

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

Form 10-K

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

OR

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

FOR THE YEAR ENDED DECEMBER 31, 1999

Commission File No. 0-9092

CHENIERE ENERGY, INC.

(Exact name of registrant as specified in its charter)

Delaware 95-4352386
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

1200 Smith Street, Suite 1740 77002-4312
Houston, Texas (Zip code)
(Address of principal executive offices)

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item
405 of Regulation S-K is not contained herein, and will not be contained, to the
best of the registrant's knowledge, in definitive proxy or information
statements incorporated by reference in Part III of this Form 10-K or any
amendment to this Form 10-K.

The aggregate market value of the registrant's common stock held by non-
affiliates of the registrant was approximately \$36,290,457 as of March 24, 2000
(based upon the March 24, 2000 closing market price of such common stock as
reported by the Nasdaq SmallCap Market). 42,381,973 shares of the registrant's
Common Stock were outstanding as of March 24, 2000.

Documents incorporated by reference: Proxy Statement for the registrant's
Annual Meeting of Stockholders (to be filed within 120 days of the close of the
registrant's fiscal year) is incorporated by reference into Part III.

CHENIERE ENERGY, INC.

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PART I

ITEMS 1. AND 2. BUSINESS AND PROPERTIES

GENERAL

Cheniere Energy, Inc. is a Delaware corporation engaged in exploration for oil and gas reserves. The terms "Cheniere" and "Company" refer to Cheniere Energy, Inc. and its subsidiaries. The Company principally operates through its wholly-owned subsidiary, Cheniere Energy Operating Co., Inc. ("Cheniere Operating"). Cheniere is a Houston-based company formed for the purpose of oil and gas exploration, development and exploitation. The Company is currently evaluating and generating drilling prospects using a regional and integrated approach with a large 3-D seismic database as a platform.

Cheniere was formed in 1996 to fund the acquisition of a proprietary 3-D seismic database along the transition zone in Cameron Parish, Louisiana. The 228-square-mile survey was acquired and processed during 1997. Interpretation of the data yielded drilling prospects located onshore and in the state and federal waters of offshore Louisiana. Leasing activity occurred over identified prospects throughout these three jurisdictions during 1998 and 1999 and continues.

During 1999 the Company drilled exploration wells on six prospects: two were discoveries and four were dry holes. Both discoveries are located on West Cameron Block 49 in Louisiana state waters in approximately 25 feet of water. Production of natural gas commenced from a common platform in September 1999. Further drilling in the Cameron project area is scheduled for 2000 on leased prospects, and multiple leads are under development for possible leasing in the future.

To ensure continued access to high quality drilling prospects, the Company expanded beyond the Cameron area and into the shallow waters of the Gulf of Mexico. Cheniere hired additional management and technical expertise and licensed 8,700 square miles of 3-D seismic data, which is currently being evaluated. The Company also made the commitment to reprocess the entire 8,700 square-mile seismic database. The resulting new data set is being delivered over a period of approximately two years beginning in September 1999 and provides the Company with a higher resolution image of the subsurface than has previously been available.

Cheniere's existing data set and the reprocessed data set, as it is delivered, provide the Company the framework with which to "capture" drilling prospects through leasing at the area-wide federal and state lease sales, through farm-ins, and through participation in industry prospects.

Cheniere has been publicly traded since July 3, 1996 under the name Cheniere Energy, Inc. The Company's principal executive offices are located at 1200 Smith Street, Suite 1740, Houston, Texas 77002, and its telephone number is (713) 659-1361. Cheniere's internet website is located at www.cheniere.com.

On April 7, 1998, the Company's Board of Directors approved a change in fiscal year-end. The change in year-end resulted in a transition period from September 1, 1997 to December 31, 1997.

Prior to the commencement of its revenues in September 1999, Cheniere was a development stage company.

BUSINESS STRATEGY

The Company's objective is to expand the net value of its assets by building an oil and gas reserve base in a cost-efficient manner. Cheniere's exploration program combines the use of regional 3-D seismic data in shallow water areas of the Gulf of Mexico, advanced analytical technologies, a methodology that integrates geoscience and engineering disciplines, and a core of experienced staff.

Cheniere has acquired two significant seismic database assets: 1) a 228 square-mile proprietary 3-D seismic program in the transition zone of Cameron Parish, Louisiana, and 2) an 8,700 square-mile 3-D seismic database offshore Louisiana, licensed from Fairfield Industries. The licensed database has been available previously to the industry and was processed using a technique called dip move out ("DMO"). Cheniere has acquired the DMO data and is underwriting the reprocessing of the data utilizing a more rigorous technology known as prestack time migration ("PSTM"). The regional PSTM data is the "technology tool" which management believes gives Cheniere a competitive advantage and is being processed at the rate of approximately 300 square-miles (40 blocks) per month.

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Analysis

Cheniere has built a prospect generation infrastructure capable of detailed analyses of large volumes of seismic, geological, and engineering data. At the center of the analytical capabilities is a UNIX workstation network, which allows large databases to be shared by the technical staff. Geological and geophysical interpretation, modeling, and mapping software packages are available on the network for use by each of the geoscientists to generate and refine drilling opportunities. A thorough analysis of the various technical factors, utilizing some of these advanced evaluation capabilities, is essential to accurately quantify reserve potential and risks.

Methodology

Cheniere employs a rigorous methodology which includes: 1) the detailed analyses of existing fields to identify geological and geophysical attributes for use as analogs, 2) regional trend mapping to extend prolific plays into under-explored areas, 3) the use of workstation interpretation techniques to rapidly identify prospects with attributes similar to those identified in the analog fields, 4) the integration of seismic interpretation, well control, structure, stratigraphy, timing, sourcing factors, and production data to quantify prospect potential, and 5) the integration of the above sciences with experience and conservative economic evaluation to focus the exploration program on highly commercial projects. By conducting a thorough analysis of the data (in particular the use of seismic attributes and field analogs) and strict adherence to the methodology, Cheniere can reduce the risk of dry holes and achieve significant growth, while maintaining a competitive cost of finding and development. The typical prospect generation flow in a focus area is as follows:

1. Review existing discoveries to identify main producing trends and attributes associated with production;
2. Map regional producing trends;
3. Create regional attribute maps;
4. Combine 1, 2, and 3 to develop leads;
5. Determine if lead meets basic economic hurdles;
6. Determine acreage availability;
7. Evaluate remaining leads in detail to develop prospects;
8. Compare prospects directly to analogs;
9. Fully evaluate reserves and risks for prospects;
10. Run economics and determine commercial attractiveness;
11. Acquire and drill prospects.

Experience

Cheniere has built a technical and management team that is very experienced in the Gulf of Mexico and in various technical specialties required for its exploration program. In general, this experience allows the Company to be very productive in the generation, capture, and drilling of exploratory wells. In specific, the experience has produced a number of leads and prospects in areas where staff members had previously worked but lacked either data or capital to exploit their ideas.

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

The Proprietary 3-D Seismic Exploration Program is located within an area referred to as the transition zone of Louisiana, which defines an area extending roughly three to five miles on either side of the coastline and includes the westernmost 28 miles of Louisiana coastline. Substantial infrastructure along the Gulf Coast and in the shallow Gulf of Mexico should permit Cheniere to lower its development costs compared to those in other geographic regions and facilitate timely development of oil and gas discoveries. The Company's officers and technical staff have extensive experience both onshore and offshore in the Gulf Coast and believe the Proprietary 3-D Seismic Exploration Program is well-positioned to evaluate, explore and develop properties in the area.

Exploration Agreement

Under the terms of the exploration agreement covering the Proprietary 3-D

Seismic Exploration Program, Cheniere paid for certain seismic costs and owns a 50% working interest participation in the leasing and drilling of all prospects generated from the survey.

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Cheniere has elected to generate its own prospects, which it has offered to the other party to the exploration agreement. Neither party to the Proprietary 3-D Seismic Exploration Program is permitted to sell or license the data without the other party's approval.

Schedule for the Proprietary 3-D Seismic Exploration Program

Drilling activities, which are described above, commenced in 1999. Reprocessing and interpretation of the survey data is continuing. Cheniere and the other party to the exploration agreement have designated the entire survey (onshore and offshore) as an area of mutual interest for five years ending May 15, 2001, during which period the two companies may continue to participate in drilling, testing, and developing prospects.

West Cameron Block 49

Two natural gas discoveries located in West Cameron Block 49 in Louisiana state waters were tied into a common platform and began production during September 1999. Both the Redfish well and the Stingray well are located in shallow waters of approximately 25 feet and were drilled into the Lower Miocene formation from 9,000 to 11,000 feet. Cheniere owns a 35% working interest in Redfish and a 45% working interest in Stingray, both of which are operated by IP Petroleum Company. Subsequent to the commencement of production on September 9, 1999, the two wells produced approximately 651 million cubic feet equivalent of natural gas net to Cheniere's interest, or an average of 5.3 million cubic feet per day.

In February 2000, the Stingray well was successfully recompleted. Subsequent to the recompletions, the production rates at West Cameron Block 49 have increased compared to fourth quarter 1999 production rates. Cheniere plans to drill an additional prospect at West Cameron Block 49 during 2000 and is also considering multiple leads for possible additional leasing in the area.

3-D SEISMIC DATABASE LICENSED FROM FAIRFIELD

In June 1999, Cheniere acquired 8,700 square miles of 3-D seismic data from Fairfield Industries, covering over 1,100 outer continental shelf blocks in the shallow waters of the Gulf of Mexico. The delivery and reprocessing of the data is described above and will continue through 2001.

In March 2000, Cheniere entered into an exploration agreement with Samson Offshore Company, a private Oklahoma company, for Samson to participate as a 50% working interest owner in any drilling prospect generated or taken by Cheniere in the Gulf of Mexico. Samson will pay a disproportionate share of the cost of leasing and drilling of the initial test well on each prospect. Cheniere will be the operator.

Also in March 2000, Cheniere and Samson jointly were the high bidder on five federal offshore lease blocks. The blocks are offshore Louisiana in water depths of less than 100 feet and initial drilling is expected to commence in May 2000.

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PRODUCTION AND SALES

The following table presents certain information with respect to natural gas production attributable to the Company, average sales prices received and average production costs during 1999. The Company had no production prior to 1999.

<TABLE>
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	Year Ended December 31, 1999 -----
<S>	<C>
Production:	
Oil (bbls)	2,975
Gas (mmcf)	633,432
Gas equivalents (mmcfe)	651,282
Average sales prices:	
Oil (per barrel)	\$ 23.18
Gas (per mcf)	2.59

Selected data per mcfe:
Average sales price \$ 2.48
Production costs 0.20
Oil and gas depreciation, depletion and amortization 1.84

</TABLE>

ACREAGE AND WELLS

The following table sets forth certain information with respect to the Company's developed and undeveloped leased acreage as of December 31, 1999.

<TABLE>
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	Developed Acres		Undeveloped Acres (1)	
	Gross	Net	Gross	Net
<S>	<C>	<C>	<C>	<C>
Louisiana	1,366	547	7,583	4,725
Texas	-	-	2,300	1,840
Total	1,366	547	9,883	6,565

</TABLE>

(1) Approximately 23% of net undeveloped acres are covered by leases that expire during 2000.

As of December 31, 1999, the Company had working interests in 2 gross (0.8 net) producing gas wells.

DRILLING ACTIVITIES

All of Cheniere's drilling activities are conducted through arrangements with independent contractors. Cheniere owns no drilling equipment. Certain information with regard to the Company's drilling activities, during the year ended December 31, 1999, is set forth below:

	Year Ended December 31, 1999	
	Gross	Net Working Interest
Development wells:	-	-
Exploratory wells:		
Oil	-	-
Gas	2	0.8
Nonproductive	4	2.5
Total	6	3.3
Total wells	6	3.3

Cheniere drilled no wells prior to 1999. All of the Company's wells are in the United States. At December 31, 1999, the Company was not participating in the drilling of any wells.

OIL AND GAS RESERVES

All information herein regarding estimates of the Company's proved reserves, related future net revenues and PV-10 is taken from reports generated by Ryder Scott Company Petroleum Engineers in accordance with the rules and regulations of the SEC. The independent engineers' estimates were based upon a review of production histories and other geologic, economic, ownership and engineering data provided by the Company. The PV-10 amount (present value of estimated future net revenues discounted at 10%) is calculated using year-end prices of \$25.47 per barrel of oil and \$2.34 per mcf of gas.

<TABLE>
<CAPTION>

December 31, 1999

Proved Reserves

	Oil (Bbls)	Gas (Mcf)	Mmcfe	PV-10
<S>	<C>	<C>	<C>	<C>
West Cameron Block 49	27,816	5,796,000	5,962,896	\$7,570,129
Total Proved Reserves	27,816	5,796,000	5,962,896	\$7,570,129
Total Proved Developed Reserves	27,816	5,796,000	5,962,896	\$7,570,129

</TABLE>

There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting future rates of production and future amounts and timing of development expenditures, including many factors beyond the control of the Company. Reserve engineering is a subjective process of estimating underground accumulations of crude oil and natural gas that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. Estimates of proved undeveloped reserves are inherently less certain than estimates of proved developed reserves. The quantities of oil and gas that are ultimately recovered, production and operating costs, the amount and timing of future development expenditures, geologic success and future oil and gas sales prices may all differ from those assumed in these estimates. In addition, the Company's reserves may be subject to downward or upward revision based upon production history, purchases or sales of properties, results of future development, prevailing oil and gas prices and other factors. Therefore, the present value shown above should not be construed as the current market value of the estimated oil and gas reserves attributable to the Company's properties.

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In accordance with SEC guidelines, the Independent Engineers' estimates of future net revenues from the Company's proved reserves and the present value thereof are made using oil and gas sales prices in effect as of the dates of such estimates and are held constant throughout the life of the properties except where such guidelines permit alternate treatment, including, in the case of gas contracts, the use of fixed and determinable contractual price escalations. See "Supplemental Information to Consolidated Financial Statements" in the Notes to the Consolidated Financial Statements of the Company. Estimates of the Company's proved oil and gas reserves were not filed with or included in reports to any other federal authority or agency other than the SEC during the fiscal year ended December 31, 1999.

COMPETITION AND MARKETS

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

The Company anticipates selling a portion of its interest in certain prospects as a means of funding its participation in the development of these properties. Cheniere is also investigating with certain oil and gas service companies the possibility of obtaining vendor financing for a portion of its drilling activities. The Company anticipates that competition will arise from other companies also seeking drilling funds from vendors and potential working interest partners. There can be no assurance that the Company will be successful in securing funds in this manner.

The availability of a ready market for and the price of any hydrocarbons produced by the Company will depend on many factors beyond the control of the Company, including the extent of domestic production and imports of foreign oil, the marketing of competitive fuels, the proximity and capacity of natural gas pipelines, the availability of transportation and other market facilities, the demand for hydrocarbons, the political conditions in international oil-producing regions, the effect of federal and state regulation of allowable rates of production, taxation, the conduct of drilling operations, and federal regulation of natural gas. In the past, as a result of excess deliverability of natural gas, many pipeline companies have curtailed the amount of natural gas taken from producing wells, shut in some producing wells, significantly reduced gas taken under existing contracts, refused to make payments under applicable "take-or-pay" provisions, and have not contracted for gas available from some newly completed wells. The Company can give no assurance that such conditions will not arise again.

In addition, the restructuring of the natural gas pipeline industry has eliminated the gas purchasing activity of traditional interstate gas

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

GOVERNMENT REGULATION

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

Production

In most, if not all, areas in which the Company conducts activities, statutes concerning the production of oil and natural gas authorize administrative agencies to adopt rules which, among others matters, (i) regulate the operation of, and production from, both oil and gas wells, (ii) determine the reasonable market demand for oil and gas, and (iii) establish allowable rates of production. Such regulation may restrict the rate at which the Company's wells may produce oil or gas, with the result that the amount or timing of the Company's revenues could be adversely affected.

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MMS Regulation

The Company may conduct certain activities on federal oil and gas leases which the Minerals Management Service ("MMS") administers. The MMS grants leases through competitive bidding. These leases contain relatively standardized terms and require compliance with detailed MMS regulations and orders pursuant to The Outer Continental Shelf Lands Act ("OCSLA") (which regulations and orders are subject to change by the MMS). For offshore operations, lessees must obtain MMS approval for exploration plans and development and production plans prior to the commencement of such operations. In addition to permits which may be required from other agencies (such as the Coast Guard, the Army Corps of Engineers and the Environmental Protection Agency), lessees must obtain a permit from the MMS prior to the commencement of drilling. The MMS has adopted regulations requiring offshore production facilities located on the Outer Continental Shelf ("OCS") to meet stringent engineering and construction specifications. The MMS also has regulations restricting the flaring or venting of natural gas, and has amended such regulations to prohibit the flaring of liquid hydrocarbons and oil without prior authorization except under certain limited circumstances. Also, the MMS has promulgated other regulations governing the plugging and abandonment of wells located offshore and the removal of all production facilities. To cover the various obligations of lessees on the OCS, the MMS generally requires that lessees post substantial bonds or other acceptable assurances that such obligations will be met. The cost of such bonds or other surety can be substantial and there is no assurance that the Company will be able to obtain such bonds or other surety in all cases.

In March 2000, the MMS amended its regulations governing the calculation of royalties and the valuation of crude oil produced from federal leases. This rule modifies the valuation procedures for both arm's length and non-arm's length crude oil transactions to decrease reliance on oil posted prices and assign a value to crude oil that better reflects its market value. The Company cannot predict how it will be affected by this regulation.

In April 1997, after two years of study, the MMS withdrew proposed changes to the way it values natural gas for royalty payments and requested comment on two alternative options for natural gas valuation. The changes as originally proposed would have established an alternative market-based method to calculate royalties on certain natural gas sold to affiliates or pursuant to non-arm's length sales contracts. Informal discussions among the MMS and industry officials are continuing, although it is uncertain whether, and what, changes may be proposed regarding gas royalty valuation.

Bonding and Financial Responsibility Requirements

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

financial responsibility in all cases.

Natural Gas Marketing and Transportation

The Federal Energy Regulatory Commission ("FERC") regulates the transportation and sale for resale of natural gas in interstate commerce pursuant to the Natural Gas Act of 1938 ("NGA") and the Natural Gas Policy Act of 1978 (the "NGPA"). In the past, the federal government has regulated the prices at which natural gas could be sold. Deregulation of wellhead sales of natural gas began with the enactment of the NGPA in 1978. In 1989, Congress enacted the Natural Gas Wellhead Decontrol Act (the "Decontrol Act") which removed all NGA and NGPA price and nonprice controls affecting wellhead sales of natural gas effective January 1, 1993. While sales by producers of natural gas can currently be made at uncontrolled market prices, Congress could reenact price controls in the future.

Commencing in April 1992, the FERC issued its Order No. 636 and related clarifying orders ("Order No. 636"), which, among other things, restructured the interstate natural gas industry and required interstate pipelines to provide transportation services separate, or "unbundled," from the pipelines' sales of natural gas. Order No. 636 and certain related proceedings have been the subject of a number of judicial appeals and orders on remand by the FERC. Order No. 636 has largely been upheld on appeal. The Company cannot predict when these remaining appeals will be completed or their impact on the Company. FERC continues to address Order 636-related issues (including capacity brokering, alternative and negotiated ratemaking and transportation policy matters) in a number of pending proceedings. It is unclear what impact, if any, increased competition within the natural gas industry under Order Nos. 636, et al. will have on the Company's activities. Although Order No. 636 could provide the Company with additional market access and more fairly applied transportation service rates, Order No. 636 could

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also subject the Company to more restrictive pipeline imbalance tolerances and greater penalties for violations of these tolerances.

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

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

The FERC has also issued numerous orders approving the sale and abandonment of natural gas gathering facilities previously owned by interstate pipelines and has acknowledged that if the FERC does not have jurisdiction over services provided thereon, then such facilities and services may be subject to regulation by state authorities in accordance with state law. A number of states have either enacted new laws or are considering the inadequacy of existing laws affecting gathering rates and/or services. In addition, FERC's approval of transfers of previously regulated gathering systems to independent or pipeline-affiliated gathering companies that are not subject to FERC regulation may affect both the costs and the nature of gathering services that will be available to interested producers or shippers in the future. The effects, if any, of state and federal gathering policies on the Company's operations are uncertain.

Oil Sales and Transportation Rates

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

Operating Hazards and Environmental Matters

The oil and gas business involves a variety of operating risks, including the risk of fire, explosions, blow-outs, pipe failure, casing collapse, abnormally pressured formations and environmental hazards such as oil spills, natural gas leaks, ruptures and discharge of toxic gases, the occurrence of any of which could result in substantial losses to the Company due to injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. Such hazards may hinder or delay drilling, development and on-line production operations.

Extensive federal, state and local laws and regulations applicable to oil and gas operations regulate the discharge of substances into the environment or otherwise relate to the protection of the environment. These laws and regulations may require the acquisition of a permit before drilling commences, restrict or prohibit the types, quantities and concentration of substances that can be released into the environment or wastes that can be disposed of in connection with drilling and production activities, prohibit drilling activities on certain lands lying within

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wetlands or other protected areas and impose substantial liabilities for pollution or releases of hazardous substances resulting from drilling and production operations. Failure to comply with these laws and regulations may also result in civil and criminal fines and penalties. Moreover, state and federal environmental laws and regulations may become more stringent.

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

The Company's operations may be subject to the Clean Air Act ("CAA") and comparable state and local requirements. Amendments to the CAA were adopted in 1990 and contain provisions that may result in the gradual imposition of certain pollution control requirements with respect to air emissions from the operations of the Company. The EPA and states have been developing regulations to implement these requirements. The Company may be required to incur certain capital expenditures in the next several years for air pollution control equipment in connection with maintaining or obtaining permits and approvals addressing other air emission-related issues. The Company does not believe, however, that its operations will be materially adversely affected by any such requirements.

In addition, the U.S. Oil Pollution Act ("OPA") requires owners and operators of facilities that could be the source of an oil spill into "waters of the United States" (a term defined to include rivers, creeks, wetlands, and coastal waters) to adopt and implement plans and procedures to prevent any spill of oil into any waters of the United States. OPA also requires affected facility owners and operators to demonstrate that they have at least \$35 million in financial resources to pay for the costs of cleaning up an oil spill and compensating any parties damaged by an oil spill. Such financial assurances may be increased to as much as \$150 million if a formal assessment indicates such an increase is warranted.

Operations of the Company are also subject to the federal Clean Water Act ("CWA") and analogous state laws. In accordance with the CWA, the state of Louisiana has issued regulations prohibiting discharges of produced water in state coastal waters effective July 1, 1997. Producers may be required to incur

certain capital expenditures in the next several years in order to comply with the prohibition against the discharge of produced waters into Louisiana coastal waters or increase operating expenses in connection with offshore operations in Louisiana coastal waters. Pursuant to other requirements of the CWA, the EPA has adopted regulations concerning discharges of storm water runoff. This program requires covered facilities to obtain individual permits, participate in a group permit or seek coverage under an EPA general permit. The Company believes that it will be able to obtain, or be included under, such storm water discharge permits, where necessary.

In addition, the disposal of wastes containing naturally occurring radioactive material, which are commonly generated during oil and gas production, is regulated under state law. Typically, wastes containing naturally occurring radioactive material can be managed on-site or disposed of at facilities licensed to receive such waste at costs that are not expected to be material.

OPERATIONAL RISKS AND INSURANCE

The Company anticipates that any wells established by it will be drilled by proven industry contractors. Based on financial considerations, the Company may choose to utilize turnkey contracts that limit its financial and legal exposure. However, circumstances may arise where the Company is unable to secure a turnkey contract on satisfactory terms. In this case, the Company may decide to drill, or cause to be drilled, the applicable test well(s) on either a footage or day-rate basis, and the drilling thereof will be subject to the usual drilling hazards such as cratering, explosions, uncontrollable flows of oil, gas or well fluids, fires, pollution, and other environmental risks. The Company's activities are also subject to perils specific to marine operations, such as capsizing, collision, and damage or loss from severe weather. These hazards can cause personal injury and loss of life, severe damage to and destruction of property and equipment, pollution or environmental damage, and suspension of operations. In accordance with customary industry practices, the Company intends to maintain insurance against some, but not all, of such risks, and some, but not all, of such losses. The occurrence of a significant event not fully insured or indemnified against could materially and adversely affect the Company's financial condition and operations.

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Moreover, no assurance can be given that the Company will be able to maintain adequate insurance in the future at rates considered reasonable by the Company.

EMPLOYEES

The Company had 18 full-time employees as of March 24, 2000.

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

This annual report contains certain statements that may be deemed "forward-looking statements" within the meaning of Section 27A of the Securities Act, and Section 21E of the United States Securities Exchange Act of 1934, as amended. Readers of this annual report are cautioned that such forward-looking statements are not guarantees of future performance and that actual results, developments and business decisions may differ from those envisaged by such forward-looking statements.

All statements, other than statements of historical facts so included in this annual report that address activities, events or developments that the Company intends, expects, projects, believes, or anticipates will or may occur in the future, including, without limitation: statements regarding the Company's business strategy, plans and objectives; statements expressing beliefs and expectations regarding the ability of the Company to successfully raise the additional capital necessary to meet its obligations, the ability of the Company to secure the leases necessary to facilitate anticipated drilling activities and the ability of the Company to attract additional working interest owners to participate in the exploration and development of oil and gas reserves, and statements about non-historical Year 2000 information, are forward-looking statements within the meaning of the Act. These forward-looking statements are, and will be, based on management's then-current views and assumptions regarding future events.

The following are some of the important factors that could affect the Company's financial performance or could cause actual results to differ materially from estimates contained in the Company's forward-looking statements. The important factors are not exclusive.

THE COMPANY HAS A LIMITED OPERATING HISTORY DURING WHICH IT HAS INCURRED LOSSES, AND IT MAY CONTINUE TO INCUR LOSSES.

The Company has a limited operating history with respect to its oil and gas exploration activities, which were commenced in April 1996. From the Company's inception it has incurred losses and may continue to incur losses, depending on

whether it generates sufficient revenue from producing reserves acquired either through acquisitions or drilling activities.

THE COMPANY HAS LIMITED CURRENT OIL AND GAS PRODUCTION AND LIMITED PROVED RESERVES, WHICH MEANS THAT ITS SUCCESS IS HIGHLY DEPENDENT ON THE SUCCESS OF ITS EXPLORATION PROGRAM.

Cheniere established its initial oil and gas production in September 1999. Through its drilling in 1999, the Company established "proved reserves," which means that it has identified oil and gas reserves that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. The focus of Cheniere's business is exploratory drilling. Because almost all of the Company's assets are represented by investments to date in its exploration program, and the Company anticipates investing additional amounts in the program, the Company is highly dependent on the success of its exploration program.

THE COMPANY MAY NEED ADDITIONAL FINANCING AND MAY NOT BE ABLE TO OBTAIN IT ON TERMS THAT ARE ACCEPTABLE TO THE COMPANY, WHICH COULD HARM ITS ABILITY TO CONDUCT BUSINESS.

Cheniere presently has limited operating revenues, all of which are currently dedicated to making payments on the Company's indebtedness. As of December 31, 1999, Cheniere had only \$3,445,292 of current assets and a working capital deficit of \$3,290,245. Because of its low level of current assets, the Company may need additional capital for a number of purposes, and if the Company were unable to obtain additional financing it could significantly harm Cheniere's ability to conduct its business, including its ability to take advantage of opportunities that come from its exploration program. Cheniere's need for additional financing include the following:

- . Additional capital will be required to pay for Cheniere's share of costs relating to the drilling of prospects and development of those that are successful, to exercise lease options, and to acquire additional oil and gas leases. The total amount of the Company's capital needs will be

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determined in part by the number of prospects generated within its exploration program and by the working interest that the Company retains in those prospects.

- . The Company may need funds for the repayment of its \$3,100,000 short term note payable which matures on June 30, 2000. If the Company is unable to obtain sufficient new financings to repay the note or to extend its maturity, then it may be in default with respect to the note and the holder of the note will have the right to seek immediate repayment of the entire indebtedness due thereunder and enforce all other rights at law or in equity. Such a default may also cause defaults under other material contracts to which the Company is a party. Any of the foregoing actions would have a material adverse effect on the Company.
- . The Company will need funds for the payment of approximately \$200,000 per month related to future deliveries of reprocessed 3-D seismic data through December 2001.
- . Should the Company choose to make an acquisition of producing oil and gas properties, it is likely that such an acquisition would require that some portion of the purchase price be paid in cash, and thus would create the need for additional capital.

Additional capital could be obtained from a combination of funding sources. These potential funding sources include:

- . borrowings from financial institutions,
- . debt offerings, which would increase the Company's leverage and add to its need for cash to service such debt,
- . additional offerings of the Company's equity securities, which could cause substantial dilution of its common stock,
- . the sale of a portion or all of the producing properties it owns at West Cameron Block 49, or
- . sales of portions of its working interest in the prospects within its exploration program, which would reduce future revenues from its exploration program.

Cheniere's ability to raise additional capital will depend on the results of its operations and the status of various capital and industry markets at the time such additional capital is sought. Accordingly, there can be no assurances that capital will be available to the Company from any source or that, if

available, it will be on terms acceptable to the Company.

BECAUSE OF THE COMPANY'S LACK OF DIVERSIFICATION, FACTORS HARMING THE OIL AND GAS INDUSTRY IN GENERAL, INCLUDING DOWNTURNS IN PRICES FOR OIL AND GAS, WOULD BE ESPECIALLY HARMFUL TO IT.

As an independent energy company, Cheniere's revenues and profits will be substantially dependent on the oil and gas industry in general and the prevailing prices for oil and gas in particular. Circumstances that harm the oil and gas industry in general will have an especially harmful effect on Cheniere. Oil and gas prices have been and are likely to continue to be volatile and subject to wide fluctuations in response to any of the following factors:

- . relatively minor changes in the supply of and demand for oil and gas;
- . political conditions in international oil producing regions;
- . the extent of domestic production and importation of oil in relevant markets;
- . the level of consumer demand;
- . weather conditions;
- . the competitive position of oil or gas as a source of energy as compared with other energy sources;
- . the refining capacity of oil purchasers; and
- . the effect of federal and state regulation on the production, transportation and sale of oil and gas.

