
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 23, 2006

CHENIERE ENERGY, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

1-16383
(Commission File Number)

95-4352386
(I.R.S. Employer
Identification No.)

717 Texas Avenue
Suite 3100
Houston, Texas
(Address of principal executive offices)

77002
(Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

Item 8.01 Other Events.

Cheniere Energy, Inc. is filing this Report to provide updates of certain information regarding its business, operations and financial information, as set forth below in this Item 8.01. As used in this Form 8-K, unless we indicate otherwise or the context otherwise requires, the terms “our,” “we,” “us,” “Cheniere” and similar terms refer to Cheniere Energy, Inc. and our subsidiaries.

Forward-Looking Statements

This Form 8-K contains certain statements that are, or may be deemed to be, “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical fact, included herein are “forward-looking statements.” Included among “forward-looking statements” are, among others:

- statements that we expect to commence or complete construction of our Sabine Pass liquefied natural gas, or LNG, receiving terminal, or any expansions thereof, by certain dates, or at all;
- statements regarding any financing transactions or arrangements;
- statements relating to the construction of our Sabine Pass LNG receiving terminal, including statements concerning the engagement of any engineering, procurement and construction, or EPC, or other contractor and the anticipated terms and provisions of any agreement with any EPC or other contractor, and anticipated costs related thereto;
- statements regarding any terminal use agreement, or TUA, including the Cheniere Marketing, Inc. TUA described below under “Business—Cheniere Marketing TUA”, or other agreement to be entered into or performed substantially in the future, including any cash distributions and revenues anticipated to be received and the anticipated timing thereof, and statements regarding the amounts of total LNG regasification capacity that are, or may become subject to, TUAs or other contracts;
- statements that our Sabine Pass LNG receiving terminal, when completed, will have certain characteristics, including amounts of regasification and storage capacities, a number of storage tanks and pipeline deliverability, if any;
- statements regarding our business strategy, our business plans or any other plans, forecasts, projections or objectives, any or all of which are subject to change;
- statements regarding any independent engineer’s assumptions, estimates, projections or conclusions; and
- any other statements that relate to non-historical or future information.

These forward-looking statements are often identified by the use of terms and phrases such as “achieve,” “anticipate,” “believe,” “estimate,” “expect,” “forecast,” “plan,” “project,”

“propose,” “strategy” and similar terms and phrases. Although we believe that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this Form 8-K.

Our actual results could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors, including those discussed in this Form 8-K and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2006. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these risk factors. These forward-looking statements are made as of the date of this Form 8-K. Other than as required under the securities laws, we assume no obligation to update or revise these forward-looking statements or provide reasons why actual results may differ.

Business

Construction and Operation Schedule

In March 2005, we commenced construction of an LNG receiving terminal located in western Cameron Parish, Louisiana on the Sabine Pass Ship Channel, which we refer to as our Sabine Pass LNG receiving terminal. The terminal is being constructed by, and will be owned and operated by, Sabine Pass LNG, L.P., or Sabine Pass LNG, which is a wholly-owned subsidiary of Cheniere. We expect to complete construction and cool down of the first two tanks at our Sabine Pass LNG receiving terminal, complete related equipment installation and precommissioning checks and tests, and achieve revaporized natural gas sendout at a rate of 2.0 billion cubic feet per day, or Bcf/d, or more for a continuous period of at least 24 hours by the first quarter of 2008. We expect to complete construction and cool down of a third tank and the rest of Phase 1 at our Sabine Pass LNG receiving terminal, and achieve the full 2.6 Bcf/d of Phase 1 regasification capacity, in the third quarter of 2008. Phase 2 – Stage 1 expansion of our Sabine Pass LNG receiving terminal will include construction and cool down of a fourth and fifth LNG storage tank, additional vaporizers and related facilities. LNG regasification operations relating to Phase 2 – Stage 1 are expected to commence by April 2009. We expect to complete all of Phase 2 – Stage 1, and achieve full operability at 4.0 Bcf/d, in the third quarter of 2009.

Cheniere Marketing TUA

It is currently anticipated that Cheniere Marketing, Inc., or Cheniere Marketing, a wholly-owned subsidiary of Cheniere, will enter into an amended and restated TUA with Sabine Pass LNG to reserve 2.0 Bcf/d of LNG regasification capacity at our Sabine Pass LNG receiving terminal. We refer to this amended and restated TUA with Cheniere Marketing as the Cheniere Marketing TUA. This Cheniere Marketing TUA will provide annual revenues of approximately \$250 million for at least 19 years commencing January 1, 2009, plus initial revenues of \$5 million per month during 2008 commencing on the date of commercial operations completion.

The Cheniere Marketing TUA will provide berthing for LNG vessels and for the unloading, storage and regasification of LNG at our Sabine Pass LNG receiving terminal.

Sabine Pass LNG will have no obligation to provide Cheniere Marketing with certain services such as (i) harbor, mooring and escort services for LNG vessels, including the provision of tugboats, (ii) the transportation of natural gas downstream from our Sabine Pass LNG receiving terminal or the construction of any pipelines to provide such transportation or (iii) the marketing of natural gas.

Under the Cheniere Marketing TUA, Cheniere Marketing will reserve 781,830,000 million British thermal units, or MMBtu, of annual LNG receipt capacity, which is equivalent to approximately 2.0 Bcf/d of regasification capacity assuming an energy content of 1.05 MMBtu per thousand cubic feet, or Mcf, and retainage of 2%.

The Cheniere Marketing TUA is scheduled to commence as of January 1, 2008 (subject to commercial operations completion), will run for a term of 20 years from the commercial start date under the Cheniere Marketing TUA and will be subject to four additional 10-year extension terms. Beginning on the commercial start date under the Cheniere Marketing TUA, Cheniere Marketing will agree to pay Sabine Pass LNG a fixed monthly fee for this regasification capacity that is comprised of: (i) a reservation fee of \$0.28 per MMBtu times 1/12 of the reserved LNG receipt capacity; (ii) an operating fee of \$0.04 per MMBtu times 1/12 of the reserved LNG receipt capacity, which operating fee is adjusted annually for changes in the U.S. Consumer Price Index (All Urban Consumers), or CPI; and (iii) certain other taxes and regulatory costs. Notwithstanding the foregoing, Cheniere Marketing will pay a flat fee of \$5 million per month from the commercial start date under the Cheniere Marketing TUA through December 31, 2008. The maximum LNG reception quantity allocated to Cheniere Marketing will be reduced to the extent that our Sabine Pass LNG receiving terminal is unable to provide services up to such amount as a result of the timing of start dates under existing customer agreements (including the TUAs with Total LNG USA, Inc., or Total, and Chevron USA, Inc., or Chevron) or delays in commencing commercial operations of the Phase 2 – Stage 1 expansion of our Sabine Pass LNG receiving terminal; however, the fees to be paid by Cheniere Marketing under the Cheniere Marketing TUA will not be accordingly adjusted. In addition, each month, Sabine Pass LNG will be entitled to receive a “retainage” equal to 2% of the LNG delivered for Cheniere Marketing’s account, out of which Sabine Pass LNG will be obligated to provide fuel for self-generated power and gas unavoidably lost at the facility. All of Cheniere Marketing’s obligations during the initial 20-year term of the Cheniere Marketing TUA will be supported by an irrevocable guaranty in favor of Sabine Pass LNG by Cheniere.

If any governmental authority (i) imposes any taxes on Sabine Pass LNG (excluding taxes on revenue or income) with respect to the services provided under the Cheniere Marketing TUA, or our Sabine Pass LNG receiving terminal or (ii) enacts any safety or security related regulation which materially increases Sabine Pass LNG’s costs in relation to the services provided at our Sabine Pass LNG receiving terminal, Cheniere Marketing will bear such taxes or increased regulatory costs at a rate proportional to its percentage of the right to use of our Sabine Pass LNG receiving terminal total capacity.

Both Sabine Pass LNG and Cheniere Marketing will be able to assign their respective interests under the Cheniere Marketing TUA to affiliates, and, as permitted by the Cheniere Marketing TUA, Sabine Pass will be able to pledge its interest under the Cheniere Marketing TUA to secure indebtedness.

In addition, Cheniere Marketing may make a partial assignment of its total reserved regasification capacity (but not its rights to excess capacity described below) to non-affiliates provided that (i) the assignee agrees to be bound by the Cheniere Marketing TUA, (ii) Cheniere Marketing continues to be liable for all payment due under the Cheniere Marketing TUA, and (iii) Cheniere Marketing and the assignee designate a representative and jointly exercise all rights under the Cheniere Marketing TUA.

An assignment under the Cheniere Marketing TUA will terminate Cheniere Marketing's obligations only if (i) the assignment constitutes all of Cheniere Marketing's rights and obligations, (ii) the assignee agrees to assume all obligations of the assignor from inception of the Cheniere Marketing TUA, and (iii) the assignee demonstrates creditworthiness at the time of the assignment that is reasonably acceptable to Sabine Pass LNG (and including credit standards that will be deemed acceptable).

Cheniere Marketing will be able to terminate the Cheniere Marketing TUA if Sabine Pass LNG has declared force majeure with respect to a period that has extended, or is projected to extend, for 18 months, or for reasons not excused by force majeure or Cheniere Marketing's actions, if Sabine Pass LNG:

- fails to deliver at least 201,972,750 MMBtu of Cheniere Marketing's total natural gas nominations in a 12-month period;
- fails entirely to receive at least 17 cargoes nominated by Cheniere Marketing over a period of 90 consecutive days; or
- fails to unload 53 cargoes or more scheduled for delivery by Cheniere Marketing for a 12-month period.

Sabine Pass LNG will be able to terminate the Cheniere Marketing TUA if Cheniere Marketing commences bankruptcy, reorganization or liquidation proceedings, or has such proceedings commenced against it.

Either party will be able to terminate the Cheniere Marketing TUA with 30 days written notice if (i) a party has failed to pay when due an amount owed that causes its cumulative delinquency to exceed three times the monthly capacity reservation fee, (ii) the cumulative delinquency has not been paid within 60 days of such notice and (iii) the other party has subsequently given 30 days' written notice to terminate the Cheniere Marketing TUA.

The Cheniere Marketing TUA will be designed to work in tandem with the Total TUA and the Chevron TUA and will state that no provision of the Cheniere Marketing TUA shall be effective if and to the extent that it expressly conflicts with a provision of the Total TUA or the Chevron TUA. Any excess capacity at our Sabine Pass LNG receiving terminal that Sabine Pass LNG is not contractually obligated to make available to any other customer and any capacity that any other customer elects not to use may be used exclusively by Cheniere Marketing without any additional charge or fee except for 2% retainage and port charges in respect of vessels entering or leaving our Sabine Pass LNG receiving terminal. This excess capacity may be available from time to time, including at completion of Phase 1 and the outset of commercial operation of our Sabine Pass LNG receiving terminal, which is the date on which our Sabine Pass LNG receiving terminal is projected to have capacity of 2.6 Bcf/d.

The effective date at which Cheniere Marketing is to begin to purchase and pay for services from our Sabine Pass LNG receiving terminal is the later of January 1, 2008 or the date of commercial operations completion, which is currently expected to be 15 to 18 months before the commercial start date under the Total TUA or Chevron TUA.

The Cheniere Marketing TUA will also provide that, at Cheniere Marketing's request, Sabine Pass LNG must construct a sixth LNG storage tank with a working capacity of approximately 160,000 cubic meters of LNG for the benefit of Cheniere Marketing as soon as possible but not later than four years after notification from Cheniere Marketing. Sabine Pass LNG's obligation to construct the additional LNG storage tank will be subject to its (i) receipt of all Federal Energy Regulatory Commission and other required governmental permits and approvals, (ii) receipt of all required approvals from Sabine Pass LNG's lenders under its amended and restated credit facility or successor credit agreements and (iii) obtaining financing that Sabine Pass LNG considers reasonably acceptable in form and content.

In connection with the Cheniere Marketing TUA, Cheniere Marketing also will enter into a letter agreement with Cheniere LNG, Inc., a wholly-owned subsidiary of Cheniere, and Sabine Pass LNG pursuant to which Cheniere Marketing will agree to relinquish up to 200 million cubic feet per day, or Mmcf/d, of its capacity (and proportionately reduce its fixed monthly fee) under the Cheniere Marketing TUA if required to allow Sabine Pass LNG to satisfy obligations under a potential TUA with J & S Cheniere S.A., or J&S Cheniere. J&S Cheniere is a Swiss company in which Cheniere holds a minority interest. This arrangement stems from a 2003 option agreement between Cheniere LNG, Inc. and J&S Cheniere pursuant to which J&S Cheniere has an option to negotiate a TUA for up to 200 Mmcf/d of vaporization capacity and proportional LNG storage at our Sabine Pass LNG receiving terminal. The terms of the potential TUA contemplated by the J&S Cheniere option agreement have not been negotiated or finalized, and we have publicly disclosed our anticipation that definitive arrangements with J&S Cheniere may involve different terms and transaction structures than were contemplated when the option agreement was entered into in December 2003.

Financial Information

Construction of our Sabine Pass LNG receiving terminal is well underway, with \$507 million of the anticipated \$900 to \$950 million of Phase 1 construction expenditures, before financing costs, and \$39 million of the anticipated \$500 to \$550 million of Phase 2 – Stage 1 construction expenditures, before financing costs, already funded as of September 30, 2006. As of September 30, 2006, we had spent \$236.7 million of equity capital and capacity reservation fee prepayments and \$270.5 million of project finance debt proceeds toward these construction costs. Our cost estimates are subject to change due to such items as cost overruns, change orders, changes in commodity prices (particularly nickel and steel), escalation of labor costs and additional funds that may be expended to maintain our construction schedule.

Bechtel Corporation, or Bechtel, is serving as EPC contractor under a lump-sum turnkey EPC agreement for Phase 1, and will provide design and engineering services and also act as

construction manager for Phase 2 – Stage 1. We agreed to pay Bechtel a contract price of \$646.9 million plus certain reimbursable costs for the work performed under the Phase 1 EPC agreement. This contract price is subject to adjustment for changes in certain commodity prices, contingencies, change orders and other items. As of September 30, 2006, change orders for \$89.1 million were approved, increasing the total contract price to \$736.1 million. We anticipate additional change orders intended to mitigate ongoing effects of the 2005 hurricanes will not exceed \$25 million.

In July 2006, Sabine Pass LNG entered into a \$1.5 billion amended and restated credit facility with HSBC Bank, USA, Société Générale and a syndicate of financial institutions to finance Phase 1 and the Phase 2 – Stage 1 expansion construction of our Sabine Pass LNG receiving terminal. As of September 30, 2006, Sabine Pass LNG had outstanding borrowings under its amended and restated credit facility in an aggregate amount of \$351.5 million.

In August 2005, Cheniere LNG Holdings, LLC, a wholly-owned subsidiary of Cheniere, entered into a \$600 million term loan with Credit Suisse. As of October 31, 2006, we estimate that the outstanding payoff amount of the term loan, including principal, accrued interest and a prepayment penalty, and less related cash reserve funds, will be approximately \$463 million.

Attached hereto as Exhibit 99.1 are financial statements for Sabine Pass LNG for the periods stated therein. The unaudited financial statements have been prepared on the same basis as the audited financial statements for Sabine Pass LNG and, in the opinion of management of Sabine Pass LNG, Inc., the general partner of Sabine Pass LNG, include all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation of the information set forth therein. The past financial and/or operating performance of Sabine Pass LNG is not a reliable indicator of its future performance (particularly anticipated revenues, debt costs and expenses), and Sabine Pass LNG's historical performance should not be used to anticipate results or future period trends.

Illustrative Cash Flow Summary

The information set forth below represents Sabine Pass LNG's anticipated results of operations, including the projected revenues under its 20-year TUAs with Total, Chevron and Cheniere Marketing, for 2010, the first full year of operating revenues under all three TUAs. In preparing this information, Sabine Pass LNG has relied on assumptions regarding circumstances beyond the control of it or any other person. By their nature, the assumptions are subject to significant uncertainties and actual results will differ, perhaps materially, from those projected. We cannot give any assurance that these assumptions are correct or that this information will reflect actual results. Accordingly, this financial estimate is not intended to be a prediction of future results. For additional information relating to these financial estimates, please read "Risk Factors" below.

