereof and thereof or their respective duly authorized agents or attorneys-in-fact. Subject to compliance with Section 10 hereof as to any transfer which may be involved in the division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice.

12. Loss, Theft, Destruction, or Mutilation of Warrant Certificates. Upon receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss; theft or destruction, upon receipt of indemnity or security reasonably satisfactory to the Company, or, in the case of any such mutilation, upon surrender and cancellation of such Warrant, the Company will make and deliver, in

lieu of such lost, stolen, destroyed or mutilated Warrant, a new Warrant of like tenor and representing the right to purchase the same aggregate number of shares of Common Stock.

13. Expenses of Delivery of Warrants. The Company shall pay all expenses (other than transfer taxes) and other charges payable in connection with the preparation, issuance and delivery of Warrants and Warrant Shares hereunder.

14. Severability. Whenever possible, each provision of this Warrant will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Warrant is held to be prohibited by or invalid under applicable law. such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Warrant.

15. Descriptive Heading. The descriptive headings of this Warrant are inserted for convenience only and do not constitute a part of this Warrant shall not be used in the interpretation hereof.

16. Successors and Assigns. This Warrant shall be binding upon any and all successors and assigns of the Company.

17. Governing Law. This warrant shall be construed according to the laws of the State of New York without giving effect to the conflict of law provisions thereof, and all provisions hereof shall be administered according to and its validity shall be determined under, the laws of such state, except where preempted by federal laws.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the Company has caused this Warrant to be exercised by its representative, thereunto duly authorized, as of this 29th day of August,1996.

CHENIERE ENERGY, INC.

By: William D. Forster,
President

Annex 1

PURCHASE FORM

Dated _____

The undersigned hereby irrevocably elects to exercise the attached Warrant to the extent of purchasing _____ shares of Common Stock (as defined in the attached Warrant) and hereby makes payment in full by check or wire transfer or other immediately available funds totaling U.S. $_____.

INSTRUCTIONS FOR REGISTRATION OF COMMON STOCK

Name

Address

(Please typewrite or print in block letters)

REPRESENTATIONS AND WARRANTIES

In connection with the exercise of the attached Warrant, the undersigned hereby represents and warrants that:

a. it is not a U.S. person (as defined under Regulation S ("Regulation S") promulgated under the Securities Act of 1933, as amended (the "Securities Act") and the attached Warrant is not being exercised on behalf of a U.S. person (as defined under Regulation S);

b. it recognizes that the shares of Common Stock issuable pursuant to the attached Warrant have not been registered under the Securities Act and may not sold, pledged or otherwise transferred except in accordance with the terms and provisions of the Subscription Agreement (as defined in the attached Warrant);

c. it has received all material information with respect to Cheniere Energy, Inc. (the "Company") which it deems necessary in connection with its decision to exercise the attached Warrant and it has been given an opportunity to ask questions and receive answers from representatives of the Company;

d. this purchase order for the Common Stock has been originated outside the United States; and

e. it is purchasing the shares of Common Stock for its own account and not as a nominee for or for the benefit of a U.S. person or citizen of the United States (as such terms are defined in Regulation S), and for investment and not with a view to resale or distribute or any present intention to resell or distribute, except in compliance with the Securities Act and all applicable state securities laws.

ISSUANCE OF NEW WARRANT

If said number of shares shall not be all the shares issuable upon exercise of the attached Warrant, a new Warrant is to be issued in the name of the undersigned for the balance remaining of such shares.

Signature

Annex 2

ASSIGNMENT FORM

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto:

Name
(Please typewrite or print in block 1etters)

Address

the right to purchase Common Stock (as defined in the attached Warrant) represented by the attached Warrant to the extent of _____ shares as to which such right is exercisable and does hereby irrevocably constitute and appoint _____ Attorney-in-Fact, to transfer the same on the books of Cheniere Energy, Inc. with full power of substitution in the premises.

Date 19__

Signature

Exhibit 10.16

WARRANT AGREEMENT

WARRANT AGREEMENT (this "Agreement") is made as of August 9, 1996 by and between CHENIERE ENERGY, INC., a Delaware corporation ("the Company"), and REEFS & CO., LTD (the "Holder").

Preliminary Recitals

A. In consideration for investment advisory and other services provided to the Company, the Company has agreed to grant to Holder a common stock purchase warrant entitling Holder and its permitted assigns to purchase, on the terms and subject to the conditions set forth below, shares of the common stock, $.003 par value per share, of the Company (the "Common Stock").

B. Holder is willing to accept the Warrant (as hereinafter defined) as consideration for its services to the Company, on the terms and subject to the conditions set forth below.

NOW, THEREFORE, in consideration of the foregoing premises and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Company and Holder agree as follows:

1. GRANT OF WARRANT. The Company hereby grants to Holder a warrant to purchase up to 12,500 shares (the "Warrant Shares") of Common Stock at the purchase price of $3.125 per share (the "Warrant"), such Warrant to be exercisable as hereinafter provided, evidenced by a warrant certificate in the form attached as Exhibit A hereto (the "Warrant Certificate").

2. EXERCISE PERIOD. Subject to the other terms of this Agreement regarding the exercisability of the Warrant, the Warrant shall be exercisable during the period (the "Exercise Period") commencing on the date hereof and expiring on August 9, 1998.

3. EXERCISE OF WARRANT

(a) This Warrant may be exercised, from time to time, in whole or in part, at any time prior to the expiration thereof. Any exercise shall be accompanied by written notice to the Company specifying the number of shares as to which this Warrant is being exercised, in the form attached to the Warrant Certificate. Notations of any partial exercise or installment exercise, shall be made by the Company and attached as a schedule hereto.

(b) The Company shall issue the Warrant Certificate or certificates evidencing the Warrant Shares within fifteen (15) days after receipt of such notice and payment as hereinafter provided.

4. PAYMENT OF PURCHASE PRICE UPON EXERCISE. At the time of any exercise of the Warrant the purchase price for the Warrant Shares shall be paid in full to the Company by check or other immediately available funds.

5. PURCHASE FOR INVESTMENT; RESALE RESTRICTIONS. The Holder hereby represents, and each assignee of Holder as a condition to transfer shall represent, that he is acquiring or will acquire the Warrant and the Warrant Shares for his own account, for investment only with no present intention of distributing or reselling such securities or any part thereof. Unless at the time of the acquisition of the Warrant or the exercise of the Warrant, as the case may be, there shall be, in the opinion of counsel for the Company, a valid and effective registration statement under the Securities Act 1933 ("1933 Act") and appropriate qualification and registration under applicable state securities laws relating to the Warrant or the Warrant Shares, as the case may be, the Holder shall, prior to the assignment of the Warrant or upon exercise of the Warrant or any portion thereof, as the case may be, give a representation that he is acquiring such Warrant or Warrant Shares, as the case may be, for his own account, only for investment and not with the view to the resale or distribution of any of such securities. In the absence of such registration statement, the Holder shall execute a written affirmation, in form reasonably satisfactory to the Company, of such investment intent. The Holder further agrees that he will not sell or transfer the Warrant or any Warrant Shares, as the case may be, until he requests and receives an opinion from the Company's counsel, or other counsel reasonably satisfactory to the Company, to the effect that such proposed sale or transfer will not result in a violation of the 1933 Act or a registration statement covering the sale or transfer of the Warrant or Warrant

Shares, as the case may be, has been declared effective by the Securities and Exchange Commission ("SEC"), or he obtains a no action letter from the SEC with respect to the proposed transfer. There shall be stamped on the certificate(s) representing the Warrant or Warrant Shares, as the case may be, an appropriate legend giving notice of the acquisition of such Warrant or Warrant Shares, as the case may be, for investment and the restriction on their transfer by reason thereof.

6. ADJUSTMENTS. In the event of any change in the outstanding Common Stock of the Company by reason of any stock recapitalization, merger, consolidation, combination or exchange of shares, the kind of shares subject to the Warrant and their purchase price per share (but not the number of shares) shall be appropriately adjusted consistent with such change in such manner as the Board of Directors of the Company may deem equitable. In the event of a stock dividend or stock split, the kind of shares, the purchase price per share and number of shares shall be appropriately adjusted, consistent with such change in such manner as the Board of Directors may deem equitable. Any adjustments that are made by the Board of Directors shall be final and binding on the Holder.

7. NO RIGHTS OF STOCKHOLDER. The Holder shall have no rights as a stockholder with respect to any Warrant Shares prior to the date of purchase thereof and issuance to him of a certificate or certificates for such shares.

8. COMPLIANCE WITH LAW AND REGULATIONS. This Agreement and the obligation of the Company to sell and deliver the Warrant and the Warrant Shares shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any

government or regulatory agency as may be required. If, at any time, the Board of Directors of the Company shall determine that (a) the listing, registration or qualification of the Warrant Shares upon any securities exchange or under any state or federal law or (b) the consent or approval of any government regulatory body, is necessary or desirable as a condition to, or in connection with, the offer, sale and issuance of the Warrant Shares, the Warrant shall not be exercised by the Holder in whole or in part unless such listing, registration, qualification, consent, approval or agreement shall have been effected or obtained, free of any conditions not acceptable to the Board of Directors of the Company.