It is likely that adverse changes in the oil market or the regulatory environment would have an adverse effect on the Company's ability to obtain capital from lending institutions, industry participants, private or public investors or other sources.

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THE COMPANY EXPERIENCES INTENSE COMPETITION IN THE OIL AND GAS INDUSTRY, WHICH MAY MAKE IT DIFFICULT FOR THE COMPANY TO SUCCEED.

The oil and gas industry is highly competitive. If Cheniere is unable to compete effectively, it will not succeed. A number of factors may give the Company's competitors advantages over Cheniere. For example, most of the Company's current and potential competitors have significantly greater financial resources and a significantly greater number of experienced and trained managerial and technical personnel than the Company does. There can be no assurance that Cheniere will be able to compete effectively with such companies. Moreover, the oil and gas industry competes with other industries in supplying the energy and fuel needs of industrial, commercial and other consumers. Increased competition causing over supply and depressed prices could greatly affect Cheniere's operating revenues.

THE COMPANY IS SUBJECT TO SIGNIFICANT OPERATING HAZARDS AND UNINSURED RISKS, ONE OR MORE OF WHICH MAY CREATE SIGNIFICANT LIABILITIES FOR IT.

The Company's oil and gas operations are subject to all of the risks and hazards typically associated with the exploration for, and the development and production of, oil and gas. In accordance with customary industry practices, the Company intends to maintain insurance against some, but not all, of these risks and losses. The occurrence of a significant event not fully insured or indemnified against could seriously harm the Company. Moreover, no assurance can be given that the Company will be able to maintain adequate insurance in the future at rates it considers reasonable. Risks in drilling operations include cratering, explosions, uncontrollable flows of oil, gas or well fluids, fires, pollution and other environmental risks. The Company's activities are also subject to perils specific to marine operations, such as capsizing, collision and damage or loss from severe weather. These hazards can cause personal injury and loss of life, severe damage to and destruction of property and equipment, pollution or environmental damage and suspension of operations.

THE COMPANY IS SUBJECT TO SIGNIFICANT EXPLORATION RISKS, INCLUDING THE RISK THAT IT MAY NOT BE ABLE TO FIND OR PRODUCE ENOUGH OIL AND GAS TO GENERATE ANY PROFITS.

The Company's exploration activities involve significant risks, including the risk that it may not be able to find or produce enough oil and gas to generate any profits. There can be no assurance that the use of technical expertise as applied to geophysical or geological data will ensure that any well the Company drills will discover oil or gas. Further, there is no way to know in advance of drilling and testing whether any prospect will yield oil or gas in sufficient quantities to make money for the Company. In addition, the Company is highly dependent on seismic activity and the related application of new

technology as a primary exploration methodology. This methodology, however, requires greater pre-drilling expenditures than traditional drilling strategies. Even when fully used and properly interpreted, 3-D seismic data can only assist the Company in identifying subsurface structures and hydrocarbon indicators, and will not allow the Company to determine conclusively if hydrocarbons will in fact be present and recoverable in such structures. There can be no assurance that the Company's exploration efforts will be successful.

THE COMPANY MAY NOT BE ABLE TO ACQUIRE THE OIL AND GAS LEASES IT NEEDS TO SUSTAIN PROFITABLE OPERATIONS.

There can be no assurance that Cheniere will be successful in acquiring farmouts, seismic permits, lease options, leases or other rights to explore for or recover oil and gas. Consequently, the area covered by Cheniere's 3-D seismic data that could be explored through drilling could be reduced if these leases, permits, options and the like are not acquired. Both the United States Department of the Interior and the State of Louisiana award oil and gas leases on a competitive bidding basis. Further, non-governmental owners of the onshore mineral interests within the area covered by the Company's exploration program are not obligated to lease their mineral rights to the Company except where the Company has already obtained lease options. Other major and independent oil and gas companies with financial resources significantly greater than Cheniere's may bid against Cheniere for the purchase of oil and gas leases.

IF THE COMPANY IS UNABLE TO OBTAIN SATISFACTORY TURNKEY CONTRACTS, IT MAY HAVE TO ASSUME ADDITIONAL RISKS AND EXPENSES WHEN DRILLING WELLS.

Cheniere anticipates that any wells drilled in which it has an interest will be drilled by established industry contractors under turnkey contracts that limit its financial and legal exposure. Circumstances may arise, however, where a turnkey contract is not economically beneficial to the Company or is otherwise unobtainable from proven industry contractors. In such instances, the Company may decide to drill wells on a day-rate basis, subjecting it to the usual drilling hazards such as cratering, explosions, uncontrollable flows of oil, gas or well fluids, fires, pollution

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and other environmental risks. The Company would also be liable for any cost overruns attributable to drilling problems that otherwise would have been covered by a turnkey contract.

Under a turnkey drilling contract, a negotiated price is agreed upon and the money is placed in escrow. The contractor then assumes all of the risk and expense, including any cost overruns, of drilling a well to contract depth and completing any agreed upon evaluation of the wellbore. Upon performance of all these items, the escrowed money is released to the contractor. On a non-turnkey basis, all risk and expense, including cost overruns, of drilling a well to total depths lies with the operator.

EXISTING AND FUTURE UNITED STATES GOVERNMENTAL REGULATION, TAXATION AND PRICE CONTROLS COULD SERIOUSLY HARM THE COMPANY.

Oil and gas production and exploration are subject to comprehensive federal, state and local laws and regulations controlling the exploration for and production and sale of oil and gas and the possible effects of such activities on the environment. Failure to comply with such rules and regulations can result in substantial penalties and may harm the Company. Present as well as future legislation and regulations could cause additional expenditures, restrictions and delays in the Company's business, the extent of which cannot be predicted and which may require the Company to limit substantially, delay or cease operations in some circumstances. In most areas where the Company plans to conduct activities, there are statutory provisions regulating the production of oil and natural gas which may restrict the rate of production and adversely affect revenues. The Company plans to acquire oil and gas leases in the Gulf of Mexico, which will be granted by the federal government and administered by the U.S. Department of Interior Minerals Management Service. The Department strictly regulates the exploration, development and production of oil and gas reserves in the Gulf of Mexico. Such regulations could seriously harm the Company's operations in the Gulf of Mexico. The federal government regulates the interstate transportation of oil and natural gas, through the Federal Energy and Regulatory Commission ("FERC"). The FERC has in the past regulated the prices at which oil and gas could be sold. Federal reenactment of price controls or increased regulation of the transport of oil and natural gas could seriously harm the Company. In addition, the Company's operations are subject to numerous laws and regulations governing the discharge of oil and hazardous materials into the environment or otherwise relating to environmental protection, including the Oil Pollution Act of 1990. These laws and regulations have continually imposed increasingly strict requirements for water and air pollution control, solid waste management, and strict financial responsibility and remedial response obligations relating to oil spill protection. The cost of complying with such environmental legislation could have a general harmful effect on the Company's operations.

THE COMPANY MAY EXPERIENCE YEAR 2000 PROBLEMS, WHICH COULD CAUSE DISRUPTIONS OF

ITS OPERATIONS.

The Year 2000 presents significant issues for many computer systems. Much of the software in use today may not be able to accurately process data beyond the year 1999. The vast majority of computer systems process transactions using two digits for the year of the transaction, rather than the full four digits, making such systems unable to distinguish January 1, 2000 from January 1, 1900. Such systems may encounter significant processing inaccuracies or become inoperable when Year 2000 transactions are processed. Such matters could impact not only the Company in its day-to-day operations but also its financial institutions, customers and vendors as well as state, provincial and federal governments with jurisdictions where the Company maintains operations.

The Company has addressed Year 2000 issues, and to date, the Company has not experienced any problems or any significant expenses related to Year 2000 issues. It has been the Company's strategy to use, wherever possible, industry prevalent products and processes with minimal customization. As a result, the Company did not have any extensive in-house hardware, software or process conversions in an effort to be Year 2000 compliant nor did the Company have Year 2000 compliance related costs that were material to its operations.

While it is the Company's goal to be Year 2000 compliant, there can be no assurance that there will not be a material adverse effect on Cheniere as a result of a Year 2000 related issue. The Company's business partners may present the area of greatest risk to the Company, in part because of the Company's limited ability to influence actions of third parties, and in part because of the Company's inability to estimate the level and impact of noncompliance of third parties. Additionally, there are many variables and uncertainties associated with judgments regarding any contingency plans developed by the Company.

THERE IS ONLY LIMITED TRADING IN THE COMPANY'S COMMON STOCK, WHICH MAKES ITS STOCK MORE DIFFICULT TO SELL THAN THE STOCK OF COMPANIES WITH MORE ACTIVE MARKETS.

Historically, there has been only limited trading in Cheniere's common stock, which makes its stock more difficult to sell than the stock of companies with more active markets. During 1999, the average trading volume of Cheniere's common stock on The Nasdaq SmallCap Market was approximately 78,000 shares per day. During the

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period from January 1, 2000 through March 24, 2000, the average trading volume of Cheniere's common stock has been approximately 674,000 shares per day.

THE COMPANY HAS NOT PAID DIVIDENDS AND DOES NOT EXPECT TO IN THE FORESEEABLE FUTURE, SO ITS STOCKHOLDERS WILL NOT BE ABLE TO RECEIVE A RETURN ON THEIR INVESTMENT WITHOUT SELLING THEIR SHARES.

The Company has not paid dividends since its inception and does not expect to in the foreseeable future, so Cheniere's stockholders will not be able to receive a return on their investments without selling their shares. The Company presently anticipates that all earnings, if any, will be retained for development of its business. Any future dividends will be subject to the discretion of the Company's board of directors and will depend on, among other things, future earnings, the Company's operating and financial condition, its capital requirements and general business conditions.

THE COMPANY'S STOCKHOLDERS COULD EXPERIENCE DILUTION IN THE VALUE OF THEIR SHARES BECAUSE OF ADDITIONAL ISSUANCES OF SHARES.

Any issuance of common stock by the Company may result in a reduction in the book value per share or market price per share of its outstanding shares of common stock and will reduce the proportionate ownership and voting power of such shares. The Company has 65,000,000 authorized shares of stock, consisting of 60,000,000 shares of the common stock, and 5,000,000 shares of preferred stock. As of December 31, 1999, approximately 33% of the shares of the common stock remained unissued. The board of directors has the power to issue any and all of such shares without shareholder approval. It is likely that the Company will issue shares of the common stock to raise capital to sustain operations, to exchange for or to repay its \$3,100,000 in short-term notes payable and/or to finance future oil and gas exploration projects. In addition, the Company has reserved 8,467,803 shares of the common stock for issuance upon the exercise of outstanding warrants and 2,550,000 shares of the common stock for issuance upon the exercise of stock options. As of December 31, 1999, there are 2,161,195 issued and outstanding options to purchase common stock. To the extent that outstanding warrants and options are exercised, the percentage ownership of common stock of the Company's stockholders will be diluted. Moreover, the terms upon which the Company will be able to obtain additional equity capital may be adversely affected because the holders of outstanding warrants and options can be expected to exercise them at a time when the Company would, in all likelihood, be able to obtain any needed capital on terms more favorable than the exercise terms provided by such outstanding securities. In the event of the exercise of a substantial number of warrants and options, within a reasonably

short period of time after the right to exercise commences, the resulting increase in the amount of the common stock in the trading market could substantially adversely affect the market price of the common stock or the Company's ability to raise money through the sale of equity securities.

THE COMPANY DEPENDS ON KEY PERSONNEL AND COULD BE SERIOUSLY HARMED IF IT LOST THEIR SERVICES.

Cheniere depends on its executive officers for various activities. The Company does not maintain "key person" life insurance policies on any of its personnel nor does it have employment agreements with any of its personnel. The loss of the services of any of these individuals could seriously harm the Company. In addition, the Company's future success will depend in part on its ability to attract and retain additional qualified personnel. Cheniere currently has 18 full-time employees.

THE COMPANY DEPENDS ON INDUSTRY PARTNERS AND COULD BE SERIOUSLY HARMED IF THEY DO NOT PERFORM SATISFACTORILY, WHICH IS USUALLY NOT WITHIN THE COMPANY'S CONTROL.

Because the Company has limited financial resources, it will be largely dependent on industry partners for the success of its oil and gas exploration projects for the foreseeable future. Cheniere could be seriously harmed if its industry partners do not perform satisfactorily on projects that affect it. The Company often has no control over factors that influence the performance of its partners.

THE COMPANY IS CONTROLLED BY A SMALL NUMBER OF PRINCIPAL STOCKHOLDERS WHO MAY EXERCISE A PROPORTIONATELY LARGER INFLUENCE ON CHENIERE THAN ITS STOCKHOLDERS WITH SMALLER HOLDINGS.

Cheniere is controlled by a small number of principal stockholders who may do things that are not in the interests of the Company's stockholders with smaller holdings. Together, William D. Forster, a director, and BSR Investments, Ltd. own approximately 17% of the outstanding common stock. BSR Investments, Ltd. is controlled by the mother of Charif Souki, chairman of Cheniere's board of directors. Accordingly, it is likely that Mr. Forster and BSR Investments, Ltd. will have significant influence on the election of Cheniere's directors and on its management, operations and affairs, including the ability to prevent or cause a change in control of the Company.

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ANTI-TAKEOVER PROVISIONS OF THE CERTIFICATE OF INCORPORATION, BYLAWS AND DELAWARE LAW COULD ADVERSELY IMPACT A POTENTIAL ACQUISITION BY THIRD PARTIES THAT MAY ULTIMATELY BE IN THE FINANCIAL INTERESTS OF THE COMPANY'S SHAREHOLDERS.

Cheniere's certificate of incorporation, bylaws and the Delaware General Corporation Law contain provisions that may discourage unsolicited takeover proposals. These provisions could have the effect of inhibiting fluctuations in the market price of the Company's shares that could result from actual or rumored takeover attempts, preventing changes in its management or limiting the price that investors may be willing to pay for shares of common stock. These provisions, among other things, authorize the board of directors to designate the terms of and to issue new series of preferred stock, to limit the personal liability of directors, to require the Company to indemnify directors and officers to the fullest extent permitted by applicable law and to impose restrictions on business combinations with some interested parties.

ITEM 3. LEGAL PROCEEDINGS

There are no legal proceedings currently pending against the Company.

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

None.

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PART II

ITEM 5. MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The common stock of the Company has traded on The Nasdaq SmallCap Market under the symbol "CHEX" since April 11, 1997. From the time the Company first traded publicly until April 11, 1997, the Company traded on the OTC Bulletin Board. The table below presents the high and low daily closing sales prices of the common stock, as reported by the Nasdaq, for each quarter during 1998 and 1999, and for a portion of the Company's current quarter.

High	Low
----	----

Three Months Ended		
March 31, 1998	\$3.06	\$2.00
June 30, 1998	\$3.63	\$1.75
September 30, 1998	\$2.93	\$0.81
December 31, 1998	\$1.44	\$0.44
Three Months Ended		
March 31, 1999	\$2.00	\$0.88
June 30, 1999	\$1.75	\$0.88
September 30, 1999	\$2.13	\$1.19
December 31, 1999	\$1.41	\$0.41
Three Months Ended		
March 31, 2000 (through March 24, 2000)	\$1.75	\$0.19

As of March 24, 2000, there were 42,381,973 shares of the Company's common stock outstanding held by 809 stockholders of record.

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

With respect to equity securities sold by the Company during the fourth quarter of 1999 that were not registered under the Securities Act of 1933, as amended ("Securities Act"), see "Liquidity and Capital Resources - Private Placements of Equity" under Item 6 of this report.

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ITEM 6. SELECTED FINANCIAL DATA

Selected financial data set forth below are derived from the Consolidated Financial Statements of the Company for the periods indicated. The financial data should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's Consolidated Financial Statements and Notes thereto included elsewhere in this report.

Period Ended	For the Year Ended		For the Four Months Ended		For the
	December 31,		December 31,		August
31,	-----		-----		-----
1996	1999	1998	1997	1996	1997
-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	(Unaudited) <C>	<C>
<C>					
Revenues	\$ 1,614,055	\$ -	\$ -	\$ -	\$ -
\$ -					
Production costs	128,859	-	-	-	-
-					
Depreciation, depletion and amortization	1,361,644	39,171	2,936	2,695	8,268
3,603					
General and administrative expenses	1,908,805	1,619,307	444,087	189,635	1,705,193
100,211					
Loss from operations	(1,785,253)	(1,658,478)	(447,023)	(192,330)	(1,713,461)
(103,814)					
Interest income (expense)	31,530	20,634	58,662	(1,223)	36,993
(18,033)					
Net loss	(1,753,723)	(1,637,844)	(388,361)	(193,553)	(1,676,468)
(121,847)					
Net loss per share (basic and diluted)	(0.07)	(0.10)	(0.03)	(0.02)	(0.14)
(0.01)					
Cash dividends per share	\$ -	\$ -	\$ -	\$ -	\$ -
\$ -					
Weighted average shares outstanding	25,796,414	16,015,499	14,348,128	10,601,368	12,143,919
8,610,941					

31,	December 31				August
	1999	1998	1997	1996	1997
1996					
				(Unaudited)	
<S>	<C>	<C>	<C>	<C>	<C>
Cash	\$ 1,175,950	\$ 143,868	\$ 787,523	\$ 2,419,264	\$ 234,764
\$1,093,180					
Oil and gas properties, proved, net	9,459,041	-	-	-	-
Oil and gas properties, unproved	20,648,923	20,000,425	16,534,054	6,000,000	13,500,000
4,000,000					
Total assets	34,481,275	20,840,474	17,705,627	8,476,710	13,841,712
5,145,310					
Long-term notes payable	-	2,025,020	2,025,020	-	-
Total liabilities	6,735,537	4,523,144	4,285,599	262,798	888,291
718,855					
Total stockholders' equity	27,745,738	16,317,330	13,420,028	8,213,912	12,953,421
4,426,455					

</TABLE>

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

GENERAL

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

On April 7, 1998, the Company's Board of Directors approved a change in fiscal year-end. The change in year-end resulted in a transition period from September 1, 1997 to December 31, 1997.

Prior to the commencement of its revenues in September 1999, Cheniere was a development stage company.

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PRODUCTION AND PRODUCT PRICES

Information concerning the Company's production and average prices received for the year ended December 31, 1999 is presented in the following table. Cheniere commenced its production of oil and gas on September 9, 1999.

	Year Ended December 31, 1999
Production:	
Oil (Bbls)	2,975
Gas (Mcf)	633,432
Gas equivalents (Mcfe)	651,282
Average sales prices:	
Oil (per Bbl)	\$ 23.18
Gas (per Mcf)	\$ 2.59

RESULTS OF OPERATIONS - COMPARISON OF THE FISCAL YEARS ENDED DECEMBER 31, 1999 AND 1998

The Company's financial results for the year ended December 31, 1999, reflect a loss of \$1,753,723 or \$0.07 per share (both basic and diluted), as compared to a loss of \$1,637,844, or \$0.10 per share (both basic and diluted), for the fiscal year ended December 31, 1998. The Company began its initial production of oil and gas in September 1999. Oil and gas revenues totaled \$1,614,055 for 1999, and related production costs were \$128,859. Depreciation, depletion and

amortization ("DD&A") increased to \$1,361,644 in 1999 from \$39,171 in 1998 principally due to the inclusion in 1999 of \$1,200,186 related to proved oil and gas properties.

General and administrative ("G&A") expenses increased to \$1,908,805 in 1999 compared to \$1,619,307 in 1998. During 1999, Cheniere licensed 8,700 additional square miles of 3-D seismic data and doubled the number of its employees, adding management and exploration professionals to exploit its expanded 3-D database. As a result, salaries, benefits and consulting expenses increased to \$1,674,200 for 1999 compared with \$773,485 in 1998. Additionally, the related expansion of office facilities increased office rent and occupancy expenses to \$264,971 in 1999 from \$52,558 in 1998. Legal and professional fees decreased to \$286,716 in 1999 from \$938,766 in 1998, largely due to the inclusion in 1998 of \$817,870 of nonrecurring expenses related to arbitration proceedings. Investor relations and travel expenses increased to \$293,623 in 1999 from \$49,691 in 1998 as Cheniere engaged outside consultants to assist in broadening investor interest in the Company; approximately \$100,000 of the 1999 expenses relate to the non-cash issuance of warrants to the Company's outside consultants. Cheniere capitalizes as oil and gas property costs that portion of G&A related to its exploration and development activities. Cheniere capitalized \$960,000 of such G&A expenses in 1999 and \$444,000 in 1998.

At December 31, 1999, the cost of Cheniere's oil and gas properties exceeded its ceiling test limitation by \$1,888,912. Increases in the prices of oil and gas subsequent to year-end were significant enough to fully eliminate the need for a write-down of the Company's oil and gas properties. For further discussion, see Note 2 - Summary of Significant Accounting Policies.

RESULTS OF OPERATIONS - COMPARISON OF THE FISCAL YEARS ENDED DECEMBER 31, 1998 AND AUGUST 31, 1997

The Company's financial results for the year ended December 31, 1998, reflect a loss of \$1,637,844 or \$0.10 per share (both basic and diluted), as compared to a loss of \$1,676,468, or \$0.14 per share (both basic and diluted), for the fiscal year ended August 31, 1997. The Company did not generate revenues from operations in either of the periods. The 2% decrease in net loss in 1998 as compared to that in fiscal 1997 is primarily due to a 3% decrease in general and administrative ("G&A") expenses to \$1,658,478 in 1998 compared to \$1,713,461 in the 1997 fiscal year. Both periods included significant non-recurring expenses. In 1998, the Company incurred \$817,870 in expenses related to arbitration proceedings. In the fiscal year ended August 31, 1997, the Company incurred a non-cash charge of \$624,400 related to financial advisory services, and it incurred \$164,812 in professional fees related to an acquisition that was not consummated.

Salaries and benefits increased to \$698,973 for 1998 compared with \$270,209 in fiscal year 1997 as a result of the Company's hiring of additional technical employees early in 1998 to assist in the interpretation of seismic data and the generation of prospects. Beginning in the fourth quarter of calendar 1997, Cheniere began capitalizing as oil

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and gas property costs that portion of G&A related to its exploration and development activities. Cheniere capitalized \$444,000 of G&A expenses in 1998 but it did not capitalize any such costs in the fiscal year ended August 31, 1997. The remaining variance in G&A expenses is the net effect of several offsetting factors but is principally the result of a decrease in routine legal fees to \$79,647 in 1998 from \$144,538 in fiscal 1997, which is largely accounted for by the Company's change in 1997 from a New York based law firm to a Houston based law firm.

Other factors affecting the Company's net loss for the year ended December 31, 1998 were lower interest income (down by \$35,527) related principally to lower average balances in its short-term investment funds and the absence of net interest expense in 1998 compared with expense of \$19,168 in fiscal 1997. Beginning in the fourth quarter of calendar 1997, Cheniere began capitalizing interest expense related to its 3-D exploration and development project.

RESULTS OF OPERATIONS - COMPARISON OF THE FOUR-MONTH PERIODS ENDED DECEMBER 31, 1997 AND 1996

The Company's operating results for the four months ended December 31, 1997, reflect a loss of \$388,361 or \$0.03 per share (both basic and diluted), as compared to a loss of \$193,553, or \$0.02 per share (both basic and diluted) for the four months ended December 31, 1996. The Company did not generate revenues from operations in either of the periods. The increased loss in the more recent four-month period is primarily due to higher G&A expenses of \$447,023, as compared to \$192,330 a year earlier. G&A expenses are higher in the more recent period as the result of: (a) increased professional fees related to financing activities and to the Company's initial annual stockholders' meeting in November 1997, (b) fees related to recruiting technical professionals who were hired January 1, 1998, and (c) insurance expenses for coverages not carried in the

earlier period. Interest income of \$58,662 in the four months ended December 31, 1997 includes \$49,000 related to an agreement that interest earned from inception to date on funds advanced by Cheniere into its 3-D exploration program accrues to the benefit of the Company.

LIQUIDITY AND CAPITAL RESOURCES

The Company anticipates that future liquidity requirements will be met by cash balances, the sale of equity, further borrowings, vendor financing arrangements and/or the sale of portions of its interest in the prospects it has in inventory or generates in the future. At this time, no assurance can be given that such sales of equity, future borrowings, future vendor agreements or sales of portions of its interest in properties will be accomplished on terms acceptable to the Company.

Private Placements of Equity

Since its inception, Cheniere's primary source of financing for operating expenses and investments in its exploration program has been the sale of its equity securities. Through December 31, 1999, the Company has issued 40,212,473 shares of its common stock, generating net proceeds of \$33,323,981. Additional funding has come through the private placement of short-term notes, of which \$4,963,213 were outstanding at December 31, 1999. Through December 31, 1999 Cheniere had invested approximately \$31,308,150 in its 3-D exploration program.

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During the year ended August 31, 1997, the Company raised \$9.4 million, net of offering costs, from the sale of common stock to accredited investors pursuant to Regulation D and to offshore investors pursuant to Regulation S. From the \$9.4 million in net proceeds and from other available funds, \$9.5 million was invested in the Company's 3-D exploration program.

During the four months ended December 31, 1997, the Company raised \$0.5 million, net of offering costs, from the sale of common stock to accredited investors pursuant to Regulation D and to offshore investors pursuant to Regulation S. The proceeds, together with cash balances and proceeds from a \$4.0 million December 1997 bridge financing, were used to fund a \$2.9 million payment to the 3-D exploration program.

In 1998, the Company raised approximately \$4.2 million, net of offering costs, from the sale of common stock to accredited investors pursuant to Regulation D. Proceeds of the offerings were used for the acquisition of leases and other exploration costs, as well as for general corporate purposes.

In 1999, the Company raised approximately \$12.9 million, net of offering costs, from the sale of common stock to accredited investors pursuant to Regulation D. Proceeds of the offerings were used for the acquisition of leases and other exploration costs, as well as for general corporate purposes.

Issuances of securities during the fourth quarter of 1999 consisted of: (a) 250,000 units (each unit representing one share of common stock and one half warrant to purchase one share of common stock) sold at a price of \$1.10 per unit for net proceeds of \$247,500 after payment of \$27,500 in selling commissions; (b) 10,483,031 shares of common stock sold at a price of \$0.33 1/3 per share for net proceeds of \$3,179,372 after payment of \$314,972 in selling commissions; (c) 150,000 shares of common stock issued to an employee as compensation at a price of \$0.25 per share; and (d) the issuance of 81,750 shares of common stock at a price of \$1.00 and 49,341 shares of common stock at a price of \$0.33 1/3 in connection with the extension of certain short-term notes payable. All of the purchasers were accredited investors, and the sales were made pursuant to Rule 506 of Regulation D without the participation of any underwriters.

Short-Term Promissory Notes

In December 1997, Cheniere completed the private placement of a \$4,000,000 bridge financing (the "December 1997 Bridge Financing"). The notes payable issued by Cheniere had an initial maturity date of March 15, 1998, which was extended to September 15, 1998 and further extended to January 15, 1999. In December 1998, Cheniere received commitments from certain noteholders to exchange notes payable for an aggregate of 2,812,528 shares of Cheniere common stock at a price of \$0.72 per share. Accordingly, the \$2,025,020 face amount of the exchanged notes is classified as a long-term obligation as of December 31, 1998. For those notes not exchanged for common stock, the maturity date was extended to March 15, 1999. The notes bear interest at a rate of LIBOR plus 4% (ranging from 9.5% to 9.9% through December 31, 1998). The securities purchase agreements which govern such bridge financing specify that, during the term of the notes, capital raised by the Company in excess of \$16,000,000 must be directed to repayment of the notes.

In connection with the December 1997 Bridge Financing, Cheniere issued 100,000 shares of common stock and four-year warrants to purchase 1,333,334 shares of common stock at \$2-3/8 per share. Additional warrants to purchase 1,600,000 shares of Cheniere common stock were issued on September 15, 1998 in consideration for the extension to that date. In connection with the extension

to January 15, 1999, the Company offered two alternatives of consideration. Holders of \$3,000,000 of the notes elected to reduce the exercise price of their warrants to \$1.50 per share. The holder of \$1,000,000 of the notes elected to reduce the exercise price of its warrants to \$2.00 per share, to extend the term of such warrants to five years from the latter of September 15, 1998 or the date of issue, to receive additional warrants to purchase 387,500 shares of common stock and to receive 50,000 shares of common stock. In January 1999, the maturity date was extended to March 15, 1999. In March 1999, the maturity date was extended to April 15, 1999. As consideration for the extension to April 15, 1999, the Company reduced the exercise price by \$0.25 per share for all warrants issued in connection with the issuance or extensions of the notes. In April 1999, the maturity date was extended to July 15, 1999, at which time \$987,490 (50% of the then-outstanding balance) was repaid, the maturity date for the remainder was extended to October 15, 1999 and the interest rate was increased to LIBOR plus 6%. In September 1999, certain noteholders exchanged notes payable and accrued interest totaling \$158,548 for units of common stock and warrants to purchase common stock at a price of \$1.10 per unit. In October 1999, the maturity date of the remaining notes was extended to December 15, 1999. In consideration of the extension of the maturity date, the Company issued 81,750 shares of common stock to the noteholders at a price of \$1.00 per share. In December 1999, the maturity date of the notes was extended to March 15, 2000. In consideration of this extension, the Company issued 49,341 shares of common stock at a price of \$0.33 1/3 per share and warrants to purchase 382,401 shares of common stock at a price to be determined in the future, between \$0.75 and \$1.00 per share, on or before December 16, 2004. Also in December 1999, a noteholder exchanged a \$75,000 note payable for units of common stock and warrants to purchase common stock at a price of \$0.33 1/3 per unit. Proceeds from the December 1997 Bridge Financing were used to fund the Company's activities related to its 3-D exploration program and for general corporate purposes. On March 15, 2000, the Company repaid the remaining balance of \$755,000 on the notes outstanding under the December 1997 Bridge Financing.