(Dollars in millions)	2010
TUA Revenues⁽¹⁾	
Total TUA ⁽²⁾	\$ 126
Chevron TUA ⁽²⁾	129
Cheniere Marketing TUA	251
Aggregate TUA Revenues	506
Fixed Operating Expenses ⁽³⁾	(37)
Additional Operating Expenses ⁽⁴⁾	(2)
EBITDA⁽⁵⁾	\$ 467
EBITDA/Interest ⁽⁶⁾	3.1x
Total Debt/ EBITDA ⁽⁷⁾	4.6x

Assuming payments under the 20-year TUAs with Total, Chevron and Cheniere Marketing are made as contractually stipulated, Sabine Pass LNG expects (i) the Total TUA to provide annual revenues of approximately \$125 million for 20 years commencing April 1, 2009, (ii) the Chevron TUA to provide annual revenues of approximately \$125 million for 20 years commencing July 1, 2009 and (iii) the Cheniere Marketing TUA to provide annual revenues of approximately \$250 million for at least 19 years commencing January 1, 2009, plus initial revenues of \$5 million per month during 2008 commencing on the date of commercial operations completion. The Independent Engineer (as defined below) has estimated that the total annual operating expenses for our Sabine Pass LNG receiving terminal will be approximately \$39 million per year to support the full 4.0 Bcf/d of receiving capacity. Based on these expected TUA revenues and operating expenses, we believe that our Sabine Pass LNG receiving terminal will generate approximately \$467 million in EBITDA in 2010.

- (1) Fixed capacity reservation fees, plus operating fees that are subject to adjustment for annual CPI inflation (assumed to be 2.5%). Sabine Pass LNG has not predicted potential inflation or deflation for subsequent years in estimating approximate annual revenues under our 20-year TUAs.
- (2) Includes \$2 million of annual non-cash revenues related to capacity prepayments.
- (3) Based on operating and maintenance expenses of approximately \$37 million to support the base LNG receiving capacity of 2.0 Bcf/d (the amount necessary to support the Total and Chevron TUAs), as the Independent Engineer has estimated.
- (4) Based on operating and maintenance expenses of approximately \$2 million to support the additional 2.0 Bcf/d of LNG receiving capacity (to support the Cheniere Marketing TUA), as the Independent Engineer has estimated.
- (5) Calculated as total revenues less operating expenses. See "Non-GAAP Financial Measure," below, for more information.
- (6) Assumes fixed interest rate of 7.000% paid semi-annually.
- (7) Assumes total debt of \$2,150 million.

UHY LLP, Sabine Pass LNG's independent auditor, has not reviewed the foregoing illustrative cash flow summary and, accordingly, does not express an opinion or any other form of assurance on it. Sabine Pass LNG does not intend to provide any revised illustrative cash flow summary. We expressly disclaim any duty to update the illustrative cash flow summary under any circumstances.

Non-GAAP Financial Measure

EBITDA estimates are used as a supplemental financial measure by management and by external users of Sabine Pass LNG's financial statements, such as commercial banks, to assess:

- the anticipated financial performance of Sabine Pass LNG's assets without regard to financing methods, capital structure or historical cost basis;
- the ability of Sabine Pass LNG's assets to generate cash sufficient to pay interest on its indebtedness; and

-
- Sabine Pass LNG's anticipated operating performance and return on invested capital compared to other comparable companies, without regard to their financing methods and capital structure.

Sabine Pass LNG's EBITDA should not be considered an alternative to net income, operating income, cash flows from operating activities or any other measure of financial performance or liquidity presented in accordance with generally accepted accounting principles, or GAAP. Sabine Pass LNG's EBITDA excludes some, but not all, items that affect net income and operating income, and these measures may vary among companies. Therefore, Sabine Pass LNG's EBITDA may not be comparable to similarly titled measures of other companies.

Sabine Pass LNG's EBITDA is computed as total revenues less operating expenses. It does not include depreciation expense and certain non-operating items. Because Sabine Pass LNG has not forecasted such depreciation expense and non-operating items, Sabine Pass LNG has not forecasted net income, which would be the most directly comparable GAAP financial measure, and is therefore unable to reconcile differences between forecasts of EBITDA and net income.

Independent Engineer Report

Stone & Webster Management Consultants, Inc., or the Independent Engineer, has prepared a report that analyzes certain technical, environmental and economic aspects of our Sabine Pass LNG receiving terminal. This report includes, among other things, discussions of the technology used at the Sabine LNG receiving terminal, engineering and construction execution issues and costs, operating plans, environmental permitting status, and a technical review of the documents and agreements relating to our Sabine Pass LNG receiving terminal. A copy of the report is attached as Exhibit 99.2 to this Form 8-K and should be read in its entirety.

In the preparation of its report, the Independent Engineer has relied on assumptions regarding circumstances beyond the control of us or any other person. By their nature, these assumptions are subject to significant uncertainties, and actual results will differ, perhaps materially, from those stated in the report. The persons responsible for the assumptions contained in the report cannot give any assurance that these assumptions will prove to be correct.

UHY LLP, Sabine Pass LNG's independent auditor, has not reviewed the Independent Engineer's report and, accordingly, does not express an opinion or any other form of assurance on it. We will not provide with any revised report from the Independent Engineer. We expressly disclaim any duty to update the Independent Engineer's report under any circumstances.

Below is a summary of the conclusions expressed by the Independent Engineer in its report. This is merely a summary and is subject to the information contained, and the assumptions made, in the Independent Engineer's report. The Independent Engineer's report should be read in its entirety in order for the reader to understand the basis of the conclusions and the assumptions upon which they are based.

Certain terms used in the summary below are defined in the Independent Engineer's report. On the basis of its studies, analyses and investigations of our Sabine Pass LNG receiving

terminal and the assumptions set forth in the Independent Engineer's report, the Independent Engineer is of the opinion that:

- The Phase 1 Project is technically viable;
- The Phase 1 Project Budget is reasonable;
- The Phase 1 Schedule is reasonable;
- The Phase 1 Project has been approved by the FERC, indicating compliance with environmental regulations and that environmental risks are low;
- The Phase 1 Project contracting strategy is reasonable and minimizes the strain on Sabine Pass LNG, which is a development stage company;
- The Phase 1 EPC contract provides a suitable basis for contracting the required services;
- The Phase 1 Project will provide ample availability to service the aggregate 2.0 Bcf/d export capacity requirements under the Total and Chevron TUAs;
- The Phase 2 – Stage 1 Expansion of Sabine Pass poses negligible risk to the timely completion and operation of the Phase 1 Project;
- The Phase 2 – Stage 1 Expansion is technically feasible and viable;
- The Phase 2 – Stage 1 Budget is reasonable and generally consistent with that for the Phase 1 Project;
- The Phase 2 – Stage 1 Schedule is reasonable;
- The Phase 2 – Stage 1 Project has been approved by the FERC, indicating compliance with environmental regulations and that environmental risks are low;
- The Phase 2 – Stage 1 Project contracting strategy provides Sabine Pass LNG with maximum flexibility in Phase 2 Project execution;
- The Phase 2 – Stage 1 construction contracts provide a suitable basis for contracting the required services without impinging on the Phase 1 Project; and
- The Phase 2 – Stage 1 Project will increase the overall export capacity to a maximum peak rate of 4.0 Bcf/d and a long-term sustainable capacity of at least approximately 3.5 Bcf/d.

Risk Factors

Our financial estimates, including our illustrative cash flow summary, are based on certain assumptions.

The financial estimates that we have included in this Form 8-K, including under “Illustrative Cash Flow Summary,” are based upon assumptions and information that are believed to be reliable as of today. However, these estimates and assumptions are inherently subject to significant business, economic and other uncertainties, many of which are beyond our control. Financial estimates are necessarily speculative in nature, and it should be expected that some or all of the assumptions will not materialize. Actual results will probably vary from the estimates, and the variations will likely be material and are likely to increase over time. Consequently, the inclusion of estimates in this Form 8-K should not be regarded as a representation by us or any other person that the estimated results will actually be achieved. Moreover, we do not intend to update or otherwise revise the estimates to reflect events or circumstances after the date of this Form 8-K or to reflect the occurrence of unanticipated events. Undue reliance should not be placed on the estimates contained in this Form 8-K. Our estimates were not prepared with a view toward compliance with published guidelines of the Securities and Exchange Commission, the American Institute of Certified Public Accountants or any other regulatory or professional body, compliance with accounting principles generally accepted in the U.S. or elsewhere, or consistency with audited financial statements. Moreover, no independent accountants compiled or examined the estimates, and, accordingly, our independent accountants do not express an opinion or any other form of assurance with respect to our estimates and assume no responsibility for, and disclaim any association with, the estimates.

Item 9.01 Financial Statements and Exhibits.

d) Exhibits

<u>Exhibit Number</u>	<u>Description</u>
99.1	Sabine Pass LNG, L.P. Financial Statements.
99.2	Stone & Webster Management Consultants, Inc. Report, dated October 21, 2006.

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 hereunto duly authorized.

Date: October 23, 2006

CHENIERE ENERGY, INC.

By: /s/ Zurab S. Kobiashvili
Name: Zurab S. Kobiashvili
Title: Senior Vice President and General Counsel

EXHIBIT INDEX

Exhibit Number	Description
99.1	Sabine Pass LNG, L.P. Financial Statements.
99.2	Stone & Webster Management Consultants, Inc. Report, dated October 21, 2006.

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Report of Independent Registered Public Accounting Firm

To the Partners of
Sabine Pass LNG, L.P.
Houston, Texas

We have audited the accompanying balance sheets of Sabine Pass LNG, L.P. (a development stage limited partnership, the "Partnership") as of December 31, 2005 and 2004, and the related statements of operations, partners' capital (deficit) and cash flows for the years then ended, and for the periods from October 20, 2003 (date of inception) to December 31, 2003 and from October 20, 2003 (date of inception) to December 31, 2005. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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 financial statements referred to above present fairly, in all material respects, the financial position of Sabine Pass LNG, L.P. as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, and for the periods from October 20, 2003 (date of inception) to December 31, 2003 and from October 20, 2003 (date of inception) to December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

/s/ UHY LLP

Houston, Texas
October 5, 2006

SABINE PASS LNG, L.P.
(DEVELOPMENT STAGE LIMITED PARTNERSHIP)
BALANCE SHEETS

		December 31,	
		2005	2004
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		\$ —	\$ 21,822,032
Restricted cash and cash equivalents		8,871,148	—
Advance to EPC contactor		8,086,700	—
Advances to affiliate		241,916	—
Short-term unrealized derivative asset		423,211	—
Prepaid expenses		415,583	—
Other		4,750	23,259
		18,043,308	21,845,291
TOTAL CURRENT ASSETS		18,043,308	21,845,291
PROPERTY, PLANT AND EQUIPMENT, NET		270,739,878	211,590
DEBT ISSUANCE COSTS, NET		18,496,739	1,245,951
LNG INTANGIBLE ASSETS		17,920	12,920
LONG-TERM DERIVATIVE ASSETS		1,837,209	—
		1,837,209	—
TOTAL ASSETS		\$ 309,135,054	\$ 23,315,752
LIABILITIES AND PARTNERS' CAPITAL (DEFICIT)			
CURRENT LIABILITIES			
Accounts payable		\$ —	\$ 207,320
Accrued liabilities		44,402,904	1,108,043
Accrued liabilities to affiliate		435,000	—
		44,837,904	1,315,363
TOTAL CURRENT LIABILITIES		44,837,904	1,315,363
DEFERRED REVENUES		40,000,000	22,000,000
LONG-TERM DEBT—RELATED PARTY		37,376,851	—
INTEREST PAYABLE—RELATED PARTY		119,918	—
PAYABLE TO AFFILIATE		—	7,417,617
DISTRIBUTION PAYABLE		—	10,000,000
PARTNERS' CAPITAL (DEFICIT)			
Partners' capital (deficit), including deficit accumulated during development stage of \$11,672,117 and \$7,417,228 at December 31, 2005 and 2004, respectively		184,986,152	(17,417,228)
Accumulated other comprehensive income		1,814,229	—
		186,800,381	(17,417,228)
TOTAL LIABILITIES AND PARTNERS' CAPITAL (DEFICIT)		\$ 309,135,054	\$ 23,315,752

See notes to financial statements.

SABINE PASS LNG, L.P.
(DEVELOPMENT STAGE LIMITED PARTNERSHIP)
STATEMENTS OF OPERATIONS

	Year Ended December 31,		Period from October 20, 2003 (Date of Inception) to December 31, 2003	Period from October 20, 2003 (Date of Inception) to December 31, 2005
	2005	2004		
REVENUES	\$ —	\$ —	\$ —	\$ —
EXPENSES				
Legal	203,248	1,434,011	587,756	2,225,015
Professional	280,488	567,853	152,019	1,000,360
Technical consulting	—	2,579,235	1,971,416	4,550,651
Public relations	65,356	25,836	7,500	98,692
Travel and entertainment	45,441	34,475	15,521	95,437
Other	9,333	40,765	29,234	79,332
Depreciation expense	12,635	—	—	12,635
Overhead charge	4,094,015	—	—	4,094,015
TOTAL EXPENSES	<u>4,710,516</u>	<u>4,682,175</u>	<u>2,763,446</u>	<u>12,156,137</u>
LOSS FROM OPERATIONS	(4,710,516)	(4,682,175)	(2,763,446)	(12,156,137)
OTHER INCOME				
Interest Income	112,701	28,393	—	141,094
Derivative gain, net	342,926	—	—	342,926
TOTAL OTHER INCOME	<u>455,627</u>	<u>28,393</u>	<u>—</u>	<u>484,020</u>
NET LOSS	<u>\$ (4,254,889)</u>	<u>\$ (4,653,782)</u>	<u>\$ (2,763,446)</u>	<u>\$ (11,672,117)</u>

See notes to financial statements.

SABINE PASS LNG, L.P.
(DEVELOPMENT STAGE LIMITED PARTNERSHIP)
STATEMENTS OF PARTNERS' CAPITAL (DEFICIT)

	General Partner	Limited Partner	Accumulated Other Comprehensive Income	Total Partners' Capital (Deficit)
	Sabine Pass LNG-GP, Inc.	Sabine Pass LNG-LP, LLC		
Balance at October 20, 2003 (inception)	\$ —	\$ —	\$ —	\$ —
Comprehensive loss:				
Net loss	—	(2,763,446)	—	(2,763,446)
Total comprehensive loss				(2,763,446)
Balance at December 31, 2003	—	(2,763,446)	—	(2,763,446)
Distributions	—	(10,000,000)	—	(10,000,000)
Comprehensive loss:				
Net loss	—	(4,653,782)	—	(4,653,782)
Total comprehensive loss				(4,653,782)
Balance at December 31, 2004	—	(17,417,228)	—	(17,417,228)
Capital contributions	—	196,658,269	—	196,658,269
Rescinded distribution	—	10,000,000	—	10,000,000
Comprehensive loss:				
Change in fair value of derivative instrument	—	—	1,814,229	1,814,229
Net loss	—	(4,254,889)	—	(4,254,889)
Total comprehensive loss				(2,440,660)
Balance at December 31, 2005	\$ —	\$ 184,986,152	\$ 1,814,229	\$ 186,800,381

See notes to financial statements.

SABINE PASS LNG, L.P.
(DEVELOPMENT STAGE LIMITED PARTNERSHIP)
STATEMENTS OF CASH FLOWS

	Year Ended December 31,		Period from	Period from
	2005	2004	October 20, 2003 (Date of Inception) to December 31, 2003	October 20, 2003 (Date of Inception) to December 31, 2005
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss	\$ (4,254,889)	\$ (4,653,782)	\$ (2,763,446)	\$ (11,672,117)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation	12,635	—	—	12,635
Non-cash derivative gain	(361,918)	—	—	(361,918)
Changes in operating assets and liabilities:				
Prepaid expenses	(415,583)	—	—	(415,583)
Accounts payable	(207,320)	207,320	—	—
Accrued liabilities—affiliate	435,000	—	—	435,000
Accrued liabilities	398,224	1,108,043	—	1,506,267
Accrued interest payable—related party	119,918	—	—	119,918
Deferred revenues	18,000,000	22,000,000	—	40,000,000
Payable to affiliate	(7,417,617)	4,553,501	2,864,116	—
Other	18,509	(23,259)	—	(4,750)
NET CASH PROVIDED BY OPERATING ACTIVITIES	6,326,959	23,191,823	100,670	29,619,452
CASH FLOWS FROM INVESTING ACTIVITIES				
Advances to EPC contractor, net of transfers to construction-in-progress	(8,086,700)	—	—	(8,086,700)
Advances to affiliate	(241,916)	—	—	(241,916)
Investment in restricted cash and cash equivalents	(8,871,148)	—	—	(8,871,148)
LNG terminal construction-in-progress	(229,072,577)	—	—	(229,072,577)
Purchase of LNG site options	—	(115,590)	(96,000)	(211,590)
Purchase of LNG intangible assets	(5,000)	(8,250)	(4,670)	(17,920)
Purchase of fixed assets	(59,269)	—	—	(59,269)
NET CASH USED IN INVESTING ACTIVITIES	(246,336,610)	(123,840)	(100,670)	(246,561,120)
CASH FLOWS FROM FINANCING ACTIVITIES				
Debt issuance costs	(15,847,501)	(1,245,951)	—	(17,093,452)
Proceeds from subordinated note—related party	37,376,851	—	—	37,376,851
Partner contributions	196,658,269	—	—	196,658,269
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	218,187,619	(1,245,951)	—	216,941,668
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(21,822,032)	21,822,032	—	—
CASH AND CASH EQUIVALENTS—beginning of year	21,822,032	—	—	—
CASH AND CASH EQUIVALENTS—end of year	\$ —	\$21,822,032	\$ —	\$ —
NON-CASH INVESTING AND FINANCING ACTIVITIES				
Distribution payable	\$ (10,000,000)	\$10,000,000	\$ —	\$ —
Construction-in-progress and debt issuance additions funded with accrued liabilities	\$ 42,812,364	\$ —	\$ —	\$ 42,812,364

See notes to financial statements.