9. TAX WITHHOLDING REQUIREMENTS. The Company shall have the right to require the Holder to remit to the Company an amount sufficient to satisfy any federal, state or local withholding or other tax requirements applicable to the sale of the Warrant or the issuance and sale of the Warrant Shares prior to the delivery of any Warrant Certificate or Certificates for the Warrant Shares.

10. FRACTIONAL SHARES. To the extent required, fractional shares of stock shall be issued upon the exercise of this Warrant up to but not more than the nearest thousandth of a share (.001). The Company shall not be under any obligation to compensate the Holder in any way for fractional shares in less than such amounts.

11. SEVERABILITY. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Agreement.

12. COUNTERPARTS. This Agreement may be executed in two or more counterparts, any one of which need not contain the signatures of more than one party, but all of such counterparts taken together will constitute one and the same Agreement.

13. DESCRIPTIVE HEADINGS. The descriptive headings of this Agreement are inserted for convenience only and do not constitute a part of this Agreement and shall not be used in the interpretation hereof.

14. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon any and all successors and assigns of the parties.

15. AMENDMENTS. This Agreement may not be modified, amended, altered, or supplemented except upon the execution and delivery of a written agreement

executed by Holder and the Company.

16. GOVERNING LAW. This Agreement shall be construed according to the laws of the State of Delaware without giving effect to the conflict of law provisions thereof, and all provisions hereof shall be administered according to and its validity shall be determined under, the laws of such state, except where preempted by federal laws.

17. NOTICES. Any notices or other communications required or permitted hereunder shall be sufficiently given if delivered personally or three (3) days after being sent by registered or certified mail, return receipt requested, postage prepaid, or transmitted by telecopy with oral confirmation, addressed as follows or to such other address of which the parties may have given notice in accordance with this Section 17:

If to Holder at the address set forth on the signature page of this Agreement.

If to the Company:

Cheniere Energy, Inc.
Two Allen Center
1200 Smith Street, Suite 1710
Houston, Texas 77002
Attn: Mr. William D. Forster
Fax: (713) 659-5459

IN WITNESS WHEREOF the parties have executed this Agreement as the date first written above.

CHENIERE ENERGY, INC.

By: _____
Name: William D. Forster
Title: President

REEFS & CO., LTD

By: _____
Name:
Title:

Address: c/o State House Trust Company
18 Pariament Street
Hamilton HM12 Bermuda
Attention: Marcus Mahy
Tel: _____
Fax: _____

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR THE SECURITIES LAW OF ANY STATE AND MAY NOT BE SOLD OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT OR SUCH LAWS.

CHENIERE ENERGY, INC.

WARRANT TO PURCHASE SHARES OF COMMON STOCK

The transferability of this Warrant is restricted as set forth in the related Warrant Agreement, a copy of which may be obtained from the Company at its principal office.

No. WA-_____ Up to 12,500 Shares

THIS CERTIFIES THAT for value received REEFS & CO., LTD (the "Holder") or registered assigns is the owner of a Warrant to purchase during the period expiring no later than 5:00 p.m. New York time on August 9, 1998, the number of fully paid and non-assessable shares of Common Stock, $.003 par value per share (the "Common Stock"), of Cheniere Energy, Inc., a Delaware corporation

(hereinafter called the "Company"), specified above upon payment of the Warrant Price (as defined below) set forth in the warrant agreement between the Company and the Holder (the "Warrant Agreement").

As provided in the Warrant Agreement, certain adjustments may be made in the sole discretion of the Board of Directors of the Company in the number of shares of Common Stock issuable upon exercise of this Warrant in the event of the change in the number of shares of Common Stock of the Company outstanding by reason a stock split, combination of stock or stock dividend in such manner as the Board of Directors may deem equitable.

The warrant price per share (hereinafter called the "Warrant Price") shall be $3.125. As provided in the Warrant Agreement, the Warrant Price is payable upon the exercise of this Warrant, in cash by check or other immediately available funds.

Upon the exercise of this Warrant, the form of election to purchase attached hereto must be properly completed and executed and surrendered to the Company or its transfer agent. In the event that this Warrant is exercised in respect of fewer than all of such shares, a new Warrant for the remaining number of such shares, substantially in the form hereof, will be issued on such surrender.

This Warrant is issued under, and the rights represented hereby are subject to, the

terms and provisions contained in the Warrant Agreement. By acceptance of an assignment of this Warrant any assignee agrees and assents to all the terms and provisions of the Warrant Agreement. Reference is hereby made to terms and conditions of the Warrant Agreement for a more complete statement of the rights and limitations of rights of the registered holder hereof and the rights and obligations of the Company thereunder, which terms and conditions are incorporated herein by reference. Copies of the Warrant Agreement are on file at the principal office of the Company.

The Company shall be required upon the exercise of this Warrant to issue fractions of shares only up to the nearest thousandth of a share (.001).

This Warrant is transferable at the office of the Company (or of its transfer agent) by the registered holder hereof in person or by attorney-in-fact duly authorized in writing, but only in the manner and subject to the limitations provided in the Warrant Agreement, and upon surrender of this Warrant, proper completion and delivery of an assignment in the form attached hereto and the payment of any transfer taxes. Upon any such transfer, a new Warrant, or new Warrants of different denominations, of like tenor and representing in the aggregate the right to purchase a like number of shares of Common Stock will be issued to the transferee in exchange for this Warrant.

This Warrant when surrendered at the office of the Company (or of its transfer agent) by the registered holder hereof, in person or by attorney duly authorized in writing, may be exchanged, in the manner and subject to the limitations provided in the Warrant Agreement for another Warrant, or other Warrants of different denominations, of like tenor and representing in the aggregate the right to purchase a like number of shares of Common Stock.

If this Warrant shall be surrendered for exercise within any period during which the transfer books for shares of the Common Stock of the Company or other securities purchasable upon the exercise of this Warrant are closed for any purpose, the Company shall not be required to make delivery of certificates for the securities purchasable upon such exercise until the date of the reopening of said transfer books.

The Holder of this Warrant shall not be entitled to any of the rights of a stockholder of the Company prior to the exercise hereof.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its representative, thereunto duly authorized, as of this 9th day of August, 1996.

CHENIERE ENERGY, INC.

By:

William D. Forster
President

Annex 1
- -------

PURCHASE FORM

Dated

The undersigned hereby irrevocably elects to exercise the within Warrant to the extent of purchasing _____ shares of Common Stock and hereby makes payment in full by check or other immediately available funds totaling $_____.

INSTRUCTIONS FOR REGISTRATION OF STOCK

Name

(Please typewrite or print in block letters)

Address

Signature

Annex 2

ASSIGNMENT FORM

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto

Name

(Please typewrite or print in block letters)

Address
---

the right to purchase Common Stock represented by this Warrant to the extent of _____ shares as to which such right is exercisable and does hereby irrevocably constitute and appoint _____, Attorney-in-Fact, to transfer the same on the books of the Company with full power of substitution in the premises.

Date_____, 19__

Exhibit 10.17

WARRANT AGREEMENT

WARRANT AGREEMENT (this "Agreement") is made as of December 13, 1996 by and between CHENIERE ENERGY, INC., a Delaware corporation ("the Company"), and Ralph O. Hellmold (the "Holder").

Preliminary Recitals

A. The Company desires to issue to Holder a right to purchase shares of common stock, no par value per share (the "Common Stock"), of the Company in consideration of value received by the Company from Holder, as set forth in that certain agreement dated as of September 14, 1996 (the "Modification and Note Exchange Agreement") between Company and the Holder with respect to the purchase by Holder of a Promissory Note and common stock warrant of the Company.

B. Holder desires to participate in the future growth prospects of the Company and is willing to accept and receive a right to purchase shares of Common Stock of the Company, on the terms and subject to the conditions set forth below.

NOW, THEREFORE, in consideration of the foregoing premises and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Company and Holder agree as follows:

1. GRANT OF WARRANT. The Company hereby grants to Holder a warrant to purchase up to 64,500 shares (the "Warrant Shares") of Common Stock at the purchase price of $3.00 per share (the "Warrant"), such Warrant to be exercisable as hereinafter provided, evidenced by a warrant certificate in the form attached as Exhibit A hereto (the "Warrant Certificate").

2. EXERCISE PERIOD. Subject to the other terms of this Agreement regarding the exercisability of the Warrant, the Warrant shall be exercisable during the period (the "Exercise Period") commencing on the date hereof and expiring on June 14, 1999.