On September 1, 1999, Cheniere established a \$3,100,000 platform financing facility to fund a production platform and other exploration and development costs in the West Cameron Block 49 area. Borrowings under the facility are to be repaid from Cheniere's share of net cash flow from production through the West Cameron Block 49 platform. The note is secured by Cheniere's oil and gas properties and has a maturity date of June 30, 2000. Financing costs include interest at 10% per annum and a 5% net profit interest in the initial two wells producing through the platform. At December 31, 1999 the outstanding balance under the facility was \$3,090,643.

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In December 1999, Cheniere entered into a financing agreement with a supplier of well services to consolidate and convert trade accounts payable balances into a short-term secured note payable. Interest is payable at 10% per annum. The note is secured by Cheniere's oil and gas properties and matures on July 5, 2000. At December 31, 1999 the outstanding balance was \$1,117,570.

In December 1999 and February 2000, the Company entered into amendments with respect to the platform financing facility in part to amend certain financial covenants with respect to which it was in breach as disclosed in the Company's quarterly report for the three months ended September 30, 1999. In connection with these amendments, the Company also formalized the well services financing, provided for certain priorities in repayments between lenders to come from oil and gas production revenues and borrowed an additional \$605,000 in February 2000.

Management believes that the Company is in compliance with all financial covenants relating to its debt agreements as of December 31, 1999.

Management's Plans and Continued Capital Raising Activities

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. Cheniere is a company in the early stages of its operations, with initial production and revenues commencing in September 1999.

The recoverability of the Company's unevaluated oil and gas properties is dependent on future events, including obtaining adequate financing for its exploration and development program, the successful completion of its planned drilling program, and the achievement of a level of operating revenues that is sufficient to support the Company's cost structure. At various times during the life of the Company to date, it has been necessary for the Company to raise additional capital through private placements of debt or equity financing. When such a need has arisen, the Company has met it successfully. It is management's belief that it will continue to be able to meet its needs for additional capital as such needs arise in the future.

At December 31, 1999, the Company had outstanding \$4,963,213 in notes payable, which is the major component of the Company's working capital deficit of \$3,290,245, and it borrowed an additional \$605,000 on February 29, 2000. On March 15, 2000, Cheniere repaid the full balance outstanding of \$755,000 related to its December 1997 bridge financing. In addition, it has made the required

payments under its other notes payable, totaling \$803,160 for principal, interest and net profit interest payments through February 29, 2000. Cheniere has raised \$1,762,500 through the sale of equity securities subsequent to December 31, 1999. The Company has also entered into an exploration agreement whereby it has agreed to sell a partial interest in certain existing prospects and in prospects yet to be generated. (See Note 12-Subsequent Events.)

In the event that the Company is not successful in future efforts to raise capital for its operations, management believes that trades or sales of partial interests to industry partners would be utilized to explore and develop the Company's oil and gas properties; however, the ownership interest which would be retained by the Company would be reduced accordingly.

New Accounting Pronouncements

On June 15, 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000 for certain companies (January 1, 2001 for the Company). SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income (only certain types of hedge transactions are reported as a component of other comprehensive income). Additionally, for all hedge transactions the nature and type of hedge should be disclosed. The Company does not expect the adoption of SFAS 133 to have a material impact on its financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company produces and sells natural gas, crude oil and condensate. As a result, the Company's financial results can be significantly affected as these commodity prices fluctuate widely in response to changing market forces. The Company has not entered into any derivative transactions.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
Stockholders of Cheniere Energy, Inc.

In our opinion, the consolidated financial statements listed in the index appearing under Item 14(a)(1) and (2) on page 46 present fairly, in all material respects, the financial position of Cheniere Energy, Inc. and its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for the years ended December 31, 1999 and 1998, the four-month period ended December 31, 1997, and the year ended August 31, 1997 in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 13 to the financial statements, the Company has, since its inception in February 1996, been dependent on capital contributions to finance its oil and gas exploration activities. The recoverability of the Company's unevaluated oil and gas properties is dependent on future events, including obtaining adequate financing for its exploration and development program, the successful completion of its planned drilling program, and the achievement of a level of operating revenues that is sufficient to support the Company's cost structure. In addition, at December 31, 1999, the Company has \$4,963,213 of notes payable which are due on or before July 5, 2000. Management's plans in regard to these matters are also described in Note 13. The uncertainties associated with these matters raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

PRICEWATERHOUSECOOPERS LLP

Houston, Texas
March 15, 2000

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CHENIERE ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

<TABLE>
<CAPTION>

ASSETS	DECEMBER 31, 1999	DECEMBER 31, 1998
	-----	-----
<S>	<C>	<C>
Cash	\$ 1,175,950	\$ 143,868
Accounts Receivable	906,569	97,837
Subscriptions Receivable	-	500,000
Debt Issuance Costs, net	138,909	-
Prepaid Expenses and Other Current Assets	1,223,864	8,833
	-----	-----
Total current assets	3,445,292	750,538
OIL AND GAS PROPERTIES, full cost method		
Proved Properties, net	9,459,041	-
Unproved Properties, not subject to amortization	20,648,923	20,000,425
	-----	-----
	30,107,964	20,000,425
FIXED ASSETS, net	928,019	89,511
	-----	-----
Total Assets	\$ 34,481,275	\$20,840,474
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		

CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 1,772,324	\$ 523,144
Notes Payable	4,963,213	1,974,980
	-----	-----
Total current liabilities	6,735,537	2,498,124
	-----	-----
LONG-TERM NOTES PAYABLE		
Related Party	-	2,000,000
Other	-	25,020
	-----	-----
Total long-term liabilities	-	2,025,020
	-----	-----
COMMITMENTS AND CONTINGENCIES (Note 11)		
STOCKHOLDERS' EQUITY		
Common Stock, \$.003 par value		
Authorized: 60,000,000 and 40,000,000 shares, respectively		
Issued and Outstanding: 40,212,473 shares at December 31, 1999;		
18,973,749 at December 31, 1998	120,637	56,922
Preferred Stock, \$.0001 par value		
Authorized: 5,000,000 shares; Issued and Outstanding: none	-	-
Additional Paid-in-Capital	33,203,344	20,084,928
Accumulated Deficit	(5,578,243)	(3,824,520)
	-----	-----
Total Stockholders' Equity	27,745,738	16,317,330
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 34,481,275	\$20,840,474
	=====	=====

</TABLE>

Stockholders'	-----		Paid-In	Accumulated	Equity
	Shares	Amount	Capital	Deficit	
-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Balance - August 31, 1996	9,931,767	\$29,795	\$ 4,518,507	\$ (121,847)	\$ 4,426,455
Issuances of Stock	4,124,099	12,373	11,128,052	-	11,140,425
Conversion of Notes Payable	105,000	315	209,685	-	210,000
Issuance of Warrants 6,450	-	-	6,450	-	-
Expenses Related to Offerings (1,153,441)	-	-	(1,153,441)	-	-
Net Loss (1,676,468)	-	-	-	(1,676,468)	-
-----	-----	-----	-----	-----	-----
Balance - August 31, 1997	14,160,866	42,483	14,709,253	(1,798,315)	12,953,421
Issuances of Stock	297,000	891	827,609	-	828,500
Issuance of Warrants	-	-	101,000	-	101,000
Expenses Related to Offerings (74,532)	-	-	(74,532)	-	-
Net Loss (388,361)	-	-	-	(388,361)	-
-----	-----	-----	-----	-----	-----
Balance - December 31, 1997	14,457,866	43,374	15,563,330	(2,186,676)	13,420,028
Issuances of Stock	4,515,883	13,548	4,370,104	-	4,383,652
Issuance of Warrants	-	-	319,494	-	319,494
Expenses Related to Offerings (168,000)	-	-	(168,000)	-	-
Net Loss (1,637,844)	-	-	-	(1,637,844)	-
-----	-----	-----	-----	-----	-----
Balance - December 31, 1998	18,973,749	56,922	20,084,928	(3,824,520)	16,317,330
Issuances of Stock	17,483,887	52,451	10,962,229	-	11,014,680
Conversion of Notes Payable and Interest	3,170,362	9,511	2,236,626	-	2,246,137
Issuance of Warrants	-	-	200,000	-	200,000
Repricing of Warrants 35,702	-	-	35,702	-	-
Conversion of Production Payment	584,475	1,753	398,247	-	400,000
Expenses Related to Offerings (714,388)	-	-	(714,388)	-	-
Net Loss (1,753,723)	-	-	-	(1,753,723)	-
-----	-----	-----	-----	-----	-----
Balance - December 31, 1999	40,212,473	\$ 120,637	\$ 33,203,344	\$ (5,578,243)	\$27,745,738
=====	=====	=====	=====	=====	=====

</TABLE>

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

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CHENIERE ENERGY, INC AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>
<CAPTION>

Ended	Year Ended		Four Months Ended		Year
	December 31,		December 31,		
31,	-----	-----	-----	-----	August
-----	1999	1998	1997	1996	1997
-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	(Unaudited) <C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES					
Net Loss (1,676,468)	\$ (1,753,723)	\$ (1,637,844)	\$ (388,361)	\$ (193,553)	\$
Adjustments to Reconcile Net Loss to Net Cash Provided by (Used in) Operating Activities:					

Depreciation, Depletion and Amortization 8,268	1,361,644	39,171	2,936	2,695	
Compensation Paid in Common Stock 624,400	37,500	-	-	-	
Non-Cash Expense (Issuance of Warrants) 6,450	100,000	-	-	-	

(1,037,350)	(254,579)	(1,598,673)	(385,425)	(190,858)	
Changes in Operating Assets and Liabilities					
Accounts Receivable	(808,732)	4,493	(102,330)	-	
-					
Subscriptions Receivable	500,000	(500,000)	-	-	
-					
Debt Issuance Costs	(138,909)	-	-	-	
-					
Prepaid Expenses and Other Current Assets (52,341)	(82,734)	1,710	46,598	(1,832)	
Accounts Payable and Accrued Liabilities 95,397	1,249,178	251,378	(18,525)	(31,056)	
Advances from Officers (961)	-	-	-	-	

NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES (995,255)	464,224	(1,841,092)	(459,682)	(223,746)	

CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchases of Fixed Assets (10,745)	(999,965)	(81,810)	-	(6,180)	
Proceeds from Sales of Oil and Gas Seismic Data	275,000	-	46,000	-	
-					
Oil and Gas Property Additions (9,500,000)	(8,534,225)	(2,804,905)	(3,050,027)	(2,000,000)	

NET CASH USED IN INVESTING ACTIVITIES (9,510,745)	(9,259,190)	(2,886,715)	(3,004,027)	(2,006,180)	

CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from Issuance of Notes with Detachable Warrants	-	180,000	4,000,000	-	
-					
Proceeds from Issuance of Notes Payable or Advances 500,000	3,100,000	697,000	-	-	
Repayment of Notes Payable or Advances (215,000)	(996,846)	(877,000)	(500,000)	(215,000)	
Sale of Common Stock 10,516,025	8,438,282	4,252,152	591,000	4,460,375	
Offering Costs (1,153,441)	(714,388)	(168,000)	(74,532)	(689,365)	

NET CASH PROVIDED BY FINANCING ACTIVITIES 9,647,584	9,827,048	4,084,152	4,016,468	3,556,010	

NET INCREASE (DECREASE) IN CASH (858,416)	1,032,082	(643,655)	552,759	1,326,084	
CASH - BEGINNING OF PERIOD 1,093,180	143,868	787,523	234,764	1,093,180	

CASH - END OF PERIOD 234,764	\$ 1,175,950	\$ 143,868	\$ 787,523	\$ 2,419,264	\$
=====	=====	=====	=====	=====	

</TABLE>

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

Cheniere Energy, Inc., a Delaware corporation, is engaged in exploration for oil and gas reserves. The terms "Cheniere" and "Company" refer to Cheniere Energy, Inc. and its subsidiaries. The Company operates principally through its wholly-owned subsidiary, Cheniere Energy Operating Co., Inc. ("Cheniere Operating"). Cheniere Operating is a Houston-based company formed for the purpose of oil and gas exploration, development and exploitation. The Company is currently engaged in the exploration for oil and natural gas along the Gulf Coast of Louisiana, onshore and in the shallow waters of the Gulf of Mexico. The Company began its oil and gas activities in April 1996 and commenced oil and gas production in September 1999. Prior to the commencement of its revenues in September 1999, Cheniere was a development stage company under the provisions of Statement of Financial Accounting Standards No. 7 - "Development Stage Enterprises."

NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of Cheniere Energy, Inc. and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current period presentation.

On April 7, 1998, the Company's Board of Directors approved a change in fiscal year-end. The change in year-end resulted in a transition period from September 1, 1997 to December 31, 1997.

Oil and Gas Properties

The Company follows the full cost method of accounting for its oil and gas properties. Under this method, all productive and nonproductive exploration and development costs incurred for the purpose of finding oil and gas reserves are capitalized. Such capitalized costs include lease acquisition, geological and geophysical work, delay rentals, drilling, completing and equipping oil and gas wells, together with internal costs directly attributable to property acquisition, exploration and development activities. Interest is capitalized on oil and gas properties not subject to amortization and in the process of development. The Company capitalized interest in the amount of \$415,262 for the year ended December 31, 1999, \$1,058,595 for the year ended December 31, 1998 and \$49,616 during the four-month period ended December 31, 1997. No interest was capitalized prior to the four-month period ended December 31, 1997.

The costs of the Company's oil and gas properties, including the estimated future costs to develop proved reserves, are depreciated using a composite units-of-production rate based on estimates of proved reserves. Investments in unproved properties and major development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized. Net capitalized costs are limited to a capitalization ceiling, calculated on a quarterly basis as the aggregate of the present value, discounted at 10%, of estimated future net revenues from proved reserves, based on current economic and operating conditions, plus the lower of cost or fair market value of unproved properties, less related income tax effects. Subsequent to December 31, 1999, prices for oil and gas have increased to levels at which the Company's capitalized costs do not exceed its capitalization ceiling. If the capitalization ceiling were limited to a value calculated using prices in effect at December 31, 1999, the Company's capitalized costs would have exceeded its capitalization ceiling by \$1,888,912. Product prices continue to be volatile subsequent to December 31, 1999. In the future, should prices decline further, and depending upon drilling results, the Company could be required to record a valuation adjustment to its oil and gas property balances, resulting in a future noncash charge against earnings.

The Company's allocation of 3-D seismic exploration costs to proved properties involves an estimate of the total reserves to be discovered in the project. It is reasonably possible, based on the results obtained from future drilling, that revisions to this estimate could occur within the next twelve months, which could affect the Company's capitalization ceiling.

Revenue Recognition

Revenues from the sale of oil and gas produced are recognized upon the passage of title, net of royalties and net profits royalty interests.

Revenues from natural gas production are recorded using the sales method, net of royalties and net profits royalty interests. When sales volumes exceed the Company's entitled share, an overproduced imbalance occurs. To the extent the overproduced imbalance exceeds the Company's share of the remaining estimated proved natural gas reserves for a given property, the Company records a liability. At December 31, 1999 and 1998, the Company had no overproduced imbalances.

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

Debt Issuance Costs

Costs incurred in connection with the issuance of debt are capitalized and amortized into interest expense (which is then capitalized as a cost of oil and gas properties) over the term of the related debt. Accumulated amortization was \$24,382 as of December 31, 1999.

Fixed Assets

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

Offering Costs

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

Income Taxes

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

Stock-Based Compensation

SFAS No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. The Company grants options at or above the market price of its common stock at the date of each grant.

Earnings (Loss) Per Share

Earnings (loss) per share ("EPS") is computed in accordance with the requirements of SFAS No. 128, "Earnings Per Share." Basic EPS excludes dilution and is computed by dividing net income (loss) by the weighted average number of shares outstanding during the period. Diluted EPS reflects potential dilution and is computed by

dividing net income (loss) by the weighted average number of common shares outstanding during the period increased by the number of additional common shares that would have been outstanding if the potential common shares had been issued. Basic and diluted EPS for all periods presented are the same since the effect of the Company's options and warrants is antidilutive to its net loss per share under SFAS No. 128.

Cash Equivalents

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

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short maturity of those instruments. The carrying value of the Company's notes payable is considered to approximate the fair value of those instruments due to the short-term nature of the instruments.

Commodity Price Risk

The Company produces and sells natural gas, crude oil and condensate. As a result, the Company's financial results can be significantly affected as these commodity prices fluctuate widely in response to changing market forces. The Company has not entered into any hedging transactions. The Company's market risk with respect to its fixed-rate, short-term notes payable is considered to be immaterial due to the short-term nature of these instruments.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires that the Company make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates. Management believes its estimates are reasonable.

New Accounting Pronouncements

On June 15, 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000 for certain companies (January 1, 2001 for the Company). SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income (only certain types of hedge transactions are reported as a component of other comprehensive income). Additionally, for all hedge transactions the nature and type of hedge should be disclosed. The Company does not expect the adoption of SFAS 133 to have a material impact on its financial statements.

CHENIERE ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

NOTE 3-FIXED ASSETS

Fixed assets consist of the following:

<TABLE>
<CAPTION>

	December 31,	
	1999	1998
	-----	-----
<S>	<C>	<C>
Furniture and Fixtures	\$ 133,588	\$ 37,442
Computers and Office Equipment	544,925	84,904
Other	464,939	21,143
	-----	-----
	1,143,452	143,489
Less Accumulated Depreciation	(215,433)	(53,978)
	-----	-----
Fixed Assets, Net	\$ 928,019	\$ 89,511
	=====	=====

</TABLE>

NOTE 4-OIL AND GAS PROPERTIES

Investments in oil and gas properties were as follows at December 31, 1999 and 1998:

<TABLE>
<CAPTION>

	1999	1998
	-----	-----
<S>	<C>	<C>
Oil and gas properties:		

Proved	\$10,659,227	\$
Unproved	20,648,923	20,000,425
	-----	-----
	31,308,150	20,000,425
Less accumulated depreciation, depletion and amortization	(1,200,186)	\$
	-----	-----
	\$30,107,964	\$20,000,425
	=====	=====

</TABLE>

Depreciation, depletion and amortization of oil and gas property costs commenced in 1999 and totaled \$1,200,186 for the year ended December 31, 1999. Depreciation, depletion and amortization per equivalent Mcf (using an Mcf-to-barrel conversion factor of 6 to 1) was \$1.84 for the year ended December 31, 1999. All of Cheniere's oil and gas properties are located within the United States or its territorial waters.

The Company has made a substantial investment in acquiring, processing and reprocessing its 3-D seismic database covering a 9,000-square-mile project area in the Gulf of Mexico. The costs of this project become subject to amortization on a ratable basis as the oil and gas reserves expected to be recovered from the project are discovered. As of December 31, 1999, Cheniere had received reprocessed seismic data over approximately 900 square miles. Interpretation of this data is ongoing.

NOTE 5-NOTES PAYABLE

At December 31, 1999, Cheniere had outstanding short-term notes payable of \$4,963,213. Three financing facilities comprised the balance: platform financing of \$3,090,643, well services financing of \$1,117,570 and December 1997 bridge financing notes of \$755,000. The terms of each of these facilities and of others that were utilized within the three years ended December 31, 1999 are described in the following paragraphs.

September 1999 - \$3,100,000 Platform Financing

On September 1, 1999, Cheniere established a \$3,100,000 financing facility to fund a production platform and other exploration and development costs in the West Cameron Block 49 area. Borrowings under the facility are to be repaid from Cheniere's share of net cash flow from production through the West Cameron Block 49 platform. The note is secured by Cheniere's oil and gas properties and has a maturity date of June 30, 2000. Financing costs

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CHENIERE ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

include interest at 10% per annum and a 5% net profit interest in the initial two wells producing through the platform. At December 31, 1999, the outstanding balance under the facility was \$3,090,643. Subsequent to December 31, 1999, the Company borrowed an additional \$605,000 under the same facility. (See Note 12-Subsequent Events.)

December 1999 - \$1,117,570 Well Services Financing

In December 1999, Cheniere entered into a financing agreement with a supplier of well services to consolidate and convert trade accounts payable balances into a short-term secured note payable. Interest is payable at 10% per annum. The note is secured by Cheniere's oil and gas properties and matures on July 5, 2000. At December 31, 1999 the outstanding balance was \$1,117,570.

December 1997 - \$4,000,000 Bridge Financing

In December 1997, Cheniere completed the private placement of a \$4,000,000 bridge financing (the "December 1997 Bridge Financing"). The notes payable issued by Cheniere had an initial maturity date of March 15, 1998, which was extended to September 15, 1998 and further extended to January 15, 1999. In December 1998, Cheniere received commitments from certain noteholders to exchange notes payable for an aggregate of 2,812,528 shares of Cheniere common stock at a price of \$0.72 per share. Accordingly, the \$2,025,020 face amount of the exchanged notes was classified as a long-term obligation as of December 31, 1998. For those notes not exchanged for common stock, the maturity date was extended to March 15, 1999. The notes originally bore interest at a rate of LIBOR plus 4%. The securities purchase agreements which govern such bridge financing specify that, during the term of the notes, capital raised by the Company in excess of \$16,000,000 must be directed to repayment of the notes.

In connection with the December 1997 Bridge Financing, Cheniere issued 100,000 shares of common stock and four-year warrants to purchase 1,333,334

shares of common stock at \$2-3/8 per share. Additional warrants to purchase 1,600,000 shares of Cheniere common stock were issued on September 15, 1998 in consideration for the extension to that date. In connection with the extension to January 15, 1999, the Company offered two alternatives of consideration. Holders of \$3,000,000 of the notes elected to reduce the exercise price of their warrants to \$1.50 per share. The holder of \$1,000,000 of the notes elected to reduce the exercise price of its warrants to \$2.00 per share, to extend the term of such warrants to five years from the latter of September 15, 1998 or the date of issue, to receive additional warrants to purchase 387,500 shares of common stock and to receive 50,000 shares of common stock. In January 1999, the maturity date was extended to March 15, 1999. In March 1999, the maturity date was extended to April 15, 1999. As consideration for the extension to April 15, 1999, the Company reduced the exercise price by \$0.25 per share for all warrants issued in connection with the issuance or extensions of the notes. In April 1999, the maturity date was extended to July 15, 1999, at which time \$987,490 (50% of the then-outstanding balance) was repaid, the maturity date for the remainder was extended to October 15, 1999, and the interest rate was increased to LIBOR plus 6% (approximately 12.14% at December 31, 1999). In September 1999, certain noteholders exchanged notes payable and accrued interest totaling \$158,608 for units of common stock and warrants to purchase common stock at a price of \$1.10 per unit. In October 1999, the maturity date of the remaining notes was extended to December 15, 1999. In consideration of the extension of the maturity date, the Company issued 81,750 shares of common stock to the noteholders at a price of \$1.00 per share. In December 1999, the maturity date of the notes was extended to March 15, 2000. In consideration of this extension, the Company issued 49,341 shares of common stock at a price of \$0.33 1/3 per share and warrants to purchase 382,401 shares of common stock at a price to be determined in the future, between \$0.75 and \$1.00 per share, on or before December 16, 2004. Also in December 1999, a noteholder exchanged a \$75,000 note payable for units of common stock and warrants to purchase common stock at a price of \$0.33 1/3 per unit. On March 15, 2000, the Company repaid the \$755,000 remaining balance of the notes. (See Note 12 - Subsequent Events.)

NOTE 6-INCOME TAXES

From its inception the Company has recorded losses for both financial reporting purposes and for federal income tax reporting purposes. Accordingly, the Company is not presently a taxpayer and has not recorded a provision for income taxes in any of the periods presented in the accompanying financial statements.

CHENIERE ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

At December 31, 1999, the Company had net operating loss ("NOL") carryforwards for tax reporting purposes of approximately \$12,940,000. In accordance with SFAS No. 109, a valuation allowance equal to the tax benefit for deferred taxes has been established due to the uncertainty of realizing the benefit of such NOL carryforwards.

Deferred tax assets and liabilities reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at December 31, 1999 and 1998 are as follows:

<TABLE>
<CAPTION>

	December 31,	
	1999	1998
Deferred Tax Assets		
<S>	<C>	<C>
NOL Carryforwards	\$ 4,400,000	\$ 1,554,000
Less: Valuation Allowance	(4,400,000)	(1,554,000)
Net Deferred Tax Assets	\$ -	\$ -

</TABLE>

Net operating loss carryforwards expire starting in 2006 extending through 2014. Per year availability of losses incurred prior to July 3, 1996 of approximately \$747,000 is subject to change of ownership limitations under Internal Revenue Code Section 382.

The gross change in the valuation allowance for deferred tax assets increased \$2,846,000 and \$557,000 during the years ended December 31, 1999 and 1998, respectively.

NOTE 7-WARRANTS

As of December 31, 1999 the Company has issued and outstanding 8,467,803 warrants. The Company has reserved an equal number of shares of common stock for issuance upon the exercise of its outstanding warrants. Warrants issued by the Company do not confer upon the holders thereof any voting or other rights of a stockholder of the Company. In instances where warrants were granted in connection with financings, the valuation of such warrants was calculated in accordance with the provisions of APB Opinion No. 14, incorporating the estimated fair market interest rate at the time. The issuances and terms of the warrants are described below.

December 1997 Bridge Financing Warrants

In connection with Cheniere's \$4,000,000 December 1997 Bridge Financing (Note 5), the Company issued warrants to purchase 1,333,334 shares of common stock at \$2 3/8 per share. Additional warrants to purchase 1,600,000 shares of Cheniere common stock were issued on September 15, 1998 in consideration for the extension to that date. In connection with the extension to January 15, 1999, the Company offered two alternatives of consideration. Holders of warrants to purchase 2,200,000 shares of common stock elected to reduce the exercise price of their warrants to \$1.50. The holder of warrants to purchase 733,334 shares of common stock elected to reduce the exercise price of its warrants to \$2.00 per share, to extend the term of such warrants to five years from the latter of September 15, 1998 or the date of issue, to receive additional warrants to purchase 387,500 shares of common stock and to receive 50,000 shares of common stock. In January 1999, the maturity date was extended to March 15, 1999. In March 1999, the maturity date was extended to April 15, 1999. As consideration for the extension to April 15, 1999, the Company reduced the exercise price by \$0.25 per share for all warrants issued in connection with the issuance or extensions of the notes. In connection with extensions of the maturity dates from October 1999 to December 1999 and then to March 2000, the Company issued 131,091 shares of common stock and warrants to purchase 382,401 shares of common stock at a price to be determined in the future, between \$0.75 and \$1.00 per share, and extended the term of all warrants related to then outstanding notes payable to December 16, 2004.

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CHENIERE ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Unit Warrants

In August, September, November, and December 1998, the Company sold 1,950,000 units, each such unit consisting of one share of common stock and one-half warrant to purchase one share of common stock, totaling 1,950,000 shares of common stock and warrants to purchase 975,000 shares of common stock. Each such warrant is exercisable within two years from the date of issue at an exercise price of \$2.00 per share.

In April 1999, Cheniere sold 300,000 units to two investors at a price of \$1.00 per share. Each unit was comprised of one share of common stock and one warrant to purchase one share of common stock, totaling 300,000 shares of common stock and warrants to purchase 300,000 shares of common stock. Warrants issued in connection with these sales of the units are exercisable on or before the second anniversary date of the date the units were sold at an exercise price of \$1.00 per share. In July 1999, the Company issued 150,000 warrants exercisable at \$1.00 per share on or before July 5, 2004 in connection with a pricing adjustment to the number of units sold in April 1999.

In September and October 1999, Cheniere sold 1,074,134 units at a price of \$1.10 per unit. Each unit was comprised of one share of common stock and one-half warrant to purchase one share of common stock, totaling 1,074,134 shares of common stock and warrants to purchase 537,067 shares of common stock. Warrants issued in connection with these sales of units are exercisable at an exercise price of \$1.50 per share on or before the third anniversary date of the date the units were sold.

Seismic Transaction Warrants

In June 1999, the Company issued 1,000,000 warrants to its president and chief executive officer and 200,000 warrants to another member of its board of directors, both of whom were instrumental in negotiating the Company's license of 8,700 square miles of 3-D seismic data in the Gulf of Mexico. Warrants issued in connection with this transaction are exercisable on or before the fifth anniversary of the date the transaction closed at an exercise price of \$1.50 per share.

Adviser Warrants

In consideration of certain investment advisory and other services to the Company, and pursuant to warrant agreements, each dated as of August 21, 1996,

the Company issued warrants to purchase 13,600 and 54,400 shares of common stock. The warrants are exercisable at any time on or before May 15, 2000, at an exercise price of \$3.00 per share. The exercise price represents the approximate market price of the underlying common stock at the time of the transaction.

In conjunction with a private placement of common stock in March 1997 the Company issued 50,000 warrants to a financial advisor. The warrants were issued in March 1998 at an exercise price of \$3.125 per share and are exercisable on or before March 31, 2000.

Effective in July 1999, Cheniere issued 50,000 warrants exercisable at \$1.50 per share on or before June 30, 2004 as consideration for assistance in the private placement of securities.

In September 1999, the Company issued to a consultant warrants to purchase 200,000 shares of common stock on or before September 26, 2004 at exercise prices per share of \$1.375 for 50,000 shares, \$1.875 for 50,000 shares, \$2.375 for 50,000 shares and \$2.875 for 50,000 shares. The warrants were valued at \$1.00 per warrant using a Black-Scholes methodology at the date of the issuance, which is being amortized over the term of the consulting agreement.

In November and December 1999, as consideration for assistance in the private placement of securities, the Company issued 945,000 warrants exercisable at \$1.00 per share on or before the third anniversary of the issuances.

June 1998 Bridge Financing Warrants

In conjunction with the issuance of \$180,000 senior term notes payable in June 1998, the Company issued warrants to purchase 83,334 shares of common stock at an exercise price of \$2.00 per share. Such warrants are exercisable on or before June 4, 2002 at an exercise price of \$2.00 per share and are subject to customary anti-dilution adjustments.

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CHENIERE ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

June 1996 Warrants

In conjunction with the issuance of the \$425,000 in notes payable, the Company issued and continues to have outstanding 141,667 warrants (collectively, the "June 1996 Warrants"), each of which entitles the registered holder thereof to purchase one share of common stock. The June 1996 Warrants are exercisable at any time on or before June 14, 2000, at an exercise price of \$3.00 per share. The exercise price was determined at a 100% premium to the sales price of Cheniere stock by private placement during May 1996. The June Warrants were originally issued by Cheniere and were converted to warrants of Cheniere following the Reorganization. The June 1996 Warrants were issued to a group of eleven investors in connection with a private placement of unsecured promissory notes.