SABINE PASS LNG, L.P.
(DEVELOPMENT STAGE LIMITED PARTNERSHIP)

NOTES TO FINANCIAL STATEMENTS

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Sabine Pass LNG, L.P. (the “Partnership”) is a Delaware limited partnership formed with one general partner, Sabine Pass LNG-GP, Inc. (“Sabine Pass GP”), a Cheniere Energy Inc. (“Cheniere”) indirect, wholly-owned subsidiary, and one limited partner, Sabine Pass LNG-LP, LLC (“Sabine Pass LNG-LP”), which owns 100% of the Partnership and is an indirect, wholly-owned subsidiary of Cheniere. The Partnership is in the development stage, and the purpose of this limited partnership is to construct a liquefied natural gas (“LNG”) receiving and regasification terminal in western Cameron Parish, Louisiana on the Sabine Pass Channel (the “Facility”). After construction is completed, the Partnership will own and operate the Facility.

Cash and Cash Equivalents: The Partnership considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

LNG Site Related Costs: LNG site related costs include costs related to options to lease land that is used for the Partnership’s LNG receiving terminal. Such costs are capitalized and are amortized on a straight-line basis over their estimated useful lives.

LNG Intangible Assets: LNG intangible assets include the costs of certain permits for the Facility. Amortization will begin when the Facility is operational and will be calculated on the straight-line method over the estimated useful life of the Facility.

Debt Issuance Costs: Debt issuance costs consist primarily of fees directly associated with arranging project debt financing related to the Partnership’s LNG receiving terminal currently under construction. These costs are capitalized and are amortized to interest expense over the term of the related debt facility.

Revenue Recognition: LNG regasification capacity fees are recognized as revenue over the term of the respective terminal use agreements (“TUAs”). Advance capacity reservation fees are initially deferred.

Income Taxes: The Partnership is not subject to federal income taxes, as the partners are taxed individually on their proportionate share of the Partnership’s earnings. Accordingly, no provision or liability for federal income taxes is included in the accompanying financial statements.

Under the terms of the Sabine Pass Credit Facility (see Note J), beginning with the quarter that the Partnership begins commercial operations, the Partnership will generally be allowed to make quarterly cash distributions to the limited partner equal to the amount that would be due as quarterly estimated tax payments in respect of the federal and state income and franchise tax liability that would have accrued if the Partnership were a separate corporation that was subject to federal and state income and franchise taxes. There were no estimated tax cash distributions made during the calendar year ended December 31, 2005.

Concentration of Credit Risk: Financial instruments that potentially subject the Partnership to a concentration of credit risk consist principally of cash and cash equivalents, and restricted cash. The Partnership maintains cash balances at financial institutions, which may at times be in excess of federally insured levels. The Partnership has not incurred losses related to these balances to date.

SABINE PASS LNG, L.P.
(DEVELOPMENT STAGE LIMITED PARTNERSHIP)
NOTES TO FINANCIAL STATEMENTS—(Continued)

Property, Plant and Equipment. Property, plant and equipment are recorded at cost. Expenditures for construction activities, major renewals and betterments are capitalized, while expenditures for maintenance and repairs and general and administrative activities are charged to expense as incurred. Interest costs incurred on debt obtained for the construction of property, plant and equipment are capitalized as construction-in-progress over the life of the project or related debt, whichever is shorter. Depreciation of computer and office equipment, computer software, leasehold improvements and vehicles is computed using the straight-line method over estimated useful lives of the assets, which range from two to ten years. Upon retirement or other disposition of property, plant and equipment, the cost and related accumulated depreciation are removed from the account and the resulting gains or losses are recorded in operations.

In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*, management periodically reviews for impairment of property, plant and equipment, whenever events or changes in circumstances have indicated that the carry amount of property, plant and equipment might not be recoverable. No such impairment was recorded for the years ended December 31, 2005 or 2004.

Cash Flow Hedges: The Partnership uses cash flow hedges to limit its exposure to variability in expected future cash flows (in its case, the variability of floating interest rate exposure). The hedged item (the underlying risk) is generally unrecognized (i.e., not recorded on the balance sheet prior to settlement), and any changes in the fair value, therefore, will not be recorded within earnings. Conceptually, if a cash flow hedge is effective, this means that a variable, such as a movement in interest rates, has been effectively fixed so that any fluctuations will have no net result on either cash flows or earnings. Therefore, if the changes in fair value of the hedged item are not recorded in earnings, then the changes in fair value of the hedging instrument (the derivative) must also be excluded from the income statement or else a one-sided net impact on earnings will be reported, despite the fact that the establishment of the effective hedge results in no net economic impact. To prevent such a scenario from occurring, SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities, as amended*, requires that the fair value of a derivative instrument designated as a cash flow hedge be recorded as an asset or liability on the balance sheet, but with the offset reported as part of other comprehensive income, to the extent that the hedge is effective. Any ineffective portion will be reflected in earnings.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates and assumptions.

New Accounting Pronouncements. In October 2005, the Financial Accounting Standards Board (“FASB”) issued FSP 13-1, *Accounting for Rental Costs Incurred During a Construction Period*, to address the accounting for rental costs associated with operating leases that are incurred during a construction period. FSP 13-1 requires rental costs associated with ground or building operating leases that are incurred during a construction period to be recognized as rental expense. FSP 13-1 is effective in fiscal years beginning after December 15, 2005. Accordingly, the Partnership will adopt the new standard effective January 1, 2006. As of December 31, 2005, the Partnership had capitalized \$1,501,277 in rental costs related to its Facility site lease. The Partnership will begin expensing these rental costs effective January 1, 2006.

SABINE PASS LNG, L.P.
(DEVELOPMENT STAGE LIMITED PARTNERSHIP)
NOTES TO FINANCIAL STATEMENTS—(Continued)

NOTE B—DEVELOPMENT STAGE OPERATIONS

The Partnership was formed on October 20, 2003. Operations to date have been devoted to pre-construction and construction activities. Although the Partnership has obtained Federal Energy Regulatory Commission (“FERC”) approval to commence construction of the Facility, closed on a project financing agreement, and began construction on the Facility in March 2005, the ultimate profitability of the Partnership will depend on, among other factors, the successful completion of construction of the Facility and its placement into operation, which is not expected until approximately 2008.

NOTE C—RESTRICTED CASH AND CASH EQUIVALENTS

In February 2005, the Partnership entered into an \$822,000,000 credit facility (the “Sabine Pass Credit Facility”), with an initial syndicate of 47 financial institutions. Société Générale serves as the administrative agent and HSBC Bank USA, National Association (“HSBC”) serves as collateral agent (see Note J). Under the terms and conditions of the Sabine Pass Credit Facility, all cash held by the Partnership is controlled by the collateral agent. These funds can only be released by the collateral agent upon receipt of satisfactory documentation that the Facility’s initial phase (“Phase 1”) project costs are bona fide expenditures and are permitted under the terms of the Sabine Pass Credit Facility. The Sabine Pass Credit Facility does not permit the Partnership to hold any cash or cash equivalents outside of the accounts established under the agreement. Because these cash accounts are controlled by the collateral agent, the Partnership’s cash balance of \$8,871,148 held in these accounts as of December 31, 2005 was classified as restricted on the accompanying balance sheet.

NOTE D—ADVANCES TO EPC CONTRACTOR

In December 2004, the Partnership entered into a lump-sum turnkey engineering, procurement and construction (“EPC”) contract with Bechtel Corporation (“Bechtel”) to construct Phase 1 of the Facility. Under the EPC contract, the Partnership is required to make a 5% advance payment to Bechtel upon issuance of the final notice to proceed (“NTP”) related to the construction of Phase 1. A payment of \$32,346,800 was made to Bechtel in March 2005 when the NTP was issued and that amount was classified as a current asset. In accordance with the payment schedule included in the EPC contract, \$2,695,567 per month is being reclassified to construction-in-progress over a twelve-month period. As of December 31, 2005, the remaining balance of the advance was \$8,086,700.

SABINE PASS LNG, L.P.
(DEVELOPMENT STAGE LIMITED PARTNERSHIP)
NOTES TO FINANCIAL STATEMENTS—(Continued)

NOTE E—PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is comprised of LNG terminal construction-in-progress expenditures, LNG site and related costs and fixed assets, as follows:

	December 31,	
	2005	2004
LNG TERMINAL COSTS		
LNG terminal construction-in-progress	\$ 270,488,707	\$ —
LNG site and related costs, net	204,537	211,590
Total LNG terminal costs	270,693,244	211,590
FIXED ASSETS		
Computer and office equipment	3,958	—
Computer software	19,698	—
Leasehold improvements	10,000	—
Vehicles	25,613	—
Accumulated depreciation	(12,635)	—
Total fixed assets, net	46,634	—
PROPERTY, PLANT AND EQUIPMENT, NET	\$ 270,739,878	\$ 211,590

In February 2005, Phase 1 of the Facility satisfied the criteria for capitalization. Accordingly, costs associated with the construction of Phase 1 of the Facility have been capitalized as construction-in-progress since that time. Depreciation expense related to the Partnership's fixed assets totaled \$12,635, \$0, and \$0 for the years ended December 31, 2005, 2004, and the period from October 20, 2003 (date of inception) to December 31, 2003, respectively.

NOTE F—DEBT ISSUANCE COSTS

As of December 31, 2005 and 2004, the Partnership had capitalized \$18,496,739 and \$1,245,951, respectively (net of accumulated amortization of \$1,679,213 and \$0, respectively), of costs directly associated with the arrangement of the Sabine Pass Credit Facility. The debt issuance costs are amortized over a period of ten years, the term of the Sabine Pass Credit Facility. Although no borrowings were outstanding as of December 31, 2005 or 2004, the amortization of the debt issuance cost is recorded to interest expense and subsequently capitalized as construction-in-progress during the construction period of the Sabine Pass LNG receiving terminal. For the years ended December 31, 2005, 2004, and the period from October 20, 2003 (date of inception) to December 31, 2003, the amount amortized and capitalized was \$1,679,213, \$0, and \$0, respectively.

NOTE G—DERIVATIVE INSTRUMENTS

Interest Rate Derivative Instruments

In connection with the closing of the Sabine Pass Credit Facility in February 2005, the Partnership entered into swap agreements ("Swaps") with HSBC and Société Générale. Under the terms of the Swaps, the Partnership will be able to hedge against rising interest rates, to a certain extent, with respect to its drawings under the Sabine Pass Credit Facility, up to a maximum amount of \$700,000,000. The Swaps have the effect of fixing the LIBOR component of the interest rate payable under the Sabine Pass Credit Facility with respect to hedged drawings

SABINE PASS LNG, L.P.
(DEVELOPMENT STAGE LIMITED PARTNERSHIP)
NOTES TO FINANCIAL STATEMENTS—(Continued)

under the Sabine Pass Credit Facility up to a maximum of \$700,000,000 at 4.49% from July 25, 2005 through March 25, 2009 and at 4.98% from March 26, 2009 through March 25, 2012. The final termination date of the Swaps will be March 25, 2012.

Accounting for Hedges

SFAS No. 133, as amended and interpreted by other related accounting literature, establishes accounting and reporting standards for derivative instruments. Under SFAS No. 133, the Partnership is required to record derivatives on their balance sheet as either an asset or liability measured at their fair value, unless exempted from derivative treatment under the normal purchase and normal sale exception. Changes in the fair value of derivatives are recognized currently in earnings unless specific hedge criteria are met. These criteria require that the derivative is determined to be effective as a hedge and that it is formally documented and designated as a hedge.

The Partnership has determined that the Swaps qualify as cash flow hedges within the meaning of SFAS No. 133 and have designated them as such. At inception, the Partnership determined the hedging relationship of the Swaps and the underlying debt to be highly effective. The Partnership will continue to assess the hedge effectiveness of the Swaps on a quarterly basis in accordance with the provisions of SFAS No. 133.

SFAS No. 133 provides that the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument be reported as a component of other comprehensive income ("OCI") and be reclassified into earnings in the same period during which the hedged forecasted transaction affects earnings. The remaining gain or loss on the derivative instrument, if any, must be recognized currently in earnings. For the year ended December 31, 2005, the Partnership recognized net derivative gains of \$342,926 into earnings. If the forecasted transaction is no longer probable of occurring, the associated gain or loss recorded in OCI is recognized currently in earnings.

Summary of Derivative Values

The following table reflects the amounts that were recorded as assets and liabilities as of December 31, 2005 for the Partnership's derivative instruments:

Current derivative assets	\$ 423,211
Long-term derivative assets	1,837,209
Total derivative assets	2,260,420
Current derivative liabilities (1)	84,273
Total derivative liabilities	84,273
Net derivative assets	\$ 2,176,147

(1) Included in accrued liabilities on the balance sheet.

SABINE PASS LNG, L.P.
(DEVELOPMENT STAGE LIMITED PARTNERSHIP)
NOTES TO FINANCIAL STATEMENTS—(Continued)

Below is a reconciliation of the net derivative assets to the Partnership's accumulated OCI as of December 31, 2005:

Net derivative assets	\$ 2,176,147
Net derivative gains recognized into earnings	(342,926)
Cash settled derivative losses during the period	(18,992)
	<hr/>
Accumulated other comprehensive income	\$ 1,814,229
	<hr/>

For the year ended December 31, 2005, the Partnership settled derivative contracts that resulted in \$103,265 of net realized derivative losses. The maximum length of time over which the Partnership has hedged its exposure to the variability in future cash flows for forecasted transactions is seven years under the Swaps. As of December 31, 2005, \$548,037 of accumulated net deferred gains on the Swaps, currently included in OCI, was expected to be reclassified to earnings during the next twelve months, assuming no change in the LIBOR forward curve at December 31, 2005. The actual amounts that will be reclassified will likely vary based on the probability that interest rates will, in fact, change. Therefore, the Partnership is unable to predict what the actual reclassification from OCI to earnings (positive or negative) will be for the next twelve months.

NOTE H—ACCRUED LIABILITIES

Accrued liabilities consisted of the following:

	December 31,	
	2005	2004
LNG terminal construction costs	\$ 39,729,865	\$ —
Interest and related debt fees	4,639,523	—
Professional and legal services	33,516	933,006
Affiliate	435,000	—
Other	—	175,037
	<hr/>	<hr/>
	\$ 44,837,904	\$ 1,108,043
	<hr/>	<hr/>

NOTE I—DEFERRED REVENUES

In November 2004, Total LNG USA, Inc. ("Total") paid the Partnership a nonrefundable advance capacity reservation fee of \$10,000,000 in connection with the reservation of approximately 1.0 Bcf/d of LNG regasification capacity at the Sabine Pass LNG receiving terminal. An additional advance capacity reservation fee payment of \$10,000,000 was paid by Total to the Partnership in April 2005. The advance capacity reservation fee payments will be amortized over a 10-year period after operations commence as a reduction of Total's regasification capacity fee under its TUA. As a result, the Partnership records the advance capacity reservation payments that it receives, although non-refundable, as deferred revenue to be amortized to income over the corresponding 10-year period.

In November 2004, the Partnership also entered into a TUA to provide Chevron USA, Inc. ("Chevron USA"), with approximately 700 MMcf/d of LNG regasification capacity at the Partnership's LNG receiving terminal. In December 2005, Chevron USA exercised its option to increase its reserved capacity by approximately 300 MMcf/d to approximately 1.0 Bcf/d and paid the Partnership an additional \$3,000,000 advance capacity

SABINE PASS LNG, L.P.
(DEVELOPMENT STAGE LIMITED PARTNERSHIP)
NOTES TO FINANCIAL STATEMENTS—(Continued)

reservation fee. As of December 31, 2005, Chevron USA had made advance capacity reservation fee payments to the Partnership totaling \$20,000,000, with \$12,000,000 paid in 2004 and \$8,000,000 paid in 2005. These capacity reservation fee payments will be amortized over a 10-year period as a reduction of Chevron USA's regasification capacity fee under the TUA. As a result, the Partnership records the advance capacity reservation payments that it receives, although non-refundable, as deferred revenue to be amortized to income over the corresponding 10-year period.

As of December 31, 2005 and 2004, the Partnership had recorded \$40,000,000 and \$22,000,000, respectively, as deferred revenue related to advance capacity reservation fee payments.