3. EXERCISE OF WARRANT

(a) This Warrant may be exercised, from time to time, in whole or in part, at any time prior to the expiration thereof. Any exercise shall be accompanied by written notice to the Company specifying the number of shares as to which this Warrant is being exercised, in the form attached to the Warrant Certificate. Notations of any partial exercise or installment exercise, shall be made by the Company and attached as a schedule hereto.

(b) The Company shall issue the Warrant Certificate or certificates evidencing the Warrant Shares within fifteen (15) days after receipt of such notice and payment as hereinafter provided.

4. PAYMENT OF PURCHASE PRICE UPON EXERCISE. At the time of any exercise of

the Warrant the purchase price for the Warrant Shares shall be paid in full to the Company by check or other immediately available funds.

5. PURCHASE FOR INVESTMENT; RESALE RESTRICTIONS. The Holder hereby represents, and each assignee of Holder as a condition to transfer shall represent, that he is acquiring or will acquire the Warrant and the Warrant Shares for his own account, for investment only with no present intention of distributing or reselling such securities or any part thereof. Unless at the

time of the acquisition of the Warrant or the exercise of the Warrant, as the case may be, there shall be, in the opinion of counsel for the Company, a valid and effective registration statement under the Securities Act 1933 ("1933 Act") and appropriate qualification and registration under applicable state securities laws relating to the Warrant or the Warrant Shares, as the case may be, the Holder shall, prior to the assignment of the Warrant or upon exercise of the Warrant or any portion thereof, as the case may be, give a representation that he is acquiring such Warrant or Warrant Shares, as the case may be, for his own account, only for investment and not with the view to the resale or distribution of any of such securities. In the absence of such registration statement, the Holder shall execute a written affirmation, in form reasonably satisfactory to the Company, of such investment intent. The Holder further agrees that he will not sell or transfer the Warrant or any Warrant Shares, as the case may be, until he requests and receives an opinion from the Company's counsel, or other counsel reasonably satisfactory to the Company, to the effect that such proposed sale or transfer will not result in a violation of the 1933 Act or a registration statement covering the sale or transfer of the Warrant or Warrant Shares, as the case may be, has been declared effective by the Securities and Exchange Commission ("SEC"), or he obtains a no action letter from the SEC with respect to the proposed transfer. There shall be stamped on the certificate(s) representing the Warrant or Warrant Shares, as the case may be, an appropriate legend giving notice of the acquisition of such Warrant or Warrant Shares, as the case may be, for investment and the restriction on their transfer by reason thereof.

6. ADJUSTMENTS. In the event of any change in the outstanding Common Stock of the Company by reason of any stock recapitalization, merger, consolidation, combination or exchange of shares, the kind of shares subject to the Warrant and their purchase price per share (but not the number of shares) shall be appropriately adjusted consistent with such change in such manner as the Board of Directors of the Company may deem equitable. In the event of a stock dividend or stock split, the kind of shares, the purchase price per share and number of shares shall be appropriately adjusted, consistent with such change in such manner as the Board of Directors may deem equitable. Any adjustments that are made by the Board of Directors shall be final and binding on the Holder.

7. NO RIGHTS OF STOCKHOLDER. The Holder shall have no rights as a stockholder with respect to any Warrant Shares prior to the date of purchase thereof and issuance to him of a certificate or certificates for such shares.

8. COMPLIANCE WITH LAW AND REGULATIONS. This Agreement and the obligation of the Company to sell and deliver the Warrant and the Warrant Shares shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required. If, at any time, the Board of Directors of the Company shall determine that (a) the listing, registration or qualification of the Warrant Shares upon any securities exchange or under any state or federal law or (b) the consent or approval of any government regulatory body, is necessary or desirable as a condition to, or in connection with, the offer, sale and issuance of the Warrant Shares, the Warrant shall not be exercised by the Holder in whole or in part unless such listing, registration, qualification, consent, approval or agreement shall have been effected or obtained, free of any conditions not acceptable to the Board of Directors of the Company.

9. TAX WITHHOLDING REQUIREMENTS. The Company shall have the right to require the Holder to remit to the Company an amount sufficient to satisfy any federal, state or local withholding or other tax requirements applicable to the sale of the Warrant or the issuance and sale of the Warrant Shares prior to the delivery of any Warrant Certificate or Certificates for the Warrant Shares.

10. FRACTIONAL SHARES. To the extent required, fractional shares of stock shall be issued upon the exercise of this Warrant up to but not more than the nearest thousandth of a share (.001). The Company shall not be under any obligation to compensate the Holder in any way for fractional shares in less than such amounts.

11. SEVERABILITY. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Agreement.

12. COUNTERPARTS. This Agreement may be executed in two or more counterparts, any one of which need not contain the signatures of more than one party, but all of such counterparts taken together will constitute one and the same Agreement.

13. DESCRIPTIVE HEADINGS. The descriptive headings of this Agreement are inserted for convenience only and do not constitute a part of this Agreement and shall not be used in the interpretation hereof.

14. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon any and all successors and assigns of the parties.

15. AMENDMENTS. This Agreement may not be modified, amended, altered, or supplemented except upon the execution and delivery of a written agreement executed by Holder and the Company.

16. GOVERNING LAW. This Agreement shall be construed according to the laws of the State of Delaware without giving effect to the conflict of law provisions thereof, and all provisions hereof shall be administered according to and its validity shall be determined under, the laws of such state, except where preempted by federal laws.

17. NOTICES. Any notices or other communications required or permitted hereunder shall be sufficiently given if delivered personally or three (3) days after being sent by registered or certified mail, return receipt requested, postage prepaid, or transmitted by telecopy with oral confirmation, addressed as follows or to such other address of which the parties may have given notice in accordance with this Section 17:

If to Holder at the address set forth on the signature page of this Agreement.

If to the Company:

Cheniere Energy, Inc.
Two Allen Center
1200 Smith Street, Suite 1710
Houston, Texas 77002
Attn: Mr. William D. Forster
Fax: (713) 659-5459

IN WITNESS WHEREOF the parties have executed this Agreement as the date first written above.

CHENIERE ENERGY, INC.

By:
Keith F. Carney
Chief Financial Officer

By:
Ralph O. Hellmold
341 Summit Ave.
Leonia, NJ 07606
(212)399-6560 Fax (212) 399-6560

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR THE SECURITIES LAW OF ANY STATE AND MAY NOT BE SOLD OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT OR SUCH LAWS.

CHENIERE ENERGY, INC.

WARRANT TO PURCHASE SHARES OF COMMON STOCK

The transferability of this Warrant is restricted as set forth in the related Warrant Agreement, a copy of which may be obtained from the Company at its principal office.

No. WA-17 Up to 64,500 Shares

THIS CERTIFIES THAT for value received Ralph O. Hellmold (the "Holder") or registered assigns is the owner of a Warrant to purchase during the period expiring no later than 5:00 p.m. New York time on June 14, 1999, the number of fully paid and non-assessable shares of Common Stock, $.003 par value per share (the "Common Stock"), of Cheniere Energy, Inc., a Delaware corporation (hereinafter called the "Company"), specified above upon payment of the Warrant Price (as defined below) set forth in the warrant agreement between the Company and the Holder (the "Warrant Agreement").

As provided in the Warrant Agreement, certain adjustments may be made in the sole discretion of the Board of Directors of the Company in the number of shares of Common Stock issuable upon exercise of this Warrant in the event of the change in the number of shares of Common Stock of the Company outstanding by reason a stock split, combination of stock or stock dividend in such manner as the Board of Directors may deem equitable.

The warrant price per share (hereinafter called the "Warrant Price") shall be $3.00. As provided in the Warrant Agreement, the Warrant Price is payable upon the exercise of this Warrant, in cash by check or other immediately available funds.

Upon the exercise of this Warrant, the form of election to purchase attached hereto must be properly completed and executed and surrendered to the Company or its transfer agent. In the event that this Warrant is exercised in respect of fewer than all of such shares, a new Warrant for the remaining number of such shares, substantially in the form hereof, will be issued on such surrender.

This Warrant is issued under, and the rights represented hereby are subject to, the

terms and provisions contained in the Warrant Agreement. By acceptance of an assignment of this Warrant any assignee agrees and assents to all the terms and provisions of the Warrant Agreement. Reference is hereby made to terms and conditions of the Warrant Agreement for a more complete statement of the rights and limitations of rights of the registered holder hereof and the rights and obligations of the Company thereunder, which terms and conditions are incorporated herein by reference. Copies of the Warrant Agreement are on file at the principal office of the Company.

The Company shall be required upon the exercise of this Warrant to issue fractions of shares only up to the nearest thousandth of a share (.001).

This Warrant is transferable at the office of the Company (or of its transfer agent) by the registered holder hereof in person or by attorney-in-fact duly authorized in writing, but only in the manner and subject to the limitations provided in the Warrant Agreement, and upon surrender of this Warrant, proper completion and delivery of an assignment in the form attached hereto and the payment of any transfer taxes. Upon any such transfer, a new Warrant, or new Warrants of different denominations, of like tenor and representing in the aggregate the right to purchase a like number of shares of Common Stock will be issued to the transferee in exchange for this Warrant.