Effective September 14, 1996, the Company had not paid all amounts due and payable under the notes by the Maturity Date. Certain of the noteholders converted their notes into 105,000 shares of common stock. One of the noteholders purchased the promissory notes of the remaining noteholders. As per the terms of the notes, the holder was entitled to receive up to an aggregate of 21,500 additional warrants for each month, or partial month, any amounts remained due and payable after September 14, 1996, up to a maximum aggregate number of 86,000 such additional warrants. These notes were repaid on December 14, 1996, and upon repayment the Company issued 64,500 warrants in accordance with the loan agreement. The terms of the warrants are similar to the June 1996 Warrants.

NOTE 8-STOCK OPTIONS

In 1997 the Company established the Cheniere Energy, Inc. 1997 Stock Option Plan (the "Option Plan"). The Option Plan allows for the issuance of options to purchase up to 1,950,000 shares of Cheniere common stock. In addition to grants made under the Option Plan, the Company granted options to purchase 600,000 shares at \$1.50 per share during 1999. The Company has reserved 2,550,000 shares of common stock for issuance upon the exercise of options which have been granted or which may be granted. The term of options granted under the Option Plan is generally five years. The vesting schedule varies, but vesting generally occurs over four years, 25% on each anniversary of the grant date. Grants made by the Company are summarized in the following table:

<TABLE>
<CAPTION>

December 31,

	1999	1998	1997
Outstanding at beginning of period	686,445	539,445	
Options granted at an exercise price of \$3.00 per share	35,000	135,000	
Options granted at an exercise price of \$1.50 per share	1,473,500	12,000	
Options canceled	(33,750)	-	
Outstanding at end of period	2,161,195	686,445	
Exercisable at end of period	761,195	320,695	
Weighted average exercise price of options outstanding	\$ 1.58	\$ 1.68	
Weighted average exercise price of options exercisable	\$ 1.64	\$ 1.67	
Weighted average fair value of options granted during the period	\$ 0.85	\$ 0.79	
Weighted average remaining contractual life of options outstanding	4.7 years	3.4 years	4.0

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CHENIERE ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The following table summarizes information about fixed options outstanding at December 31, 1999.

Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life
\$1.50	2,026,750	4.8
\$1.80	19,445	3.9
\$3.00	115,000	4.4

The fair value of options is calculated using the Black-Scholes option pricing model. Assumptions used for the years ended December 31, 1999 and 1998, respectively, were: no dividend yield, weighted average volatility of 124% and 88%, risk-free interest rates of 6.3% and 4.6% and expected lives of the options of 3.0 years and 2.5 years. The pro forma effect on the Company's net losses had it adopted the optional recognition provisions of SFAS No. 123 for 1999 and 1998, respectively, would be to increase the reported net losses by \$1,431,000 and \$155,000 or \$0.06 and \$0.01 per share (both basic and diluted). The disclosure-only provisions of SFAS No. 123 for periods earlier than 1998 do not have a material effect on the Company's financial statements.

On December 11, 1998, the Company adjusted the exercise price from \$3.00 to \$1.50 per share for the 575,000 options then issued and outstanding to management and employees. On September 30, 1999, all options then outstanding to management and employees were extended to September 30, 2004.

In June 1999, the Company issued 1,000,000 warrants to its president and chief executive officer and 200,000 warrants to another member of its board of directors, both of whom were instrumental in negotiating the Company's license of 8,700 square miles of 3-D seismic data in the Gulf of Mexico. Warrants issued in connection with this transaction are exercisable on or before the fifth anniversary of the date the transaction closed at an exercise price of

\$1.50 per share. The fair value of these warrants is included in the pro forma net loss calculation under SFAS No. 123.

NOTE 9-SUBSCRIPTIONS RECEIVABLE

At December 31, 1998, the Company had received and accepted a subscription for the purchase of 666,667 shares of common stock at a price of \$0.75 per share. Funding of the stock sale took place on January 6, 1999.

NOTE 10-RELATED PARTY TRANSACTIONS

BSR Investments, Ltd., a major stockholder of the Company controlled by the mother of Charif Souki, Chairman of Cheniere, purchased \$2,000,000 of the notes issued in the Company's \$4,000,000 December 1997 Bridge Financing and pledged a portion of its investment in Cheniere common stock to fund its participation. In conjunction with the financing, BSR received warrants to purchase 166,667 shares of the Company's common stock. On September 15, 1998, BSR received warrants to purchase an additional 400,000 shares of common stock as consideration for extending the maturity of the notes to that date. Also in September 1998, the exercise price of the warrants held by BSR was reduced from \$2.375 to \$1.50 per share as consideration to extend the maturity date of the notes to January 15, 1999. In March 1999, BSR exchanged notes payable of \$2,000,000 for 2,777,778 shares of Cheniere common stock (\$0.72 per share).

In May 1999, BSR purchased from another noteholder \$240,000 in short-term notes payable by Cheniere. In July 1999, the Company repaid \$120,000 to BSR at the time it repaid 50% of the outstanding balances on all of the notes issued in the December 1997 Bridge Financing. On September 30, 1999, BSR exchanged its remaining \$120,000 note payable and \$1,000 in accrued interest for 110,000 units (\$1.10 per unit), each unit representing one share of common stock and one half warrant to purchase a share of common stock at an exercise price of \$1.50 per share on or before September 30, 2002.

In conjunction with certain of the Company's private placements of equity, placement fees have been paid

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CHENIERE ENERGY, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

to Investors Administration Services, Limited ("IAS"), a company in which the brother of Charif Souki, Cheniere's Chairman, is a principal. Placement fees paid to IAS totaled \$562,372 for 1999, \$138,000 for 1998 and \$255,000 for the year ended August 31, 1997. Such payments were recorded as offering costs and reflected as a reduction of additional paid-in capital. In addition, in connection with the sale of 10,483,031 units (of common stock and warrants), Cheniere granted to IAS, or its assigns, warrants to purchase 645,000 shares of common stock at an exercise price of \$1.00 per share on or before December 30, 2002.

During June 1998, the Company received and repaid short-term advances from then Co-Chairman of the Board, William D. Forster, and members of his family or entities under their control, totaling \$592,000. Interest was paid at LIBOR plus 4% and totaled \$1,622. In addition, non-interest bearing, short-term advances totaling \$105,000 were made to the Company by Co-Chairman Forster (\$75,000) and BSR (\$30,000) in October and November 1998. Such advances were repaid by the Company in October and November 1998.

NOTE 11-COMMITMENTS AND CONTINGENCIES

The Company has entered into an operating lease agreement with a noncancelable term in excess of one year for office space. Future minimum lease payments are \$236,259, \$236,259, \$236,259, \$59,065 and nil for the years ended December 31, 2000, 2001, 2002, 2003, and 2004, respectively. Total rental expense for office space for the years ended December 31, 1999 and 1998, the four-month period ended December 31, 1997, and the year ended August 31, 1997 was \$229,381, \$42,741, \$4,716 and \$14,148, respectively.

On June 9, 1999 Cheniere entered into a master license agreement covering the license of approximately 8,700 square miles of 3-D seismic data in the Gulf of Mexico. In connection with the license agreement, the Company has made a commitment to reprocess certain of the seismic data and to pay a fee for such reprocessing as the reprocessed data are delivered. If reprocessed seismic data are delivered to Cheniere on the schedule specified in the agreement, Cheniere will be obligated to make processing payments of approximately \$200,000 per month from December 1999 through December 2001.

NOTE 12-SUBSEQUENT EVENTS

On February 29, 2000, Cheniere amended its \$3,100,000 loan agreement and

borrowed an additional \$605,000 under the facility (as described further in Note 5 - Notes Payable). The funds were used in connection with the recompletion of a producing well.

On March 10, 2000, the Company entered into an exploration agreement. Under the terms of the agreement, Cheniere's exploration partner acquired an option to participate at a 50% working interest level in any drilling prospects generated by Cheniere in the Gulf of Mexico over the next eighteen months for \$4,140,000 payable in equal monthly installments over the term of the agreement. In addition, the partner will pay a disproportionate share of the cost of leasing and of the initial test well on each prospect. Cheniere will be the operator of the drilling program.

In February and March 2000, the Company raised \$924,000 through the sale of units (common stock and warrants) at a price of \$0.75 per unit. During March 2000, the Company issued 937,500 shares pursuant to the exercise of warrants at an exercise price of \$1.00 per share. Combined net proceeds from these issuances of equity securities totaled \$1,762,500, which funds were used for general corporate purposes and for the repayment of \$755,000 in short-term notes payable.

On March 15, 2000, Cheniere repaid the remaining balance of \$755,000 related to its short-term notes payable which were issued as a part of the December 1997 Bridge Financing.

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CHENIERE ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

NOTE 13-MANAGEMENT'S PLANS AND CONTINUED CAPITAL RAISING ACTIVITIES

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. Cheniere is a company in the early stages of its operations, with initial production and revenues commencing in September 1999.

The recoverability of the Company's unevaluated oil and gas properties is dependent on future events, including obtaining adequate financing for its exploration and development program, the successful completion of its planned drilling program, and the achievement of a level of operating revenues that is sufficient to support the Company's cost structure. At various times during the life of the Company to date, it has been necessary for the Company to raise additional capital through private placements of debt or equity financing. When such a need has arisen, the Company has met it successfully. It is management's belief that it will continue to be able to meet its needs for additional capital as such needs arise in the future.

At December 31, 1999, the Company had outstanding \$4,963,213 in notes payable and it borrowed an additional \$605,000 on February 29, 2000. On March 15, 2000, Cheniere repaid the full balance outstanding of \$755,000 related to its December 1997 bridge financing. In addition, it has made the required payments under its other notes payable, totaling \$803,160 for principal, interest and net profit interest payments through February 29, 2000. Cheniere has raised \$1,762,500 through the sale of equity securities subsequent to December 31, 1999. The Company has also entered into an exploration agreement whereby it has agreed to sell a partial interest in certain existing prospects and in prospects yet to be generated. (See Note 12-Subsequent Events.)

In the event that the Company is not successful in future efforts to raise capital for its operations, management believes that trades or sales of partial interests in its oil and gas properties to industry partners would be utilized to explore and develop the Company's oil and gas properties; however, the ownership interest which would be retained by the Company would be reduced accordingly.

NOTE 14-SUPPLEMENTAL DISCLOSURES OF NON-CASH TRANSACTIONS

In conjunction with its December 1997 Bridge Financing, the Company issued at closing 100,000 shares of common stock (valued at \$237,500) and upon extension of the maturity date 50,000 shares of common stock (valued at \$33,500), which were recorded as debt issuance costs. In the same financing, the Company issued warrants to purchase 1,333,334 shares of its common stock (valued at \$101,000) and warrants to purchase 1,987,500 shares of its common stock (valued at \$315,833) related to extensions of the maturity dates. In conjunction with a short-term bridge financing in June 1998, the Company issued warrants to purchase 83,334 shares of common stock (valued at \$3,661). The amortization of such warrant costs was included in interest expense, which was capitalized as a cost of oil and gas properties.

In 1998, the Company issued 70,000 shares of common stock (valued at \$98,000) in settlement of invoices for previously rendered legal services.

In 1999, the Company issued 2,812,528 shares of common stock in exchange for \$2,025,020 in notes payable and 225,000 shares of common stock in exchange for \$75,000 in notes payable. The Company also issued 144,189 units (each unit representing one share of common stock and one half of a warrant to purchase one share of common stock) in exchange for notes payable and accrued interest totaling \$158,608. In March 1999, the Company adjusted the exercise price for certain warrants (valued at \$35,702) in connection with the extension of the maturity dates of notes payable. In the fourth quarter of 1999, the Company issued 131,091 shares of common stock and warrants to purchase 382,401 shares of common stock (collectively valued at \$98,197) in connection with the extension of maturity dates of notes payable. The Company issued 2,057,465 shares of common stock to purchase oil and gas services and seismic data valued at \$2,828,210. The Company issued warrants to purchase 200,000 shares of common stock (valued at \$200,000) in payment for investor relations consulting services. The Company issued 150,000 shares (valued at \$37,500) in connection with the employment of one of its executives. The Company issued a short-term note payable for oil and gas services valued at \$1,117,570.

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CHENIERE ENERGY, INC. AND SUBSIDIARIES

SUPPLEMENTAL INFORMATION TO CONSOLIDATED FINANCIAL STATEMENTS
OIL AND GAS RESERVES AND RELATED FINANCIAL DATA
(unaudited)

Costs Incurred in Oil and Gas Producing Activities

Presented below are costs incurred in oil and gas property acquisition, exploration and development activities:

<TABLE>
<CAPTION>

	Year Ended December 31,		Four Months Ended	Year Ended
	1999	1998	December 31, 1997	August 31, 1997
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Acquisition of properties:				
Proved properties	\$ 1,364,809	\$ -	\$ -	\$ -
Unproved properties	648,498	3,466,371	3,034,054	9,500,000
Exploration costs	7,675,809	-	-	-
Development costs	1,618,609	-	-	-
	-----	-----	-----	-----
Total	\$11,307,725	\$3,466,371	\$3,034,054	\$9,500,000
	=====	=====	=====	=====

</TABLE>

Included in the above amounts for the years ended December 31, 1999 and 1998 and the four months ended December 31, 1997 were \$1,375,262, \$1,502,595 and \$75,616, respectively, of capitalized general and administrative expenses and capitalized interest expense directly related to property acquisition, exploration and development.

Capitalized Costs Related to Oil and Gas Producing Activities

The following table presents total capitalized costs of proved and unproved properties and accumulated depreciation, depletion and amortization related to oil and gas producing operations:

<TABLE>
<CAPTION>

	December 31,	
	1999	1998
	-----	-----
<S>	<C>	<C>
Proved properties	\$10,659,227	\$ -
Unproved properties	20,648,923	20,000,425
	-----	-----
	31,308,150	20,000,425
Accumulated depreciation, depletion and amortization	(1,200,186)	\$ -
	-----	-----
	\$30,107,964	\$20,000,425
	=====	=====

</TABLE>

Of the unproved properties capitalized cost at December 31, 1999, approximately \$2,013,307 and \$3,466,371 was incurred in 1999 and 1998, respectively. The Company anticipates evaluating these properties during subsequent years.

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CHENIERE ENERGY, INC. AND SUBSIDIARIES

SUPPLEMENTAL INFORMATION TO CONSOLIDATED FINANCIAL STATEMENTS
OIL AND GAS RESERVES AND RELATED FINANCIAL DATA
(unaudited)

RESULTS OF OPERATIONS FROM OIL AND GAS PRODUCING ACTIVITIES

The results of operations from oil and gas producing activities are as follows:

	Year ended December 31, 1999

Revenues	\$ 1,614,055
Production costs	(128,859)
Depreciation, depletion and amortization	(1,200,816)
Income tax benefit (expense)	-

Results of operations from oil and gas producing activities (excluding corporate overhead and interest costs)	\$ 284,380 =====

RESERVE QUANTITIES

Estimates of proved reserves of the Company and the related standardized measure of discounted future net cash flow information are based on the reports generated by Ryder Scott Company Petroleum Engineers in accordance with the rules and regulations of the SEC. The independent engineers' estimates were based upon a review of production histories and other geologic, economic, ownership and engineering data provided by the Company. These estimates represent the Company's interest in the reserves associated with its properties.

The Company's estimates of its proved reserves and proved developed reserves of oil and gas as of December 31, 1999 and 1998 and the changes in its proved reserves are as follows:

	1999	
	-----	-----
	Oil (Bbls)	Gas (Mcf)
	-----	-----
Proved reserves:		
Beginning of year	-	-
Production	(2,975)	(633,432)
Extensions and discoveries	30,791	6,429,432
	-----	-----
End of year	27,816	5,796,000
	=====	=====
Proved developed reserves:		
Beginning of year	-	-
End of year	27,816	5,796,000
	=====	=====

There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting future rates of production and future amounts and timing of development expenditures, including many factors beyond the control of the Company. Reserve engineering is a subjective process of estimating underground accumulations of crude oil and natural gas that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. Estimates of proved undeveloped reserves are inherently less certain than estimates of proved developed reserves. The quantities of oil and gas that are ultimately recovered, production and operating costs, the amount and timing of future development expenditures, geologic success and future oil and gas sales prices may all differ from those assumed in these estimates. In addition, the Company's reserves may be subject to downward or upward revision based upon production history, purchases or sales of properties, results of future development, prevailing oil

and gas prices and other factors. Therefore, the present value shown above should not be construed as the current market value of the estimated oil and gas reserves attributable to the Company's properties.

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS

The standardized measure of discounted future net cash flows was calculated by applying year-end prices to estimated future production, less future expenditures (based on year-end costs) to be incurred in developing and producing such proved reserves and the estimated effect of future income taxes based on the current tax law. The resulting future net cash flows were discounted using a rate of 10% per annum.

The standardized measure of discounted future net cash flow amounts contained in the following tabulation does not purport to represent the fair market value of oil and gas properties. No value has been given to unproved properties. There are significant uncertainties inherent in estimating quantities of proved reserves and in projecting rates of production and the timing and amount of future costs. Future realization of oil and gas prices over the remaining reserve lives may vary significantly from current prices. In addition, the method of valuation utilized, based on year-end prices and costs and the use of a 10% discount rate, is not necessarily appropriate for determining fair value.

The standardized measure of discounted future net cash flows relating to proved oil and gas reserves is as follows:

<TABLE>
<CAPTION>

	December 31, 1999

<S>	<C>
Future gross revenues	\$13,651,636
Less - future costs:	
Production	(2,050,892)
Development and dismantlement	(1,516,500)

Future net cash flows before income taxes	10,084,244
Less - 10% annual discount for estimated timing of cash flows	(2,514,115)

Present value of future net cash flows before income taxes	7,570,129
Less - present value of future income taxes	-

Standardized measure of discounted future net cash flows	\$ 7,570,129
	=====

</TABLE>

The following table summarizes the principal sources of change in the standardized measure of discounted future net cash flows:

	Year Ended December 31, 1999

Standardized measure - beginning of period	\$ -
Sales of oil and gas produced, net of production costs	(1,485,196)
Extensions and discoveries	9,055,325

Standardized measure - end of period	\$ 7,570,129
	=====

The standardized measure amounts are based on year-end prices of \$25.47 per barrel of oil and \$2.34 per mcf of gas.

CHENIERE ENERGY, INC. AND SUBSIDIARIES

SUPPLEMENTAL INFORMATION TO CONSOLIDATED FINANCIAL STATEMENTS OIL AND GAS RESERVES AND RELATED FINANCIAL DATA (unaudited)

<TABLE>
<CAPTION>

	First quarter	Second quarter	Third quarter	Fourth quarter	Year
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Year ended December 31, 1999:					
Revenues	\$ -	\$ -	\$ 421,268	\$1,192,787	\$ 1,614,055
Gross profit (1)	(10,344)	(10,982)	134,147	10,731	123,552
Loss from operations	(334,043)	(360,139)	(347,522)	(743,549)	(1,785,253)
Net loss	(329,105)	(354,885)	(333,999)	(735,735)	(1,753,723)

Net loss per share - basic and diluted	\$ (0.02)	\$ (0.02)	\$ (0.01)	\$ (0.02)	\$ (0.07)
Year ended December 31, 1998:					
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
Gross profit (1)	(7,772)	(10,453)	(13,451)	(7,495)	(39,171)
Loss from operations	(195,394)	(436,435)	(532,270)	(494,379)	(1,658,478)
Net loss	(189,500)	(429,816)	(528,113)	(490,415)	(1,637,844)
Net loss per share - basic and diluted	\$ (0.01)	\$ (0.03)	\$ (0.03)	\$ (0.03)	\$ (0.10)

</TABLE>

- - - - -

(1) Revenues less operating expenses other than general and administrative.

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

None.

PART III

In accordance with paragraph (3) of General Instruction G to form 10-K, Part III of this Report is omitted because the Company will file with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year ended December 31, 1999 a definitive proxy statement pursuant to Regulation 14A involving the election of directors, which proxy statement is incorporated herein by reference (with the exception of certain portions noted therein that are not so incorporated by reference).

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PART IV

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

(a) Financial Statements, Schedules and Exhibits

(1) Financial Statements

Report of Independent Accounts.....	25
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(2) Financial Statement Schedule

All consolidated financial statement schedules have been omitted because they are not required, are not applicable, or the information has been included elsewhere within this Form 10-K.

(3) Exhibits

Exhibit No. Description

- - - - -

3.1	Amended and Restated Certificate of Incorporation of Cheniere Energy, Inc. ("Cheniere") (Incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 (File No. 0-9092))
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Cheniere (Incorporated by reference to Exhibit 3.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 (File No. 0-9092))
3.3	By-laws of Cheniere as amended through April 7, 1997 (Incorporated by reference to Exhibit 3.2 of the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 0-9092))
4.1	Specimen Common Stock Certificate of Cheniere (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-1 filed on August 27, 1996 (File No. 333-10905))
10.1	Exploration Agreement between FX Energy, Inc. (now known as Cheniere Energy Operating Co., Inc. ("Cheniere Operating")) and Zydeco Exploration, Inc. ("Zydeco") (Incorporated by reference to Exhibit 10.1 of the Company's Registration Statement under the Securities Act of 1933 on Form S-1 filed on August 27, 1996 (File No. 333-10905))
10.2	First Amendment to the Exploration Agreement between FX Energy,

Inc. (now known as Cheniere Operating) and Zydeco (Incorporated by reference to Exhibit 10.2 of the Company's Registration Statement on Form S-1 filed on August 27, 1996 (File No. 333-10905))

- 10.3 Second Amendment to the Exploration Agreement between FX Energy, Inc. (now known as Cheniere Operating) and Zydeco (Incorporated by reference to Exhibit 10.3 of the Company's Registration Statement on Form S-1 filed on August 27, 1996 (File No. 333-10905))
- 10.4 Third Amendment to the Exploration Agreement between FX Energy, Inc. (now known as Cheniere Operating) and Zydeco (Incorporated by reference to Exhibit 10.4 of the Annual Report on Form 10-K for the year ended August 31, 1996 (File No. 2-63115))
- 10.5 Form of Warrant Agreement between Cheniere and each of C.M. Blair, W.M. Foster & Co., Inc. and Redliw Corp. (Incorporated by reference to Exhibit 10.8 of the Company's Registration Statement on Form S-1 filed on August 27, 1996 (File No. 333-10905))
- 10.6 Fourth Amendment to the Exploration Agreement between FX Energy, Inc. (now known as Cheniere Operating) and Zydeco (Incorporated by reference to Exhibit 10.12 of the Company's Registration Statement on Form S-1 filed on March 17, 1997 (File No. 333-23421))

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- 10.7 Fifth Amendment to the Exploration Agreement between FX Energy, Inc. (now known as Cheniere Operating) and Zydeco (Incorporated by reference to Exhibit 10.18 of the Annual Report on Form 10-K for the year ended August 31, 1997 (File No. 0-9092))
- 10.8 Sixth Amendment to the Exploration Agreement between FX Energy, Inc. (now known as Cheniere Operating) and Zydeco (Incorporated by reference to Exhibit 10.19 of the Annual Report on Form 10-K for the year ended August 31, 1997 (File No. 0-9092))
- 10.9 Seventh Amendment to the Exploration Agreement between FX Energy, Inc. (now known as Cheniere Operating) and Zydeco (Incorporated by reference to Exhibit 10.23 of the Annual Report on Form 10-K for the year ended August 31, 1997 (File No. 0-9092))
- 10.10 Cheniere Energy, Inc. 1997 Stock Option Plan (Incorporated by reference to Exhibit 10.25 of the Quarterly on Form 10-Q for the quarter ended November 31, 1997 (File No. 0-9092))*
- 10.11 Eighth Amendment to the Exploration Agreement between FX Energy, Inc. (now known as Cheniere Operating) and Zydeco (Incorporated by reference to Exhibit 10.26 of the Transition Report on Form 10-K for the period from September 1, 1997 to December 31, 1997 (File No. 0-9092))
- 10.12 Form of Securities Purchase Agreement dated December 15, 1997 (Incorporated by reference to Exhibit 10.27 of the Transition Report on Form 10-K for the period from September 1, 1997 to December 31, 1997 (File No. 0-9092))
- 10.13 Form of First Amendment to Securities Purchase Agreement dated December 15, 1997 (Incorporated by reference to Exhibit 10.28 of the Transition Report on Form 10-K for the period from September 1, 1997 to December 31, 1997 (File No. 0-9092))
- 10.14 Securities Purchase Agreement among Cheniere, Arabella S.A., Alba Limited and Scorpion Energy Partners dated December 15, 1997 (Incorporated by reference to Exhibit 10.29 of the Transition Report on Form 10-K for the period from September 1, 1997 to December 31, 1997 (File No. 0-9092))
- 10.15 Letter Agreement between Cheniere and Zydeco dated December 31, 1997 (Incorporated by reference to Exhibit 10.30 of the Transition Report on Form 10-K for the period from September 1, 1997 to December 31, 1997 (File No. 0-9092))
- 10.16 Services Agreement dated October 1, 1998 between Cheniere and Charif Souki (Incorporated by reference to Exhibit 10.22 of the Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 0-9092))*
- 10.17 Form of Second Amendment to Securities Purchase Agreement dated December 15, 1997 (Incorporated by reference to Exhibit 10.23 of the Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 0-9092))
- 10.18 Form of Third Amendment to Securities Purchase Agreement dated December 15, 1997 (Incorporated by reference to Exhibit 10.24 of the Annual Report on Form 10-K for the year ended December 31,

1998 (File No. 0-9092))

- 10.19 Form of Fourth Amendment to Securities Purchase Agreement dated December 15, 1997 (Incorporated by reference to Exhibit 10.25 of the Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 0-9092))
- 10.20 Form of Fifth Amendment to Securities Purchase Agreement dated December 15, 1997 (Incorporated by reference to Exhibit 10.26 of the Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 0-9092))
- 10.21 Exchange Agreement between Cheniere and BSR Investments, Ltd. (Incorporated by reference to Exhibit 10.27 of the Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 0-9092))
- 10.22 Master License Agreement dated June 9, 1999 between Fairfield Industries Incorporated and Cheniere. Certain information in this exhibit has been omitted and filed separately with the Commission. Confidential treatment has been requested with respect to the omitted portions. (Incorporated by reference to Exhibit 10.28 of the Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 (File No. 0-9092))
- 10.23 Supplement Agreement No. 1 to Master License Agreement dated June 9, 1999 between Fairfield Industries Incorporated and Cheniere. Certain information in this exhibit has been omitted and filed separately with the Commission. Confidential treatment has been requested with respect to the omitted portions. (Incorporated by reference to Exhibit 10.29 of the Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 (File No. 0-9092))
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- 10.24 Credit Agreement between Cheniere as Borrower and EnCap Energy Capital Fund III, L.P. as Lender for \$3,100,000 dated as of September 1, 1999 (Incorporated by reference to Exhibit 10.30 of the Quarterly Report on Form 10-Q for the quarter ended September 30, 1999 (File No. 0-9092))
- 10.25 Conveyance of Net Profits Overriding Royalty Interest from and by Cheniere Energy, Inc. to and in favor of EnCap Energy Capital Fund III, L.P. dated as of September 1, 1999 (Incorporated by reference to Exhibit 10.31 of the Quarterly Report on Form 10-Q for the quarter ended September 30, 1999 (File No. 0-9092))
- 10.26 Stock Option Agreement with Ron A. Krenzke dated July 1, 1999*
- 10.27 First Amendment to Cheniere Energy, Inc. 1997 Stock Option Plan*
- 10.28 Exploration Agreement dated as of March 31, 2000 between Cheniere and Samson Offshore Company. Certain information in this exhibit has been omitted and filed separately with the Commission. Confidential treatment has been requested with respect to the omitted portions.
- 10.29 First Amendment to Credit Agreement between Cheniere and EnCap Energy Capital Fund III, L.P. dated December 31, 1999
- 10.30 Three Party Agreement, dated January 4, 2000, between Cheniere, EnCap Energy Capital Fund III, L.P., and Schlumberger Technology Corporation.
- 10.31 Subordination Agreement, dated January 4, 2000, between Cheniere, EnCap Energy Capital Fund III, L.P., and Schlumberger Technology Corporation
- 10.32 Debt Restructure Agreement, dated January 4, 2000, between Cheniere and Schlumberger Technology Corporation
- 10.33 Second Amendment to Credit Agreement between Cheniere and EnCap Energy Capital Fund III, L.P. dated February 29, 2000
- 10.34 Form of Sixth Amendment to Securities Purchase Agreement dated December 15, 1997
- 10.35 Form of Seventh Amendment to Securities Purchase Agreement dated December 15, 1997
- 10.36 Form of Eighth Amendment to Securities Purchase Agreement dated December 15, 1997
- 10.37 Form of Ninth Amendment to Securities Purchase Agreement dated December 15, 1997

- 10.38 Form of Tenth Amendment to Securities Purchase Agreement dated December 15, 1997
- 21.1 Subsidiaries of Cheniere Energy, Inc. (Incorporated by reference to Exhibit 21.1 of the Annual Report on Form 10-K filed on October 14, 1997 (File No. 0-9092))
- 23.1 Consent of PricewaterhouseCoopers LLP
- 27.1 Financial Data Schedule

* Management contract or compensatory plan or arrangement required to be filed as an exhibit

(b) Reports On Form 8-K

None filed during the fourth quarter of 1999.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHENIERE ENERGY, INC.