NOTE J—LONG-TERM DEBT

In February 2005, the Partnership entered into the \$822,000,000 Sabine Pass Credit Facility with an initial syndicate of 47 financial institutions. Société Générale serves as the administrative agent and HSBC serves as collateral agent. The Sabine Pass Credit Facility will be used to fund a substantial majority of the costs of constructing and placing into operation Phase 1 of the Partnerships' LNG receiving terminal. Unless the Partnership decides to terminate availability earlier, the Sabine Pass Credit Facility will be available until no later than April 1, 2009, after which time any unutilized portion of the Sabine Pass Credit Facility will be permanently canceled. Before the Partnership could make an initial borrowing under the Sabine Pass Credit Facility, it was required to provide evidence that it had funded the first \$233,715,000 of project costs through equity contributions, cash on-hand and other means. As of December 31, 2005, this requirement had been met.

As of December 31, 2005, there were no borrowings outstanding under the Sabine Pass Credit Facility. Borrowings under the Sabine Pass Credit Facility bear interest at a variable rate equal to LIBOR plus the applicable margin. The applicable margin varies from 1.25% to 1.625% during the term of the Sabine Pass Credit Facility. The Sabine Pass Credit Facility provides for a commitment fee of 0.50% per annum on the daily committed, undrawn portion of the facility. Annual administrative fees must also be paid to the administrative and collateral agents.

The principal of loans made under the Sabine Pass Credit Facility must be repaid in semiannual installments commencing six months after the later of (i) the date that substantial completion of the project occurs under the EPC agreement and (ii) the commercial start date under the Total TUA. The Partnership may specify an earlier date to commence repayment upon satisfaction of certain conditions. In any event, payments under the Sabine Pass Credit Facility must commence no later than October 1, 2009, and all obligations under the Sabine Pass Credit Facility mature and must be fully repaid by February 25, 2015.

The Sabine Pass Credit Facility contains customary conditions precedent to the initial borrowing and any subsequent borrowings, as well as customary affirmative and negative covenants. The Partnership was in compliance, in all material respects, with these covenants at December 31, 2005. The Partnership has obtained, and may in the future seek, consents, waivers and amendments to the Sabine Pass Credit Facility documents. The obligations of the Partnership under the Sabine Pass Credit Facility are secured by all of the Partnership's personal property, including the Total and Chevron USA TUAs.

In connection with the closing of the Sabine Pass Credit Facility, the Partnership entered into Swaps with HSBC and Société Générale. Under the terms of the Swaps, the Partnership will be able to hedge against rising interest rates, to a certain extent, with respect to its drawings under the Sabine Pass Credit Facility, up to a maximum amount of \$700,000,000. The Swaps have the effect of fixing the LIBOR component of the interest rate payable

SABINE PASS LNG, L.P.
(DEVELOPMENT STAGE LIMITED PARTNERSHIP)
NOTES TO FINANCIAL STATEMENTS—(Continued)

under the Sabine Pass Credit Facility with respect to hedged drawings under the Sabine Pass Credit Facility, up to a maximum of \$700,000,000 at 4.49% from July 25, 2005 to March 25, 2009, and at 4.98% from March 26, 2009 through March 25, 2012. The final termination date of the Swaps is March 25, 2012 (see Note G).

During the construction period, all interest costs, including amortization of related debt issuance costs and commitment fees, will be capitalized as part of the total cost of Phase 1 of the Partnership's LNG receiving terminal. As of December 31, 2005, \$5,322,547 in commitment fees and amortization of debt issuance costs had been capitalized and included in LNG terminal construction-in-progress.

In November 2005, to fund expenditures related to the Partnership's LNG receiving terminal, the Partnership entered into a subordinated promissory note with an affiliate, Cheniere LNG Financial Services, Inc., that bears interest at LIBOR plus a 3.00% margin and terminates on June 30, 2015. As of December 31, 2005, the unpaid principal balance of the subordinated promissory note was \$37,376,851. The entire principal is due and payable to Cheniere LNG Financial Services on June 30, 2015.

NOTE K—RELATED PARTY TRANSACTIONS

As of December 31, 2005 and 2004, the Partnership had \$241,916 and \$0, respectively, of advances to affiliates.

During 2005, the Partnership paid a management fee of \$435,000 per month to affiliates totaling \$4,094,015 for the year ended December 31, 2005, which is included as an overhead charge within the accompanying statement of operations. As of December 31, 2005 and 2004, the Partnership had \$435,000 and \$0, respectively, of accrued liabilities to an affiliate related to such management fees.

From October 20, 2003 (Date of Inception) through December 31, 2004, the Partnership's activities were 100% funded by wholly-owned subsidiaries of Cheniere. During 2005, financing was obtained through a third party (see Note J). As of December 31, 2005 and 2004, the Partnership owed Cheniere \$0 and \$7,417,617, respectively. On November 10, 2004, the Partnership declared a distribution to Sabine Pass LNG-LP Interests, LLC in the amount of \$10,000,000. This amount was subsequently reversed in 2005, as the distribution was rescinded and not paid out. In February 2005, Cheniere LNG-LP Interests, LLC formed Sabine Pass LNG-LP, LLC and contributed the limited partnership interest in the Partnership to such entity.

NOTE L—COMMITMENTS AND CONTINGENCIES

LNG Site Leases

In January 2005, the Partnership exercised its options and entered into three land leases for the Facility site. The leases have an initial term of 30 years, with options to renew for six 10-year extensions. In February 2005, two of the three leases were amended, thereby increasing the total acreage under lease to 853 acres and increasing the annual lease payments to \$1,501,000. For 2005, these payments were capitalized as part of the construction cost of the Facility; however, beginning in 2006, these lease payments have been expensed as required by FSP 13-1.

LNG Commitments

The Partnership has entered into TUAs with Total and Chevron USA to provide berthing for LNG tankers and for the unloading, storage and regasification of LNG at the Facility.

SABINE PASS LNG, L.P.
(DEVELOPMENT STAGE LIMITED PARTNERSHIP)
NOTES TO FINANCIAL STATEMENTS—(Continued)

EPC Agreement

In December 2004, the Partnership entered into a lump-sum turnkey EPC agreement with Bechtel pursuant to which Bechtel is providing services for the engineering, procurement and construction of Phase 1 of the Facility. In December 2004, a limited notice to proceed, was issued and accepted by Bechtel, at which time Bechtel was required to promptly commence performance of certain off-site engineering and preparatory work under the EPC agreement. In early April 2005, a final NTP was issued, and Bechtel commenced all other aspects of work under the EPC agreement. The Partnership agreed to pay Bechtel a contract price of \$646,936,000 plus certain reimbursable costs. This contract price is subject to adjustment for changes in certain commodity prices, contingencies, change orders and other items. Payments under the EPC agreement will be made in accordance with the payment schedule set forth in the EPC agreement. The contract price and payment schedule, including milestones, may be amended only by change order. Bechtel will be liable to the Partnership for certain delays in achieving substantial completion, minimum acceptance criteria and performance guarantees. Bechtel will be entitled to a scheduled bonus of \$12,000,000, or a lesser amount in certain cases, if on or before April 3, 2008, Bechtel completes construction sufficient to achieve, among other requirements specified in the EPC agreement, a sendout rate of at least 2.0 Bcf/d for a minimum sustained test period of 24 hours. Bechtel will be entitled to receive an additional bonus of up to \$67,000 per day (up to a maximum of \$6,000,000) for each day that commercial operation is achieved prior to April 1, 2008. As of February 28, 2006, change orders for \$64,844,608 had been approved, increasing the total contract price to \$711,780,608. The Partnership anticipates additional change orders intended to mitigate ongoing effects of the 2005 hurricanes that would increase the contract price by an amount not to exceed \$50,000,000. The Partnership expects to submit any such change orders to its lenders by May 3, 2006 for approval under the Sabine Pass Credit Facility.

Legal Proceedings

The Partnership may in the future be involved as a party to various legal proceedings, which are incidental to the ordinary course of business. The Partnership regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. In the opinion of management and legal counsel, as of December 31, 2005, there were no threatened or pending legal matters that would have a material impact on the Partnership's results of operations, financial position or cash flows.

NOTE M—SUBSEQUENT EVENTS

In July 2006, the Partnership closed a \$1.5 billion Amended and Restated Credit Agreement with Société Générale, HSBC Bank, USA and other lenders named therein that will mature on July 1, 2015 ("Amended Sabine Pass Credit Facility"). The Amended Sabine Pass Credit Facility amends and restates the Partnership's \$822,000,000 Sabine Pass Credit Facility due February 2015, and will be available for draws to pay project costs incurred during construction of Sabine Pass LNG's receiving terminal.

In connection with the closing of the Amended Sabine Pass Credit Facility, the Partnership entered into additional interest rate swap agreements with HSBC Bank USA and Société Générale. The new swap agreements, along with similar agreements entered into in connection with the closing of the original Sabine Pass Credit Facility in February 2005, have the combined effect of fixing the LIBOR component of the interest rate payable on borrowings up to a maximum of \$1.25 billion at a blended rate of 5.26% from July 25, 2006 through July 1, 2015.

SABINE PASS LNG, L.P.
(DEVELOPMENT STAGE LIMITED PARTNERSHIP)
NOTES TO FINANCIAL STATEMENTS—(Continued)

In July 2006, the Partnership repaid the subordinated promissory note and accrued interest payable to its parent company Cheniere LNG Financial Services, Inc. with borrowings from the \$1.5 billion Amended and Restated Credit Agreement.

At December 31, 2005, there were no borrowings outstanding under the Sabine Pass Credit Facility; however, as of September 30, 2006, \$351,500,000 had been drawn under the Amended Sabine Pass Credit Facility.

In July 2006, the Partnership entered into contracts with Bechtel Corporation, Zachry Construction Corporation and Diamond LNG LLC (a subsidiary of Mitsubishi Heavy Industries Ltd.) and Remedial Construction Services, L.P. in connection with a 1.4 billion cubic feet per day expansion at the Sabine Pass LNG receiving terminal.

SABINE PASS LNG, L.P.
(DEVELOPMENT STAGE LIMITED PARTNERSHIP)
BALANCE SHEET

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
	(unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ —	\$ —
Restricted cash and cash equivalents	164,660	8,871,148
Accounts receivable	456,639	—
Advance to EPC contractor	—	8,086,700
Advances to affiliate	269,320	241,916
Short-term unrealized derivative asset	3,056,137	423,211
Prepaid expenses	916,237	415,583
Other	15,837	4,750
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	4,878,830	18,043,308
PROPERTY, PLANT AND EQUIPMENT, NET	431,109,575	270,739,878
DEBT ISSUANCE COSTS, NET	17,487,826	18,496,739
LNG INTANGIBLE ASSETS	17,920	17,920
LONG-TERM DERIVATIVE ASSET	21,382,175	1,837,209
	<hr/>	<hr/>
TOTAL ASSETS	\$ 474,876,326	\$ 309,135,054
	<hr/>	<hr/>
LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES		
Accounts payable	\$ 2,088	\$ —
Accrued liabilities	40,588,922	44,402,904
Accrued liabilities to affiliate	435,000	435,000
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	41,026,010	44,837,904
DEFERRED REVENUES	40,000,000	40,000,000
LONG-TERM DEBT	149,000,000	—
LONG-TERM DEBT—RELATED PARTY	37,376,851	37,376,851
INTEREST PAYABLE—RELATED PARTY	1,578,901	119,918
PARTNERS' CAPITAL		
Partners' capital, including deficit accumulated during development stage of \$14,171,483 and \$11,672,117 at June 30, 2006 and December 31, 2005, respectively	182,486,786	184,986,152
Accumulated other comprehensive income	23,407,778	1,814,229
	<hr/>	<hr/>
TOTAL LIABILITIES AND PARTNERS' CAPITAL	205,894,564	186,800,381
	<hr/>	<hr/>
TOTAL LIABILITIES AND PARTNERS' CAPITAL	\$ 474,876,326	\$ 309,135,054
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See notes to interim financial statements.

SABINE PASS LNG, L.P.
(DEVELOPMENT STAGE LIMITED PARTNERSHIP)

STATEMENTS OF OPERATIONS

	For the Six Months Ended June 30,		Period from October 20, 2003 (Date of Inception) to June 30, 2006
	2006	2005	
	(unaudited)	(unaudited)	(unaudited)
REVENUES	\$ —	\$ —	\$ —
EXPENSES			
Legal	—	198,994	2,225,015
Professional	497,425	515	1,497,785
Technical consulting	—	—	4,550,651
Public relations	—	64,608	98,692
Land site rental	771,564	—	771,564
Travel and entertainment	45,493	14,798	140,930
Depreciation expense	21,769	3,008	34,404
Overhead charge	2,107,540	1,620,574	6,201,555
Other	50,460	4,238	129,792
	<u>3,494,251</u>	<u>1,906,735</u>	<u>15,650,388</u>
TOTAL EXPENSES	3,494,251	1,906,735	15,650,388
LOSS FROM OPERATIONS	(3,494,251)	(1,906,735)	(15,650,388)
OTHER INCOME (EXPENSE)			
Interest income	72,250	102,920	213,344
Derivative gain (loss), net	922,635	(667,233)	1,265,561
	<u>994,885</u>	<u>(564,313)</u>	<u>1,478,905</u>
TOTAL OTHER INCOME (EXPENSE)	994,885	(564,313)	1,478,905
NET LOSS	<u>\$ (2,499,366)</u>	<u>\$ (2,471,048)</u>	<u>\$ (14,171,483)</u>

See notes to interim financial statements.

SABINE PASS LNG, L.P.
(DEVELOPMENT STAGE LIMITED PARTNERSHIP)
STATEMENTS OF PARTNERS' CAPITAL (DEFICIT)

	General Partner	Limited Partner	Accumulated Other Comprehensive Income	Total Partners' Capital (Deficit)
	Sabine Pass LNG-GP, Inc.	Sabine Pass LNG-LP, LLC		
Balance at October 20, 2003 (inception)	\$ —	\$ —	\$ —	\$ —
Comprehensive loss:				
Net loss	—	(2,763,446)	—	(2,763,446)
Total comprehensive loss				(2,763,446)
Balance at December 31, 2003	—	(2,763,446)	—	(2,763,446)
Distributions	—	(10,000,000)	—	(10,000,000)
Comprehensive loss:				
Net loss	—	(4,653,782)	—	(4,653,782)
Total comprehensive loss		(4,653,782)		(4,653,782)
Balance at December 31, 2004	—	(17,417,228)	—	(17,417,228)
Capital contributions	—	196,658,269	—	196,658,269
Rescinded distribution	—	10,000,000	—	10,000,000
Comprehensive loss:				
Change in fair value of derivative instrument	—	—	1,814,229	1,814,229
Net loss	—	(4,254,889)	—	(4,254,889)
Total comprehensive loss				(2,440,660)
Balance at December 31, 2005	—	184,986,152	1,814,229	186,800,381
Comprehensive loss (unaudited):				
Change in fair value of derivative instrument (unaudited)	—	—	21,593,549	21,593,549
Net loss (unaudited)	—	(2,499,366)	—	(2,499,366)
Total comprehensive loss (unaudited)				19,094,183
Balance at June 30, 2006 (unaudited)	\$ —	\$ 182,486,786	\$ 23,407,778	\$ 205,894,564

See notes to interim financial statements.

SABINE PASS LNG, L.P.
(DEVELOPMENT STAGE LIMITED PARTNERSHIP)
STATEMENTS OF CASH FLOWS

	For the Six Months Ended June 30,		Period from October 20, 2003 (Date of Inception) to June 30, 2006
	2006 <u>(unaudited)</u>	2005 <u>(unaudited)</u>	<u>(unaudited)</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$ (2,499,366)	\$ (2,471,048)	\$ (14,171,483)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation	21,769	—	34,404
Non-cash derivative gain	(1,125,255)	—	(1,487,173)
Change in operating assets and liabilities:			
Prepaid expenses	(500,654)	—	(916,237)
Accounts payable	2,088	(201,730)	2,088
Accrued liabilities—affiliate	—	435,000	435,000
Accrued liabilities	1,739,060	(1,060,343)	3,245,327
Accrued interest payable—related party	—	—	119,918
Deferred revenues	—	15,000,000	40,000,000
Payable to affiliate	—	(7,417,617)	—
Other	(11,088)	241,417	(15,838)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>(2,373,446)</u>	<u>4,525,679</u>	<u>27,246,006</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Advances to EPC contractor, net of transfers to construction-in-progress	—	(24,260,100)	—
Advances to affiliate	(27,404)	(257,440)	(269,320)
Use of (investment in) restricted cash and cash equivalents	8,706,488	—	(164,660)
LNG terminal construction-in-progress	(150,468,844)	(92,092,103)	(387,628,121)
Purchase of LNG site options	—	—	(211,590)
Purchase of LNG intangible assets	—	(5,000)	(17,920)
Purchase of fixed assets	(75,081)	(33,656)	(134,350)
NET CASH USED IN INVESTING ACTIVITIES	<u>(141,864,841)</u>	<u>(116,648,299)</u>	<u>(388,425,961)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Debt issuance costs	(4,761,713)	(15,802,973)	(21,855,165)
Proceeds from subordinated note—related party	—	—	37,376,851
Proceeds from Sabine Pass Facility	149,000,000	—	149,000,000
Partner contributions	—	106,239,783	196,658,269
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>144,238,287</u>	<u>90,436,810</u>	<u>361,179,955</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>—</u>	<u>(21,685,810)</u>	<u>—</u>
CASH AND CASH EQUIVALENTS—beginning of period	<u>—</u>	<u>21,822,032</u>	<u>—</u>
CASH AND CASH EQUIVALENTS—end of period	<u>\$ —</u>	<u>\$ 136,222</u>	<u>\$ —</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES			
Distribution payable	\$ —	\$ 10,000,000	\$ —
Construction-in-progress and debt issuance additions funded with accrued liabilities	<u>\$ 37,328,593</u>	<u>\$ 40,026,818</u>	<u>\$ 37,328,593</u>

See notes to interim financial statements.