This Warrant when surrendered at the office of the Company (or of its transfer agent) by the registered holder hereof, in person or by attorney duly authorized in writing, may be exchanged, in the manner and subject to the limitations provided in the Warrant Agreement for another Warrant, or other Warrants of different denominations, of like tenor and representing in the aggregate the

right to purchase a like number of shares of Common Stock.

If this Warrant shall be surrendered for exercise within any period during which the transfer books for shares of the Common Stock of the Company or other securities purchasable upon the exercise of this Warrant are closed for any purpose, the Company shall not be required to make delivery of certificates for the securities purchasable upon such exercise until the date of the reopening of said transfer books.

The Holder of this Warrant shall not be entitled to any of the rights of a stockholder of the Company prior to the exercise hereof.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its representative, thereunto duly authorized, as of this 13th day of December, 1996.

CHENIERE ENERGY, INC.

By: _____
Keith F. Carney
Chief Financial Officer

Annex 1

PURCHASE FORM

Dated _____

The undersigned hereby irrevocably elects to exercise the within Warrant to the extent of purchasing _____ shares of Common Stock and hereby makes payment in full by check or other immediately available funds totaling $_____.

INSTRUCTIONS FOR REGISTRATION OF STOCK

Name
_____
(Please typewrite or print in block letters)

Address
_____

Signature
_____

Annex 2

ASSIGNMENT FORM

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto

Name
_____
(Please typewrite or print in block letters)

Address

---

the right to purchase Common Stock represented by this Warrant to the extent of _____ shares as to which such right is exercisable and does hereby irrevocably constitute and appoint _____, Attorney-in-Fact, to transfer the same on the books of the Company with full power of substitution in the premises.

Date_____, 19__

Signature

Exhibit 10.18

[LETTERHEAD OF ZYDECO ENERGY, INC.]

April 28, 1997

Cheniere Energy Operating Company, Inc.
237 Park Avenue, Suite 2100
New York, NY 10017

Re: Fifth Amendment to Exploration Agreement dated April 4, 1996 between Zydeco Exploration, Inc. and FX Energy, Inc.

Gentlemen:

In accordance with the provisions of Section 16.b of the captioned Agreement and when accepted by you in the manner hereinafter provided, this letter shall constitute our agreement to amend said document to provide for expansion of the Area of Mutual Interest as stipulated in Section 14 thereof and depicted on Exhibit "B" attached thereto as follows, to wit:

The Area of Mutual Interest is hereby expanded to include those Block within the area of 3-D seismic coverage acquired by Zydeco Exploration, Inc. from Fairfield Industries Inc. by Supplement Agreement No. 1 to Master License Agreement dated January 9, 1997, lying or being situated outside of the existing AMI, and being Blocks 24, 25, 40, 41, 42, 43, 44, and 45, West Cameron Area, Offshore Louisiana.

Except as herein specifically amended, all other provisions of the captioned Agreement shall remain unchanged. If you are in agreement with the foregoing, please so indicated by signing and returning the attached copy of this letter for completion of our files.

Very truly yours,

John O. Smith
President & Chief Operating Officer

ACCEPTED AND AGREED TO
THIS 28 DAY OF APRIL, 1997.

CHENIERE ENERGY OPERATING COMPANY, INC.

BY: /s/ Walter L. Williams
WALTER L. WILLIAMS

TITLE: VICE CHAIRMAN

Exhibit 10.19

[LETTERHEAD OF ZYDECO ENERGY, INC.]

July 18, 1997

Cheniere Energy Operating Co., Inc.
1710 Two Allen Center
1200 Smith Street
Houston, Texas 77002

Re: Sixth Amendment

Gentlemen:

I am writing with respect to that certain Exploration Agreement dated April 4, 1996, between FX Energy, Inc. and Zydeco Exploration, Inc., as amended by that certain First Amendment dated May 15, 1996, and that certain Second Amendment dated August 5, 1996, and that certain Third Amendment dated October 31, 1996, and that certain Fourth Amendment dated as of November 27, 1996, and that certain Fifth Amendment dated as of April 28, 1997 (as amended, the "Agreement"). For convenience, terms defined therein shall have the same meaning when used herein. FX Energy, Inc. ("FX") has changed its name to Cheniere Energy Operating Co., Inc. ("Cheniere").

Under Section 2 of the Agreement, Cheniere was to have paid $13,500,000 of Seismic Funds. At the time of the Fourth Amendment. Cheniere had paid $6,000,000, and the survey had been suspended. Further contributions of Seismic Funds were suspended until the survey recommenced. It recommenced in March and has been completed. Following ZEI's Notice to Cheniere to resume payments, Cheniere resumed payment of Seismic Funds. Through yesterday, Cheniere had paid $12,000,000, leaving $1,500,000 of the $13,500,000 of contributions to be paid. Cheniere has requested, and ZEI has agreed, to extend the date by which Cheniere is to make payment of the balance of its contribution. The rescheduled date is July 31, 1997.

In addition, Seismic Costs have exceeded $13,500,000. Under the Agreement, Seismic Costs over $13,500,000 ("Excess Costs") are borne equally by ZEI and Cheniere. The parties have reached certain understandings on the manner of payment of Excess Costs.

Accordingly, we agree as follows:

1. Cheniere shall pay the last installment of the $13,500,000 in Seismic Funds on or before July 31, 1997. The amount of the payment is $1,500,000. No grace period shall apply to this payment. Should the funds not be paid by July 31, 1997, the default shall be treated as a Discontinuance under Section 5.

2. At July 31, 1997, Excess Costs will have accumulated to approximately $3,765,000 of which Cheniere's 50% share is $1,882,500. Accordingly, ZEI hereby makes a cash call on Cheniere for $1,882,500. Cheniere shall pay the requested cash call by August 8, 1997. No grace period shall

apply to such payment. Should funds not be forwarded by August 8, 1997, the default shall be treated as a Discontinuance under Section 5.

3. ZEI has advanced to date $2,305,000 toward Seismic Costs. As such, it has already advanced its share of the current cash call.

4. ZEI estimates that Excess Costs to be incurred in August will be approximately $422,000, which consist principally of the payment required for a six-month extension of the Exclusive Seismic Permit. ZEI estimates that additional Excess Costs for the period September through December 1997 will be approximately $860,000. Assuming these costs, total Excess Costs through December 31, 1997, would be approximately $5,047,303, bringing total Seismic Costs to approximately $18,500,000.

5. ZEI will make cash calls for payment of Excess Costs for the August through December 1997 period. It shall do so periodically as required to meet third party obligations timely. Each cash call shall be payable by Cheniere thirty days after receipt. No grace periods shall apply. To the extent that ZEI has not itself already advanced its share of such sums, it shall do so at the same times required of Cheniere. Should Cheniere or ZEI fail to forward a cash call within thirty days of receipt of the cash call request under this paragraph, the default shall be treated as a Discontinuance under Section 5.

6. In the event of a conflict between the terms of this amendment and the Agreement as previously amended, the terms hereof shall control.

If I have correctly set forth our agreements, kindly so indicate by executing one counterpart of this letter and returning it to the undersigned.

Yours very truly,

ZYDECO EXPLORATION, INC.

/s/ W. Kyle Willis
W. Kyle Willis, Vice President and Treasurer

ACCEPTED AND AGREED TO THIS
19TH DAY OF JULY, 1997.

CHENIERE ENERGY OPERATING CO., INC.

By: /s/ Walter Williams, Vice Chairman
Cheniere Energy Operating Co., Inc.

Exhibit 10.20

[LETTERHEAD OF ZYDECO ENERGY, INC.]

July 31, 1997

Cheniere Energy Operating Co., Inc.
1710 Two Allen Center
1200 Smith Street
Houston, TX 77002A3 12

Gentlemen:

I am writing to confirm our agreement.

I have loaned you $500,000 today. To evidence such loan, you have executed a promissory note maturing on August 29, 1997 and bearing interest at 10% per annum (the "Note"). As security for such loan, you have executed a Security Agreement of even date, together with a UCC-1 financing statement. The Security Agreement and Financing Statement cover a fraction of your interest under the following agreement (the "Zydeco Agreement"):

That certain Exploration Agreement dated April 4, 1996, between FX Energy, Inc. and Zydeco Exploration, Inc., as amended by that certain First Amendment dated May 15, 1996, and that certain Second Amendment dated August 5, 1996, and that certain Third Amendment dated October 31, 1996, and that certain Fourth Amendment dated as of November 27, 1996, and that certain Fifth Amendment dated as of April 28, 1997, and that certain Sixth Amendment dated as of July 18, 1997, as well as including permits, options to lease, and leases (collectively, the Lease Interests") acquired thereunder.as well as a fraction of your interest in seismic data (the "Seismic Data") acquired under the Zydeco Agreement, including, without limitation, that acquired under that certain Master Geophysical Data Acquisition Agreement between Zydeco Exploration, Inc. and Grant Geophysical, Inc. dated June 12, 1996 and that certain Master Geophysical Data Acquisition Agreement with Supplemental Agreement No.1, both dated March 14, 1997.