By: /s/ MICHAEL L. HARVEY

 Michael L. Harvey
 President and Chief Executive Officer
 Date: March 27, 2000

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature -----	Title -----	Date -----
/s/ CHARIF SOUKI ----- Charif Souki	Chairman of the Board	March 27, 2000
/s/ MICHAEL L. HARVEY ----- Michael L. Harvey	President and Chief Executive Officer Director (Principal Executive Officer)	March 27, 2000
/s/ WALTER L. WILLIAMS ----- Walter L. Williams	Vice Chairman Director	March 27, 2000
/s/ DON A. TURKLESON ----- Don A. Turkleson	Chief Financial Officer, Secretary and Treasurer (Principal Financial and Accounting Officer)	March 27, 2000
/s/ WILLIAM D. FORSTER ----- William D. Forster	Director	March 27, 2000
/s/ KENNETH R. PEAK ----- Kenneth R. Peak	Director	March 27, 2000
/s/ CHARLES M. REIMER ----- Charles M. Reimer	Director	March 27, 2000

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CHENIERE ENERGY, INC.

NONQUALIFIED STOCK OPTION AGREEMENT

Optionee: Ron A. Kreszke

I. GRANT OF STOCK OPTION. As of the GRANT DATE (identified below), Cheniere Energy, Inc., a Delaware corporation (the "COMPANY"), hereby grants a Nonqualified Stock Option (the "OPTION") to the OPTIONEE (identified below) to purchase the number of shares of the Company's common stock, \$.003 par value per share, identified below (the "SHARES"), subject to the terms and conditions of this agreement (the "AGREEMENT"). The Shares, when issued to Optionee upon the exercise of the Option, shall be fully paid and nonassessable. The Option is not an "incentive stock option" as defined in Section 422 of the Internal Revenue Code.

II. DEFINITIONS. All capitalized terms used herein shall have the meanings set forth in the Plan unless otherwise provided herein. Section 15 below sets forth meanings for various capitalized terms used in this Agreement.

III. OPTION TERM. The Option shall commence on the Grant Date (identified below) and terminate on the date prior to the fifth (5th) anniversary of the Grant Date. This period during which the Option is in effect and may be exercised is referred to herein as the "OPTION PERIOD".

IV. OPTION PRICE. The Option Price per Share is identified below.

V. VESTING. The total number of Shares subject to this Option shall vest in accordance with the VESTING SCHEDULE (identified below). The Shares may be purchased at any time after they become vested, in whole or in part, during the Option Period. The right of exercise provided herein shall be cumulative so that if the Option is not exercised to the maximum extent permissible after vesting, it shall be exercisable, in whole or in part, at any time during the Option Period.

VI. METHOD OF EXERCISE. The vested portion of the Option may be exercised, in whole or in part, at any time, with respect to whole Shares only, within the period permitted for the exercise thereof, and shall be exercised by written notice of intent to exercise the Option with respect to a specified number of Shares delivered to the Company at its principal office, and payment in full to the Company at said office of the amount of the Option Price for the number of Shares with respect to which the Option is then being exercised. Payment of the Option Price shall be made (i) in cash or by cash equivalent, (ii) at the discretion of the Committee, in Common Stock (not subject to limitations on transfer) valued at the Fair Market Value of such Shares on the trading date immediately preceding the date of exercise, or (iii) at the discretion of the Committee, by a combination of such cash and such Common Stock. In addition to and at the time of payment of the Option Price, the Optionee shall pay to the Company in cash or, at the discretion of the Committee, in Common Stock, the full amount of all federal and state withholding and other employment taxes applicable to the taxable income of such Optionee resulting from such exercise.

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VII. TERMINATION OF EMPLOYMENT. Voluntary or involuntary termination of employment and death or disability of Optionee shall affect Optionee's rights under the Option as follows:

A. Termination for Cause. The Option shall terminate immediately and shall not be further exercisable to any extent if Optionee's employment with the Company (or any of its Subsidiaries) is terminated for cause.

B. Other Involuntary Termination or Voluntary Termination. If Optionee's employment with the Company (or any of its Subsidiaries) is terminated for any reason other than for cause, death or disability, then (i) the Option will immediately terminate to the extent it is unvested and (ii) the vested portion of the Option will terminate to the extent not exercised within 180 calendar days after the date of such termination. In no event may the Option be exercised by anyone after the earlier of (i) the expiration of the Option Period or (ii) 180 calendar days after termination of employment.

C. Death or Disability. If Optionee's employment is terminated by death or disability, then (i) the Option will immediately terminate to the extent it is unvested and (ii) the vested portion of the Option will terminate 365 calendar days after the date of such termination to the extent not exercised by Optionee or, in the case of death, by the person or persons to whom Optionee's rights under the Option have passed by will or by the laws of descent and distribution or, in the case of disability, by Optionee's legal representative. In no event may any Option be exercised by anyone after the earlier of (i) the expiration of the Option Period or (ii) 365 days after Optionee's death or termination of employment due to disability.

VII. REORGANIZATION OF COMPANY. The existence of the Option shall not affect in any way the right or power of Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in Company's capital structure or its business, or any merger or consolidation of Company, or any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting the Shares or the rights thereof, or the dissolution or liquidation of Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

In the event of a change in control of the Company, vesting of the Option may be accelerated.

VIII. ADJUSTMENT OF SHARES. In the event of stock dividends, spin-offs of assets or other extraordinary dividends, stock splits, combinations of shares, recapitalizations, mergers, consolidations, reorganizations, liquidations, issuances of rights or warrants and similar transactions or events involving Company, appropriate adjustments shall be made to the terms and provisions of this Option.

IX. NO RIGHTS IN SHARES. Optionee shall have no rights as a stockholder in respect of the Shares until the Optionee becomes the record holder of such Shares.

X. INVESTMENT REPRESENTATION. Optionee will enter into such written representations, warranties and agreements as Company may reasonably request in order to comply with any federal or state securities law. Moreover, any stock certificate for any Shares issued to Optionee

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hereunder may contain a legend restricting their transferability as determined by the Company in its discretion. Optionee agrees that Company shall not be obligated to take any affirmative action in order to cause the issuance or transfer of Shares hereunder to comply with any law, rule or regulation that applies to the Shares subject to the Option.

XI. NO GUARANTEE OF EMPLOYMENT OR SERVICE CONTRACT. The Option shall not confer upon Optionee any right to employment or other service with Company, nor shall it interfere with any right the Company would otherwise have to terminate such Optionee's employment or other service at any time, with or without cause.

XII. WITHHOLDING OF TAXES. Company shall have the right to (i) make deductions from the number of Shares otherwise deliverable upon exercise of the Option in an amount sufficient to satisfy withholding of any federal, state or local taxes required by law, or (ii) take such other action as may be necessary or appropriate to satisfy any such tax withholding obligations.

XIII. GENERAL.

A. Notices. All notices under this Agreement shall be mailed or delivered by hand to the parties at their respective addresses set forth beneath their signatures below or at such other address as may be designated in writing by either of the parties to one another. Notices shall be effective upon receipt.

B. Shares Reserved. Company shall at all times during the Option Period reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of this Option.

C. Nontransferability of Option. The Option granted pursuant to this Agreement is not transferable other than by will, the laws of descent and distribution or by a qualified domestic relations order (as defined in Section 414(p) of the Internal Revenue Code). The Option will be exercisable during Optionee's lifetime only by Optionee or by Optionee's legal representative in the event of Optionee's disability. No right or benefit hereunder shall in any manner be liable for or subject to any debts, contracts, liabilities, or torts of Optionee.

D. Amendment and Termination. No amendment or termination of the Option shall be made at any time without the written consent of Optionee. No amendment or termination of the Plan will adversely affect the rights and privileges of Optionee under the Option without the written consent of Optionee.

E. No Guarantee of Tax Consequences. Neither Company, Board or Committee makes any commitment or guarantee that any federal or state tax treatment will apply or be available to any person eligible for benefits under the Option. The Optionee has been advised and been provided the opportunity to obtain independent legal and tax advice regarding the grant and exercise of this Option and the disposition of any Shares acquired thereby.

F. Severability. In the event that any provision of this Agreement shall be held illegal, invalid, or unenforceable for any reason, such provision shall be fully severable, but shall not affect the remaining provisions of the Agreement, and the Agreement shall be construed and enforced as if the illegal,

invalid, or unenforceable provision had not been included herein.

G. Governing Law. The Option shall be construed in accordance with the laws of the State of Texas without regard to its conflict of law provisions, to the extent federal law does not supersede and preempt Texas law.

XIV. DEFINITIONS AND OTHER TERMS. The following capitalized terms shall have those meanings set forth opposite them:

- A. Optionee: Ron A. Krenzke.
- B. Grant Date: July 1, 1999.
- C. Shares: Six Hundred Thousand (600,000) Shares of the Company's Common Stock.
- D. Option Price: One Dollar and Fifty Cents (\$1.50) per Share.
- E. Option Period: July 1, 1999 through June 30, 2004 (until 12:00 p.m. central).
- F. Vesting Schedule: Options for 300,000 Shares shall vest on the Grant Date, Options for 75,000 Shares shall vest on the first anniversary of the Grant Date, and Options for 75,000 Shares shall vest on each subsequent anniversary of the Grant Date until fully vested as follows:

Date ----	Options Vesting -----
July 1, 1999	300,000
July 1, 2000	75,000
July 1, 2001	75,000
July 1, 2002	75,000
July 1, 2003	75,000

Total	600,000
	=====

IN WITNESS WHEREOF, this Stock Option Agreement is executed this _____ day of _____, 19____.

"COMPANY"
CHENIERE ENERGY, INC.

By: _____
Name: Michael L. Harvey

Title: President and CEO

1200 Smith Street, Suite 1740
Houston, Texas 77002-4312

Accepted and agreed this ____ day of _____, 19____.

"OPTIONEE"

By: _____
Name: _____
Title: _____

Address: _____

CHENIERE ENERGY, INC. 1997 STOCK OPTION PLAN
AMENDMENT NO. 1

INCREASING NUMBER OF SHARES SUBJECT TO PLAN

The Company's Board of Directors and stockholders have approved and declared the advisability of amending the Company's 1997 Stock Option Plan to increase the total number of shares subject to the Plan from 950,000 to 1,950,000.

This Amendment No. 1 hereby changes the first sentence of Article V Section 5.1 to read:

"Subject to adjustment pursuant to the provisions of Section 5.2 hereof, the maximum number of shares of Common Stock which may be issued and sold hereunder shall be 1,950,000."

[*] CERTAIN INFORMATION IN THIS EXHIBIT HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

2000 PROGRAM AGREEMENT

This Program Agreement (this "Agreement" or the "Program") is dated as of the 1st day of March, 2000, by and between CHENIERE ENERGY, INCORPORATED, a Delaware corporation (hereinafter referred to as "Cheniere") and SAMSON OFFSHORE COMPANY, an Oklahoma corporation (hereinafter referred to as "Samson"). Cheniere and Samson may also be referred to individually herein as "Party" and collectively as the "Parties".

ARTICLE I

Section 1.1 Intention of Parties:

The Parties desire to participate in the cost of the evaluation and the interpretation of the 3-D seismic data (the "Fairfield Data") licensed to Cheniere pursuant to that certain Master License Agreement dated June 9, 1999 as supplemented by Supplement Agreement No. 1 dated June 9, 1999, (the "Master Service Agreement") between Fairfield Industries Incorporated and Cheniere for the mutual benefit of the Parties on the terms set forth herein. The purpose of such evaluation and interpretation of the Fairfield Data is to generate Prospects, as defined in Section 4.1, and to permit the negotiation of the acquisition of oil and gas leases covering offshore blocks or portions thereof (hereinafter referred to as "Target Blocks", whether one or more) that the Parties agree are (i) potentially productive of oil and gas, or (ii) producing oil and gas. No wells shall be drilled under the terms of this Agreement but rather, all drilling and all other operations on the Subject Properties, as defined in Section 4.2, shall be conducted under the Joint Operating Agreement, as provided for in Section 4.5.

Section 1.2 Area of Operations:

The Program shall restrict its evaluation, interpretation, and acquisition of Target Blocks to the area covered by the Fairfield Data, which area is outlined on Exhibit A attached hereto. Such area shall hereinafter be referred to as "Area of Operations".

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Section 1.3 Cheniere's Use of Data:

Cheniere shall, pursuant to the terms of this Program Agreement, evaluate the Fairfield Data for the purpose of the generation and screening of Prospects, as defined in Section 4.1 within the Area of Operations.

ARTICLE II

Section 2.1 Definitions:

Whenever used in this Agreement, the following terms shall have the meanings assigned them in this Section 2.1:
"Agenda" shall have the meaning ascribed to it in Section 3.4.
"Area of Mutual Interest" ("AMI") shall have the meaning ascribed to it in Section 7.4 and, when applicable, 4.4.
"Area of Operations" shall have the meaning ascribed to it in Section 1.2.
"Discovery Bonus" shall have the meaning ascribed to it in Section 4.6.
"Excluded Target Blocks" shall have the meaning ascribed to it in Section 4.4.
"Extended Term" shall have the meaning ascribed to it in Section 7.5.
"Fairfield Data" shall have the meaning ascribed to it in Section 1.1.
"Initial Well" shall have the meaning ascribed to it in Section 4.6.
"Participant" shall mean Samson.
"Presentation Block" shall have the meaning ascribed to it in Section 3.4.
"Program Interest" shall have the meaning ascribed to it in Section 4.6
"Program Management Fee" shall have the meaning ascribed to it in Section 5.3.

"Program Manager" shall have the meaning ascribed to it in Section 3.1.
"Prospect" shall have the meaning ascribed to it in Section 4.1.
"Related Entity" shall have the meaning ascribed to it in Section 4.4.
"Subject Property" shall have the meaning ascribed to it in Section 4.2.
"Target Blocks" shall have the meaning ascribed to it in Section 1.1.
"Target Blocks Identification Notice" shall have the meaning ascribed to it in Section 4.1.
"Term" shall have the meaning ascribed to it in Section 6.1.
Exhibits:
A. Plat of Area of Operations, Section 1.2
B. Joint Operating Agreement, Section 4.5
C. Staffing Levels, Section 3.3
D. Blocks excluded from the AMI, Section 7.4
E. Provisions of Area of Mutual Interest, Section 4.4

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ARTICLE III

Section 3.1 Program Manager:

Cheniere shall act as Program Manager and in such capacity shall, subject to the terms hereof, (i) manage the evaluation and interpretation of the Fairfield Data, and (ii) negotiate for the acquisition of Target Blocks. As the Program Manager, Cheniere shall exercise ordinary business judgment in managing the affairs of the Program. In the absence of fraud, intentional wrong doing or gross negligence, Cheniere shall not be liable to the Participant for any mistake of fact or judgment made by Cheniere in managing the Program. Cheniere is engaged in oil and gas exploration, development and production operations, and pipeline operations outside of the Area of Operations, and Participant acknowledges Cheniere shall have no obligation or accountability to Participant for any such activities that are conducted outside the Area of Operations. The business of the Program shall be conducted under the name of Cheniere or, where appropriate, under the names of Cheniere and Samson.

Section 3.2 Authority of Program Manager:

Subject to Section 3.3 below, the Program Manager shall have the power and authority to take such action from time to time as it may deem to be necessary, appropriate, or convenient in connection with the management and conduct of the business and affairs of the Program, including without limitation the power (i) to acquire or lease equipment required to evaluate and interpret the Fairfield Data, (ii) to employ, retain or otherwise secure personnel or third party consultants to evaluate and interpret said Fairfield Data, (iii) to incur such other expenses associated with evaluating and interpreting said Fairfield Data as may, in its judgment, be necessary, (iv) to incur expenses associated in the negotiation for and acquisition of Target Blocks, and (v) to negotiate for the acquisition of Target Blocks by farm-ins or otherwise.

Section 3.3 Requirements of Program Manager:

The Program Manager shall devote such time, attention, and business capacity to the affairs of the Program as may be necessary as more fully set forth herein. The Program Manager shall furnish office space, clerical and administrative assistance, and such other support staff as needed. The Program Manager shall provide geologists and geophysicists and the equipment required to interpret the Fairfield Data and shall make available its drilling and reservoir engineering staff and its land staff to the Program at the staffing levels set forth on Exhibit C hereto. All costs associated with the matters set forth in Section 3.2 and Section 3.3 (except as set forth below) shall be covered by the Program Management Fee provided for in Section 5.2, and Program Manager will not be entitled to any reimbursement for the costs incurred by it in providing any of the matters set forth in this Section. [*]

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Section 3.4 Reports:

During the Term of the Program, and at least five (5) days prior to such meeting provided for in Section 4.3. Program Manager shall provide Participant with a written report containing an "Agenda" setting forth a listing of all blocks to be reviewed at the meeting (the "Presentation Blocks") and summarizing the Program's activities, evaluations, drilling operations and related matters, together with such information (including copies of technical data) regarding the Program and its activities and interests as is available to Program Manager to the extent not prohibited by license agreements and as reasonably requested by Participant. During ordinary business hours, Participant or its authorized representatives shall have access, in Program Manager's offices, to all of the Program's books, records and materials, and geophysical surveys (including the Fairfield Data subject to the limitations in the Master Services Agreement). In the event the Agenda is not an accurate representation of the blocks actually reviewed at the meeting, the Parties shall execute a mutually agreeable amendment of the Agenda reflecting all Presentation Blocks actually reviewed at the meeting.

ARTICLE IV

Section 4.1 Identification of Target Blocks:

When during the Term hereof the Program Manager identifies offshore blocks that Program Manager believes contain economically viable Prospects (as defined below), the Program Manager shall provide written notice to Participant, (the "Target Blocks Identification Notice") which shall (i) identify the owner and the location of the offshore blocks necessary to control the Prospect, as defined below, not to exceed in size four (4) offshore blocks, (the "Target Blocks") and (ii) designate the date and time Program Manager will meet jointly with Participant at the offices of Program Manager to discuss the specific details relating to such Target Blocks. Said notice shall be given not less than five (5) working days prior to the proposed meeting.

At such meeting, the Program Manager shall discuss with Participant the specific details of the Prospect (as defined herein below) located on the Target Blocks and shall allow Participant to examine all relevant geological and geophysical data, interpretations, and other information in the possession of Program Manager that pertains to such Prospects subject to the limitations on the use of the Fairfield Data set forth in the Master Service Agreement. "Prospect" as used herein shall consist of the entire geologic confines of the potential development area, located on the Target Blocks, as defined by the structure and/or stratigraphy,

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without limitation in depth. The Program Manager shall also provide to Participant the following information:

- (i) geological and geophysical information including the Program's most recent reports, interpretations and maps;
- (ii) a land summary and plats and any agreements associated therewith;
- (iii) an itemized list of the estimated acquisition costs and the geological and geophysical cost allocable to such Target Blocks.
- (iv) the preliminary estimate of the cost of any Exploratory Well for such Prospect;
- (v) a preliminary estimate of the costs to be incurred in connection with platforms, facilities and development well(s) for such Prospect;
- (vi) The Program Manager's reserve estimate and economic analysis, which shall be provided for informational purposes only and without liability to Program Manager and with the understanding that Participant will prepare its own reserve estimate and economic analysis and satisfy itself as to the economics of the Prospect.
- (vii) The terms on which the Program Manager estimates the leases, farm-outs or other drilling rights can or may be acquired, including the amount of bonus (if any), well obligation, net revenue interest and working interest, both before and after payout.

Section 4.2 Participant's Election to Participate in Target Blocks:

Participant shall have fifteen (15) working days after the meeting held pursuant to Section 4.1 above in which to review in the Program Manager's office the data referred to in Section 4.1. Failure of Participant to timely review such data shall be deemed an election by such Participant to exclude from the Program the Target Blocks identified in the Program Manager's notice; provided, however, that Participant may waive its right to review the data and may elect to include such Target Blocks in the Program by giving written notice to Cheniere to such effect within said fifteen (15)-day period. Within twenty-five (25) working days after the meeting referred to in the first sentence of this Section, Participant shall indicate to Program Manager its election to either include or exclude such Target Blocks in the Program. All such elections shall be as to all depths. Such election shall be in writing. If Participant fails to timely elect to include such Target Blocks in the Program, such failure shall be deemed an election to exclude such Target Blocks from the Program. If Participant elects to include such Target Blocks in the Program, the Program Manager shall proceed with its efforts to negotiate for the acquisition of leases, farm-out agreements or other drilling rights covering such Target Blocks and if successful, such leases, farm-out agreements or drilling rights (hereinafter referred to as "Subject Property") shall be acquired by the Parties for the consideration and in the proportions set forth in Section 4.6, subject in all cases to the provisions of Section 4.7.

Section 4.3 Meetings

During the Term of the Program, the Parties shall hold a meeting the first Friday of each calendar month to review the status of all Program business.

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Section 4.4 Effect of Participant's Election:

The Participant's election or failure to timely elect with respect to

Target Blocks has the following consequences:

(i) If Participant elects or is deemed to have elected to exclude Target Blocks from the Program (taking into account the additional election provided for in Section 4.7) (the "Excluded Target Blocks"), Participant and its officers, employees, directors and any Related Entity shall thereafter have no right, for a period of eighteen (18) months following such election or deemed election, to acquire an interest in such Excluded Target Blocks, directly or indirectly. If Participant does acquire an interest in such Excluded Target Blocks it shall so notify Cheniere and shall offer 100% of such interest to Cheniere, and Cheniere may acquire such interest by reimbursing Participant its purchase price. Cheniere may, individually or in concert with others, acquire an interest in said Excluded Target Blocks, and in such case have no obligation to Participant other than under Section 4.7 hereof. The term "Related Entity," as used herein, shall mean any corporation, partnership, trust or other entity which, on the date of the election provided for in Section 4.2, Participant controls, or which, as of the date of said election, is owned at least 50%, directly or indirectly, by Participant.

(ii) If Participant timely elects under Section 4.2 to include Target Blocks in the Program, the Area of Mutual Interest provisions set forth on Exhibit E hereto shall be applicable to the Target Blocks effective as of the date of such election. If the Target Blocks or a portion of them are acquired, said Area of Mutual Interest shall remain in force and effect as to such Target Blocks for as long as both Parties own an interest within said Area of Mutual Interest. If the Target Blocks is not acquired said Area of Mutual Interest shall terminate at the later of (i) eighteen (18) months from the date of such election by Participant or (ii) the termination of the Area of Mutual Interest provided for in Section 7.4.

Section 4.5 Title; Joint Operating Agreement; Area of Mutual Interest:

If title to a Subject Property is acquired in the name of the Program Manager or of any other Party, the Non Acquiring Party shall be assigned upon its request its respective share of the acquired Subject Property subject to payment by such Non Acquiring Party of its stipulated share of the acquisition costs of such Subject Property as set forth in Section 4.6 as applicable. Each Subject Property shall be subject to a Joint Operating Agreement in the form attached hereto as Exhibit "B" which names Cheniere Energy, Inc. as Operator, unless such is acquired subject to an existing Joint Operating Agreement naming a third party as Operator. A separate Joint Operating Agreement shall be executed for each Subject Property and shall be deemed to be effective the day the Subject Property is acquired. Each Party shall have the right to participate or not participate in the exploration and/or development of a Subject Property in accordance with

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the terms of the Joint Operating Agreement. In the event Cheniere elects to dispose of more than 50% of its initial interest in a Subject Property, or, in the event it elects to resign as Operator under the Joint Operating Agreement, Cheniere shall notify Participant of its intent and, if requested, will vote for or support Participant as Operator.

If the farmout agreement or other agreement pursuant to which the Program acquires drilling rights provides that a Joint Operating Agreement other than that provided for herein shall govern operations on a Subject Property, the Parties agree the Area of Mutual Interest provided for in Section 4.4 applicable to such Subject Property shall nonetheless remain in effect in accordance with its terms.

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Section 4.6 Program Interests; Acquisition Costs; Burdens

A. All rights in and to the Target Blocks and all Subject Property acquired pursuant to this Agreement, not including the Excluded Target Blocks, shall be owned 50% by Samson and 50% by Cheniere.

B. All costs, as set forth below, of Target Blocks shall be borne [*] by Samson and [*] by Cheniere.

(i) Lease bonuses, rentals, and option payments (the acquisition costs)

(ii) The costs of drilling the Initial Well, as defined below, to casing point, limited to the original AFE containing a 15% contingency. "Initial Well" is defined as the first well, and any substitutes therefore, drilled on each Subject Property.

C. Samson shall bear fifty percent (50%) of the following overriding royalties on all Presentation Blocks:

(i) A 2% of 8/8th overriding royalty payable to the Cheniere staff,

which override is reduced in proportion to the Program Interest, as defined below;

(ii) A [*] overriding royalty due under [*].

D. Samson shall also pay to Cheniere a discovery bonus (the "Discovery Bonus") in the amount of \$100,000 for a discovery of 30 BCFE or greater, but less than 40 BCFE (computed at one barrel of oil equals 6 MCF of natural gas) attributable to the interest of the Program, as defined below, or \$150,000 for a discovery of 40 BCFE or greater (computed at one barrel of oil equals 6 MCF of natural gas), attributable to the interest of the Program, defined below, based on proved reserves reflected on the reserve report of Ryder Scott prepared as of one year after commencement of production and payable within 90 days after receipt of such reserve report. The interest of the Program (sometimes referred to as the Program Interest) shall consist of the initial working interests of Cheniere and Samson, less any back-in due a farming-out party.

Section 4.7 Change of Election by Participant

If the Program Manager is able to acquire the leases, farm-out agreements or drilling rights as described in the Target Blocks Identification Notice but the terms of such acquisition are materially different than estimated in the Target Blocks Identification Notice, the Program Manager shall so notify Participant, specifying the differences and advising Participant it has ten (10) days to change its election with respect to such Target Blocks. A difference of more than 10% in any one of the following factors shall be deemed to be material for the purposes of this

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paragraph: lease acquisition cost and rentals, net revenue interest, working interest, or the AFE for the Initial Well dry hole cost.

Section 4.8. Change of Election by Program Manager

Program Manager may elect, for any reason, to not acquire an interest in a Presentation Block, in which case, if Participant elects to proceed with the acquisition of the same, [*].

ARTICLE V

Section 5.1 Liabilities

The obligation and liability of the Parties, with respect to any and all liabilities in connection with the business of the Program, exclusive of the costs related to services performed pursuant to Sections 3.2 and 3.3, but specifically inclusive of the costs incurred pursuant to the last sentence of Section 3.3, shall be as follows:

Samson	50%
Cheniere	50%

	100%

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Section 5.2 Program Management Fee:

Participant shall pay the Program Manager a Program Management Fee for managing the Program and providing the services set forth in Section 3.2 and Section 3.3 above (exclusive of the last sentence of Section 3.3). The amount of the Program Management Fee shall be \$4,140,000 payable in 18 monthly installments of \$230,000 each, the first installment being due five days after execution of this Agreement and thereafter payable on the first day of each month, with the final installment being due August 1, 2001.

Section 5.3 Failure to Pay, Failure to Perform:

In the event Participant fails to timely pay the Program Manager Fee pursuant to Section 5.2, Program Manager shall give such Party written notice of such failure and, unless, the fees are paid within fifteen (15) days following receipt of such notice, such Party shall be deemed to be in default (the "Default") of its obligations hereunder. In addition to all other remedies available at law or in equity, the defaulting Party shall forfeit all of its rights in and to the Program and any Prospects, potential Prospects and Target Blocks, but shall not forfeit its interest in any Subject Properties.

In the event the Program Manager fails to perform its Program obligations

set forth herein, the Participant shall give the Program Manager written notice of such failure and, unless the Program Manager cures such failure within fifteen (15) days following receipt of such notice, the Program Manager shall be deemed to be in default of its obligations hereunder. Upon such default, the Participant shall no longer be subject to its obligations, duties and liabilities assumed hereunder and shall further retain all other remedies available at law or in equity.

Section 5.4 Books and Records:

The Program Manager shall keep or cause to be kept adequate books and records reflecting all financial activities of the Program in accordance with generally accepted accounting procedures. Such books and records shall be available for inspection and audit by Participant or their duly authorized representatives (at the expense of Participant) during business hours at the office of the Program Manager; provided, however, the Program Manager shall not be required to maintain any such books or records for a period in excess of six (6) years from the date of preparation or receipt thereof. Prior to disposing of any books or records, the Program Manager shall give notice of its intent to dispose or destroy the same to Participant who may within fifteen (15) days of such notice elect to take possession of said books and records. Said records shall be immediately delivered by the Program Manager to said Participant at Participant's cost and expense. The Program Manager shall not, without the prior written consent of Participants, make, execute or deliver an assignment for the benefit of creditors or

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contract to sell, mortgage or otherwise dispose or encumber any Subject Property or assets which were acquired whole or in part with funds provided by Participant.

ARTICLE VI

Section 6.1 Term of Program:

The term of this Agreement (the "Term") shall be for a period of eighteen (18) months commencing effective as of March 1, 2000 and terminating on August 31, 2001.

ARTICLE VII

Section 7.1 Samson's Representations:

Samson hereby represents, warrants and agrees that it has the right, power and authority to enter into this Agreement, to become a Party and to perform its obligations hereunder, and that this Agreement is a legal, valid and binding obligation of Samson. Samson warrants with respect to its execution of this Agreement and its acquisition of any interest in the Subject Property as follows:

(i) Samson is able to bear the economic risk of its investment in the Program. Samson has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of this investment. Samson recognizes that investment in the Program involves a high degree of risk.

(ii) Samson has had an opportunity to ask questions of and to receive answers from the Program Manager, or a person or persons on its behalf, concerning the terms and conditions of this investment, and all documents, records, books and other information pertaining to the investment in the Program and/or Subject Properties.

(iii) The Interest will not be sold or transferred by Samson in violation of the Securities Act of 1993 (the "Act"), and the financial condition of Samson is such that it is able to hold the Interest for an indefinite period of time. Samson is aware that the offering and sale of the Interest has not been registered under the Act, that the Interest must be held indefinitely unless it is subsequently registered or an exemption from such registration is available and that neither the Program Manager nor the Program is under any obligation to register the Interest nor does it have any present intention to do so;

(iv) Samson is an "accredited investor" as such term is defined in Rule 501 of Regulation D promulgated by Securities and Exchange Commission under the Act.

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(v) Samson is qualified with the Minerals Management Service to hold title to federal offshore leases in the Gulf of Mexico.