SABINE PASS LNG, L.P.
(DEVELOPMENT STAGE LIMITED PARTNERSHIP)
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

NOTE A—BASIS OF PRESENTATION

The accompanying unaudited financial statements of Sabine Pass LNG, L.P. have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”). Interim results are not necessarily indicative of results to be expected for the full fiscal year ending December 31, 2006.

NOTE B—DEVELOPMENT STAGE OPERATIONS

Sabine Pass LNG, L.P. (“the Partnership”) was formed on October 20, 2003. Operations to date have been devoted to preconstruction and construction activities. Although the Partnership has obtained Federal Energy Regulatory Commission (“FERC”) approval to commence the construction of a liquefied natural gas (“LNG”) receiving terminal in Western Cameron Parish, Louisiana on the Sabine Pass Channel (the “Facility”), closed on a project financing agreement, and began construction on the Facility in March 2005, the ultimate profitability of the Partnership will depend on, among other factors, the successful completion of the construction of the Facility and its placement into operation, which is not expected until approximately 2008.

NOTE C—PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is comprised of LNG terminal construction-in-progress expenditures, LNG site and related costs and fixed assets, as follows:

	June 30, 2006	December 31, 2005
	(unaudited)	
LNG TERMINAL COSTS		
LNG terminal construction-in-progress	\$ 430,793,616	\$ 270,488,707
LNG site and related costs, net	201,011	204,537
	<u>430,994,627</u>	<u>270,693,244</u>
FIXED ASSETS		
Computer and office equipment	19,244	3,958
Computer software	33,332	19,698
Leasehold improvements	10,000	10,000
Vehicles	86,776	25,613
Accumulated depreciation	(34,404)	(12,635)
	<u>114,948</u>	<u>46,634</u>
PROPERTY, PLANT AND EQUIPMENT, NET	<u>\$ 431,109,575</u>	<u>\$ 270,739,878</u>

NOTE D—DERIVATIVE INSTRUMENTS

Interest Rate Derivative Instruments

In connection with the closing of the \$822,000,000 credit facility (the “Sabine Pass Credit Facility”) in February 2005 with an initial syndicate of 47 financial institutions, the Partnership entered into swap agreements (“Swaps”) with HSBC and Société Générale. Under the terms of the Swaps, the Partnership will be able to hedge against rising interest rates, to a certain extent, with respect to its drawings under the Sabine Pass Credit Facility, up to a maximum amount of \$700,000,000. The Swaps have the effect of fixing the LIBOR component of the

SABINE PASS LNG, L.P.
(DEVELOPMENT STAGE LIMITED PARTNERSHIP)
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

interest rate payable under the Sabine Pass Credit Facility with respect to hedged drawings under the Sabine Pass Credit Facility up to a maximum of \$700,000,000 at 4.49% from July 25, 2005 through March 25, 2009 and at 4.98% from March 26, 2009 through March 25, 2012. The final termination date of the Swaps is March 25, 2012.

Accounting for Hedges

Statement of Financial Accounting Standard (“SFAS”) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, establishes accounting and reporting standards for derivative instruments. Under SFAS No. 133, the Partnership is required to record derivatives on its balance sheet as either an asset or liability measured at their fair value, unless exempted from derivative treatment under the normal purchase and normal sale exception. Changes in the fair value of derivatives are recognized currently in earnings unless specific hedge criteria are met. These criteria require that the derivative is determined to be effective as a hedge and that it is formally documented and designated as a hedge.

The Partnership has determined that the Swaps qualify as cash flow hedges within the meaning of SFAS No. 133 and has designated them as such. At inception, the Partnership determined the hedging relationship of the Swaps and the underlying debt to be highly effective. The Partnership will continue to assess the hedge effectiveness of the Swaps on a quarterly basis in accordance with the provisions of SFAS No. 133.

SFAS No. 133 provides that the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument be reported as a component of other comprehensive income (“OCI”), and be reclassified into earnings in the same period during which the hedged forecasted transaction affects earnings. The remaining gain or loss on the derivative instrument, if any, must be recognized currently in earnings. For the six months ended June 30, 2006, the Partnership recognized net derivative gains of \$922,635 into earnings. For the six months ended June 30, 2005, the Partnership recognized net derivative losses of \$667,233. If the forecasted transaction is no longer probable of occurring, the associated gain or loss recorded in OCI is recognized currently in earnings.

Summary of Derivative Values

The following table reflects the amounts that were recorded as assets and liabilities as of June 30, 2006 for the Partnership’s derivative instruments:

Current derivative assets (1)	\$ 456,061
Short-term derivative assets	3,056,137
Long-term derivative assets	21,382,175
	<hr/>
Total derivative assets	24,894,373
Current derivative liabilities	—
Long-term derivative liabilities	—
	<hr/>
Total derivative liabilities	—
	<hr/>
Net derivative assets	\$ 24,894,373
	<hr/>

(1) Included in accounts receivable on the balance sheet.

SABINE PASS LNG, L.P.
(DEVELOPMENT STAGE LIMITED PARTNERSHIP)
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Below is a reconciliation of the net derivative assets to the Partnership's accumulated OCI as of June 30, 2006:

Net derivative asset	\$ 24,894,373
Effective non-cash items	(127,469)
Ineffective non-cash items	(1,359,126)
	<hr/>
Accumulated OCI before income tax	\$ 23,407,778
	<hr/>

The maximum length of time over which the Partnership has hedged its exposure to the variability in future cash flows for forecasted transactions is seven years under the Swaps. As of June 30, 2006, \$2,264,000 of accumulated net deferred gains on the Swaps, currently included in OCI, was expected to be reclassified to earnings during the next twelve months, assuming no change in the LIBOR forward curve at June 30, 2006. The actual amounts that will be reclassified will likely vary based on the probability that interest rates will, in fact, change. Therefore, the Partnership is unable to predict what the actual reclassification from OCI to earnings (positive or negative) will be for the next twelve months.

NOTE E—ACCRUED LIABILITIES

Accrued liabilities consisted of the following:

	June 30, 2006	December 31, 2005
	<hr/>	<hr/>
	(unaudited)	
LNG terminal construction costs	\$ 37,328,593	\$ 39,729,865
Interest and related debt fees	3,244,130	4,639,523
Professional and legal services	16,199	33,516
Affiliate	435,000	435,000
	<hr/>	<hr/>
	\$ 41,023,922	\$ 4,837,904
	<hr/>	<hr/>

NOTE F—LONG-TERM DEBT

In February 2005, the Partnership entered into the \$822,000,000 Sabine Pass Credit Facility with an initial syndicate of 47 financial institutions. Société Générale serves as the administrative agent and HSBC serves as collateral agent. The Sabine Pass Credit Facility will be used to fund a substantial majority of the costs of constructing and placing into operation Phase 1 of the Partnership's LNG receiving terminal. Unless the Partnership decides to terminate availability earlier, the Sabine Pass Credit Facility will be available until no later than April 1, 2009, after which time any unutilized portion of the Sabine Pass Credit Facility will be permanently canceled. Before the Partnership could make an initial borrowing under the Sabine Pass Credit Facility, it was required to provide evidence that it had funded the first \$233,715,000 of project costs through equity contributions, cash on-hand and other means. As of December 31, 2005, this requirement had been met.

As of December 31, 2005, there were no borrowings outstanding under the Sabine Pass Credit Facility; however, as of June 30, 2006, \$149,000,000 had been drawn under the Sabine Pass Credit Facility.

Borrowings under the Sabine Pass Credit Facility bear interest at a variable rate equal to LIBOR plus the applicable margin. The applicable margin varies from 1.25% to 1.625% during the term of the Sabine Pass Credit Facility. The Sabine Pass Credit Facility provides for a commitment fee of 0.50% per annum on the daily

SABINE PASS LNG, L.P.
(DEVELOPMENT STAGE LIMITED PARTNERSHIP)
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

committed, undrawn portion of the facility. Annual administrative fees must also be paid to the administrative and collateral agents. The principal of loans made under the Sabine Pass Credit Facility must be repaid in semi-annual installments commencing six months after the later of (i) the date that substantial completion of the project occurs under the engineering, procurement and construction agreement (“EPC”) and (ii) the commercial start date under the Total LNG USA, Inc. (“Total”) Terminal Use Agreement (“TUA”). Sabine Pass LNG may specify an earlier date to commence repayment upon satisfaction of certain conditions. In any event, payments under the Sabine Pass Credit Facility must commence no later than October 1, 2009, and all obligations under the Sabine Pass Credit Facility mature and must be fully repaid by February 25, 2015.

The Sabine Pass Credit Facility contains customary conditions precedent to any borrowings, as well as customary affirmative and negative covenants. We were in compliance, in all material respects, with these covenants at June 30, 2006 and December 31, 2005. Sabine Pass LNG has obtained, and may in the future seek, consents, waivers and amendments to the Sabine Pass Credit Facility documents. The obligations of Sabine Pass LNG under the Sabine Pass Credit Facility are secured by all of the Partnership’s personal property, including the TUAs with Total and Chevron USA, Inc. (“Chevron”) and the partnership interests in the Partnership. During the construction period, all interest costs, including amortization of related debt issuance costs and commitment fees, will be capitalized as part of the total cost of Phase 1 of the Partnership’s LNG receiving terminal. As of June 30, 2006 and December 31, 2005, \$10,304,000 and \$5,323,000, respectively, in commitment fees, interest costs, impact of interest rate swaps and amortization of debt issuance costs had been capitalized and included in LNG terminal construction-in-progress.

NOTE G—RELATED PARTY TRANSACTIONS

As of June 30, 2006 and December 31, 2005, the Partnership had \$269,320 and \$241,916, respectively, of advances to affiliates.

During 2005 and the first six months of 2006, the Partnership paid a management fee of \$435,000 per month to affiliated parties totaling \$4,350,000 for the year ended December 31, 2005 and \$2,610,000 for the six months ended June 30, 2006, which is included as an overhead charge within the accompanying statement of operations. As of June 30, 2006 and December 31, 2005, the Partnership had \$435,000 and \$435,000, respectively, of accrued liabilities to affiliates related to these management fees.

From October 20, 2003 (Date of Inception) through December 31, 2004, the Partnership’s activities were 100% funded by wholly-owned subsidiaries of Cheniere Energy, Inc. (“Cheniere”).

NOTE H—INCOME TAXES

The Partnership is not subject to federal income taxes as the partners are taxed individually on their proportionate share of the Partnership’s earnings. Accordingly, no provision or liability for federal income taxes is included in the accompanying financial statements.

NOTE I—COMMITMENTS AND CONTINGENCIES

LNG Site Leases

In January 2005, the Partnership exercised their options and entered into three land leases for the Facility site. The leases have an initial term of 30 years, with options to renew for six 10-year extensions. In February 2005,

SABINE PASS LNG, L.P.
(DEVELOPMENT STAGE LIMITED PARTNERSHIP)
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

two of the three leases were amended, thereby increasing the total acreage under lease to 853 acres and increasing the annual lease payments to \$1,501,000. For 2005, these payments were capitalized as part of the construction cost of the Facility; however, beginning January 2006, these lease payments were expensed as required by FSP 13-1.

Legal Proceedings

The Partnership may in the future be involved as a party to various legal proceedings, which are incidental to the ordinary course of business. The Partnership regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. In the opinion of management and legal counsel, as of June 30, 2006 and December 31, 2005, there were no threatened or pending legal matters that would have a material impact on the Partnership's results of operations, financial position or cash flows.

NOTE J—SUBSEQUENT EVENTS

In July 2006, the Partnership closed a \$1.5 billion Amended and Restated Credit Agreement with Société Générale, HSBC Bank, USA and other lenders named therein that will mature on July 1, 2015 ("Amended Sabine Pass Credit Facility"). The Amended Sabine Pass Credit Facility amends and restates the Partnership's \$822,000,000 Sabine Pass Credit Facility due February 2015, and will be available for draws to pay project costs incurred during construction of Sabine Pass LNG's receiving terminal.

In connection with the closing of the Amended Sabine Pass Credit Facility, the Partnership entered into additional interest rate swap agreements with HSBC Bank USA and Société Générale. The new swap agreements, along with similar agreements entered into in connection with the closing of the original Sabine Pass Credit Facility in February 2005, have the combined effect of fixing the LIBOR component of the interest rate payable on borrowings up to a maximum of \$1.25 billion at a blended rate of 5.26% from July 25, 2006 through July 1, 2015.

In July 2006, the Partnership repaid the subordinated promissory note and accrued interest payable to its parent company Cheniere LNG Financial Services, Inc. with borrowings from the \$1.5 billion Amended and Restated Credit Agreement.

At December 31, 2005, there were no borrowings outstanding under the Sabine Pass Credit Facility; however, as of September 30, 2006, \$351,500,000 had been drawn under the Amended Sabine Pass Credit Facility.

In July 2006, the Partnership entered into contracts with Bechtel Corporation, Zachry Construction Corporation and Diamond LNG LLC (a subsidiary of Mitsubishi Heavy Industries Ltd.) and Remedial Construction Services, L.P. in connection with a 1.4 billion cubic feet per day expansion at the Sabine Pass LNG receiving terminal.

**SABINE PASS LNG TERMINAL
INDEPENDENT TECHNICAL REVIEW REPORT**

OCTOBER 21, 2006



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AISC	American Institute of Steel Construction
ANSI	American National Standards Institute
API	American Petroleum Institute
AQCR	Air Quality Control Region
ASCE	American Society of Civil Engineers
ASME	American Society of Mechanical Engineers
ASNT	American Society for Non-Destructive Testing
ASTM	American Society for Testing and Materials
AWS	American Welding Society
BACT	Best Available Control Technology
bcf	Billion Cubic Feet
bscfd	Billion Standard Cubic Feet per Day
Btu	British Thermal Unit
bpd	Barrels per Day
CAER	Community Awareness and Emergency Response
CATOX	Catalytic Oxidation Units
CO	Carbon Monoxide
COE	Corp of Engineers
CPI	Corrugated Plate Interceptor
CFR	Code of Federal Regulations
DCS	Distributed Control System
DSCR	Debt Service Coverage Ratio
DLE	Dry Low Emissions
DOT	Department of Transportation
DSAW	Double Submerged-Arc Welded
EPA	Environmental Protection Agency
EPC	Engineering, Procurement and Construction
FAA	Federal Aviation Administration
FEED	Front End Engineering Design
FERC	Federal Energy Regulatory Commission
FWS	Fish and Wildlife Service
HAZOP	Hazards and Operability
hp	Horsepower
IBC	International Building Code
IDC	Interest During Construction
IEC	International Electrotechnical Commission
IEEE	Institute of Electrical and Electronic Engineers
IMO	International Maritime Organization
IRR	Internal Rate of Return
ISA	Instrument Society of America
ISO	International Standards Organization
ITS	Interruptible Transportation Service
JV	Joint Venture
kV	Kilovolt
kW	Kilowatt
LDEQ	Louisiana Department of Environmental Quality
LNG	Liquefied Natural Gas
LS	Lump Sum

MMscfd	Million Standard Cubic Feet per Day
MP	Mile Post
MSS	Manufacturer Standardization Society
MW	Megawatt
NAAQS	National Ambient Air Quality Standards
NACE	National Association of Corrosion Engineers
NDE	Non-Destructive Examination
NEMA	National Electric Manufacturers Association
NFPA	National Fire Protection Association
NOx	Nitrogen Oxides
NOI	Notice of Intent
NOT	Notice of Termination
NPV	Net Present Value
O&M	Operations and Maintenance
OBE	Operating Basis Earthquake
OC	Operations Center
OCIMF	Oil Companies International Marine Forum
OSHA	Occupational Safety and Health Administration
OSRP	Oil Spill Response Plan
P&I	Protection and Indemnity
PLC	Programmable Logic Controller
PO	Purchase Order
PPE	Personal Protective Equipment
PSD	Prevention of Significant Deterioration
psia	pounds per square inch (absolute)
psig	pounds per square inch (gauge)
QA	Quality Assurance
QC	Quality Control
RAM	Reliability, Availability and Maintainability
SCR	Selective Catalytic Reduction
SIGTTO	Society of International Gas Tanker and Terminal Operations
SPCC	Spill Prevention and Containment Control
SQG	Small Quantity Generator
SSE	Safe Shutdown Earthquake
SSPC	Steel Structures Painting Council
TEMA	Tubular Exchanger Manufacturers' Association
USCG	United States Coast Guard
V	Volt
VOC	Volatile Organic Compounds

**Independent Engineer's Report
Sabine Pass LNG Terminal**

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1.0 BACKGROUND

Cheniere Energy, Inc., the Sponsor, is based in Houston, Texas, USA. It originally established a fully owned subsidiary, Sabine Pass LNG, L.P. ("Sabine") to develop, own and operate the Sabine Pass LNG Terminal Project ("Project"). The Project is located alongside the navigable Sabine River Channel in Cameron Parish, Louisiana, directly across the river from Sabine Pass, Texas. It comprises a receiving and regasification terminal that will receive, store, and vaporize imported liquefied natural gas ("LNG"). Vaporized natural gas will be exported via natural gas pipeline to U.S. consumers. The Project will operate as a tolling terminal, processing LNG on behalf of two initial Terminal Use Agreement ("TUA") Customers, Total LNG USA, Inc. and Chevron USA, Inc., who will own the imported LNG and the exported natural gas. The two TUA Customers have each reserved a LNG import and a regasification export capacity of approximately 1,000 million standard cubic feet of gas per day ("MMscfd"). A third TUA Customer, Cheniere Marketing, Inc. ("Cheniere") has reserved a maximum capacity of approximately 2,000 MMscfd. At this time Cheniere has not yet executed a LNG Off-take Agreement with any LNG liquefaction facility to secure an LNG supply to process through the Project. The terminal was originally designed to import sufficient LNG to produce a maximum peak natural gas export capacity of approximately 2,600 MMscfd. This is termed the Phase 1 Project. In mid-2006, the Phase 2 Stage I Expansion Project (the "Phase 2 Project") was implemented. Upon completion, this will increase the maximum peak export capacity to approximately 4,000 MMscfd.