The fraction covered of the Seismic Data and Lease Interests is 500,000/13,500,000ths of 50% or 1.8519%; the fraction of your interest in the Exploration Agreement is that which would correspond to the assignment by you of 500,000/13,500,000 of your interests under the Exploration Agreement.

For convenience, terms defined in the Exploration Agreement shall have the same terms when used herein.

As reflected in the Sixth Amendment to the Agreement, Seismic Costs and Excess Costs are expected to be $18,500,000 through the end of 1997.

In consideration of my agreement to extend the loan, you grant me an option (the "Option")

to acquire an interest in the Seismic Data, Lease Interests, and Zydeco Agreement as follows:

a. The interest I acquire upon conversion in Seismic Data and Lease Interests is determined by dividing the amount due under the Note by $13,500,000, and multiplying the result by 50% (the "Data Ownership Percentage"). You would assign me or my designee the Data Ownership Percentage subject to the terms of the Zydeco Agreement.

b. I would also acquire a portion of your right to receive 100% of proceeds from the marketing of proprietary seismic data under Section 15(b) of the Zydeco Agreement. The portion I would acquire would be a fraction double the Data Ownership Percentage.

c. You have an obligation to pay a pro rata portion of Excess Costs. If I exercise the Option, I recognize and agree to pay a fractional share of Excess Costs equal to the Data Ownership Percentage.

d. The Option may be exercised only after August 29, 1997. Should the Note be repaid before such time, the Option would terminate.

e. The Option may be exercised by tender of the Note to you.

f. I may assign the Option.

g. The Option will terminate at the earlier of 180 days from the date hereof or upon repayment of the Note.

You agree to pay the attorneys fees I incur for this loan and option agreement.

The general terms and provisions appearing on Exhibit "A" are incorporated in this letter agreement.

The Exploration Agreement requires the approval of Zydeco Exploration, Inc. to the pledge of interests under the agreement and assignment of interests in the Seismic Data, Leases, and Exploration Agreement. I acknowledge such and shall undertake to obtain Zydeco Exploration, Inc.'s approval at an appropriate time.

If I have correctly set forth our understandings, kindly so indicate by executing one counterpart of this letter and returning it to the undersigned.

Yours very truly,
Sam Myers

ACCEPTED AND AGREED TO THIS
31st DAY OF JULY, 1997.

CHENIERE ENERGY OPERATING CO., INC.

By:
Walter L. Williams, Vice Chairman

Exhibit 10.21

PROMISSORY NOTE

$500,000.00 HOUSTON, TEXAS JULY 31, 1997

FOR VALUE RECEIVED, the undersigned Cheniere Energy Operating Co. Inc., a Delaware corporation, having its principal place of business at Suite 1710, Two Allen Center, 1200 Smith Street, Houston, TX 77002A312 (herein called "Borrower"), hereby promises to pay to the order of Sam Myers, an individual residing at 4521 Belfort Place, Dallas, Dallas County, Texas 75205 ("Lender"), the principal sum of FIVE HUNDRED THOUSAND and NO/1OO DOLLARS ($500,000.00), together with interest on the unpaid balance thereof as hereinafter set forth, payable in lawful money of the United States of America at the offices of Lender at Suite 1710, Two Allen Center, 1200 Smith Street, Houston, TX 77002-4312 in Harris County, Texas, or such other place within Harris County, Texas as from time to time may be designated by Lender.

The principal amount of this note together with all accrued and unpaid interest shall be due and payable August 29, 1997.

Borrower may prepay amounts due under this Note, in whole or in part, at any time and from time to time, in any multiple, without premium or penalty. Partial prepayments shall be credited first to payment of accrued and unpaid interest and then to principal.

Interest on this Note shall be calculated at a rate of ten percent (10%) per annum.

It is the intent of the parties that interest hereon should not exceed the maximum amount of non-usurious interest that may be contracted for, taken, reserved, charged or received under law; any interest in excess of that maximum amount shall be credited on the principal of the debt, or, if that debt has been paid, refunded. On any acceleration or required or permitted pre-payment, any such excess shall be canceled automatically as of the acceleration or pre-payment or, if already paid, credited on the principal of the debt or, if the principal of the debt has been paid, refunded. This provision overrides other provisions in this and/or all other instruments concerning the indebtedness.

If this Note is placed in the hands of an attorney for collection after default, or if all or any part of the indebtedness represented hereby is proved, established or collected in any court or any bankruptcy, receivership, debtor relief, probate or other court proceeding, Borrower and all endorsers, sureties and guarantors of this Note jointly and severally agree to pay reasonable attorneys' fees and collection costs to the holder hereof in addition to the principal and interest payable hereunder.

Except as otherwise expressly provided in this Note, Borrower and all endorsers, sureties and guarantors of this Note hereby severally waive demand, presentment for payment, protest, notice of protest, notice of intention to accelerate the maturity of this Note, diligence in collecting, the bringing of any suit against any party and any notice of or defense on account of any extensions, renewals, partial payments or changes in any manner of or in this Note or in any of these terms, provisions and covenants, or any releases or substitutions of any security, or any delay, indulgence or other act of any trustee or holder hereof, whether before or after maturity.

Reference is made to that certain Exploration Agreement dated April 4, 1996, between FX Energy, Inc. and Zydeco Exploration, Inc., as amended by that certain First Amendment dated May 15, 1996, and that certain Second Amendment dated August 5, 1996, and that certain Third Amendment dated October 31, 1996, and that certain Fourth Amendment dated as of November 27, 1996, and that certain Fifth Amendment dated as of April 28, 1997, and that certain Sixth Amendment dated as of July 18, 1997 (as amended, the "Zydeco Agreement"). Borrower covenants and agrees that it will pay amounts due hereunder prior to payment of Excess Costs, as defined in the Zydeco Agreement.

This Note and the rights and duties of the parties hereunder shall be governed by the laws of the State of Texas, except to the extent the same are governed by applicable federal law.

CHENIERE ENERGY OPERATING CO., INC.

By:

Exhibit "A"

General Provisions

1. Additional Acts.

Every party to this Agreement agrees to perform all further acts and to execute and deliver all further documents that may be reasonably necessary to carry out the provisions of this Agreement.

2. Amendment.

This Agreement may be amended only by an instrument signed by the party against whom such amendment is sought to be enforced.

3. ARBITRATION.

The parties shall resolve any and all disputes arising from or related to this agreement by binding arbitration under the Federal Arbitration Act and the Commercial Arbitration Rules of the American Arbitration Association when not in conflict with such act. Arbitration shall take place in Houston, Texas. Each party shall select one impartial arbitrator, and the two so designated shall select a third impartial arbitrator. If either party does not designate an arbitrator within fourteen (14) days after arbitration is requested, or if the two arbitrators do not select a third arbitrator within thirty (30) days after arbitration is requested, then either party may require that the arbitrator be selected by the American Arbitration Association. The arbitrators must render their decision based on the substantive law of Texas exclusive of its conflicts of law rules. Judgment upon an award of the majority of the arbitrators shall be binding. The arbitrators shall permit the parties to conduct discovery pursuant to the Federal Rules of Civil Procedure. The parties shall complete all discovery within forty-five (45) days of selection of the third arbitrator. The arbitrators shall hold the final hearing within sixty (60) days of the selection of the third arbitrator. The arbitrators shall issue a final written decision stating the findings of fact, conclusions of law and reasons for their award within seventy-five (75) days of the conclusion of the final hearing. The costs of the arbitration shall be borne equally.

4. Authorization.

Each party hereto represents that the execution, delivery and performance of this Agreement by such party has been duly authorized by all necessary corporate action.

5. Binding Effect.

All the terms of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties and their respective heirs, legal representatives, successors, and permitted assigns.

6. Counterparts.

This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

7. Consequential Damages.

No party hereto shall be liable to another for special, indirect, consequential or incidental damages resulting from or arising out of this Agreement or the obligations contemplated hereunder, including, but not limited to, loss of production, loss of anticipated profits or business interruptions, however same may be caused.

8. Deceptive Trade Practices Act.

It is the belief of the parties that this agreement is exempt from the provisions of the Texas Deceptive Trade Practices-Consumer Protection Act (the "Act"). Should; however, the Act be construed not to exempt this transaction, the following waiver shall apply. For the purpose of the following waiver, Cheniere shall be deemed the Seller and Myers the Purchaser:

WAIVER OF CONSUMER RIGHTS

Purchaser represents and stipulates to Seller that:

(i) the Purchaser is not in a significantly disparate bargaining position;

(ii) the Purchaser is represented by legal counsel in seeking or acquiring the goods or services which it acquires under this Agreement; and

(iii) Purchaser's legal counsel was not directly or indirectly identified, suggested, or selected by Seller of an agent of the Seller.