(vi) Samson is fully aware of the terms of the Master License Agreement (exclusive of Supplement Agreement No. 1 dated June 9, 1999) to be utilized in

the granting of all Licenses covering the Fairfield Data under the terms of the agreements relating to the same specified in Section 1.1 hereof. In compliance with the provisions of the Master License Agreement, Cheniere and Samson have executed contemporaneously herewith an acknowledgment to Fairfield Industries Incorporated that Cheniere has fully advised Samson of the restrictions on the use of the Fairfield Data.

Section 7.2 Cheniere's Representations:

Cheniere hereby represents, warrants and agrees that it has the right, power and authority to enter into this Agreement, to become a Party and to perform its obligations hereunder, and that this Agreement is a legal, valid and binding obligation of Cheniere. Cheniere also warrants with respect to its execution of this Agreement and its acquisition of any interest in the Subject Property as follows:

(i) Cheniere is able to bear the economic risk of its investment in the Program. Cheniere has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of this investment. Cheniere recognizes that investment in the Program involves a high degree of risk.

(ii) The Interest will not be sold or transferred by Cheniere in violation of the Securities Act of 1933 (the "Act"), and the financial condition of Cheniere is such that it is able to hold the Interest for an indefinite period of time. Cheniere is aware that the offering and sale of the Interest has not been registered under the Act, that the Interest must be held indefinitely unless it is subsequently registered or an exemption from such registration is available and that neither the Program Manager nor the Program is under any obligation to register the Interest nor does it have any present intention to do so;

(iii) Cheniere is an "accredited investor" as such term is defined in Rule 501 of Regulation D promulgated by Securities and Exchange Commission under the Act.

(iv) Cheniere is qualified with the Minerals Management Service to hold title to federal offshore leases in the Gulf of Mexico.

(v) The Master Service Agreement is in full force and effect and neither Fairfield nor the Program Manager is in breach of same. The Supplement Agreement No. 1 dated June 9, 1999 contains no provisions, other than those taken into account herein, that have or could have an adverse economic consequence to the Program.

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(vi) Cheniere has fully advised Samson of the restrictions on the use of the Fairfield Data.

Section 7.3 Confidentiality

Neither the financial terms of this Agreement nor any geophysical, geological, engineering, technical, production, test or other data resulting from the conduct of the business of the Program shall be given to or made available to any person or entity which is not a Party or a director, officer or employee of a Party, unless otherwise agreed to by the Parties, except that this prohibition shall not apply to disclosure to the parent or any affiliated corporation of any Party and shall not apply to a disclosure of information, including press releases and public notices, which is (i) required by any stock exchange on which the shares of Party and/or its parent company are listed, (ii) required for the purpose of review by private engineering firm(s) for purposes of preparing reservoir and other similar evaluations or for purposes of obtaining financing from a reputable financial institution, (iii) required by a private geological or geophysical consultant for purposes of preparing a technical evaluation of a Prospect, (iv) required by a pipeline in connection with negotiations for a gas purchase contract, (v) required in order to comply with the provisions of this Agreement, (vi) made to a third party to whom any Party desires to sell all or a portion of its interest in a Subject Property, provided that in all cases above the recipient of any such information shall have first agreed in writing to keep such information confidential. Notwithstanding anything to the contrary expressed or implied herein, the Program Manager is authorized and directed to furnish or to make disclosure of any information as may be necessary to comply with the rules and regulations of governmental authorities having jurisdiction in the Subject Properties.

Section 7.4 Area of Mutual Interest; Non-Competition Obligation:

A. Effective as of the date of this Agreement, the Parties establish an Area of Mutual Interest ("AMI") consisting of the entirety of the Area of Operation less and except the excluded blocks specified on Exhibit D attached hereto. Said AMI shall terminate six (6) months after the expiration of the Term or, as

to lease sale blocks only, after the final award of leases that have been bid on by either of the Parties at the first Federal Offshore Louisiana Lease Sale after the expiration of the Term but, in any event, twelve (12) months after the expiration of the Term. During the term of the AMI, if either Party (the "Acquiring Party") acquires a lease, farm-out, or drilling right in the AMI, it shall immediately notify the other Party, (the "Non-Acquiring Party"), which notice shall specify the interest acquired and the terms of the acquisition, including the cost of acquisition. The notice shall contain an offer to present the technical data relating to the acquisition at a specified time not less than five (5) business days or more than ten (10) business days after the date of the notice. The Non-Acquiring Party shall have ten (10) business days after the date for the presentation of the technical data to make the election provided in this section. If Samson is the Non-Acquiring Party it shall have the election to acquire 50% of said interest on the terms set forth in Section 4.6. If Cheniere is the Non-

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Acquiring Party it shall have the election to acquire 50% of said interest by paying [*] of the acquisition costs as set forth in Section 4.6 and the Initial Well shall be drilled pursuant to Section 4.6.

B. Notwithstanding Section 7.4 A, if either Party acquires a producing field (as defined below) in the Area of Mutual Interest, the following shall apply to interests acquired within the Area of Mutual Interest:

The Acquiring Party shall offer the other Party (the Non Acquiring Party) 50% of the interest acquired in exchange for payment by the Non-Acquiring Party of 50% of the fairly allocated cost of acquisition and the Initial Well thereon shall be drilled on a non-promoted, heads-up basis. Additionally, the Non-Acquiring Party shall reimburse the Acquiring Party for 50% of its direct third party out-of-pocket costs incurred in connection with such acquisition. Notwithstanding Section 4.5, the Acquiring Party shall have the right to be Operator.

For the purposes of this Section 7.4.B, an interest shall be deemed to be a producing field if it has not been previously designated as a Target Block and if:

(a) one or more of the blocks comprising the field has existing producing wells, wells capable of production or proved oil and/or gas reserves; and

(b) the fairly allocated valuation of the field, after deducting any contingent liabilities for well plugging, platform and pipeline removal and ocean bottom clean-up, is more than \$2,000,000.

If the parties cannot agree on (a) or (b) above, the Non-Acquiring Party may challenge, in which case the determination of (a) and (b) shall be made by Ryder Scott at the cost of the Non-Acquiring Party. Such determination by Ryder Scott shall not determine the purchase price to be paid by the Non-Acquiring Party, which shall be based on the Acquiring Party's fairly allocated valuation.

The Ryder Scott evaluation shall utilize the average of the ensuing twelve months closing NYMEX future prices in existence on the effective date of the acquisition, appropriate costs and a 10% discounted present value.

C. Notwithstanding the provisions of Section 7.4 A. above, if Participant acquires an interest in an industry generated prospect on a promoted basis without having solicited such interest, Participant shall offer Program Manager a 50% interest in such interest in exchange for payment by Program Manager of 50% of the fairly allocated cost of acquisition and the Initial Well thereon shall be drilled on a non-promoted, heads-up basis. The foregoing sentence shall apply to only the first six (6) such prospects acquired by the Participant. For each such prospect after the first six (6) such prospects acquired by the Participant, the Program Manager shall be offered a 50% interest in such prospect in exchange for payment by the Program Manager of 50% of the fairly allocated cost of acquisition and the Initial Well thereon shall be drilled pursuant to Section 4.6.

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D. Nothing herein contained shall prohibit or restrict either Party from conducting oil and gas exploration, development or production operations, pipeline operations or any other business for its own account that:

(i) is located outside the Area of Operations, or is excluded therefrom by Exhibit D, or

(ii) relates to properties that were excluded from the Program by the other Party as a result of its actions or inaction hereunder, and in any such event, such Party shall have no obligation or accountability to the other Party for any such activities.

E. In the event of conflict between the provisions of Section 7.4 and Sections 4.4, the provisions of Section 4.4 shall control.

Section 7.5 Winding Up:

For a period of six (6) months beginning September 1, 2001, and terminating February 28, 2002 (the "Extended Term"), the Program Manager, when it identifies offshore blocks that it believes contain economically viable Prospects, shall give Participant a Target Blocks Identification Notice pursuant to Section 4.1. The first such Target Blocks Identification Notice shall be delivered to Participant within ten (10) working days after the end of the Term. The following terms shall govern the respective rights and obligations of the Parties during such Extended Term with respect to such Target Blocks:

(i) All of the provisions of Article IV hereof shall be applicable during such Extended Term to such Target Blocks except as set forth in this Section 7.5.

(ii) No Program Management fee shall be payable during the Extended Term. Instead, Participant shall pay a \$25,000 prospect fee at the time it elects to participate in a Target Blocks and an additional \$75,000 fee at the time the drill site on the Target Blocks becomes a Subject Property. The \$75,000 fee shall be proportionately reduced in the event less than a full 100% working interest is acquired by the Program in the Target Blocks.

(iii) The Extended Term shall, as to lease sale blocks only, continue until after the final award of leases that have been bid on by either Party at the next Federal Offshore Louisiana Lease Sale after the expiration of the Term, or six (6) months after the Term, whichever is later, but in no event longer than twelve (12) months from the expiration of the Term.

Section 7.6 Assignment by the Parties:

Neither Party may sell, assign, convey or otherwise transfer its interest in the Program to any party other than a Related Party without the written consent of the other Party. Each Party

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may sell its interest in the Subject Properties, however, such sale shall not relieve the selling party of its obligations under this Agreement, the Joint Operating Agreement, or any other agreements, contracts and obligations applicable to the Subject Properties at the time the same are conveyed, and provided further that if the interest of a Party in the Subject Properties becomes owned by five (5) or more Parties, the owners of said interests agree, upon request by Program Manager, to appoint a single nominee or representative for all such owners.

Section 7.7 Successors and Assigns:

Subject to the provisions of Section 7.6, the terms and provisions of this Agreement shall be binding upon and shall inure to the benefit of the heirs, successors, personal and legal representatives, and assigns of the Parties.

ARTICLE VIII

Section 8.1 Notices

All notices or other communications required or permitted to be given pursuant to this Agreement shall be in writing and shall be considered as received when deposited in the U.S. Mail, postage prepaid, and transmitted by facsimile transmission. All notices shall be addressed to the Parties at their respective addresses and facsimile numbers set forth below or at such other addresses and facsimile numbers as may have been theretofore specified by written notice delivered in accordance herewith.

If to Cheniere:

Cheniere Energy, Inc.
1200 Smith Street
Suite 1740
Houston, TX 77002
Attention: Don A. Turkleson
Fax (713) 659-5459

If to Samson:

Samson Offshore Company

Attn: Jeff Carpenter
Fax (713) 751-8864

Section 8.2 Individual Obligations:

The obligations, duties, and liabilities of the Parties shall be several and not joint or collective; and nothing contained herein is intended to create, nor shall ever be construed as creating, a partnership of any kind, joint venture, association, or other character of business entity recognizable in law for any purpose.

Section 8.3 Waiver

Neither failure nor any delay on the part of any Party in exercising any right, power or remedy hereunder shall operate as a waiver thereof, or of any other right, power or remedy; nor shall any single or partial exercise of any right, power or remedy preclude any further or other exercise thereof, or the exercise of any other right, power or remedy. No waiver of any of the provisions of this Agreement shall be valid unless it is in writing and signed by the party against whom it is sought to be enforced, nor shall any such waiver constitute a continuing waiver unless otherwise expressly provided. Notwithstanding the foregoing, acceptance by Program Manager of a late payment shall constitute a waiver of the default created by a Participant's failure to make timely payment.

Section 8.4 Law Governing:

This Agreement shall be governed by and construed in accordance with the laws of The State of Texas.

Section 8.5 Controlling Documents:

In the event of a conflict between the terms of this Agreement and the terms of any of the Exhibits attached hereto, the terms of this Agreement shall control.

Section 8.6 Press Releases

No public announcement or statement regarding the matters contained in this Agreement

or any of the wells drilled hereunder shall be made or released without the approval of the Parties hereto or those Parties participating in the operation which is the subject of such public announcement or statement. No public announcement or statements about a specific well shall be made until all testing in a well is completed. Any proposed public announcement or statement regarding a specific well shall contain at a minimum the following information:

- a. Name of well
- b. OCS block
- c. Location of well
- c. Tested interval(s)
- d. Test results
- e. Development/confirmation plans, if appropriate
- f. Participants and percentages
- g. Acreage controlled, if appropriate

Either Party may elect to exclude its name from a proposed public announcement or statement and thus remove itself from the approval process. Program Manager will coordinate the approvals of any proposed public announcement or statement, unless Program Manager has elected to be excluded from any such proposed public announcement or statement, in which case the Party proposing such public announcement or statement shall coordinate such approval process. Notwithstanding anything herein to the contrary, Program Manager may make such public announcements as it deems appropriate in the event of an emergency or imminent harm to people, property or environment without prior consultation with Participant. In addition, any Party may make such public announcements as required by the SEC or other governmental agency, without consultation with the other Party, but shall furnish a copy of such release to the other Party at the time such release is made.

Section 8.7 Severability:

In the event any one or more of the provisions contained in this Agreement shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any provision of this Agreement, which other provisions shall remain in full force and effect.

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Section 8.8 Entire Agreement:

This Agreement constitutes the entire agreement between the parties hereto with respect to the transactions described herein, superseding all prior negotiations, discussions, agreements and understandings, whether oral or written, relating to such subject matter. This Agreement may not be amended and no rights hereunder may be waived except by a written document signed by the duly authorized representative of the party to be charged with such amendment or waiver. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver unless otherwise expressly provided. Each party acknowledges that it has read and understands the terms of this Agreement and has had the opportunity to consult with legal counsel of its choice concerning the meaning and effect thereof. Neither party has relied upon the other party or its counsel or advisers with respect to the meaning or effect of such an agreement or provision.

Section 8.9 Surviving Obligations:

In addition to the specified terms of the Areas of Mutual Interest and Non-Competition Agreement provided for in Sections 4.4 and 7.4, the provisions of Sections 5.4, 7.1, 7.2, 7.3, 7.5 and 8.6 shall survive the expiration of the Extended Term and remain binding obligations of the parties.

Section 8.10 Counterparts:

This Agreement may be executed in multiple counterparts, each of which shall be deemed an original for all purposes.

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In witness whereof, this Agreement is executed the 10th day of March, 2000, effective as of the date first hereinabove set forth.

WITNESSES:

CHENIERE ENERGY INCORPORATED

BY: MICHAEL L. HARVEY
TITLE: President, Chief Executive Officer

SAMSON OFFSHORE COMPANY

BY: ROBERT C. BILGER
TITLE: Attorney-in-Fact

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FIRST AMENDMENT TO CREDIT AGREEMENT

THIS FIRST AMENDMENT TO CREDIT AGREEMENT (herein called this "Amendment") is made as of the 31st day of December, 1999 by and between Cheniere Energy, Inc. ("Borrower") and EnCap Energy Capital Fund III, L.P. ("Lender").

W I T N E S S E T H:

WHEREAS, Borrower and Lender have entered into that certain Credit Agreement dated as of September 1, 1999 (as amended, supplemented, or restated to the date hereof, the "Original Agreement"), for the purposes and consideration therein expressed, pursuant to which Lender made a loan to Borrower as therein provided; and

WHEREAS, Borrower and Lender desire to amend the Original Agreement for the purposes described herein; and

WHEREAS, Borrower and Lender hope to enter into a Three Party Agreement with Schlumberger Technology Corporation;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements contained herein and in the Original Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree as follows:

ARTICLE I.

Definitions and References

(S) 1.1. Terms Defined in the Original Agreement. Unless the context otherwise requires or unless otherwise expressly defined herein, the terms defined in the Original Agreement shall have the same meanings whenever used in this Amendment.

(S) 1.2. Other Defined Terms. Unless the context otherwise requires, the following terms when used in this Amendment shall have the meanings assigned to them in this (S) 1.2.

"Amendment" means this First Amendment to Credit Agreement.

"Amendment Documents" means this Amendment and, if executed and delivered, the Three Party Agreement.

"Credit Agreement" means the Original Agreement as amended hereby.

"IP" means IP Petroleum Company, Inc.

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"Net Profits Interest" means the net profits overriding royalty interest, and all appurtenant rights, titles and interests, conveyed by Borrower to Lender under the Net Profits Interest Conveyance.

"Net Profits Interest Conveyance" means that certain Conveyance of Net Profits Overriding Royalty Interest dated as of September 1, 1999, and recorded in Cameron Parish Louisiana on September 3, 1999 under Entry No. 261732 in Conveyance Book 900.

"Schlumberger" means Schlumberger Technology Corporation, a Texas corporation.

"Specified Payables" means the accounts payable owed by Borrower that are listed on Schedule 1 hereto, in the amounts listed on such Schedule.

"Stingray Well" means the State Lease 16017 Well #1 located on the Stingray Prospect.

"Three Party Agreement" means a Three Party Agreement to be entered into by and among Borrower, Lender, and Schlumberger in a form acceptable to Lender and Borrower.

ARTICLE II.

Amendments to Original Agreement; Waivers of Events of Default

(S) 2.1. Defined Terms.

(a) Effective as of September 2, 1999, the definition of "Base Rate" in Section 1.1 of the Original Agreement is hereby amended in its entirety

to read as follows:

" "Base Rate" means the rate of ten percent (10.00%) per annum. The Base Rate shall in no event, however, exceed the Highest Lawful Rate."

(b) The definition of "Maturity Date" in Section 1.1 of the Original Agreement is hereby amended in its entirety to read as follows:

" "Maturity Date" means June 30, 2000, or, if earlier, the day on which the Note first becomes due and payable in full."

(c) The following definitions are hereby added to Section 1.1 of the Original Agreement:

"Schlumberger Note" means a promissory note in the principal amount of \$1,118,424.00 to be made by Borrower to the order of Schlumberger Technology Corporation in a form acceptable to Lender and Borrower to evidence Liabilities

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incurred by Borrower in connection with the provision of materials and services by Schlumberger Technology Corporation.

"Three Party Agreement" means a Three Party Agreement to be entered into by and among Borrower, Lender, and Schlumberger in a form acceptable to Lender and Borrower.

(S) 2.2. Monthly Payments. Section 2.5 of the Original Agreement is hereby amended in its entirety to read as follows:

"Section 2.5. Monthly Payments. Borrower will arrange for all payments of the proceeds of Collateral to be paid directly to Lender. Whenever Lender is obligated to forward a portion of such proceeds to Schlumberger Technology Corporation under Section 3 of the Three Party Agreement, Lender will apply all such proceeds as agreed to in Section 3 of the Three Party Agreement. Whenever such Section 3 ceases to be applicable, Lender will apply all such payments of Collateral proceeds that Lender receives (other than payments under the NPI Conveyance, which are Lender's own property) first to interest on the Note and other non-principal Obligations as determined by Lender and then to principal owing under the Note."

(S) 2.3. Deletion of Section 2.6. Section 2.6 of the Original Agreement and hereby deleted in their entirety and Section 2.6 of the Original Agreement is hereby amended in its entirety to read as follows:

"Section 2.6. - [Reserved]"

(S) 2.4. Deletion of Article III. Sections 3.1, 3.2, 3.3, and 3.4 of the Original Agreement and hereby deleted in their entirety and Article III of the Original Agreement is hereby amended in its entirety to read as follows:

"ARTICLE III - [Reserved]"

(S) 2.5. Indebtedness. The following Subsection (h) is hereby added to Section 7.1(h) of the Original Agreement:

"(h) Liabilities arising under the Schlumberger Note and other items of Indebtedness (excluding Indebtedness for borrowed money) not exceeding \$500,000 in aggregate principal amount at any time outstanding."

(S) 2.6. Limitation on Liens. The following Subsection (d) is hereby added to Section 7.2 of the Original Agreement:

"(d) Liens encumbering the Redfish Prospect and the Stingray Prospect securing the payment of Liabilities under the Schlumberger Note."

(S) 2.7. Waivers of Events of Default. Borrower has failed to complete the September 1999 Issuance when required under the Original Agreement, and Borrower has failed to pay the

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Subordinated Debt when required under the Original Agreement. Each of these failures constitutes an Event of Default under the Original Agreement. Certain Specified Payables have been outstanding for more than 90 days past the original invoice or billing date therefor, and Lender contends that Borrower failed to disclose to Lender the incurring of additional Indebtedness through the aging of accounts payable beyond ninety (90) days subsequent to the closing of the Original Agreement. Lender contends that each of these failures constitutes an Event of Default under the Original Agreement. Borrower anticipates that additional Specified Payables will hereafter remain outstanding for more than 90

days past the original invoice or billing date therefor, and Borrower's failure to pay the same may constitute additional Events of Default under the Credit Agreement. The foregoing Events of Default and alleged Events of Default are herein called the "Designated Defaults". Lender hereby waives, effective upon the effectiveness of this Amendment, the Designated Defaults and Lender's right to seek any remedy against Borrower on account of the Designated Defaults, including but not limited to, on account of Designated Defaults continuing after the date hereof.

(S) 2.8. Bridge Note Defaults. Borrower has requested, but as of the date hereof not received, the consent of certain of its creditors with respect to the execution and delivery by Borrower of a mortgage in favor of Schlumberger. The failure by Borrower to obtain such consents from such creditors will result in Events of Default under Section 8.1(f) of the Original Agreement (such Events of Default are herein referred to as the "Bridge Note Defaults"). Lender agrees not to seek any remedy against Borrower on account of the Bridge Note Defaults so long as no such creditor of Borrower seeks any remedy against Borrower on account of the Bridge Note Defaults.

(S) 2.9. Certificates and Opinion to be Delivered. Concurrently with the execution and delivery of the Three Party Agreement (or upon any earlier request by Lender), Borrower will deliver to Lender all of the following documents, each document (unless otherwise indicated) being dated the date of receipt thereof by Lender, duly authorized, executed and delivered, and in form and substance satisfactory to Lender:

(a) Opinion of Counsel for Borrower. A written opinion of Mayor, Day, Caldwell, and Keeton, L.L.P., addressed to Lender, to the effect that the Amendment Documents have been duly authorized, executed and delivered by Borrower and that each of the Credit Agreement and the Amendment Documents constitute the legal, valid and binding obligation of Borrower, enforceable in accordance with its terms.

(b) Officer's Certificate. A certificate of a duly authorized officer of Borrower to the effect that all of the representations and warranties set forth in (S) 4.1 hereof are true and correct at and as of the time of such effectiveness.

(c) Supporting Documents. (i) A certificate of the Secretary of Borrower dated the date of this Amendment certifying that attached thereto is a true and complete copy of resolutions adopted by the Board of Directors of Borrower authorizing the execution, delivery and performance of the Amendment Documents and (ii) such supporting documents as Lender may reasonably request.

(d) Other Documents. Any instruments, agreements, documents, or writings of any kind and character requested by Lender under (S) 4.6 of this Amendment.

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ARTICLE III.

Conditions of Effectiveness

(S) 3.1. Effective Date. This Amendment shall become effective as of the date first above written (except as provided in (S)2.1(a)) when and only when (i) Lender shall have received, at Lender's office, a counterpart of this Amendment executed and delivered by Borrower, and (ii) Borrower shall have paid all interest on the Note due from September 2, 1999 through and including December 31, 1999, and (iii) Borrower shall have paid all amounts due and owing as of December 31, 1999 under the NPI Conveyance.

ARTICLE IV.

Representations and Warranties; Agreements; Waivers; Releases

(S) 4.1. Representations and Warranties of Borrower. In order to induce Lender to enter into this Amendment, Borrower represents and warrants to Lender that:

(a) Subject to the matters described in Schedule 4.1 attached hereto, the representations and warranties contained in Article V of the Credit Agreement are true and correct at and as of the time of the effectiveness hereof. Borrower has paid all Specified Payables (other than the listed payables owing to Marine Drilling and Schlumberger Technology Corporation).

(b) Borrower is duly authorized to execute and deliver the Amendment Documents and the other Loan Documents and is and will continue to be duly authorized to borrow and to perform its obligations under the Credit Agreement. Borrower has duly taken all corporate action necessary to authorize the execution and delivery of the Amendment Documents and the other Loan Documents and to authorize the performance of the obligations of Borrower thereunder.

(c) The execution and delivery by Borrower of the Amendment Documents and the other Loan Documents, the performance by Borrower of its obligations thereunder and the consummation of the transactions contemplated thereby do not and will not conflict with any provision of law, statute, rule or regulation or of the certificate of incorporation and bylaws of Borrower, or (upon receipt of the consents contemplated in part (c) of Schedule 4.1 attached hereto) of any material agreement, judgment, license, order or permit applicable to or binding upon Borrower, or result in the creation of any Lien, charge or encumbrance upon any assets or properties of Borrower. Except for those which have been duly obtained or as set forth in part (c) of Schedule 4.1 attached hereto, no consent, approval, authorization or order of any court or governmental authority or third party is required in connection with the execution and delivery by Borrower of the Amendment Documents or the other Loan Documents or to consummate the transactions contemplated thereby.

(d) When duly executed and delivered, each Amendment Document will be a legal and binding instrument and agreement of Borrower, enforceable in accordance with

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its terms. Each other Loan Document is and shall continue to be the legal, valid and binding obligation of Borrower, enforceable against Borrower in accordance with their respective terms.

(e) The unaudited quarterly Consolidated financial statements of Borrower dated as of September 30, 1999 fairly present the Consolidated financial position at such date and the Consolidated statement of operations and the changes in Consolidated financial position for the periods ending on such date for Borrower. Copies of such financial statements have heretofore been delivered to Lender. Since September 30, 1999, no Material Adverse Change has occurred in the Consolidated financial condition or businesses of Borrower.

(f) No Default or Event of Default has occurred or is continuing (other than the Designated Defaults).

(g) Borrower has no defense, counterclaim or setoff with respect to the Obligations or the Loan Documents (any such setoffs, defenses or counterclaims being hereby waived and released by Borrower).

(S) 4.2. Waivers. Borrower hereby waives and affirmatively agrees not to allege or otherwise pursue any or all defenses, affirmative defenses, counterclaims, claims, causes of action, setoffs or other rights that it may have to contest (a) the enforceability of any of the Obligations; (b) any provision of the Loan Documents; (c) any Lien or security interest of Lender in any Collateral or other property, whether movable or immovable, real or personal, or tangible or intangible, or any right or other interest, now or hereafter arising in connection with the Collateral; (d) the actions and inactions of Lender prior to the date hereof in administering the Loan Documents, or any other matter prior to the date hereof relating to the financing arrangements between Borrower and Lender; or (e) the rights of Lender to the Net Profits Interest.

(S) 4.3. Mutual Release. Each of Borrower and Lender HEREBY RELEASES, REMISES, ACQUITS AND FOREVER DISCHARGES the other and the other's partners, participants, predecessors, successors and assigns, subsidiary entities, parent entities, and other affiliates, as well as all employees, agents, representatives, consultants, attorneys, fiduciaries, partners, officers and directors of any of the foregoing (all of the foregoing beneficiaries of such release being hereinafter called the "Released Persons") from any and all actions and causes of action, judgments, executions, suits, debts, claims, demands, liabilities, obligations, damages and expenses of any and every character, known or unknown, direct or indirect, at law or in equity, sounding in contract or in tort, of whatsoever kind or nature, for or because of any matter or things done, omitted or suffered to be done by any of the Released Persons prior to the date of execution hereof and in any way directly or indirectly arising out of or in any way connected to the Credit Agreement or any attempt by Borrower to raise funds through the sale of equity or debt securities, INCLUDING WITHOUT LIMITATION ANY CLAIM OR LIABILITY RELATED TO FRAUD, INADEQUATE DISCLOSURE, NEGLIGENCE, USURY (INCLUDING WITHOUT LIMITATION ANY DEFENSE BASED ON USURY), OR WRONGFUL INTERFERENCE WITH CONTRACTS, BUSINESS OPPORTUNITIES OR RELATIONSHIPS (all of the foregoing hereinafter called the "Released Matters"); PROVIDED THAT THE RELEASED MATTERS DO NOT INCLUDE OR APPLY TO, AND THAT NO RELEASE IS GIVEN

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HEREBY WITH RESPECT TO, ANY PRINCIPAL, INTEREST, OTHER INDEBTEDNESS, INDEMNITY, COVENANT, OR OTHER RIGHTS, OBLIGATIONS OR DUTIES OF BORROWER OR LENDER UNDER THIS AMENDMENT, THE CREDIT AGREEMENT, THE NOTE OR ANY OTHER LOAN DOCUMENT. Each of Borrower and Lender acknowledges and agrees that the provisions of this Amendment constitute full and adequate consideration for the foregoing releases. For the purposes of the foregoing release by Borrower, the affiliates of

Borrower shall be deemed to include, without limitation, EnCap Energy Advisors, Inc., RF&C International, Inc., and EnCap Investments L.C.

(S) 4.4. Acknowledgments and Admissions. Borrower hereby represents, warrants, acknowledges and admits that (a) it has made an independent decision to enter into the Amendment Documents and the other Loan Documents without reliance on any representation, warranty, covenant or undertaking by Lender, whether written, oral or implicit, other than as expressly set out in the Amendment Documents or in the other Loan Documents, (b) there are no representations, warranties, covenants, undertakings or agreements by Lender as to the Loan Documents except as expressly set out in the Amendment Documents or in another Loan Document, (c) Lender has no fiduciary obligation toward Borrower with respect to any Loan Document or the transactions contemplated thereby, (d) the relationship pursuant to the Loan Documents between the Restricted Persons, on one hand, and Lender, on the other hand, is and shall be solely that of debtor and creditor, respectively, (e) no partnership or joint venture exists with respect to the Amendment Documents, the Loan Documents, or the Collateral between Borrower and Lender, (f) should a breach or other default occur or exist under the Amendment Documents, any Loan Document, or any document or instrument at any time delivered in connection therewith, Lender will determine in its sole discretion and for its own reasons what remedies and actions it will or will not exercise or take at that time, (g) without limiting any of the foregoing, Borrower is not relying upon any representation or covenant by Lender, or any representative of Lender, and no such representation or covenant has been made, that Lender will, at the time of any such breach or default, or at any other time, waive, negotiate, discuss, or take or refrain from taking any action permitted under the Loan Documents with respect thereto, and (h) Lender has relied upon the truthfulness of the acknowledgments in this section in deciding to execute and deliver the Amendment Documents.