The Phase 1 Project is being implemented under a lump sum turnkey EPC Contract by Bechtel Corporation, ("Bechtel" or the "EPC Contractor"). Principal subcontractors include Mitsubishi Heavy Industries Ltd. ("MHI") with Matrix Services (jointly "MHI/Matrix") for the LNG tanks, Weeks Marine Inc. ("Weeks") for the marine terminal, and Remedial Construction Services, L.P. ("Recon") for site preparation and soil improvement. Bechtel is also the general EPC Contractor for Phase 2 under a reimbursable form of contract. In addition, Bechtel is providing construction management services to assist Sabine with managing the other principal fixed-price Phase 2 EPC Contractors, a joint venture of Diamond LNG (an MHI company) and Zachry ("Diamond/Zachry") for the two additional LNG Tanks, and Recon for site preparation and soil improvement.

The U.S. Federal Energy Regulatory Commission ("FERC") issued approval for the Phase 1 Project on December 21, 2004. Limited Notice to Proceed was issued under the Phase 1 EPC Contract on January 4, 2005. Subsequently, the full Notice to Proceed was issued on April 4, 2005. The Guaranteed Substantial Completion Date was originally September 2, 2008; however, a hurricane Force Majeure Change Order has revised the date to December 20, 2008. Full utilization of the terminal by the two TUA Customers is to commence by April 1, 2009 for Total and by July 1, 2009 for Chevron.

In July 2005 Sabine submitted a permit application to FERC for the Sabine Pass LNG Terminal Phase 2 Expansion Project. Approval was granted on June 15, 2006. Stage 1 of the Phase 2 Expansion Project will increase the peak terminal throughput capacity by 1,400 MMscfd to the ultimate peak capacity of 4,000 MMscfd. Change orders were issued during the construction of the Phase 1 Project to provide tie-ins and other pre-investment work necessary to minimize potential construction and operations interferences to Phase 1 activities during the execution of the Phase 2 Expansion Project. Cheniere undertook a substantial engineering effort and committed pre-investment expenditure to identify and mitigate potential interferences by Phase 2 on the timely completion and operation of Phase 1. In Stone & Webster Consultants' opinion, the Phase 2 Stage 1 Expansion of Sabine Pass poses negligible risk to the timely completion and operation of the Phase 1 Project.

Aerial View from the North



Stone & Webster Management Consultants, Inc. ("Stone & Webster Consultants") was retained by Cheniere Energy, Inc. to conduct an independent technical assessment of the Project on behalf of the potential investors. Stone & Webster Consultants' independent technical review report ("Report"), including the observations and conclusions presented herein, is based on, among other things, our review of the available technical, performance, schedule and cost data, visits to terminal site, and interviews with Cheniere personnel. The Report presents our findings and conclusions regarding the following:

- Plant design and technology;
- Project execution plans and implementation schedule;
- Capital costs;
- Expected plant performance and operating parameters;
- Operations and maintenance programs and budgets; and
- Environmental permitting and regulatory issues.

2.0 SUMMARY OF RISKS

As indicated above, the Terminal is being implemented in two phases under different contracting strategies. The primary revenue for the Project is derived from the Total and Chevron TUAs. Accordingly, Stone & Webster Consultants has considered areas where there is perceived technical risk to the implementation of the Phase I Project and areas where the Phase 2 Expansion Project and its operation could impact the Phase I Project. Particular focus has been placed on circumstances where the risk component could materially impact the projected cash flows. Tables 2.0-1 and 2.0-2 present a summary of our assessment of these risks.

**Table 2.0-1
Phase 1 Project Risks**

Risk Component	Comment
LNG Supply <i>Low Risk</i>	This is a Terminal User obligation under the terms of the TUAs with Total and Chevron.
Technology <i>Low Risk</i>	In general, the Project is using established and suitable technology for the Project. Stone & Webster Consultants is of the opinion that the process facilities to be installed at the terminal are robust and should provide for a long and useful service life. Likewise Stone & Webster Consultants confirms that there are no unusual risks regarding the technology proposed for LNG receipt, LNG storage, or regasification.
Scale Up <i>Low Risk</i>	In Stone & Webster Consultants' opinion, there is no scale-up risk associated with the Project. All major equipment is proven at the proposed size and capacity levels. Furthermore, the combined LNG export capacity of the two initial TUA Customers is 2,000 MMscfd versus a nameplate export rating of 2,600 MMscfd, thus providing ample excess capacity to service the two primary TUAs.
Environmental Issues <i>Low Risk</i>	Stone & Webster Consultants' review has not identified any environmental issues that would have an undue effect upon either the Project construction schedule or budget, and compliance with local, state and federal requirements will result in full compliance with the Equator Principles.
Regulatory Issues <i>Low Risk</i>	<p>The Sponsor has identified the appropriate permits and other regulatory approvals required for this Project, including the LNG carrier transit, berths and unloading facilities; the LNG storage and regasification units; power generation; and other infrastructure and auxiliary facilities. In Stone & Webster Consultants' opinion, the Sponsor is making satisfactory progress towards obtaining the requisite approvals in a timely manner that supports the proposed construction schedule. Total and Chevron will jointly, but separately apply for a send-out pipeline permit to export their gas from the Terminal.</p> <p>On December 21, 2004, FERC issued the <i>Order Granting Authorization under Section 3 of the Natural Gas Act</i> ("FERC Order") to Sabine Pass LNG, L.P., authorizing Sabine to construct an LNG terminal and send-out pipeline. The Louisiana LDEQ has issued Sabine a PSD air emissions permit. Sabine received its final construction permit from the U.S. Army Corps of Engineers.</p>
Contracting Strategy and Project Execution <i>Low to Medium Risk</i>	The EPC Contractor is Bechtel Corporation, a skilled and experienced contractor with a long proven track record in the engineering, procurement and construction of energy-related projects, including LNG liquefaction and regasification facilities. The LNG storage tanks will be subcontracted to a consortium of MHI and Matrix Services. The marine terminal and associated dredging have been subcontracted to Weeks Marine, an experienced and reputable marine contractor. Site preparation and pile installation has been subcontracted to Recon, a skilled and experienced civil engineering contractor. In Stone & Webster Consultants' opinion, each of these firms has the requisite experience and capability to undertake the assigned role for the implementation of the Project.

	<p>Sabine does not have sufficient permanent in-house personnel to properly and fully staff the Project Management Team, during Project execution. Therefore the Sponsor will hire temporary contract personnel and consultants to fill the open PMT positions. This organizational structure is typical for projects of this size and complexity, even by well-established major oil and gas corporations, due to previous downsizing. The PMT personnel have not previously worked together as a team and therefore have gone through a learning curve period.</p>
<p>Capital Cost <i>Low to Medium Risk</i></p>	<p>The EPC Contract portion of the Phase 1 Project cost is being implemented under a LSTK contract with Bechtel. In our opinion, the Owner's Costs properly reflect the responsibilities and risks carried by the Owner. The Total Phase 1 Project Costs is currently budgeted to fall in the range of US\$900 to US\$950 million. Stone & Webster Consultants has reviewed the detailed build-up of both the EPC Contract Cost and the Owner's Costs. In our opinion, based upon our benchmarking of this Capital Expenditure ("CAPEX") against that of comparable projects, the budget is reasonable.</p>
<p>Operating Cost <i>Low Risk</i></p>	<p>Operations, maintenance and contract labor costs total US\$10.0 million per annum. Other fixed operating costs amount to US\$15.1 million per annum in the aggregate. Apportioned Cheniere G&A costs carried by the Project add \$8.3 million, and the GE power generation maintenance expenses add a further US\$3.2 million, bringing the total annual (Phase 1) O&M costs for year 2010 to US\$36.6 million.</p> <p>Based on Stone & Webster Consultants' experience with similar LNG receiving and regasification terminals world-wide, these O&M expenses fall well within industry benchmarks for similar facilities.</p> <p>Based upon the benchmark comparison, the O&M Budget estimate is reasonable. Moreover, the OPEX reimbursement provisions provided by the two primary TUAs cover any reasonable overage above the current O&M cost estimate.</p>
<p>Operating Performance <i>Low Risk</i></p>	<p>In Stone & Webster Consultants' opinion, the proposed facilities pose no unusual operating risks for a facility of this nature.</p> <p>The Sponsor has not commissioned a Reliability, Availability, and Maintainability ("RAM") Analysis for the Project, but the expected availability of the individual tandem vaporization units is expected to be approximately 96 percent. Based on Stone & Webster Consultants' experience, the re-gasification and export availability for all sixteen of the Phase 1 vaporizers should be approximately 81.5 percent. This means at least thirteen vaporizers should be fully available at all times. This results in a minimum continuous export availability of approximately 2,340 MMscfd versus the export capacity under the two primary TUAs of 2,000 MMscfd.</p> <p>The required export capacity of 2,000 MMscfd is equivalent to 90,500 cubic meters per day of LNG in liquid form. The available Phase 1 LNG storage capacity is 480,000 cubic meters, resulting in a storage-to-export ratio of 5.3:1. The industry norm is approximately 4:1, so the terminal has ample storage capacity to service the two primary TUAs.</p>

<p>Operating Performance <i>Low Risk</i></p>	<p>The required LNG reception quantity including retainage is approximately 90,500 cubic meters per day, which can be supplied on average by one 140,000 cubic meter LNG carrier every 36 hours.</p> <p>Given the availability of two independent unloading berths, Stone & Webster Consultants has no significant concerns regarding LNG receiving capacity, even accounting for unavailability due to inclement weather.</p>
<p>Interfaces <i>Low to Medium Risk</i></p>	<p>The respective Customers of the Terminal are responsible for providing pipeline interconnections between the Terminal and the existing export natural gas pipeline grid connections. The main export line should be approximately 16 miles long to the principal connections tie-in points.</p> <p>Marine support facilities, e.g., tugs and line handling boats are the responsibility of the Terminal Users; however, Sabine will assist in securing and managing these services.</p> <p>Drinking water will be supplied in bottled form by local suppliers. Utility water will be provided via pipeline from a local supplier. Power will be supplied internally by three LM2500+ simple-cycle gas turbine-driven generators. Only two of the turbines are required for the export capacity required by the two primary TUAs. There will be no external power supply.</p>
<p>Geography <i>Low to Medium Risk</i></p>	<p>Meteorological conditions for the site and the Gulf of Mexico are well understood. The site is within the hurricane belt. The design applies appropriate criteria to mitigate the impact of hurricanes.</p>

**Table 2.0-2
Phase 2 Stage 1 Expansion**

Risk Component	Comment
<p>Supply <i>Low Risk</i></p>	<p>The Bond financing does not rely on cashflow generated from the Phase 2 Stage 1 Expansion. A third TUA has been executed with another Cheniere affiliate, Cheniere Marketing, Inc, but per Stone & Webster Consultants' understanding, Cheniere has not yet contracted with any LNG liquefaction facility to supply Cheniere with LNG for processing through the Terminal.</p>
<p>Technology <i>Low Risk</i></p>	<p>The Expansion Project is using proven technology for the tanks and vaporizers. The LNG Berths are being extended using open cell bulkhead technology to accommodate LNG carriers larger than 250,000 cubic meters. Open cell technology has been demonstrated to be effective in over 140 projects in Alaska and the Contiguous 48 States.</p>
<p>Scale Up <i>Low Risk</i></p>	<p>The Project is using established equipment sizes. Equipment is identical to that used for Phase 1.</p>
<p>Regulatory Issues <i>Low Risk</i></p>	<p>The Project is governed by established federal, state and local regulations. FERC issued its Authorization Order for the Phase 2 Expansion Project on June 15, 2006.</p>

<p>Environmental Issues <i>Low Risk</i></p>	<p>Stone & Webster Consultants’ review did not identify any environmental issues that would have an adverse effect on the Project cost, schedule or operation.</p>
<p>Equator Principles Issues <i>Low Risk</i></p>	<p>The EA complies with the requirements of the Equator Principles. In Stone & Webster Consultants’ opinion, compliance with State and Federal requirements will result in full compliance with the Equator Principles.</p>
<p>Impact of Expansion on Phase 1 <i>Low Risk</i></p>	<p>There are no unmanageable potential impacts or conflicts between Phase 1 and the Phase 2 Stage 1 Expansion Project.</p> <p>The Phase 2 Stage 1 expansion can be constructed, commissioned and operated without detriment to the Phase 1 facilities.</p> <p>Significant care has been given to ensuring that the Phase 2 Stage 1 Expansion of Sabine Pass poses negligible risk to the timely completion and operation of the Phase 1 Project.</p>
<p>Contracting Strategy and Project Execution <i>Low to Medium Risk</i></p>	<p>In general, Sabine has opted to contract with the same contractors and principal suppliers as used for the Phase 1 Project. Bechtel serves as the main EPCCm Contractor, Diamond-Zachry for the construction of the two new LNG storage tanks, and Recon for soils remediation.</p> <p>In Stone & Webster Consultants’ opinion, each of these firms has the requisite experience and capability to undertake the assigned role for the implementation of the Project. In addition, Stone & Webster Consultants confirms that this contracting strategy should minimize any conflict between like contractors on the two phases of the Project.</p> <p>Sabine has selected a cost-reimbursable contracting philosophy for the majority of the Phase 2 Expansion Project that is designed to maximize its flexibility. A lump sum contract has been selected for the LNG tanks albeit with a labor escalation clause. Material costs were fixed following execution of the contract. These tanks are essentially identical to the three Phase 1 tanks. Zachry rather than Matrix is partnering with Diamond as the tank constructor.</p> <p>In Stone & Webster Consultants’ opinion, the contracting strategy is designed to ensure that the Phase 2 Stage 1 Expansion Project poses negligible risk to the timely completion and operation of the Phase 1 Project.</p> <p>Sabine has established a dedicated Project Management Team. Sabine will also use Bureau Veritas and other contract personnel, term contract personnel, and possibly personnel from other EPC contractors to supplement the Project Management Team. These positions will be filled as needed as the Project execution progresses.</p> <p>This organizational structure is typical for projects of this size and complexity, even by well-established major oil and gas corporations, due to previous downsizing. However, these PMT personnel have not previously worked together and will require a learning curve period before the team can efficiently and effectively oversee the various EPC Contractors and facilitate resolution of the detailed technical and execution queries that inevitably arise during execution of such a Project. This represents a medium risk to the Sponsors rather than to Sabine’s debt holders.</p>