(iv) I (THE PURCHASER) WAIVE MY RIGHTS UNDER THE DECEPTIVE TRADE PRACTICES-CONSUMER PROTECTION ACT, SECTION 17.41 ET SEQ., BUSINESS & COMMERCE CODE, A LAW THAT GIVESCONSUMERS SPECIAL RIGHTS AND PROTECTIONS. AFTER CONSULTATION WITH AN ATTORNEY OF MY OWN SELECTION, I VOLUNTARILY CONSENT TO THIS WAIVER.

9. Disclaimer of Agency

This Agreement does not constitute a partnership agreement, nor does it authorize any party to serve as the legal representative or agent of another. No party hereto shall have any right or authority to assume, create, or incur any liability or any obligation of any kind, express or implied, against or in the name of or on behalf of another party.

10. Entire Agreement.

This Agreement constitutes the full and entire understanding and agreement between Cheniere Energy Operating Co., Inc. and Sam Myers.

11. Fiduciary Duty.

The obligations of the parties to this agreement to each other shall be construed as only contractual. No party hereto shall be held to be a fiduciary vis-a-vis another party hereto.

12. Force Majeure.

Except for the payment of money, neither party will be liable for any failure or delay in performance under this Agreement which might be due, in

whole or in part, directly or indirectly, to any contingency, delay, failure, or cause of any nature beyond the reasonable control of such party, including without limitation, fire, explosion, earthquake, storm, flood or other weather, unavailability of components, unavailability of manufacturing capacity, activities of a combination of workmen or other labor difficulties, war, insurrection, riot, act of God or the public enemy, law, act, order, export control regulation, proclamation, decree, regulation; ordinance, or instructions of Government or other public authorities, or judgment or decree of a court of competent jurisdiction (not arising out of breach by such party of this Agreement) In the event of the happening of such a cause, the party whose performance is so affected will give prompt, written notice to the other party, stating the period of time the same is expected to continue. Such delay will not be excused under this Section for more than 180 days.

13. Headings

Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

14. Independent Obligations.

Each covenant contained herein will be construed as a separate agreement independent of any other provision of this Agreement.

15. Law.

Except as otherwise required by mandatory provisions of applicable law, this Agreement shall be governed by and construed in accordance with the laws of the State of Texas, without reference to principles of conflicts of law.

16. No Partnership.

The obligations, duties and liabilities of the parties shall be several and not joint or collective. This Agreement is not intended to and shall not be construed to create a relationship of partnership or an association for profit between or among the parties hereto.

17. Notices.

All notices, requests, demands, and other communications provided for or permitted hereunder shall be in writing and shall be sent by mail, E-Mail, telecopier or hand delivery as follows:

If to Myers:

Sam Myers
2170 Plaza of the Americas North
700 North Pearl Street
Dallas, Texas 75201-2816
214 999 9300
214 922 8076 fax

If to Cheniere:

Cheniere Energy Operating Co., Inc.
1710 Two Allen Center
1200 Smith Street
Houston, TX 77002-4312
Attention: Walter L. Williams
713 659 1361
713 659 5459 fax

All such notices, requests, demands and communications shall be effective upon delivery.

18. Number and Gender.

Whenever the context requires, reference herein made to the single number shall be understood to include the plural,. and the plural shall likewise be understood to include the singular. Words denoting sex shall be construed to include the masculine, feminine and neuter when such construction is appropriate; and specific enumeration shall not exclude the general, but shall be construed as cumulative.

19. Punitive Damages.

The parties hereby relinquish any right to seek punitive damages against another party to this agreement. Each party in entering this agreement has done so in reliance and in consideration of such voluntary relinquishment by the other parties hereto.

20. Severability.

If any part of this Agreement is found invalid or unenforceable, that part will be amended to achieve as nearly as possible the same economic effect as the original provision and the remainder of this Agreement will remain in full force.

21. Statute of Limitations.

No action by any party arising under this Agreement may be brought at any time more than thirty six (36) months after the facts upon which the cause of action is based occurred.

22. Survival.

The agreements of the parties contained in this Agreement shall survive the signing of this Agreement and the consummation of the transactions contemplated hereby.

23. Third Party Beneficiary.

This Agreement is not intended to benefit or to create any obligations to, or rights in respect of, any persons other than the parties hereto, and their respective legal representatives, heirs or estates.

24. Time.

Time is of the essence in all matters pertaining to this Agreement.

25. Waiver.

No term or provision hereof will be considered waived by any party, and no breach excused by any party, unless such waiver or consent is in writing signed on behalf of the party against whom the waiver is asserted. No consent by any party to, or waiver of, a breach by any party, whether express or implied, will constitute a consent to, waiver of, or excuse of any other, different, or subsequent breach by any party.

Exhibit 10.22

SECURITY AGREEMENT

THE STATE OF TEXAS
COUNTY OF HARRIS

CHENIERE ENERGY OPERATING CO., INC., whose address is Suite 1710, Two Allen Center, 1200 Smith Street, Houston, TX 77002-4312 in Harris County, Texas , being the owner and holder of the personal property described on Exhibit "A" (herein called "Collateral"), as '1Debtor, " and Sam Myers, whose address is Suite 1710, Two Allen Center, 1200 Smith Street, Houston, TX 77002-4312 in Harris County, as "Secured Party," agree as follows:

I.

COLLATERAL

Debtor hereby grants to Secured Party a security interest in and to:

A. all of the personal property described on Exhibit "A" attached to this Security Agreement.

B. all proceeds of the personal property described in Exhibit "A" as such term is defined in the Uniform Commercial Code.

For purposes of this Security Agreement, the herein above described assets are referred to as the "Collateral."

II.

OBLIGATIONS

This Security Agreement is executed by Debtor to secure performance of Debtor's obligations under that one (1) certain Promissory Note, of even date herewith, in the original, principal sum of $500,000, executed by Debtor and payable to the order of Secured Party, and maturing on August 29, 1997, the obligation of Debtor to make all payments, jointly and severally, under such Note, together with all costs of collection (if any) including reasonable attorney's fees and trustee's fees are hereinafter referred to as the "obligations. The Obligations shall include all extensions, renewals, rearrangements, or modifications of the herein above described Note and any and all other indebtedness, liability and obligations whatsoever of whatever nature of Debtor to Secured Party, whether direct or indirect, absolute or contingent, primary or secondary, due or to become due, and whether now existing or hereafter arising and howsoever evidenced or acquired, whether joint or several, and Debtor acknowledges that the security interest hereby granted shall secure all future advances, as well as any and all other indebtedness, liabilities and Obligations of Debtor to Secured Party, now existing, or arising hereafter.

III

COVENANTS OF DEBTOR

A. Debtor shall pay to Secured Party any sum or sums due or which may become due on the Obligations secured hereby in accordance with the terms of such Obligations and the terms of this Security Agreement. Debtor shall pay to Secured Party on demand all expenses and expenditures, including reasonable attorney's fees and other legal expenses incurred or paid by Secured Party in exercising or protecting its interest, rights and remedies under this Security Agreement. Debtor shall pay immediately, without notice, the entire unpaid indebtedness of Debtor to Secured Party, whether created or incurred pursuant to this Security Agreement or otherwise, upon Debtor's default under this Security Agreement.

B. Secured Party shall have the power to endorse any instrument described as a portion of the "Collateral" above and Debtor hereby grants to Secured Party a limited power of attorney, deemed coupled with an interest, for the purposes of endorsing in the name of Debtor any such instrument or document constituting Collateral or which may be received in payment for or as proceeds of the Collateral.

C. Debtor authorized Secured Party, without the necessary joinder by Debtor, to file in all jurisdictions where this authorization will be given fill force and effect, one or more Financing Statements, executed only by Secured Party, covering all or any portion of the Collateral. At the request of Secured Party, Debtor covenants to join Secured Party in executing one or more of such Financing Statements under the terms and provisions of the Texas Business and Commerce Code, which Financing Statements will be in a form and content acceptable to Secured Party and Debtor covenants to pay the cost of filing all such Financing Statements, to the extent such filing is deemed by Secured Party to be necessary or desirable, but Debtor's failure to execute any such Financing Statement shall not affect the contents thereof or the Obligation of Debtor hereunder.

IV.

REPRESENTIONS AND WARRANTIES OF DEBTOR

Debtor represents, warrants and agrees that:

A. Debtor owns the Collateral herein described and has the right to transfer any interest therein; the Collateral is not subject to the interest of any third party; and Debtor will defend the Collateral and its proceeds against the claims and demands of all third parties.

B. Secured Party's duty with reference to the Collateral shall be solely to use reasonable care in the custody and preservation of the Collateral in Secured Party's possession.