(S) 4.5. Recompletion of Stingray Well. Borrower anticipates that IP shall propose the recompletion of the Stingray Well (such proposal is herein called the "Recompletion Proposal") in the near future. Each of Borrower and Lender hereby agrees that it will consider whether the Recompletion Proposal is a prudent economic decision based solely upon the risks and rewards of the Recompletion Proposal and not upon other factors. If the Three Party Agreement has been entered into by all parties thereto, and if each of Borrower and Lender determines that the Recompletion Proposal is a prudent economic decision, Lender agrees to loan to Borrower an amount not to exceed \$650,000 for the express purpose of the payment by Borrower of Borrower's share of the costs of the Recompletion Proposal and for no other purpose, such loan to be made pursuant to an amendment to the Credit Agreement which shall be acceptable to Lender in Lender's sole and absolute discretion.

(S) 4.6. Letter in Lieu. Borrower has previously executed and delivered to Lender a letter in lieu of transfer order in the form attached hereto as Exhibit A (the "Letter in Lieu"). Such Letter in Lieu has been delivered to IP and IP has informed Borrower and Lender that IP shall begin making payments to Lender as directed in such Letter in Lieu. Borrower hereby agrees to execute and deliver to IP or Lender such instruments, agreements, documents, and writings of

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any kind and character as may be from time to time requested by IP or Lender (including without limitation duplicate originals of the Letter in Lieu) in order to assist Lender in obtaining direct payment of any proceeds from the sale of Collateral. Lender agrees to authorize IP to withhold from the proceeds from the sale of production Borrower's share of lease operating expenses owed to IP, as operator of the Stingray Prospect and the Redfish Prospect.

ARTICLE V.

Miscellaneous

(S) 5.1. Ratification of Agreements. The Original Agreement as hereby amended is hereby ratified and confirmed in all respects. Any reference to the Credit Agreement in any Loan Document shall be deemed to refer to this Amendment also. The execution, delivery and effectiveness of the Amendment Documents shall not, except as expressly provided therein, operate as a waiver of any right, power or remedy of Lender under the Credit Agreement or any other Loan Document nor constitute a waiver of any provision of the Credit Agreement or any other Loan Document.

(S) 5.2. Survival of Agreements. All representations, warranties, covenants and agreements of Borrower herein shall survive the execution and delivery of this Amendment and the performance hereof, including without limitation the making or granting of the Loan, and shall further survive until all of the Obligations are paid in full. All statements and agreements contained in any certificate or instrument delivered by any Restricted Person hereunder or under the Credit Agreement to Lender shall be deemed to constitute representations and warranties by, or agreements and covenants of, Borrower under this Amendment and under the Credit Agreement.

(S) 5.3. Loan Documents. Each Amendment Document is a Loan Document, and

all provisions in the Credit Agreement pertaining to Loan Documents apply thereto.

(S) 5.4. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of Texas and any applicable laws of the United States of America in all respects, including construction, validity and performance.

(S) 5.5. Counterparts. This Amendment may be separately executed in counterparts and by the different parties hereto in separate counterparts, each of which when so executed shall be deemed to constitute one and the same Amendment.

THIS AMENDMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS OF THE PARTIES.

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IN WITNESS WHEREOF, this Amendment is executed as of the date first above written.

ENCAP ENERGY CAPITAL FUND III, L.P.

By: ENCAP INVESTMENTS, L.C., general partner

By:

D. Martin Phillips
Managing Director

CHENIERE ENERGY, INC.

By:

Walter L. Williams
Vice Chairman of the Board of Directors

CONSENT AND AGREEMENT

The undersigned hereby consents to the provisions of this Amendment and the transactions contemplated herein, and hereby ratifies and confirms the Guaranty dated as of September 1, 1999 made by it for the benefit of Lender, and agrees that its obligations and covenants thereunder are unimpaired hereby and shall remain in full force and effect.

CHENIERE ENERGY OPERATING CO., INC.

By:

Walter L. Williams
President

Exhibit A -- Letter in Lieu

Schedule 1 -- Specified Payables

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THREE PARTY AGREEMENT

This Three Party Agreement (this "Agreement") is made as of the 4th day of January, 2000, by Cheniere Energy, Inc. ("Cheniere"), Schlumberger Technology Corporation ("Schlumberger"), and EnCap Energy Capital Fund III, L.P. ("EnCap Fund III").

RECITALS:

1. EnCap Fund III and Cheniere have entered into that certain Credit Agreement dated as of September 1, 1999 (the "EnCap Credit Agreement"), pursuant to which EnCap Fund III made loans to Cheniere and Cheniere mortgaged to EnCap Fund III Cheniere's interests in Louisiana State Leases Nos. 16185, 16017, and 16186 in Cameron Parish, Louisiana (as more fully described on Schedule 1 hereto, the "Stingray Prospect") and Louisiana State Leases Nos. 16016, 16018, 16020 and 16022 in Cameron Parish, Louisiana (as more fully described on Schedule 1 hereto, the "Redfish Prospect"), pursuant to that certain Mortgage, Assignment, Security Agreement, Fixture Filing and Financing Statement recorded in Cameron Parish, Louisiana on September 3, 1999 in Mortgage Book 245, File No. 261733, as amended by that certain First Amendment to Mortgage, Assignment, Security Agreement, Fixture Filing and Financing Statement recorded in Cameron Parish, Louisiana on September 9, 1999 in Mortgage Book 245, File No. 2618017 as amended by that certain Second Supplement and Amendment to Mortgage, Assignment, Security Agreement, Fixture Filing and Financing Statement recorded in Cameron Parish, Louisiana on October 26, 1999 in Mortgage Book 246, File No. 262290. Prior to giving such mortgage, Cheniere executed and delivered to EnCap Fund III a Conveyance of Net Profits Overriding Royalty Interest dated as of September 1, 1999 (the "NPI Conveyance") which has been filed for record in Cameron Parish, Louisiana on September 3, 1999 in Conveyance Book 900, File No. 261733.

2. Schlumberger has provided materials and services to Cheniere in connection with the Stingray Prospect and has mechanic's and materialman's liens on the Stingray Prospect (the "M&M Liens") that are superior to the liens under EnCap Fund III's mortgage to secure unpaid bills owing by Cheniere to Schlumberger. Prior to the execution hereof, Schlumberger does not have any liens, security interests or privileges of any kind on the Redfish Prospect.

3. EnCap Fund III, Cheniere and Schlumberger desire to enter into this Agreement to provide a procedure under which payments will be made to both EnCap Fund III and Schlumberger.

In consideration of the mutual covenants herein, including, without limitation Schlumberger's agreement with respect to foreclosure, as provided below, and EnCap Fund III's agreement to allow certain proceeds from the Redfish Prospect to be used to pay Schlumberger, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, EnCap Fund III, Cheniere and Schlumberger hereby agree as follows:

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AGREEMENTS:

Section 1. Payments; Collections.

(a) Cheniere has paid to Schlumberger the amount of \$360,000 in immediately available funds.

(b) Cheniere has arranged, and, until all amounts owed EnCap Fund III under the EnCap Credit Agreement or other Loan Documents (as such term is defined in the EnCap Credit Agreement) entered into pursuant thereto have been paid in full, will continue to arrange, for all payments owing to Cheniere by the purchasers of Cheniere's production from the Stingray Prospect and the Redfish Prospect to be paid directly to EnCap Fund III. IP Petroleum Company, Inc. ("IP"), who is the operator of both prospects, presently distributes revenue attributable to the sale of such production and may possibly from time to time net out of such payments certain amounts owing to IP, as operator, by Cheniere, as non-operator. As used herein, "Net Payments" refers to the net amounts actually received by EnCap Fund III from IP or any other purchasers of Cheniere's production from the Stingray Prospect and the Redfish Prospect, less any billings from the operators of the Redfish Prospect or Stingray Prospect that have not already been netted out (it being agreed that EnCap Fund III will authorize IP to withhold, from the proceeds of the sale of such production, Cheniere's share of lease operating expenses owed to IP as operator of the Stingray Prospect and the Redfish Prospect).

Section 2. Reduced Schlumberger Claim; Promissory Note; Mortgage; Subordination.

(a) Schlumberger claims and believes that the amount of indebtedness owing to it by Cheniere for services and materials provided in connection with the Stingray Prospect (the "Original Schlumberger Claim") is in excess of

\$1,117,569.84, as determined after application of the \$360,000 referred to in Section 1(a) above. Schlumberger hereby reduces the Original Schlumberger Claim (together with any other amounts owing by Cheniere to Schlumberger that are possibly secured by any lien, security interest, or privilege of any kind burdening either the Stingray Prospect or the Redfish Prospect) to \$1,117,569.84 (which includes its legal fees and expenses to date), and Schlumberger hereby waives any rights Schlumberger may have on the date hereof to receive more than such reduced claim from Cheniere (except to the limited extent provided in (i) the Debt Restructure Agreement by and between Cheniere and Schlumberger, (ii) the Mortgage, Assignment, Security Agreement, Fixture Filing and Financing Statement dated January 4, 2000 executed by Cheniere in favor of Schlumberger (the "Schlumberger Mortgage"), and (iii) the Promissory Note dated January 4, 2000 executed by Cheniere in favor of Schlumberger. Schlumberger's reduced claim in the amount of \$1,117,569.84 plus (i) future legal fees and expenses and (ii) Cheniere's obligation under the Debt Restructure Agreement, the Schlumberger Note, and the Schlumberger Mortgage is herein collectively referred to as the "Reduced Schlumberger Claim".

(b) Cheniere has executed and delivered to Schlumberger on the date hereof the Debt Restructure Agreement ("Debt Restructure Agreement").

(c) In order to evidence the Reduced Schlumberger Claim, Cheniere executed and delivered to Schlumberger on the date hereof a promissory note in the form required by the Debt Restructure Agreement (the "Schlumberger Note").

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(d) In order to secure the payment and performance of the Schlumberger Note, Cheniere executed and delivered to Schlumberger the Schlumberger Mortgage.

(e) EnCap Fund III hereby promises simultaneously with execution hereof to execute and deliver to Schlumberger on the date hereof the Lien Subordination Agreement attached hereto as Exhibit A.

Section 3. Application of Net Payments. Until the Schlumberger Note is paid in full, either pursuant to this Agreement or otherwise, EnCap Fund III will apply all Net Payments it receives during January 2000 and each calendar month thereafter as follows:

(a) Within two business days after receipt of Net Payments, EnCap Fund III will first apply such Net Payments to any payments (i) which are then due under the Schlumberger Note, or (ii) shall become due on the first business day of the following month (e.g., for January 2000, to any payments due under the Schlumberger Note on or before February 1, 2000) by paying over the same to Schlumberger;

(b) EnCap Fund III will thereafter apply the entirety of any remaining Net Payments:

- (i) with respect to the Net Proceeds received from production that occurred in November 1999, December 1999, and January 2000, (A) first to the amount of outstanding legal fees and costs owed by Cheniere and (B) next to the unpaid principal balance under the EnCap Credit Agreement or the promissory note issued in connection therewith;
- (ii) with respect to any other Net Proceeds (A) first to all amounts then due and payable under the NPI Conveyance, (B) next to all interest then due and payable under the EnCap Credit Agreement and the related promissory note, and (C) next to the unpaid principal balance under the EnCap Credit Agreement or the promissory note issued in connection therewith.

Pending payment to Schlumberger under subsection (a) above, EnCap Fund III will hold in trust for Schlumberger any Net Payments to be paid to Schlumberger. EnCap Fund III will promptly send a written report to Cheniere and to Schlumberger of the amounts paid and applied under subsections (a) and (b) above, and within two business days after receipt of such report Cheniere will (1) make additional payments to Schlumberger as required under the Schlumberger Note if the amount applied by EnCap Fund III under subsection (a) above is less than the amount then due and payable under the Schlumberger Note, and (2) prior to EnCap Fund III's receipt of Net Proceeds from production that occurred in January 2000, make additional payments to EnCap Fund III of all interest then due and payable under the EnCap Credit Agreement and the related promissory note and of all amounts then due and payable under the NPI Conveyance. If Net Payments are not timely received from IP and, as a result, Cheniere directly pays to Schlumberger amounts due under the Schlumberger Note, then when such Net Payments are received from IP, EnCap Fund III shall (upon authorization by Schlumberger, which Schlumberger hereby agrees to give promptly after receipt of such payment by Cheniere)

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disburse to Cheniere from such Net Payments the amount of the direct payments made by Cheniere to Schlumberger.

Section 4. Limitations on Foreclosure by Schlumberger; Option to Purchase Schlumberger Note and Schlumberger Mortgage by EnCap Fund III.

(a) Schlumberger hereby agrees to give written notice to EnCap Fund III and Cheniere of the occurrence of any Schlumberger Note Default. (As used herein, "Schlumberger Note Default" means the occurrence of any event defined as a "default" or "event of default" in the Schlumberger Note, the Debt Restructure Agreement, or the Schlumberger Mortgage which default or event of default is not remedied within any applicable period of grace provided therefor therein.) Each of Schlumberger and Cheniere promises to copy EnCap Fund III on any other written notice or communication that it sends pursuant to the Debt Restructure Agreement.

(b) Schlumberger will not take any action to enforce the Schlumberger Mortgage or any other liens, security interests, privileges, or similar rights that it may have with respect to any properties, assets, revenues, or proceeds of Cheniere until the end of the fifteenth (15th) day following the delivery by Schlumberger of written notice to EnCap Fund III and Cheniere of the occurrence of a Schlumberger Note Default. (The period from the date hereof to the end of such fifteenth day is herein referred to as the "Standstill Period".)

(c) Schlumberger hereby grants to EnCap the option to purchase the Schlumberger Note (together with the Schlumberger Mortgage and any other related agreements or documents) at any time during the Standstill Period, for a purchase price equal to the amounts then owing and unpaid to Schlumberger thereunder (including legal fees and expenses incurred by Schlumberger). This option terminates upon expiration of the Standstill Period.

Section 5. No Enforcement Against Co-Owners. Schlumberger hereby releases, and agrees not to perfect or enforce, any liens, security interests, privileges, or similar rights that it may have with respect to the interests of any person or entity other than Cheniere in the Stingray Prospect or the Redfish Prospect, including without limitation the interests of EnCap Fund III under the NPI Conveyance and the interests of Cheniere's joint interest owners in the Stingray Prospect. Schlumberger expressly reserves any liens, security interests, privileges, or similar rights that it has with respect to the interests of Cheniere, subject to the terms hereof.

Section 6. Cheniere to Remain Liable. Notwithstanding anything to the contrary contained herein, Cheniere shall remain liable to EnCap Fund III under the EnCap Credit Agreement and the Loan Documents (as such term is defined in the EnCap Credit Agreement) and shall remain liable to Schlumberger on the Reduced Schlumberger Claim and under the Schlumberger Note.

Section 7. Notices. All notices, requests, demands and other communications required or permitted under this Three Party Agreement or by law shall be in writing and shall be deemed to have been duly given, made and received only when sent by facsimile transmission (receipt confirmed) or reputable overnight delivery service (receipt confirmed), when delivered against receipt, or when deposited in the United States mails, certified mail, return receipt requested, postage prepaid, addressed as set forth below, and actually presented at the address of the noticed party:

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(a) if to Schlumberger:

Schlumberger Technology Corporation
1325 South Dairy Ashford, Suite 300
Houston, Texas 77077
Attention: Pre Moss
Fax: (281) 749-8381

(b) if to EnCap Fund III:

EnCap Energy Capital Fund III, L.P.
1100 Louisiana
Houston, Texas 77002
Attention: John Howie
Fax: (713) 659 6130

(c) if to Cheniere:

Cheniere Energy, Inc.
Two Allen Center, Suite 1740
1200 Smith Street
Houston, Texas 77002
Attention: Charif Souki
Fax: (713) 659-6130

Any addressee may alter the address to which communications are to be sent by giving notice of such change of address in conformity with the provisions of this section for the giving of notice.

IN WITNESS WHEREOF, this Agreement is executed and delivered by EnCap Fund III, Cheniere and Schlumberger as of date first written above.

WITNESSES CHENIERE ENERGY, INC.

By: _____

Name: Walter L. Williams, Vice Chairman of the Board of Directors

Name:

Notary Public

ENCAP ENERGY CAPITAL FUND III, L.P.

By: EnCap Investments L.C., General Partner

Name:

By: _____

Name:

D. Martin Phillips, Managing Director

Notary Public

SCHLUMBERGER TECHNOLOGY CORPORATION

Name:

By: _____

Name:
Title:

Name:

Notary Public

ACKNOWLEDGMENT

STATE OF TEXAS (S)
(S)
COUNTY OF HARRIS (S)

On this date before me, the undersigned authority, personally came and appeared Walter L. Williams, to me personally known and known by me to be the person whose genuine signature is affixed to the foregoing document as the Vice Chairman of the Board of Directors of Cheniere Energy, Inc., a Delaware corporation, who signed said document before me in the presence of the two witnesses, whose names are thereto subscribed as such, being competent witnesses, and who acknowledged, in my presence and in the presence of said witnesses, that he signed the above and foregoing document as his own free act and deed on behalf of such corporation by authority of its board of directors and as the free act and deed of such corporation and for the uses and purposes therein set forth and apparent.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal in the City of Houston, Harris County, Texas, on the day and year first above written.

NOTARY PUBLIC, State of Texas

(printed name)

My commission expires:

[SEAL]

STATE OF TEXAS (S)
(S)
COUNTY OF HARRIS (S)

On this date before me, the undersigned authority, personally came and appeared D. Martin Phillips, to me personally known and known by me to be the person whose genuine signature is affixed to the foregoing document as the Managing Director of EnCap Investments L.C., General Partner of EnCap Energy Capital Fund III, L.P., a Texas limited partnership, who signed said document before me in the presence of the two witnesses, whose names are thereto subscribed as such, being competent witnesses, and who acknowledged, in my presence and in the presence of said witnesses, that he signed the above and foregoing document as his own free act and deed on behalf of such general partner acting on behalf of said limited partnership by proper authority and as the free act and deed of such general partner acting of behalf of said limited partnership and for the uses and purposes therein set forth and apparent.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal in the City of Houston, Harris County, Texas, on the day and year first above written.

NOTARY PUBLIC, State of Texas

(printed name)

My commission expires:

[SEAL]

STATE OF TEXAS (S)
(S)
COUNTY OF HARRIS (S)

On this date before me, the undersigned authority, personally came and appeared _____, to me personally known and known by me to be the person whose genuine signature is affixed to the foregoing document as the _____ of Schlumberger Technology Corporation, a Texas corporation, who signed said document before me in the presence of the two witnesses, whose names are thereto subscribed as such, being competent witnesses, and who acknowledged, in my presence and in the presence of said witnesses, that he signed the above and foregoing document as his own free act and deed on behalf of such corporation by authority of its board of directors and as the free act and deed of such corporation and for the uses and purposes therein set forth and apparent.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal in the City of Houston, Harris County, Texas, on the day and year first above written.

NOTARY PUBLIC, State of Texas

(printed name)

My commission expires:

[SEAL]

SCHEDULE 1

*[Property Descriptions from EnCap Mortgage to be attached]

Lien Subordination Agreement

LIEN SUBORDINATION AGREEMENT

THIS LIEN SUBORDINATION AGREEMENT is entered into this 4th day of January, 2000, by and among EnCap Energy Capital Fund III, L.P. ("Subordinated Creditor"), Schlumberger Technology Corporation ("Senior Creditor"), and Cheniere Energy, Inc. ("Debtor").

WHEREAS, each of Senior Creditor and Subordinated Creditor has heretofore extended credit to Debtor; and

WHEREAS, in order to secure the payment and performance of its obligations to Senior Creditor under that certain promissory note made by Debtor in the principal amount of \$1,117,569.84 to the order to Senior Creditor of even date herewith (the "Senior Note"), Debtor has granted liens and security interests encumbering certain of its real and personal property (the "Collateral") to Senior Creditor pursuant to that certain (i) Mortgage, Assignment, Security Agreement, Fixture Filing and Financing Statement ("Mortgage") by Debtor of even date herewith in favor of Senior Creditor (the liens and security interests created by such Mortgage are herein referred to as the "Senior Liens"), and (ii) Debt Restructure Agreement between Senior Creditor and Debtor of even date herewith; and

WHEREAS, in order to secure the payment and performance of its obligations to Subordinated Creditor, Debtor has granted liens and security interests encumbering the Collateral to Subordinated Creditor pursuant to that certain Mortgage, Assignment, Security Agreement, Fixture Filing and Financing Statement recorded in Cameron Parish, Louisiana on September 3, 1999 in Mortgage Book 245, File No. 261733, as amended by that certain First Amendment to Mortgage, Assignment, Security Agreement, Fixture Filing and Financing Statement recorded in Cameron Parish, Louisiana on September 9, 1999 in Mortgage Book 245, File No. 2618017, and as amended by that certain Second Supplement and Amendment to Mortgage, Assignment, Security Agreement, Fixture Filing and Financing Statement recorded in Cameron Parish, Louisiana on October 26, 1999 in Mortgage Book 246, File No. 262290 (such Mortgage, Assignment, Security Agreement, Fixture Filing and Financing Statement, as from time to time amended, is herein referred to as the "Subordinated Mortgage" and the liens and security interests created by Subordinated Mortgage are herein referred to as the "Subordinated Liens"); and

WHEREAS, Senior Creditor has asked Subordinated Creditor to, and Subordinated Creditor has agreed to, subordinate the Subordinated Liens to the Senior Liens;

NOW THEREFORE, Senior Creditor, Subordinated Creditor, and Debtor hereby agree as follows:

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1. Subordinated Creditor hereby subordinates the Subordinated Liens to the Senior Liens to the same extent as if the Senior Liens had been properly recorded, filed, and otherwise perfected prior to the Subordinated Liens regardless of the relative priority of the Subordinated Liens without regard to this Lien Subordination Agreement.
2. Each party hereto agrees that the subordination contained herein shall become null and void upon the date on which all obligations owing by Debtor to Senior Creditor under the Senior Note have been satisfied in full.
3. Upon any sale, transfer or other disposition of any Collateral by either Senior Creditor or Subordinated Creditor in exercise of their respective rights as a lienholder, secured party or mortgagee, Subordinated Creditor shall have no right to any proceeds of such sale, transfer or other disposition until all obligations owing by Debtor to Senior Creditor under the Senior Note have been satisfied in full.
4. If Subordinated Creditor receives any payment or distribution of any kind (whether in cash, securities or other property) in contravention of either (i) this Lien Subordination Agreement, or (ii) the Three Party Agreement by and between Debtor, Senior Creditor and Subordinated Creditor of even date herewith, it shall hold such payment or distribution in trust for Senior Creditor, shall segregate the same from other cash or assets it holds and shall immediately deliver the same to Senior Creditor in the form received by Subordinated Creditor (together with any necessary endorsement).
5. If any term or provision of this Lien Subordination Agreement shall be determined to be illegal or unenforceable all other terms and provisions shall nevertheless remain effective and shall be enforced to the fullest extent permitted by applicable law.
6. This Lien Subordination Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Louisiana. This Lien

Subordination Agreement may be separately executed in counterparts, each of which shall be deemed to constitute one and the same agreement. Facsimiles of executed documents shall be deemed original documents.

7. Debtor hereby consents to the terms of this Lien Subordination Agreement.

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IN WITNESS WHEREOF, this Agreement is executed and delivered by the parties hereto as of date first written above.

WITNESSES CHENIERE ENERGY, INC.

By: _____

Name: Walter L. Williams, Vice Chairman of the Board of Directors

Name:

Notary Public

ENCAP ENERGY CAPITAL FUND III, L.P.

By: EnCap Investments L.C., General Partner

Name:

By: _____

Name:

D. Martin Phillips, Managing Director

Notary Public

SCHLUMBERGER TECHNOLOGY CORPORATION

Name:

By: _____

Name:
Title:

Name:

Notary Public

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ACKNOWLEDGMENT

STATE OF TEXAS (S)
 (S)
COUNTY OF HARRIS (S)

On this date before me, the undersigned authority, personally came and appeared Walter L. Williams, to me personally known and known by me to be the person whose genuine signature is affixed to the foregoing document as the Vice Chairman of the Board of Directors of Cheniere Energy, Inc., a Delaware corporation, who signed said document before me in the presence of the two witnesses, whose names are thereto subscribed as such, being competent witnesses, and who acknowledged, in my presence and in the presence of said witnesses, that he signed the above and foregoing document as his own free act and deed on behalf of such corporation by authority of its board of directors and as the free act and deed of such corporation and for the uses and purposes therein set forth and apparent.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal in the City of Houston, Harris County, Texas, on the day and year first above written.

NOTARY PUBLIC, State of Texas

(printed name)

My commission expires:

[SEAL]

4

STATE OF TEXAS (S)
(S)
COUNTY OF HARRIS (S)

On this date before me, the undersigned authority, personally came and appeared D. Martin Phillips, to me personally known and known by me to be the person whose genuine signature is affixed to the foregoing document as the Managing Director of EnCap Investments L.C., General Partner of EnCap Energy Capital Fund III, L.P., a Texas limited partnership, who signed said document before me in the presence of the two witnesses, whose names are thereto subscribed as such, being competent witnesses, and who acknowledged, in my presence and in the presence of said witnesses, that he signed the above and foregoing document as his own free act and deed on behalf of such general partner acting on behalf of said limited partnership by proper authority and as the free act and deed of such general partner acting of behalf of said limited partnership and for the uses and purposes therein set forth and apparent.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal in the City of Houston, Harris County, Texas, on the day and year first above written.

NOTARY PUBLIC, State of Texas

(printed name)

My commission expires:

[SEAL]

5

STATE OF TEXAS (S)
(S)
COUNTY OF HARRIS (S)

On this date before me, the undersigned authority, personally came and appeared _____, to me personally known and known by me to be the person whose genuine signature is affixed to the foregoing document as the _____ of Schlumberger Technology Corporation, a Texas corporation, who signed said document before me in the presence of the two witnesses, whose names are thereto subscribed as such, being competent witnesses, and who acknowledged, in my presence and in the presence of said witnesses, that he signed the above and foregoing document as his own free act and deed on behalf of such corporation by authority of its board of directors and as the free act and deed of such corporation and for the uses and purposes therein set forth and apparent.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal in the City of Houston, Harris County, Texas, on the day and year first above written.

NOTARY PUBLIC, State of Texas

(printed name)

My commission expires:

[SEAL]

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DEBT RESTRUCTURE AGREEMENT

The parties to this Debt Restructure Agreement are Cheniere Energy, Inc. ("Cheniere") and Anadrill, Schlumberger Well Services and Dowell, divisions of Schlumberger Technology Corporation (collectively hereinafter referred to as "Schlumberger").

R E C I T A L S

WHEREAS, Cheniere entered into the Subject Contracts (defined below) with Schlumberger pursuant to which Schlumberger provided certain services, materials and equipment in connection with operations performed on State Lease #16017 in Cameron Parish, Louisiana;

WHEREAS, Schlumberger has previously issued to Cheniere the Subject Invoices (defined below);

WHEREAS, Cheniere has not been able to pay the Subject Invoices in accordance with their terms and the terms of the Subject Contracts;

WHEREAS, Schlumberger has filed the Subject M&M Liens (defined below) to secure payment of the Subject Invoices;

WHEREAS, certain of the Subject Contracts provide for a discount on the dollar amount charged for the services, materials and equipment provided by Schlumberger which is only earned if the applicable Subject Invoices are timely paid;

WHEREAS, Cheniere has not earned the price discounts that were conditioned on timely payment;

WHEREAS, the Subject Invoices include price discounts which Cheniere is not entitled to pursuant to the terms of the Subject Contracts;

NOW, THEREFORE, for and in consideration of the premises, the mutual covenants and agreements contained in this Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Cheniere and Schlumberger agree as follows:

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ARTICLE I

DEFINITIONS

The following terms, as used in this Agreement, shall have the meanings indicated below, unless the context otherwise requires:

1.01 "AGREEMENT" means this Debt Restructure Agreement.

1.02 "CHENIERE" means Cheniere Energy, Inc.

1.03 "CLOSING" shall mean the occurrence of all of the actions described in Article IV.

1.04 "DECEMBER PAYMENT" means a payment by Cheniere to Schlumberger in the amount of Three Hundred Sixty Thousand Dollars (\$360,000) to be made on or before December 30, 1999 and to be applied in the manner specified in Article III.

1.05 "ENCAP" means Encap Energy Capital Fund III, L.P.

1.06 "EVENT OF DEFAULT" shall mean the occurrence of any of the events set forth in Section 10.01.

1.07 "MORTGAGE" means the Mortgage, Assignment, Security Agreement, Fixture Filing and Financing Statement substantially in the form attached hereto as Exhibit A.

1.08 "NOTE" means a Promissory Note in the original principal amount of One Million One Hundred Seventeen Thousand Five Hundred Sixty-Nine and 84/100 Dollars (\$1,117,569.84), dated January 4, 2000, executed by Cheniere in favor of Schlumberger substantially in the form attached hereto as Exhibit B.

1.09 "SCHLUMBERGER" means Schlumberger Technology Corporation, including its Dowell, Schlumberger Well Services and Anadrill divisions.

1.10 "SCHLUMBERGER ORIGINAL CLAIM" means the indebtedness of Cheniere under the Subject Contracts after charging back any price discounts which were initially issued by Schlumberger but Cheniere failed to earn due to failure to timely pay the Subject Invoices, plus interest and legal fees.

1.11 "SUBJECT CONTRACTS" means the Service Order Receipts and Contracts entered into by Schlumberger and Cheniere in connection with the provision of services, equipment and materials for operations on the State Lease #16017.

1.12 "SUBJECT INVOICES" means the invoices identified in Exhibit C.

1.13 "SUBJECT M&M LIENS" means the following mechanic's and materialman's liens which were filed in Cameron Parish as to the State Lease #16017:

Claimant	Amount	Date of Filing	Filing Information
Dowell	\$751,585.09	12/20/99	File #262981
Schlumberger Well Services	\$537,380.59	12/20/99	File #262982
Anadrill	\$172,459.12	12/20/99	File #262980

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1.14 "SUBORDINATION AGREEMENT" means an agreement between Cheniere, Schlumberger and Encap substantially in the form of Exhibit D.

1.15 "THREE PARTY AGREEMENT" means an agreement between Cheniere, Schlumberger and Encap substantially in the form of Exhibit E.