Project Schedule <i>Low Risk</i>	Completion of the Phase-2 Expansion is not schedule-critical for Sabine's debt holders. The 36-month schedule for Phase 2 is challenging but achievable.
Capital Cost <i>Low to Medium Risk</i>	The EPC Contract portion of the Phase 2 Project cost is being implemented under a reimbursable EPCCm contract with Bechtel and under fixed-price EPC Contracts with other contractors. In our opinion, the Owner's Costs properly reflect the responsibilities and risks carried by the Owner. The Total Phase 2 Stage 1 Project Cost is currently budgeted to fall in the range of US\$500 to US\$550 million. Stone & Webster Consultants has reviewed the detailed build-up of both the EPC Contract Cost and the Owner's Costs. In our opinion, based upon our benchmarking of this Capital Expenditure ("CAPEX") against that of comparable projects, including the Phase 1 Project, the budget is reasonable.
Operating Cost <i>Low to Medium Risk</i>	Operations, maintenance and contract labor costs total US\$10.0 million per annum. Other fixed operating costs amount to US\$15.8 million per annum in the aggregate. Apportioned Cheniere G&A costs carried by the Project add \$8.3 million, and the GE power generation maintenance expenses add a further US\$4.6 million, bringing the total annual (Phase 1) O&M costs for year 2010 to US\$38.7 million, a US\$2.1 million increase over Phase 1. Note: fuel for regasification is provided by the Terminal Users.
Interface with Existing Infrastructure <i>Low Risk</i>	Tie-ins to the existing Phase 1 Project have been provided to minimize/eliminate tie-in issues. Expansion of the LNG Berths to accommodate larger LNG carriers is not on the critical path. It will be undertaken before mid-2007 and will not impact operation of the berths during Phase 1.
Interface with Existing Infrastructure <i>Low Risk</i>	Total and Chevron have contracted with the proposed Kinder Morgan LP ("KMLP") pipeline for the transportation of their natural gas. Sabine will have unhindered access to the Cheniere Sabine Pass Pipeline, L.P. ("CSPP") pipeline for export of gas from the facilities to service the Cheniere LNG Marketing TUA and for Phase 1 commissioning and performance testing, which will occur before the KMLP is commissioned.
Logistics <i>Low to Medium Risk</i>	<p>The Expansion site has been provided with separate ingress and egress and separate laydown areas from the Phase 1 Project.</p> <p>The Phase 1 Project and Phase 2 Expansion Project will share use of the common Construction Dock. Detailed planning will facilitate coordination of the use of this facility, but Phase 1 will always have priority access. A dedicated crane and crew will be provided at the Construction Dock to expedite access to all parties.</p> <p>The Phase 1 Project is proving to be a preferred work location for local craft labor due to the duration of the combined Projects.</p> <p>The time-lag between phases should facilitate Bechtel Home Office and construction labor moving from Phase 1 to the Phase 2 Project.</p>
Geography <i>Medium Risk</i>	The site is located on the US Gulf coast in an area that is prone to hurricanes. The Phase 1 Project was affected by Hurricane Katrina and Rita during 2005. Primary risk pertains to the construction period when facilities are incomplete.

3.0 PROJECT DESCRIPTION

3.1 Site

The Sabine Pass LNG plant site is situated on an area once utilized by the U.S. Army Corps of Engineers as a depository for Sabine/Neches Waterway dredging spoils; hence the soils at the site require substantial remediation and enhancement.

3.2 Facilities

The Phase 1 Project consists of the following principal components:

- Marine receiving terminal capable of unloading two LNG carriers simultaneously. The marine terminal consists of two LNG carrier unloading docks, each capable of unloading an LNG carrier with cargo capacity in the range from 87,600 cubic meters to 250,000 cubic meters of LNG. The Sponsor anticipates that a 250,000 cubic meter LNG carrier will have a draft of 39.4 feet. The US Coast Guard (the "USCG") states that the shipping channel is currently maintained at 40 feet of depth which is adequate to accommodate current LNG carriers, which have a maximum draft of approximately 37.4 feet. However, recent soundings tabulated by NOAA and data contained in the Vessel Maneuvering Simulation Study indicate channel depths of 42 feet, and that areas of the pass channel have depths of 45 feet. Sponsor will dredge the berth/terminal area to a depth of 45 feet below mean low water line plus two feet of over dredge. The deeper depth of the berths will permit Sabine to better monitor the rate of sedimentation accumulation to better plan future dredging operations.;
- Three 160,000 cubic meter single containment LNG storage tanks. Each tank is designed for a working tank volume of 160,000 cubic meters, or approximately 1,006,400 barrels. This type of tank comprises an inner LNG containment tank fabricated from nine-percent nickel steel, suitable for the cryogenic storage temperature of approximately (-)260°F. The inner tank is then surrounded by an outer carbon steel tank, which retains the perlite insulation material, which is poured into the annular area between the two tank walls. Each LNG storage tank is enclosed within an individual earthen dike or berm designed to contain 110 percent of the maximum tank volume in the event of a tank rupture. In the U.S., this diked volume is a requirement of federal regulation 49CFR193, which is followed rigorously by the Federal Energy Regulatory Commission ("FERC");
- LNG circulation system to keep unloading systems cold between LNG shipments;
- LNG tank and LNG carrier vapor handling systems ;
- Storage tank boil-off gas compressors and re-condenser systems;
- Three LNG in-tank transfer pumps in each tank. The sendout pumps will be multi-stage, seal-less vertical centrifugal pumps, with the entire pump and motor submerged in, in accordance with accepted industry practice;
- Sixteen LNG high pressure export pumps submerged in a pumpout vessel supplied with the pump and Submerged Combustion Vaporizers ("SCV"). Each SCV is designed with an absorbed heat duty of approximately 116.0 MMBtu per hour, a well-proven capacity level. Vaporizers are essentially self-contained package units, complete with fully integrated burner management systems and safety interlocks. The SCV package also includes the electric motor-driven combustion air blower, which compresses air up to the submerged combustion pressure. SCVs are robust units, currently employed in approximately 75 percent of the world's LNG regasification terminals, and thus represent very little risk;
- Natural gas metering stations and export pipeline header;

- Electric power generation and distribution. This comprises three LM 2500+ aeroderivative gas turbine driven generator sets, which are well-proven in the industry:
- Utilities, infrastructure, and support facilities.

The Phase 1 marine terminal consists of two LNG carrier unloading docks, each capable of unloading LNG carriers of between 87,600 cubic meters and 250,000 cubic meters of LNG storage capacity.

Phase 2 comprises the addition of:

- Modifications to the original berth design by adding approximately 100 feet of additional clearance at the stern of docked LNG carriers by replacing the rock rip-rap covered, sloped underwater shore with vertical bulkhead constructed using open cell technology developed and patented by PND Incorporated ("PND"), headquartered in Anchorage, Alaska.
- eight tandem vaporization units, each consisting of a high pressure send-out pump coupled to a SCV designed to vaporize approximately 180 MMscfd;
- two additional 160,000 cubic meter LNG storage tanks;
- a fourth GE (LM-2500+) gas turbine power generation unit;
- a partial Ambient Air Vaporizer ("AAV") train, consisting of 11 cells, to serve as a pilot testing facility. The use of AAV technology has potential operating cost reduction benefits in the summer months. A full AAV train comprises 33 cells and has a design vaporization capacity of 180 MMscfd.
- a new Auxiliary Control Building;
- a new electric power Substation;
- a fourth instrument and utility air compression unit;
- additional utilities and infrastructure facilities to support the overall expansion program;
- additional tie-ins and other pre-investment work required to minimize potential construction and operations interferences due to the addition of the subsequent Phase 2 expansion stages.

3.3 Operation

Pumps onboard a LNG carrier are used to unload LNG and transfer it to the storage tanks. As the LNG enters a storage tank, vapor in the tank is displaced. This cold vapor is returned to the LNG carrier to replace the equal volume of unloaded LNG and maintain constant pressure in both the tank and the carrier. This vapor is returned to the carrier via cryogenic blowers. Similarly, between LNG deliveries, a small amount of LNG will be circulated from the storage tanks through the carrier unloading lines to keep them at cryogenic unloading temperature. LNG is pumped from each storage tank by in-tank submerged transfer pumps. These discharge LNG from the tank at approximately 85 psig. Excess tank vapor is compressed to 85 psig. Vapor re-condensers then condense and re-absorb the compressed vapor into the pressurized LNG pumped from the tanks. Multi-stage export pumps boost the pressure of the LNG to 1550 psig. This high-pressure LNG is fed to submerged combustion vaporizers ("SCV"). Each pump feeds one SCV. A total of sixteen pump/vaporizer tandem sets are provided under Phase 1, each with a design export capacity of approximately 180 MMscfd. Achieved capacity depends on the LNG composition. A small amount of the vaporized export gas, less than two percent of the total capacity, will be consumed internally as fuel gas for the terminal. Export gas will be routed through a metering station into the main export pipeline header, which is connected to numerous natural gas distribution pipelines. All export pipeline infrastructure downstream of the metering station is to be supplied by others.

The Phase 1 Sabine Pass LNG Terminal will generate its own electric power from two operating General Electric (LM-2500+) gas turbine-driven generators plus one spare unit. Maximum expected power consumption is approximately 50 MW, compared to an installed capacity of 75 MW. Under Phase 2 a fourth LM-2500+ turbine-generator unit will be added. At the maximum peak export capacity of 4,000 MMscfd, three of the four generators will be required for full Terminal operations, with the fourth unit available as a stand-by spare.

4.0 PROJECT STATUS

4.1 Phase 1

Stone & Webster Consultants' understanding on the current status of the Project is based on our review of the September 2006 Monthly Progress Report issued by Bechtel. Cumulative aggregate progress of the Phase 1 Project through the end of September 2006 was 60.1 percent compared to with planned progress of 62.5 percent. The Project has two near parallel critical paths, one relating to the LNG Tanks which has zero float and the other relating to the power generation facilities which has nine days float. Progress on these two critical paths is such that Bechtel is expected to achieve the Target Bonus Date of April 3, 2008, which corresponds to completion of the main terminal and two of the three LNG Tanks and to a demonstrated export capacity of 2,000 MMscfd. The scheduled Substantial Completion Date which corresponds to completion of the entire terminal and demonstration of the maximum peak export capacity of 2,730 MMscfd, is currently scheduled for November 8, 2008, versus the revised Guaranteed Substantial Completion Date of December 20, 2008. Therefore, the Project is currently proceeding in accordance with the Construction Budget and Schedule.

At the end of September 2006, engineering progress was 95.0 percent versus the baseline plan of 96.0 percent. Procurement progress was 79.0 percent versus the plan of 80.0 percent. Construction progress was reported as 47.7 percent versus the plan of 50.9 percent.

However, the impacts of the 2005 hurricane season on both the LNG Tank and the marine terminal subcontractors have not been integrated into the schedule. Similarly, the impact of the re-design of the marine terminal bulkheads, has not yet been integrated into the baseline construction progress curves. Therefore, some of this apparent progress deficiency will be reduced once that integration occurs. The Target Bonus Completion Date still remains as April 3, 2008, albeit with zero days of float. The Guaranteed Substantial Completion Date has 34 days of positive float, indicating a great deal of comfort in meeting this required completion date.

4.2 Phase 2 Stage 1

The Phase 2 Project is currently undergoing soil stabilization and enhancement, and other contractors are mobilizing for home office engineering and procurement. The early construction management team has also mobilized to the site to oversee Recon's Phase 2 work. The overall Project Control Schedule has not yet been finalized so baseline progress curves have not yet been developed.

5.0 PROJECT IMPLEMENTATION

5.1 Codes and Standards

In the Project documentation, the Sponsor required that all Project facilities are to be specified, engineered, procured, constructed, operated and maintained in accordance with all applicable Federal and state regulations and accepted industry practices and guidelines. The primary requirements for this federally regulated Project are mandated by the United States Federal Energy Regulatory Commission ("FERC"), which principally refer to 49 CFR 193 and NFPA 59A. These regulations are further augmented by the International Maritime Organization, Society of International Gas Tanker & Terminal Operators Ltd. ("SIGTTO"), and other applicable industry

standards and codes which are required and incorporated by reference in the regulations and documents promulgated by these entities. The industry guideline adopted by SIGTTO is specifically referenced in the two Terminal Use Agreements ("TUA") between Sabine Pass LNG, L.P and the Project's anchor Customers, Total LNG USA, Inc. and Chevron USA Inc. Equipment provided under both Phase 1 and Phase 2 incorporates the latest technology updates with respect to high efficiency performance and low emissions. Thus the Project will represent little risk from an equipment performance and reliability perspective. Based on the foregoing requirements, in Stone & Webster Consultants' opinion, the design is consistent with that of similar facilities within the United States and abroad and should result in an LNG terminal facility capable of fulfilling the commitments made under the TUAs.

5.2 Phase 1 Contracting Strategy

Cheniere contracted Bechtel to undertake the FEED for the Project. It pre-selected MHI/Matrix as the LNG Tank Subcontractor, Weeks Marine as the Marine Subcontractor, and Recon as the Soils Improvement Subcontractor. In addition, Cheniere limited bidding and negotiation on certain long-lead equipment to one or two vendors, including T-Thermal for the submerged combustion vaporizers, IHI for the boil-off gas compressor, and FMC and Connex SVT for the unloading arms. It then negotiated with Bechtel on an open-book estimate basis to provide a lump sum price for turnkey EPC Contract for the Project. Stone & Webster confirms that the selected subcontractors and equipment suppliers have the expertise and experience to perform the specified work or provide the equipment.

5.3 Phase 2 Contracting Strategy

Sponsor provided the following draft contracts and agreements for our review and comment:

- Reimbursable Bechtel EPCCm Contract,;
- Fixed Price Diamond/Zachry EPC LNG Tank Contract;
- Unit Rate Recon EPC Contract for Soils Improvement;

All of these contracts were subsequently executed on July 21, 2006.

In addition, we reviewed the executed Willbros/CSPC EPC Contract for Cheniere Sabine Pass Pipeline Project, dated February 1, 2006.

Sabine executed a reimbursable EPCCm Contract with Bechtel that will provide engineering, procurement and construction management services together with direct hire construction services for those activities not provided by other contractors.

The reimbursable form of contract requires additional diligence and oversight by Sabine, especially when Phase 1 and Phase 2 work is being undertaken concurrently by the same contractor but paid under different compensation arrangements. Sabine issued its "Notice to Proceed" to Bechtel on July 26, 2006.

The Phase 1 scope of work is proceeding under a fixed price, lump-sum turn key contract format. In contrast, the Phase 2 Project is being executed using a combination of individual reimbursable or unit rate contracts between Sabine and selected contractors and a reimbursable time and material contract with Bechtel responsible for all work not directly contracted by Sabine including detailed engineering, procurement and construction services. Bechtel will also serve as Sabine's overall Construction Manager, in overseeing all contractors for the Phase 2 Expansion project. Under this arrangement Sabine retains total responsibility for risks associated with project scope and also assumes the risk for cost increases associated with labor productivity.

In Stone & Webster Consultants' opinion, Sabine has selected a contracting scheme that facilitates and complements its goal to minimize any interference between Phase 1 and Phase 2 activities. The contracting basis pays cognizance to the change in the EPC contracting environment over the past two years, in particular reluctance to lump sum bid EPC contracts on the US Gulf Coast. Moreover, the contracting strategy pays cognizance to the protection afforded under the Phase 1 lump sum contract by utilizing the same key contractors and vendors. The contracts reflect generally acceptable provisions and terms that do not impinge upon Phase 1. Overall, the contracting strategy provides Sabine with flexibility should it be necessary to change the mode or order in which the work is completed.

5.4 Foundations

The Sabine Pass LNG plant site is situated on an area once utilized by the U.S. Army Corps of Engineers as a depository for Sabine River Channel dredging spoils. Dredged soils in the tank areas have been stabilized to a depth of 12 feet below grade. All foundations for major equipment and structures, including the LNG storage tanks, LNG process equipment, pipe racks and marine terminal equipment, are piled. Project specifications required field testing of at least four piles per tank that support the LNG storage tank foundation. Final pile design for the tank foundation piles was determined from these test results.

5.5 Implications of Phase 2 on the Phase 1 Project

Management and co-ordination of the Phase 1 Project and the Phase 2 Stage 1 Expansion Project present challenges that can be met by careful early planning and diligent attention to execution. Accordingly, Sabine and Bechtel have developed procedures and execution plans that address potential interferences or conflicts between the two projects. The potential adverse effect of the Phase 2 Expansion on the Phase 1 Project is mitigated substantially by the one-year lag between the two Project schedules. Essentially all Phase 1 engineering, procurement, and initial construction activities will be completed before those for Phase 2 commence. Sabine has performed a comprehensive scheduling analysis of the common utilization of the full-time crew and crane at the Construction Dock. This analysis indicates no unmanageable conflicts. Sabine represents that it will provide an experienced and adequately staffed Project Management Team and supporting Owner's Engineer personnel to properly oversee Bechtel and the other Expansion Project contractors. Sabine and Bechtel will provide a user-friendly, logic-linked Critical Path Method ("CPM") control schedule as quickly as practical to allow detailed planning especially of tie-ins to the Phase 1 facilities, as well as common use of the Construction Dock and public access roads by all parties, including the two export pipeline projects. Stone & Webster Consultants confirms that this is consistent with good industry practice.