C. Demand, notice, protest and all demands and notices of any action taken by Secured Party under this Security Agreement or in connection with the Obligations secured hereby, except as otherwise provided in this Security Agreement, are hereby waived, and any indulgence of Secured Party, substitution for, exchange of or release of Collateral, in whole or in part, or addition or release of any person liable on the Collateral is assented and consented to.

D. Secured Party shall not be responsible in any way for any depreciation in the value of the Collateral, nor shall any duty or responsibility whatsoever rest upon Secured Party to take

necessary steps to preserve rights against prior parties or to enforce collection of the Collateral by legal proceedings or otherwise, the sole duty of Secured Party, its successors and assigns, being to receive collections, remittances and payments on such Collateral as and when made and received by Secured Party, and at Secured Party's option, applying the amount or amounts so received after deduction of any collection costs incurred, as payment upon any obligation of Debtor to Secured Party pursuant to the provisions of this Security Agreement, or holding the same for the account and order of Debtor.

E. The address of Debtor, designated herein above, is a current address of Debtor and Debtor agrees that Debtor will not change such address without prior written notice to Secured Party.

F. Debtor agrees to execute such powers of attorney, pledge agreements, endorsements of securities or other instruments, or other documents which may be reasonably required by Secured Party in order to effectively grant to Secured Party the security interest in and to the Collateral herein above described and to enforce Secured Party's rights regarding same if in accordance with the provisions of the Texas Business and Commerce Code, or otherwise.

V

EVENTS OF DEFAULT

Debtor shall be in default under this Security Agreement upon the happening of any of the following events or conditions, which shall be continuing for five (5) days after notice by Secured Party (herein called an "Event of Default"):

A. Debtor's failure to pay when due any installment of principal or interest on any Note executed by Debtor and payable to the order of Secured Party, or to pay, following demand from Secured Party, any costs of collection of such Note, including reasonable attorney's fees and trustee's fees in connection with Debtor's default under the provisions of any such Note.

B. Default by Debtor in the punctual performance of any of the Obligations, covenants, terms or provisions contained or referred to in this Security Agreement or the Obligations or any part thereof.

C. The making of any levy on or seizure or attachment of any of the Collateral.

D. Debtor's assignment of any assets for the benefit of creditors; the commission of any act of bankruptcy; the institution of voluntary or involuntary proceedings under the provisions of the United States Bankruptcy Code; the exercise of dominion or control over any of the Collateral by a receiver for the benefit of Debtor or Debtor's creditors; or the placing of any of the Collateral in the custody of any court of competent jurisdiction or any officer, appointee, or designee of such court.

E. The discovery by Secured Party that any representation or warranty made by Debtor is, in any material respect, untrue, as of the date such representation or warranty is made or furnished.

F. Secured Party's determination that the value of the Collateral has been impaired, as a result of the action of Debtor, or any third person, or that the value of such Collateral is insufficient,

as a result of economic circumstances, to adequately secure Secured Party's interest and ensure payment of the Obligation to Secured Party as contemplated hereby, coupled with failure of Debtor to deliver to Secured Party additional Collateral as contemplated in Section m above.

G. The granting by Debtor of any security interest in the Collateral or any portion thereof to any third party without the prior written consent of Secured Party (which security interest, if granted, shall, in all events, be secondary, inferior and subordinate to the security interest granted herein).

H. The receipt by Debtor of any notice by any taxing authority of such authority's intent to place or Fix a lien on part or all of the Collateral.

VI.

AUTHORITY OF SECURED PARTY

A. This Security Agreement, Secured Party's rights hereunder, or the Obligations secured hereby may be assigned from time to time, and in any such case the Assignee shall be entitled to all of the rights, privileges and remedies granted in this Security Agreement to Secured Party, and Debtor will assert no claims or defenses Debtor may have against Secured Party or against the Assignee except those granted in this Security Agreement.

B. Secured Party may at any time transfer the Collateral to itself or its nominee, receive income, including money, thereon and hold the income as Collateral or apply the income to the indebtedness secured hereby, the manner and distribution of the application to be in the sole discretion of Secured Party.

C. Secured Party may at any time demand, sue for, collect or make any compromise or settlement with reference to the Collateral as Secured Party, in its sole discretion, chooses.

D. Secured Party may delay exercising or omit to exercise any right or remedy under this Security Agreement without waiving that or any other past, present, or future right or remedy, except in writing signed by Secured Party.

VII.

REMEDIES OF SECURED PARTY

Upon the occurrence of an Event of Default, and at any time thereafter:

A. Secured Party may declare the Obligations secured hereby immediately performable.

B. Secured Party shall have, then or at any time thereafter, the rights and remedies provided in the Uniform Commercial Code in force in the State of Texas at the date of execution of this Security agreement.

C. In addition to the rights and remedies referred to above, Secured Party may, in its discretion, sell, assign and deliver all or any part of the Collateral at public or private sale without notice or advertisement, and bid and become purchaser at any public sale.

D. If notice to Debtor is required by the Uniform Commercial Code of Texas of public or private sale of Collateral, Secured Party may give written notice to Debtor five (5) days prior to the date of public sale of the Collateral or prior to the date after which private sale of the Collateral will be made, by mailing such notice to Debtor at the address designated at the beginning of this Security Agreement. Secured Party may apply the proceeds of any disposition of Collateral available for satisfaction of the Obligations and expenses of sale in any order of preference which Secured party, in its sole discretion, chooses. Debtor shall remain liable for any deficiency.

E. Upon any sale of any portion of the Collateral, Secured Party shall have the right to deliver to the purchaser thereof all or any portion of the Collateral, free and clear of any claim or right of Debtor, or any person claiming by, through or under Debtor. The Collateral may be sold separately or combined with the collateral of other debtors as Secured Party deems necessary or desirable.

F. Secured Party shall not be obligated to make any sale pursuant to any notice of sale herein provided and Secured Party may, without notice or publication, adjourn any public or private sale or cause such sale to be adjourned, from time to time, by written or oral announcement, given at the time and place fixed for such sale and may reconvene such sale, pursuant to such notice of adjournment, at any time or place designated by Secured Party in such announcement.

G. In case of sale of all or any portion of the Collateral, on credit or for future delivery, Secured Party shall be authorized to retain the Collateral until the purchase price is paid by the purchaser thereof, or to deliver such Collateral to the purchaser, on credit, but Secured Party shall incur no liability for the failure of any such purchaser to pay for such Collateral so sold and, in the event such purchaser fails to pay for such Collateral so sold, Secured Party may repossess such Collateral and again offer it for sale in accordance with the terms and provisions of this Security Agreement.

H. Secured Party shall not be required to conduct any sale of any of the Collateral, pursuant to this Security Agreement, and shall be authorized to proceed with collection of the Obligations from Debtor by all legal means including, but not limited to, institution of a suit in a court of competent jurisdiction for collection of the Obligations.

VIII.

MISCELLANEOUS PROVISIONS

A. "Secured Party" and "Debtor" as used in this instrument shall include the heirs, executors, administrators, legal representatives, successors and assigns of such parties, including without limitation, receivers, trustees or

guardians of such parties.

B. Terms used in this instrument which are defined in the Texas Business and Commerce Code are intended hereby to be used with the meanings therein defined.

C. The provisions of this Agreement shall be construed under and in accordance with the provisions of the laws of the State of Texas, including, without limitation, the Texas Business and Commerce Code. The jurisdiction for any controversy arising hereunder shall be in the courts of competent jurisdiction of Harris County, Texas, to the fullest extent permissible by Texas law.

D. No delay or omission, on the part of Secured Party, to exercise any of Secured Party's rights hereunder, shall operate as a waiver of any such right. No acceptance by Secured Party of any payment after the due date thereof shall be deemed to be a waiver by Secured Party of the provisions for event of default hereunder.

E. The security interest granted hereby, and all of the terms and provisions contained herein, shall be deemed to constitute a continuing security interest and shall remain in full force and effect, as between the parties, until the repayment by Debtor of all of the Obligations as set forth herein and the receipt, acceptance and acknowledgment of such payment on the part of Secured Party, coupled with Secured Party's revocation of the terms and provisions of this Security Agreement.

F. Any notice or demand given by Secured Party to Debtor in connection with this Security Agreement, the Collateral or the Obligations, shall be deemed given and effective three (3) days after deposit in the United States mail, postage prepaid, certified mail return receipt requested, addressed to Debtor at the address of Debtor designated herein (subject to Debtor's right to change notice of address pursuant to the provisions of this Agreement) and debtor shall be conclusively deemed to have received any notice so deposited. In lieu of deposit of any notice in the United States mail, Secured Party may personally deliver such notice to Debtor.

G. The terms and provisions of this Security Agreement may not be altered, amended or modified unless a written instrument has been executed by Debtor and Secured Party, which instrument specifically refers to this Security Agreement and which instrument clearly indicates that it is intended to alter, amend or modify this Agreement.