Sabine and Bechtel have implemented enhanced compensation programs to attract and retain skilled construction craft labor for both Projects. Should competition with outside projects drawing on the same labor resource create overall labor shortages at the Sabine site, Phase 1 will have absolute priority to available labor resources. Sabine plans to hire extra operations personnel on a term-contract basis to satisfy operations requirements of both Phases. The term-contract personnel will be released upon achievement of full operational status for the entire expanded facility. Total and Chevron have contracted to use the proposed KMLP pipeline for the transportation of their natural gas, thus completely freeing up the CSPP pipeline for unhindered access by Sabine for commissioning, performance testing of both Phase 1 and Phase 2, and for normal operation of the Phase 2 Stage 1 facilities in servicing the Cheniere TUA export volumes.

Given these scenarios and the overall Phase 2 Stage 1 Project Execution Plan, in Stone & Webster Consultants' opinion, there are no unmanageable potential impacts, interferences or conflicts between the Phase 1 Project and the Phase 2 Stage 1 Expansion Project in terms of engineering, procurement, construction, commissioning, and performance testing, nor in terms of the achievement and continuation of normal operational status.

6.0 CONSTRUCTION BUDGET**6.1 Phase 1 Budget**

The EPC Contract portion of the Phase 1 Project cost is being implemented under a LSTK contract with Bechtel. In our opinion, the Owner's Costs properly reflect the responsibilities and risks carried by the Owner. The Total Phase 1 Project Costs is currently budgeted to fall in the range of US\$900 to US\$950 million. Stone & Webster Consultants has reviewed the detailed build-up of both the EPC Contract Cost and the Owner's Costs. In our opinion, based upon our benchmarking of this CAPEX budget against comparable projects, the budget is reasonable.

6.2 Phase 2 Budget

The EPC Contract portion of the Phase 2 Project cost is being implemented under a reimbursable EPCCm contract with Bechtel and under fixed-price EPC Contracts with other contractors. In our opinion, the Owner's Costs properly reflect the responsibilities and risks carried by the Owner. The Total Phase 2 Stage 1 Project Cost is currently budgeted to fall in the range of US\$500 to US\$550 million. Stone & Webster Consultants has reviewed the detailed build-up of both the EPC Contract Cost and the Owner's Costs. In our opinion, based upon our benchmarking of this CAPEX budget against comparable projects, including the Phase 1 Project, the budget is reasonable.

7.0 CONSTRUCTION SCHEDULE**7.1 Phase 1**

The Force Majeure impacts from the hurricanes, resulting in extension of the Guaranteed Substantial Completion Date from September 2, 2008 to December 20, 2008, have been incorporated into the updated Level III CPM Schedule. The revised key contractual Project Milestone dates are summarized below in Table 7.1-1.

Bechtel's primary critical path runs through the LNG Storage tanks, with RFCD of LNG Tank 2 scheduled for March 23, 2008, with zero float. A near parallel secondary critical path runs through startup of the power generation facilities, which is scheduled for September 27, 2007. This activity currently has nine days of positive float. This means that the actual startup of these facilities can still slip 9 working days without impacting achievement of the Target Bonus Date. Timely startup of the power generation facilities is integral to Bechtel being able to pre-commission and commission the entire terminal. The scheduled Target Bonus Date of April 3, 2008 is currently indicated as having zero days of float, as this is the reference point for the Schedule. However, in Stone & Webster Consultants opinion, field construction is being undertaken in a well-managed and proactive manner. Once engineering and procurement constraints are removed, Stone & Webster Consultants expects construction management to generate float and achieve the Target Bonus Date of April 3, 2008.

**Table 7.1-1
Scheduled Key Milestone Dates**

Milestone Description	EPC Contract Basis	Early Finish	Late Finish
FERC Approval	Condition Precedent	Dec 21, 2004	Completed
Limited Notice to Proceed (LNTP)	On or Before Jan 4, 2005	Jan 4, 2005	Completed
Notice to Proceed (NTP)	Min 90 days after LNTP	April 4, 2005	Completed
Approved Perf. Test Procedures	By 24 Months after NTP	April 4, 2007	April 4, 2007
Submit Target Bonus Test Procedures		Jan. 7, 2008	Jan. 18, 2008
Ready For Cool Down System #1	Terminal plus Tank No.1	Feb 18, 2008	Feb 28, 2008
Ready For Cool Down System #2	LNG Tank No.2	March 21, 2008	March 25, 2008
Target Bonus Date (2000 MMscfd)	1095 days after NTP	April 3, 2008	April 3, 2008
Ready For Cool Down System #3	LNG Tank No.3	July 1, 2008	Sept. 5, 2008
Ready For Performance Testing		July 18, 2008	July 18, 2008
Substantial Completion		Sept 2, 2008	Nov. 8, 2008
Guaranteed Substantial Completion	1355 days after NTP	Nov. 8, 2008	Dec. 20, 2008
Final Completion (EPC Contract)	Max 90 days after SC	Dec. 10, 2008	Feb. 12, 2009
Total TUA Commences	Total TUA Agreement	April 1, 2009	April 1, 2009
Chevron TUA Commences	Chevron TUA	July 1, 2009	July 1, 2009

7.2 Phase 2

Start-up and commissioning of the Phase 2 Expansion facilities are scheduled for the second quarter of 2009 based on an overall construction duration of 36 months from an Effective Date of late July 2006. While this duration would be considered overly optimistic for a new grass-roots facility, in Stone & Webster Consultants opinion, it is aggressive but achievable for the Phase 2 Stage 1 Expansion Project, recognizing that the commercial negotiations and design for the major equipment has already been concluded. This notwithstanding, the construction period for the LNG tanks does not contain excessive float and is not overly generous. Sabine and Bechtel will develop a rigorous, logic-linked, Critical Path Method (“CPM”) control schedule within 120 days after NTP. The CPM schedule will allow detailed planning of tie-ins to the Phase 1 facilities and evaluation of access to the site by all parties, including the two export pipeline projects.

8.0 ENVIRONMENTAL RISKS

Stone & Webster Consultants has reviewed the environmental and regulatory information provided to us by Sabine pertaining to the Phase 2 Expansion, most of which is contained in Sabine’s FERC application. FERC has issued its permit to construct the Phase 2 Expansion. In Stone & Webster Consultants’ opinion, Sabine should be able to obtain the requisite supplementary permits and other regulatory authorizations for the Phase 2 Expansion Project without significant impacts upon either the Phase 1 Project or to the Phase 2 Expansion Project costs or schedule. The expanded facilities will comply with the Equator Principles.

9.0 OPERATIONS & MAINTENANCE PROGRAMS

9.1 Expanded Terminal O&M Costs

During the Phase 2 due diligence, Stone & Webster Consultants and Sabine mutually agreed on an operations and maintenance budget for the expanded, Phase 1 plus Phase 2 LNG Terminal, which is summarized in Table 9.1-1. These O&M Expenses were duplicated in the original due diligence Financial Models. The entries reflect those costs and expenses expected during the first full TUA Contract Year of operations, 2010.

**Table 9.1-1
LNG Terminal O&M Expenses
Contract Year 2010**

O&M Expense Description	2,000 MMscfd US\$ Million	4,000 MMscfd US\$ Million
Operations, Maintenance & Contract Labor Costs	10.0	10.0
Other Fixed Operations and Maintenance Costs	14.5	15.2
Subtotal Fixed O&M Costs	24.5	25.2
Fixed Opex Contingency Allowance @ 2.5 percent	0.6	0.6
Total Annual Fixed O&M Costs	25.1	25.8
Annual G&A Costs (Sabine Management & O&M Agreements)	8.3	8.3
Annual GE Power Generation Long-term Maintenance Expenses	3.2	4.6
Total Operations & Maintenance Expenses for Year 2010	36.6	38.7

9.2 Terminal Operational Issues

Based upon all information available, Lanier, an outside marine consultant, concluded in its Marine Traffic Study that the infrastructure of the Sabine-Neches Waterway, coupled with projected staffing increases by the Sabine Pilots Association, would be adequate to handle all of the ship traffic increases projected over the next ten years, including the addition of the three new LNG terminals currently planned by other developers along the Sabine-Neches Waterway. Stone & Webster Consultants concurs with this assessment.

The Phase 1 due diligence effort and the two primary TUAs were based on the assumption that Sabine would receive LNG deliveries by carriers averaging 140,000 cubic meters in size. In Stone & Webster Consultants' opinion, an average unloading time of 30 hours per LNG carrier is sufficient. This unloading time is supported by shipping simulation study results obtained from software provided to Sabine by an outside shipping consultant. This unloading time results in a total unloading time of 14,160 hours shared between the two berths, which in turn results in 2,880 hours of slack time between the two berths. This is quite reasonable, assuming the average LNG carrier size is 140,000 cubic meters. However, the bulk of the current LNG carrier fleet ranges between 125,000 and 140,000 cubic meters in size. Assuming half of the deliveries were to arrive by 125,000 cubic meter carriers and half by 140,000 carriers, the total number of deliveries would be approximately 500. Assuming the same unloading time of 30 hours each results in a cumulative unloading time of 15,000 hours. The available slack time for this scenario would be 2,040 hours for a utilization percentage of 88 percent, which is also acceptable. Therefore, in Stone & Webster Consultants' opinion, the marine unloading facilities as currently designed are more than adequate to support the 2,000 MMscfd of capacity held by the two primary TUA Customers. The facilities also appear to be adequate to support the Sabine Pass LNG Terminal expansion to its peak export capacity 4,000 MMscfd, given that a number of recently ordered LNG carriers are around the 250,000 cubic meter capacity for which the marine terminal is designed.

Sabine's plan calls for up to fifteen of the pump/vaporizer tandem units to operate at peak capacity, with at least one unit remaining idle as a spare. However, only twelve SCVs are required to meet the combined average demand of the two primary TUA Customers, or 2,000 MMscfd.

In Stone & Webster Consultant's opinion, one single spare vaporization tandem unit is insufficient to claim a continuous vaporization capacity of 4,000 MMscfd of gas for the expanded facilities. Sabine has not yet commissioned a comprehensive RAM analysis to determine the expected overall availability of the expanded facilities. Therefore Stone & Webster Consultants determined its own estimate of the availability of the expanded facilities to be a sustained export capacity of approximately 3,500 to 3,600 MMscfd, corresponding to 20 of 24 installed SCVs in operation. Therefore, in Stone & Webster Consultants' opinion, Sabine will be able to demonstrate the necessary performance level to service the two primary TUA Customers.

Stone & Webster Consultants is of the opinion that the addition of the fourth power generation unit will cover the power consumption requirements of the Phase 2 Stage 1 Expansion Project, such that three units will cover operations with the fourth unit as a stand-by spare. In Stone & Webster Consultants' opinion, the proposed power generation facilities for the Phase 2 Expansion Project will provide a reliable system that will meet all potential Project performance expectations.

The responsibility for providing pipeline interconnections between the terminal and the existing export natural gas pipeline grid system rests solely with each of the respective Customers of the Sabine Pass LNG Terminal. CSPP has received FERC authorization to construct the CSPP pipeline with an authorized capacity of 2,600 MMscfd. However, Total and Chevron both have indicated that they instead plan to export gas via a new KMLP pipeline, and they are responsible for ensuring that the KMLP will be operational when the two primary TUAs commence operations. CSPP has executed a contract with Willbros Group, Inc. to have the CSPP installed and ready for service by September 30, 2007. The scheduled Target Bonus Date for the Phase 1 Sabine Pass LNG Terminal Project is April 3, 2008, so the CSPP should be available to the Project in sufficient time for commissioning and testing under the Bechtel EPC Contract for EPC Contract completion and testing of the Phase 1 Project.

Stone & Webster Consultants has reviewed the proposed OPEX for the combined Phase 1 and Phase 2 Stage 1 facilities. In our opinion, a reasonable level of OPEX has been established by Sabine for the expanded terminal.

10.0 CONTRACTS

10.1 TUAs

Stone & Webster Consultants has reviewed the Total and Chevron TUAs that form the financial foundation of the Project, the respective executed TUA-associated Omnibus Agreements and the executed EPC Contract for Phase 1, dated December 18, 2004.

Under each of the TUAs, the fees to be paid to Sabine include a Fixed Component Fee, set at US\$0.28 per MMBtu of LNG received and is fixed for the 20-year term of the TUA. The FOC Component Fee, designed to partially reimburse Sabine for fixed operating costs, is set initially at US\$0.04 per MMBtu, but it is subject to escalation according to the U.S. Consumer Price Index. Also, Sabine is entitled to 2.0 percent of the LNG received for internal terminal energy consumption, primarily for vaporizer and power generation fuel. Stone & Webster Consultants confirms that this should be ample to cover the anticipated consumption. All third-party marine terminal expenses (tug boats and line service boats, etc.) can be passed through 100 percent to the Customers, and the Customers are also obligated to pay a portion of the terminal taxes in addition to the fixed fees. Overall, in Stone & Webster Consultants' opinion, the TUA fee structure is favorable to the Sponsor, in that payment is due in general terms regardless of terminal throughput, with little risk in terms of Force Majeure and Termination. .

An Omnibus Agreement forms an addendum to each TUA, and provides in each case for early payments, termed Capacity Reservation Fees, of the Fixed Component of the Reservation Fee. These provisions call for Total and Chevron to make US\$20.0 million payments to the Sponsor that will be recouped through a monthly reduction in the Fixed Component Fee equal to US\$166,667 per month (US\$2 million per annum for each) for the first ten years of primary TUA operations.

10.2 Phase 1 EPC Contract

Stone & Webster Consultants reviewed the executed EPC Contract, including the Attachments and Schedules. In our opinion, the EPC Contract generally conforms to the structure, format, and content of basic engineering, procurement and construction contracts utilized for the design and construction of facilities of this type.

The Contract stipulates a payment retention of five percent of each payment due to the Contractor. These funds are surrendered to the Contractor upon achievement of Substantial Completion. Similarly, the Contractor must maintain a Letter of Credit ("LOC"), valued at ten percent of the Contract Price. Upon achievement of Substantial Completion, the value is reduced to five percent, and the LOC is retired completely at the end of the Defects Correction Period, which ends eighteen months following Substantial Completion. These provisions, in general, provide favorable protection against EPC Contractor non-performance during the construction and warranty periods.

As noted previously, the current EPC Contract schedule is based on a 44-month duration, which Stone & Webster Consultants considered to be reasonable. Most schedules for similar facilities range from 37 to 45 months. Even though the Contract provides for Delay Liquidated Damages of up to 10 percent of the Contract Price, robust for a facility of this type, Stone & Webster Consultants sees little likelihood that Delay Liquidated Damages will require enforcement. Performance Liquidated Damages are specified with a maximum liability of up to 10 percent of the Contract Price for Sendout Rate Performance deficiency and up to two percent for Ship Unloading Time deficiency. The aggregate Performance Liquidated Damages are limited to 10 percent. Thus the Contractor is obligated for a maximum Liquidated Damages liability of 20 percent of the Contract Price.

Total Phase 1 EPC Contract maximum liability is limited to 30 percent; however, the Contractor is obligated for much higher liability in the requirement to demonstrate operational capability of all facilities prior to formal Performance Testing, all of which, taken together, constitute favorable protection. Overall, Stone & Webster considers that the terms of the EPC Contract are reasonable and properly place the responsibility for the timely completion and technical performance of the Project on the general EPC Contractor.

11.0 CONCLUSIONS

In Stone & Webster Consultants' opinion:

- The Phase 1 Project is technically viable;
- The Phase 1 Project Budget is reasonable;
- The Phase 1 Schedule is reasonable;
- The Phase 1 Project has been approved by FERC, indicating compliance with environmental regulations and that environmental risks are low;
- The Phase 1 Project contracting strategy is reasonable and minimizes the strain on a start-up company;
- The Phase 1 EPC contract provides a suitable basis for contracting the required services;

- The Phase 1 Project will provide ample availability to service the required 2,000 MMscfd export capacity requirements of the two primary TUA customers;
- The Phase 2 Stage 1 Expansion of Sabine Pass poses negligible risk to the timely completion and operation of the Phase 1 Project;
- The Phase 2 Stage 1 Expansion is technically feasible and viable;
- The Phase 2 Stage 1 Budget is reasonable and generally consistent with that for the Phase 1 Project;
- The Phase 2 Stage 1 Schedule is reasonable;
- The Phase 2 Project has been approved by FERC, indicating compliance with environmental regulations and that environmental risks are low;
- The Phase 2 Stage 1 Project contracting strategy provides the Company with maximum flexibility in Phase 2 Project execution;
- The Phase 2 Stage 1 construction contracts provide a suitable basis for contracting the required services without impinging on the Phase 1 Project interests;
- The Phase 2 Stage 1 Project will in effect increase the overall export capacity to a maximum peak rate of 4,000 MMscfd and a long-term sustainable capacity of at least 3,500 MMscfd.