H. This Security Agreement and the security interest herein granted are given in addition to, and not in substitution of or in lieu of any prior or contemporaneous Security Agreement, security interest, pledges or assignments given by Secured Party to Debtor, or a person designated by Debtor. All powers, rights and remedies of Secured Party in any other such Security Agreement are deemed to be cumulative with the powers, rights and remedies of Secured Party as set forth herein.

I. If any provision of this Security Agreement should be found, for any reason, to be invalid or unenforceable under the laws of the State of Texas, or any other state or governmental unenforceable provision shall be deleted from the provisions of this Agreement and this Agreement shall be, thereafter, construed and enforced without consideration of such invalid or unenforceable provision.

3. This Security Agreement may be executed in any number of counterparts, all of which together shall constitute one and the same instrument. Debtor agrees and consents that any photocopy or other reproduction of any Financing Statement executed by Debtor is sufficient to constitute a valid and enforceable Financing Statement for all purposes, without limitation, for filing in any jurisdiction where the filing of such copy shall be permitted by the provisions of the Uniform Commercial Code of such jurisdiction.

K. The parties agree that time is of the essence to each of the provisions of this Security Agreement.

L. The Exploration Agreement, as defined on Exhibit "A,11 requires the approval of Zydeco Exploration, Inc. to any pledge or sale of an interest in the Exploration Agreement or the seismic data and permits, options to lease, and

leases described on Exhibit "A," Accordingly, notwithstanding anything herein to the contrary, Debtor makes no representation or warranty that the consent of Zydeco Exploration, Inc. is not required to effect the lien granted hereby.

State of Texas

County of Harris (S)

This instrument was acknowledged before me on July 31, 1997, by Walter L. Williams, Vice Chairman of Cheniere Energy Operating Co., Inc., a Delaware corporation, on behalf of said corporation.

Notary Public in and for
the State of Texas

State of Texas
County of Harris

This instrument was acknowledged before me on July 31, 1997, by Sam Myers.

Notary Public in and for
the State of Texas

EXECUTED this the 31st day of July, 1997.

DEBTOR:
CHENIERE ENERGY OPERATING CO., INC.
By: Walter L. Williams Vice Chairman

SECURED PARTY
Sam Myers

Exhibit "A"

Collateral

Reference is made to that certain Exploration Agreement dated April 4, 1996, between FX Energy, Inc. and Zydeco Exploration, Inc., as amended by that certain First Amendment dated May 15, 1996,

and that certain Second Amendment dated August 5, 1996, and that certain Third Amendment dated October 31, 1996, and that certain Fourth Amendment dated as of November 27, 1996, and that certain Fifth Amendment dated as of April 28, 1997, and that certain Sixth Amendment dated as of July 18, 1997 (as amended, the "Exploration Agreement"), as well as including permits, options to lease, and oil & gas leases acquired thereunder (collectively, the "Leases").

As the Collateral in the foregoing agreement, Debtor pledges:

(A) An undivided 1.8519% interest in seismic data acquired pursuant to the Exploration Agreement under that certain Master Geophysical Data Acquisition Agreement between Zydeco Exploration, Inc. and Grant Geophysical, Inc. dated June 12, 1996 and that certain Master Geophysical Data Acquisition Agreement with Supplemental Agreement No.1, both dated March 14, 1997, under which Master Geophysical Data Acquisition Agreements was acquired in the area of Cameron Parish depicted on Appendix "A" hereto, including, without limitation, seismic data acquired under such contracts including:

i. Final survey and support data including all control points.
ii. Final observer's (OB) notes and drill logs.
iii. Base maps showing:

(1) all swaths (shot and receiver lines) used in processing.
(2) offset limited fold plots.
(3) post-processing grid.

iv. SEGY 9-track tape copies of:

(1)
(2)
(3)

v. Diskettes containing the following information in ASCII format:

(1) DM0 Velocities.
(2) Migration Velocities.
(3) X-Y Control points for binning grid.

vi. field reels and support data

vii. pre-stack processing reels and support data

viii. prints and/or films containing portions of the data

(II) An undivided 1.8519% interest in the Leases; and

(III) An undivided 3.7038% interest in proceeds from the marketing of seismic data under Section 15b) of the Exploration Agreement.

The interests so pledge are subject to the Exploration Agreement.

Exhibit 10.23

[LETTERHEAD OF ZYDECO ENERGY, INC.]

August 28, 1997

Cheniere Energy Operating Co., Inc.
1710 Two Allen Center
1200 Smith Street
Houston, Texas 77002

Re: Seventh Amendment

Gentlemen:

I am writing with respect to that certain Exploration Agreement dated April 4, 1996, between FX Energy, Inc. and Zydeco Exploration, Inc., as amended by that certain First Amendment dated May 15, 1996, and that certain Second Amendment dated August 5, 1996, and that certain Third Amendment dated October 31, 1996, and that certain Fourth Amendment dated as of November 27, 1996, and that certain Fifth Amendment dated April 28, 1997, and that certain Sixth Amendment dated July 18, 1997 (as amended, the "Agreement"). For convenience, terms defined therein shall have the same meaning when used herein. FXEnergy, Inc. ("FX") has changed its name to Cheniere Energy Operating Co., Inc. ("Cheniere").

Under the Agreement, Cheniere was to have paid 100% of the first $13,500,000 of Seismic Costs. It has done so. Seismic Costs over $13,500,000 ("Excess Costs") are borne equally by ZEI and Cheniere.

We wish to grant Cheniere an extension of certain monies presently due, and memorialize certain other understandings.

1. At present, Cheniere owes $2,177,000, which represents its 50% of Excess Costs accumulated to July31, 1997 and 50% of the August cash call. Zydeco agrees to extend the time for Cheniere to pay such monies until December 31, 1997.

2. Zydeco desires to continue the program by:

   a) leasing and acquiring certain computer equipment and software;

   b) acquiring non-State leases by the exercise of options and outright lease Zydeco estimates the cost of such additional program expenses (the "Program Expenses") through December 31, 1997 to be approximately $1,500,000, of which Cheniere's share would be $750,000.

3. Cheniere authorizes Zydeco to incur such Program Expenses for their joint account, and agrees to pay approximately $750,000 of Program Expenses on December 31, 1997.

4. No grace periods shall apply to amounts due on December 31, 1997.

5. If Cheniere timely pays the amounts due on December 31, 1997, Cheniere shall own a one-half interest in all leases and options acquired by Zydeco for their joint interest. It shall also own the 50% interest in the Seismic Data provided in the Agreement.

6. If, however, Cheniere fails to pay all or a portion of monies due on December 31, 1997, it shall be treated as a Discontinuance, and the interest of Cheniere in the Seismic Data, leases, and options shall be determined as of December 31, 1997.

7. Zydeco may nominate certain state acreage within the AMI for state leases. It shall notify Cheniere when it does so. If Cheniere tenders 1/2 of the bid amount by certified check four business days before the state lease sale, Cheniere shall be entitled to a 50% working interest

in any lease taken by successful bid. If Cheniere fails to so tender a portion of the bid, it shall have no interest in leases acquired at such sales.

8. In consideration of the agreements reflected herein:

a) Cheniere hereby releases Zydeco from any claims or causes of action arising out of or related to the Agreement prior to the date hereof; and

b) Zydeco hereby releases Cheniere from any claims or causes of action arising out of or related to the Agreement prior to the date hereof.

9. In the event of a conflict between the terms of this amendment and the Agreement as previously amended, the terms hereof shall control.

If I have correctly set forth our agreements, kindly so indicate by executing one counterpart of this letter and returning it to the undersigned.

Yours very truly,

ZYDECO EXPLORATION ,INC.

By:

Its:

ACCEPTED AND AGREEDTO THIS 28TH DAY OF AUGUST, 1997.

CHENIERE ENERGY OPERATING CO., INC.

By:
Its:

Exhibit 10.24

[LETTERHEAD OF ZYDECO ENERGY, INC.]

August 28, 1997

Cheniere Energy Operating Co., Inc.
1710 Two Allen Center
1200 Smith Street
Houston, TX 77002-4312

Gentlemen:

I am writing with reference to that certain letter agreement dated July 31, 1997 between us (the "Letter Agreement"), and to the promissory note for $500,000 referenced therein (the "Promissory Note").

You have requested, and I have agreed, as follows:

a. The maturity date of the Promissory Note is hereby extended from August 29, 1997 to September 29, 1997.
b. Our original agreement was that the Option, as defined in the Letter Agreement, could not be exercised until after August 29, 1997. In lieu of August 29, 1997, such date shall be September 29, 1997.

If I have correctly set forth our understandings, kindly so indicate by executing one counterpart of this letter and returning it to the undersigned.

Yours very truly,

Sam Myers

ACCEPTED AND AGREED TO THIS
28TH DAY OF AUGUST, 1997.

CHENIERE ENERGY OPERATING CO., INC.

By:

Exhibit 21.1

SUBSIDIARIES OF CHENIERE ENERGY, INC.

1. Cheniere Energy Operating Co., Inc.

2. Cheniere Energy California, Inc.

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