ARTICLE II

ACKNOWLEDGMENTS

2.01 DEBT. Prior to crediting the December Payment, and after allowance for all claims and offsets, Cheniere was indebted to Schlumberger for services, materials and equipment furnished pursuant to the Subject Contracts in the amount of One Million Four Hundred Sixty Thousand Five Hundred Sixty-Nine and 84/100 Dollars (\$1,460,569.84), plus (i) the unearned discounts, (ii) interest, and (iii) legal fees and expenses.

2.02 SCHLUMBERGER'S PERFORMANCE. Schlumberger fully satisfied all of its obligations under the Subject Contracts, including, but not limited to, all representations and warranties whether express or otherwise.

2.03 SUBJECT M&M LIENS. The Subject M&M Liens are valid, properly perfected and encumber Cheniere's interest in the property described therein.

ARTICLE III

DECEMBER PAYMENT

The sum of Three Hundred Sixty Thousand Dollars (\$360,000) has been paid by Cheniere to Schlumberger on or before December 30, 1999. The December Payment shall be applied first against all legal fees and expenses incurred by Schlumberger as a result of Cheniere's breach of the Subject Contracts, including those incurred in connection with (i) the preparation of the Subject M&M Liens, and (ii) negotiation and drafting of this Agreement and the various documents provided for herein.

ARTICLE IV

CLOSING

4.01 CLOSING. The Closing shall be held on or before January 4, 2000, provided that all conditions to Closing have been satisfied or waived. The Closing shall be held at the offices of Ware, Snow, Fogel, Jackson & Greene, L.L.P., whose address is 1111 Bagby, 49th Floor, Houston, Texas 77002.

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4.02 DELIVERY BY CHENIERE TO SCHLUMBERGER AT CLOSING. Cheniere shall deliver or cause to be delivered to Schlumberger duly executed originals of the following:

- a. the Note;
- b. the Mortgage;
- c. financing statements;
- d. the Three Party Agreement; and
- e. the Subordination Agreement.

4.03 DELIVERY BY ENCAP AT CLOSING. Encap shall deliver or cause to be delivered to Schlumberger and Cheniere duly executed originals of the following:

- a. the Three Party Agreement; and

- b. the Subordination Agreement.

4.04 DELIVERY BY SCHLUMBERGER AT CLOSING. Schlumberger shall deliver or cause to be delivered to Encap and Cheniere duly executed originals of the following:

- a. the Three Party Agreement; and
- b. the Subordination Agreement.

ARTICLE V

CONDITIONS

5.01 CONDITIONS TO OBLIGATIONS OF CHENIERE. The obligations of Cheniere hereunder are subject to the satisfaction, unless waived in writing by Cheniere, at its option and in its sole discretion, on or before the Closing of the conditions set forth below:

- a. Performance of Covenants and Agreements. Schlumberger shall have performed and complied with all covenants, agreements and obligations contained in this Agreement required to be performed or complied with by it prior to or at the Closing.
- b. Delivery by Encap. Encap shall have delivered to Schlumberger and Cheniere duly executed originals of the Three Party Agreement and the Subordination Agreement.

5.02 CONDITIONS TO OBLIGATIONS OF SCHLUMBERGER. The obligations of Schlumberger hereunder are subject to the satisfaction, unless waived in writing by Schlumberger, at its option and in its sole discretion, on or before the Closing of the conditions set forth below:

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- a. Representations and Warranties of Cheniere to be True and Correct. The representations and warranties of Cheniere contained in this Agreement shall be true and correct in all material respects on and as of the Closing, with the same effect as though such representations and warranties had been made on and as of each such date.
- b. Performance of Covenants and Agreements. Cheniere shall have performed and complied with all covenants, agreements and obligations contained in this Agreement required to be performed or complied with by it prior to or at the Closing.
- c. Consents and Litigation. Cheniere shall have obtained all required third party consents to the transactions contemplated by this Agreement and all statutory requirements for valid consummation of the transactions contemplated by this Agreement shall have been fulfilled and all necessary governmental consents, approvals or authorizations shall have been obtained. There shall not then exist any filed or threatened suit, action or other proceeding (including any investigation of any governmental agency) to restrain or invalidate the transactions contemplated by this Agreement and no order, writ, injunction, or decree shall have been entered or be in effect that restrains, enjoins or limits the transactions contemplated by this Agreement.
- d. Delivery by Encap. Encap shall have delivered to Schlumberger and Cheniere duly executed originals of the Three Party Agreement and the Subordination Agreement.
- e. Supporting Documents. Schlumberger and its counsel shall have received prior to or at the Closing reasonably satisfactory evidence that Cheniere has full power and authority, and has taken all corporate actions necessary to execute and deliver this Agreement and consummate the transactions contemplated hereby and perform all of its obligations hereunder.

ARTICLE VI

RELEASES

6.01 RELEASE BY CHENIERE. Cheniere acknowledges, confesses and agrees that, to the extent that any facts, events or conditions which, either now or with the passage of time or the giving of notice, or both, constitute or will constitute a basis for any claims, actions, demands, or causes of action of whatever kind or character, whether joint or several, whether known or unknown, which may have arisen or accrued prior to the date of execution of this Agreement, including, but not limited to, any claim, demand, cause of action or liability for any and all injuries, harm, damages, penalties, costs, losses, expenses, attorneys' fees, and/or liabilities whatsoever (including any defense, counterclaim or right of setoff to the payment or performance of any obligations

or indebtedness of Cheniere), whenever incurred or suffered by it, including, without limitation, any claim, demand, action, damage, liability, loss, cost, expense, and/or detriment, of any kind or character, growing out of or in any way connected with or in any way resulting from any breach of any duty of fair dealing, care, or any other duty, undue influence, duress, economic coercion, negligence, willful misconduct, bad faith, intentional or negligent infliction of distress or harm, tortious interference with contractual relations, tortious interference with corporate governance or prospective business advantage, breach of contract,

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failure to perform any obligation under any of the Subject Contracts, deceptive trade practices, libel, slander, conspiracy, interference with business, usury, strict liability, lender liability, breach of warranty or representation, fraud, or any other claim or cause of action (herein being collectively referred to as "Claims"), it hereby, for itself, its subsidiaries, its representatives, agents, officers, directors, employees, shareholders, successors, heirs and assigns (collectively called the "Releasing Parties"), knowingly and willfully, fully, finally and completely release, discharge, waive and acquit Schlumberger and its respective representatives, agents, officers, directors, employees, shareholders, and successors and assigns (collectively called the "Released Parties") from the Claims. The Releasing Parties further covenant and agree that, to the extent they, jointly and severally, are aware of any specific or general claim, cause of action or liability, facts, events, or conditions which, either now or with the passage of time or the giving of notice, or both, constitute or will constitute a basis for any claim, action, demand, or cause of action of whatever kind or character, that they possess, jointly or severally, against any or all of the Released Parties, such specific or general claim, cause of action or liability, fact, event, or condition is or are specifically delineated above, constitutes a claim or claims as defined in this paragraph, and are fully subject to and included within the release contained herein. It is the intent of all parties hereto that upon Closing all Claims shall be released and extinguished. IT IS EXPRESSLY AGREED THAT THE CLAIMS RELEASED HEREBY INCLUDE THOSE ARISING FROM OR IN ANY MANNER ATTRIBUTABLE TO THE NEGLIGENCE (SOLE, CONCURRENT, ORDINARY OR OTHERWISE), WILLFUL MISCONDUCT, OR OTHER CONDUCT OF ANY OF THE RELEASED PARTIES. Notwithstanding any provision of this Agreement this section shall remain in full force and effect and shall survive the delivery and payment of the Note, and the making, extension, renewal, modification, amendment or restatement of any thereof.

6.02 RELEASE BY SCHLUMBERGER. Effective as of the Closing, Schlumberger agrees to waive and release its right to charge back the unearned price discounts which were included within the Schlumberger Original Claim. This release does not in any way impair or affect any other claim or right of Schlumberger.

ARTICLE VII

REPRESENTATIONS OF CHENIERE

Cheniere agrees and represents and warrants to Schlumberger as follows:

7.01 ORGANIZATION. Cheniere is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware.

7.02 AUTHORITY AND CONFLICTS. Cheniere has full corporate power and authority to carry on its business as presently conducted, to enter into this Agreement and to perform its obligations under this Agreement. The execution and delivery of this Agreement by Cheniere does not, and the consummation of the transactions contemplated by this Agreement shall not, (i) violate or be in conflict with, or require the consent of any person or entity under, any provisions of Cheniere's Articles of Incorporation or other governing documents, (ii) except as set forth on Schedule 7.02, conflict with, result in a breach of, constitute a default (or an event that with the lapse of time or notice, or both, would constitute a default) under, or require any consent, authorization or approval under any agreement or instrument to which Cheniere is a party or is bound, or (iii) violate any provision of or require any consent, authorization or approval under

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any judgment, decree, judicial or administrative order, award, writ, injunction, statute, rule or regulation applicable to Cheniere.

7.03 AUTHORIZATION. The execution and delivery of this Agreement have been and the performance of this Agreement and the transactions contemplated hereby shall be at the time required to be performed hereunder, duly and validly authorized by all requisite corporate action on the part of Cheniere.

7.04 ENFORCEABILITY. This Agreement has been duly executed and delivered on behalf of Cheniere, and constitutes a legal, valid and binding obligation of Cheniere enforceable in accordance with its terms, subject to applicable

bankruptcy laws, insolvency, moratorium and reorganization laws generally affecting the enforcement of creditors' rights.

ARTICLE VIII

REPRESENTATIONS OF SCHLUMBERGER

Schlumberger agrees and represents and warrants to Cheniere as follows:

8.01 AUTHORIZATION. The execution and delivery of this Agreement have been and the performance of this Agreement and the transactions contemplated hereby shall be at the time required to be performed hereunder, duly and validly authorized by all requisite corporate action on the part of Schlumberger.

8.02 ENFORCEABILITY. This Agreement has been duly executed and delivered on behalf of Schlumberger, and constitutes a legal, valid and binding obligation of Schlumberger enforceable in accordance with its terms, subject to applicable bankruptcy laws, insolvency, moratorium and reorganization laws generally affecting the enforcement of creditors' rights.

ARTICLE IX

MORATORIUM

Prior to the occurrence of an Event of Default, Schlumberger shall not (i) take any action to foreclose the Subject M&M Liens, (ii) amend the Subject M&M Liens to name working interest owners in addition to Cheniere, or (iii) file any suit or action against Cheniere to collect the indebtedness.

ARTICLE X

DEFAULT

10.01 EVENTS OF DEFAULT. The occurrence of any one or more of the following events shall constitute an Event of Default by Cheniere hereunder:

(a) Any payment provided for under the Note is not paid when due, whether by lapse of time or acceleration or otherwise unless the default is fully cured within five (5) calendar days after Schlumberger has given Cheniere written notice thereof, provided

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that Schlumberger shall not be required to provide such notice more than once during the term of the Note.

(b) Cheniere fails to perform, observe or comply with--or defaults under--any of the terms, covenants, conditions or provisions contained in the Note, the Mortgage, the Debt Restructure Agreement or the Three Party Agreement (other than any such failure or default described in one of the other subparagraphs of this paragraph) unless the failure or default is fully cured within the lesser of (i) thirty (30) calendar days after Schlumberger has given Cheniere written notice thereof, and (ii) the cure period specified in the applicable agreement;

(c) Cheniere defaults under any of the terms, covenants, conditions or provisions contained in any agreement with Encap including any note, mortgage or credit agreement, unless the failure or default is fully cured within the period permitted in the applicable agreement;

(d) Encap terminates or defaults on any term or condition of the Three Party Agreement or the Subordination Agreement;

(e) Cheniere (i) voluntarily suspends transactions of business; (ii) becomes insolvent or unable to pay its debts as they mature; (iii) commences a voluntary case in bankruptcy or a voluntary petition seeking reorganization or to effect a plan or other arrangement with creditors; makes an assignment for the benefit of creditors; (v) applies for or consents to the appointment of any receiver or trustee for any such part or for any substantial portion of its property, or (vi) makes an assignment to an agent authorized to liquidate any substantial part of its assets;

(f) In respect of Cheniere (i) an involuntary case shall be commenced with any court or other authority seeking liquidation, reorganization or a creditor's arrangement of any such party, (ii) an order of any court or other authority shall be entered appointing any receiver or trustee for Cheniere or for any substantial portion of its property, or (iii) a writ or warrant of attachment or any similar process shall be issued by any court or other authority against any material portion of the property of Cheniere and such petition seeking liquidation, reorganization or a creditors' arrangement or such order appointing a receiver or trustee is not vacated or stayed, or such writ, warrant of attachment or similar process is not vacated, released or bonded off within ninety (90) days after its entry or

levy;

(g) the dissolution, liquidation or termination of Cheniere;

(h) Cheniere shall have concealed, removed, or permitted to be concealed or removed, any part of its property, with intent to hinder, delay or defraud any of its creditors, or make or suffered a transfer of any of its property which may be fraudulent under any bankruptcy, fraudulent conveyance or similar law, or shall have made any transfer of its property to or for the benefit of a creditor at a time when other creditors similarly situated have not been paid, or, while insolvent, shall have suffered or permitted any creditor to obtain a lien upon any of its property through legal proceedings or distraint which is not vacated within sixty (60) days from its date; or

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(i) Any representation or warranty by Cheniere contained (i) in this Agreement, (ii) the Mortgage, (iii) the Three Party Agreement, (iv) the Subordination Agreement, or (v) the Note shall prove to have been false or incorrect in any material respect on any date on or as of which made.

10.02 REMEDIES. If any Event of Default shall occur, Schlumberger may protect and enforce its rights under the Note, Mortgage, Three Party Agreement and Subordination Agreement by any appropriate proceedings, including proceedings for specific performance of any covenant or agreement, and Schlumberger may enforce payment of any obligations due it or enforce any other legal or equitable right. All rights, remedies and powers conferred upon Schlumberger under this Agreement, the Note, Mortgage, Three Party Agreement and Subordination Agreement shall be deemed cumulative and not exclusive of any other rights or remedies.

ARTICLE XI

MISCELLANEOUS

11.01 GOVERNING LAW. This Agreement and all instruments executed in accordance with it shall be governed by and interpreted in accordance with the laws of the State of Texas, without regard to conflict-of-law rules that would direct application of the laws of another jurisdiction, except to the extent that it is mandatory that the law of some other jurisdiction, wherein the assets are located, shall apply.

11.02 ENTIRE AGREEMENT; AMENDMENTS. This Agreement, including all exhibits attached hereto and made a part hereof constitute the entire agreement between the parties with respect to the transactions contemplated hereby and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties with respect to such transactions. No amendment of this Agreement shall be binding unless executed in writing by all parties.

11.03 WAIVER. No waiver by a party of any of the provisions of this Agreement (a) shall be binding unless executed in writing by such party, (b) shall be deemed or shall constitute a waiver by such party of any other provision hereof (whether or not similar), and (c) shall not constitute a continuing waiver by such party.

11.04 TRANSFERS. Except as expressly provided herein to the contrary, neither party hereto shall transfer this Agreement or any of its rights or obligations hereunder without the prior written consent of the other party, and any such transfer made without such consent shall be void. Except as otherwise provided herein, this Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and permitted transferees.

11.05 NOTICES. Any notice, request, consent, approval, waiver or other communication provided or permitted to be given under this Agreement shall be in writing and shall be delivered in person or sent by U.S. mail, overnight courier or fax to the appropriate addresses set forth below. Any such communication shall be effective upon actual receipt; provided, however, that in the case of delivery by fax after the normal business hours of the recipient, such

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communication shall be effective on the next Business Day following the transmission of such fax. For purposes of notice, the addresses of the parties shall be as follows:

If to Cheniere:

Cheniere Energy, Inc.
Two Allen Center, Suite 1740
1200 Smith Street
Houston, TX 77002

If to Schlumberger:

Pre D. Moss, Jr.
Schlumberger Technology Corporation
1325 South Dairy Ashford, Suite 300
Houston, TX 77077

With a copy to:

Phil F. Snow
Ware, Snow, Fogel, Jackson & Greene, L.L.P.
1111 Bagby, 49th Floor
Houston, TX 77002

Each party shall have the right, upon giving ten (10) days' prior notice to the other party in the manner provided in this section, to change its address for purposes of notice.

11.06 EXPENSES. Cheniere shall be solely responsible for all costs and expenses incurred by it and Schlumberger in connection with the transactions contemplated hereby.

11.07 SEVERABILITY. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any adverse manner with respect to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible. The obligations of the parties hereunder are severable and not joint.

11.08 COUNTERPARTS. This Agreement may be executed in counterparts (including faxed counterparts). Each such counterpart shall be deemed an original, but all such counterparts together shall constitute one and the same instrument.

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IN WITNESS WHEREOF, the parties have executed this Agreement on the 4th day of January, 2000.

CHENIERE ENERGY, INC.

BY:

Walter Williams, Vice Chairman of the
Board

SCHLUMBERGER TECHNOLOGY CORPORATION

By:

PRE D. MOSS, JR., CREDIT MANAGER

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SECOND AMENDMENT TO CREDIT AGREEMENT

THIS SECOND AMENDMENT TO CREDIT AGREEMENT (herein called this "Amendment") is made as of the 29th day of February, 2000, by and between Cheniere Energy, Inc. ("Borrower") and EnCap Energy Capital Fund III, L.P. ("Lender").

W I T N E S S E T H:

WHEREAS, Borrower and Lender have entered into a secured term loan facility pursuant to that certain Credit Agreement dated as of September 1, 1999 (as amended, supplemented, or restated to the date hereof, the "Original Agreement") and that certain Mortgage, Assignment, Security Agreement, Fixture Filing and Financing Statement dated September 1, 1999 by Borrower in favor of Lender (as amended, supplemented, or restated to the date hereof, the "Original Mortgage"); and

WHEREAS, Section 2.1(j) of the Original Mortgage provides that Borrower will not, without the prior written consent of Lender, elect not to participate in a proposed operation on the Mortgaged Properties (as such term is defined in the Original Mortgage) where the effect of such election would be the forfeiture either temporarily or permanently of any interest in the Mortgaged Properties; and

WHEREAS, Section 2.3 of the Original Mortgage provides that if Borrower fails to take any action required under the Original Mortgage (including but limited to actions required under Section 2.1(j) of the Original Mortgage), Lender may take such action, provided that any costs or expenses incurred by Lender in connection therewith shall be a demand obligation owing by Borrower to Lender at the rate of fifteen percent per annum; and

WHEREAS, Borrower has been requested by IP Petroleum Company, Inc. to pay \$605,000 for the costs of recompleting the State Lease 16017 Well No. 1, which is part of

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Lender's Collateral, and if Borrower fails to do so Borrower will be in default of Section 2.1(j) of the Original Mortgage; and

WHEREAS, Borrower is not able to pay such amount and has requested that Lender exercise its rights under Section 2.3 of the Original Mortgage and advance \$605,000 directly to IP Petroleum Company, Inc., but that Lender agree to let such advance be subject to the terms of the Promissory Note attached hereto as Exhibit A rather than bear interest at the rate of fifteen percent per annum and be payable on demand; and

WHEREAS, Lender has agreed to make such advance on such terms in consideration of this Amendment.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements contained herein and in the Original Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree as follows:

ARTICLE I.

DEFINITIONS AND REFERENCES

(S) 1.1 Terms Defined in the Original Agreement. Unless the context otherwise requires or unless otherwise expressly defined herein, the terms defined in the Original Agreement shall have the same meanings whenever used in this Amendment.

(S) 1.2. Other Defined Terms. Unless the context otherwise requires, the following terms when used in this Amendment shall have the meanings assigned to them in this (S) 1.2.

"Amendment" means this Second Amendment to Credit Agreement.

"Amendment Documents" means this Amendment, the Renewal Note, and the Security Document Amendments.

"Credit Agreement" means the Original Agreement as amended hereby.

"Original Note" means the "Note" referred to and defined as such in the Original Agreement.

"Renewal Note" means the renewal promissory note of Borrower attached hereto as Exhibit A, expressly renewing and increasing the Original Note.

"Security Document Amendments" means, collectively, (a) the Third Supplement and Amendment to Mortgage, Assignment, Security Agreement, Fixture Filing and Financing Statement by Borrower and Lender of even date herewith, (b) the First Amendment to Guaranty by Cheniere Operating of even date herewith, and (c) the First Amendment to Stock Pledge Agreement by Borrower of even date herewith.

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ARTICLE II.

AMENDMENTS TO ORIGINAL AGREEMENT

(S) 2.1. Defined Terms. The following defined term is hereby added to Section 1.1 of the Original Agreement:

"IP" means IP Petroleum Company, Inc.

(S) 2.2. Loan. Section 2.1 of the Original Agreement is hereby amended in its entirety to read as follows:

"Section 2.1 Loan. Subject to the terms and conditions hereof, Lender agrees to make (a) an advance to Borrower on September 1, 1999 in the amount of \$3,100,000 (herein called the "First Loan") and (b) a payment to IP on behalf of Borrower on February 29, 2000 in the amount of \$605,000 (herein called the "Second Loan"; the First Loan and the Second Loan are herein collectively referred to as the "Loan"). The obligation of Borrower to repay to Lender the Loan, together with interest accruing in connection therewith, shall be evidenced by a single promissory note (herein called the "Note") made by Borrower payable to the order of Lender in the form of Exhibit A with appropriate insertions. The amount of principal owing on the Note at any given time shall be the aggregate amount of the Loan minus all payments of principal theretofore received by Lender on the Note. Interest on the Note shall accrue and be due and payable as provided herein and therein. The Note shall be due and payable as provided herein and therein, and shall be due and payable in full on the Maturity Date. The proceeds of the Second Loan shall be forwarded directly by Lender to IP with instructions to apply the same to the payment of costs incurred by Borrower in connection with the recompletion of the State Lease 16017 Well No.1."

(S) 2.3. Payment of Trade Liabilities, Taxes, etc. Section 6.7(c) of the Original Agreement is hereby amended in to read in its entirety as follows:

"(c) within ninety (90) days after the same becomes due pay all Liabilities owed by it on ordinary trade terms to vendors, suppliers, and other Persons providing goods and services used by it in the ordinary course of its business (except to the extent that such Liabilities constitute Indebtedness permitted under Section 7.1(h));"

(S) 2.4. Exhibit A. Exhibit A to the Original Agreement is hereby deleted in its entirety and replaced with Exhibit A attached to this Amendment.

(S) 2.5. Second Loan. The proceeds of the Second Loan referenced in Section 2.1 of the Credit Agreement shall be wired to:

Southwest Bank of Texas for the account of IP Petroleum Company, Inc.
ABA No. 11301258
Account No. 0157546

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ARTICLE III.

CONDITIONS OF EFFECTIVENESS

(S) 3.1. Effective Date. This Amendment shall become effective as of the date first above written when and only when:

(a) Lender shall have received, at Lender's office (i) a counterpart of this Amendment and each other Amendment Document executed and delivered by each Restricted Person that is a party thereto in form and substance acceptable to Lender in Lender's sole and absolute discretion, (ii) a written opinion of Mayor, Day, Caldwell, and Keeton, L.L.P., addressed to Lender, to the effect that (A) the Amendment Documents have been duly authorized, executed and delivered by each Restricted Person that is a party thereto, and (B) each Amendment Document and each Loan Document amended thereby (other than the Original Mortgage as so amended, as to which no opinion shall be required) constitutes the legal, valid and binding obligation of each Restricted Person that is a party thereto, enforceable in accordance with its terms, (iii) a certificate of a duly authorized officer of Borrower to the effect that all of the representations and warranties set forth in (S) 4.1 hereof are true and correct at and as of the time of such effectiveness, (iv) a certificate of

the Secretary of Borrower dated the date of this Amendment certifying that attached thereto is a true and complete copy of resolutions adopted by the Board of Directors of Borrower authorizing the execution, delivery and performance of the Amendment Documents, and (v) such supporting documents as Lender may reasonably request, and

(b) Borrower shall have paid in immediately available funds (i) an amendment fee to Lender in the amount of \$12,100 and (ii) all legal fees and expenses owing to Thompson & Knight L.L.P., legal counsel to Lender, relating to the preparation, negotiation, execution, and recordation of the Amendment Documents, which Lender estimates will not exceed \$7,500 in fees, plus recording costs and other expenses.

ARTICLE IV.

REPRESENTATIONS AND WARRANTIES; WAIVERS; MUTUAL RELEASE

(S) 4.1. Representations and Warranties of Borrower. In order to induce Lender to enter into this Amendment, Borrower represents and warrants to Lender that:

(a) Except as set forth in Schedule 4.1(a) attached hereto, the representations and warranties contained in Article V of the Credit Agreement are true and correct at and as of the time of the effectiveness hereof. The balance of the Renewal Note is \$3,621,904.62, which is the sum of \$605,000 plus the unpaid principal balance of the Original Note as of the close of business on February 28, 2000.

(b) Each Restricted Person is duly authorized to execute and deliver the Amendment Documents and the other Loan Documents to which it is a party and is and will continue to be duly authorized to borrow and to perform its obligations under the Credit Agreement. Each Restricted Person has duly taken all corporate action necessary

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to authorize the execution and delivery of the Amendment Documents and the other Loan Documents to which it is a party and to authorize the performance of the obligations of such Restricted Person thereunder.

(c) The execution and delivery by each Restricted Person of the Amendment Documents and the other Loan Documents to which it is a party, the performance by each Restricted Person of its obligations thereunder and the consummation of the transactions contemplated thereby do not and will not conflict with any provision of law, statute, rule or regulation or of the certificate of incorporation and bylaws of any Restricted Person, or of any material agreement, judgment, license, order or permit applicable to or binding upon any Restricted Person, or result in the creation of any Lien, charge or encumbrance upon any assets or properties of any Restricted Person. No consent, approval, authorization or order of any court or governmental authority or third party is required in connection with the execution and delivery by any Restricted Person of the Amendment Documents or the other Loan Documents to which it is a party or to consummate the transactions contemplated thereby.

(d) When duly executed and delivered, each Amendment Document will be a legal and binding instrument and agreement of each Restricted Person that is a party thereto, enforceable in accordance with its terms. Each other Loan Document is and shall continue to be the legal, valid and binding obligation of each Restricted Person that is a party thereto, enforceable against such Restricted Person in accordance with their respective terms.

(e) The unaudited quarterly Consolidated financial statements of Borrower dated as of September 30, 1999 fairly present the Consolidated financial position at such date and the Consolidated statement of operations and the changes in Consolidated financial position for the periods ending on such date for Borrower. Copies of such financial statements have heretofore been delivered to Lender. Since September 30, 1999, no Material Adverse Change has occurred in the Consolidated financial condition or businesses of Borrower.

(f) No Default or Event of Default has occurred or is continuing (other than the Defaults or Events of Default waived in writing by Lender or disclosed in Schedule in 4.1(a) attached hereto).

(g) Borrower has no defense, counterclaim or setoff with respect to the Obligations or the Loan Documents (any such setoffs, defenses or counterclaims being hereby waived and released by Borrower).

(S) 4.2. Waivers. Borrower hereby waives and affirmatively agrees not to allege or otherwise pursue any or all defenses, affirmative defenses, counterclaims, claims, causes of action, setoffs or other rights that it may have to contest (a) the enforceability of any of the Obligations; (b) any provision of the Loan Documents; (c) any Lien or security interest of Lender in

any Collateral or other property, whether movable or immovable, real or personal, or tangible or intangible, or any right or other interest, now or hereafter arising in connection with the Collateral; (d) the actions and inactions of Lender prior to the date hereof in administering the Loan Documents, or any other matter prior to the date hereof relating to the financing

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arrangements between Borrower and Lender; or (e) the rights of Lender to the Net Profits Interest.

(S) 4.3. Mutual Release. Each of Borrower and Lender HEREBY RELEASES, REMISES, ACQUITS AND FOREVER DISCHARGES the other and the other's partners, participants, predecessors, successors and assigns, subsidiary entities, parent entities, and other affiliates, as well as all employees, agents, representatives, consultants, attorneys, fiduciaries, partners, officers and directors of any of the foregoing (all of the foregoing beneficiaries of such release being hereinafter called the "Released Persons") from any and all actions and causes of action, judgments, executions, suits, debts, claims, demands, liabilities, obligations, damages and expenses of any and every character, known or unknown, direct or indirect, at law or in equity, sounding in contract or in tort, of whatsoever kind or nature, for or because of any matter or things done, omitted or suffered to be done by any of the Released Persons prior to the date of execution hereof and in any way directly or indirectly arising out of or in any way connected to the Credit Agreement or any attempt by Borrower to raise funds through the sale of equity or debt securities, INCLUDING WITHOUT LIMITATION ANY CLAIM OR LIABILITY RELATED TO FRAUD, INADEQUATE DISCLOSURE, NEGLIGENCE, USURY (INCLUDING WITHOUT LIMITATION ANY DEFENSE BASED ON USURY), OR WRONGFUL INTERFERENCE WITH CONTRACTS, BUSINESS OPPORTUNITIES OR RELATIONSHIPS (all of the foregoing hereinafter called the "Released Matters"); PROVIDED THAT THE RELEASED MATTERS DO NOT INCLUDE OR APPLY TO, AND THAT NO RELEASE IS GIVEN HEREBY WITH RESPECT TO, ANY PRINCIPAL, INTEREST, OTHER INDEBTEDNESS, INDEMNITY, COVENANT, OR OTHER RIGHTS, OBLIGATIONS OR DUTIES OF BORROWER OR LENDER UNDER THIS AMENDMENT, THE CREDIT AGREEMENT, THE NOTE OR ANY OTHER LOAN DOCUMENT. Each of Borrower and Lender acknowledges and agrees that the provisions of this Amendment constitute full and adequate consideration for the foregoing releases. For the purposes of the foregoing release by Borrower, the affiliates of Borrower shall be deemed to include, without limitation, EnCap Energy Advisors, Inc., RP&C International, Inc., and EnCap Investments L.C.

(S) 4.4. Acknowledgments and Admissions. Borrower hereby represents, warrants, acknowledges and admits that (a) it has made an independent decision to enter into the Amendment Documents and the other Loan Documents without reliance on any representation, warranty, covenant or undertaking by Lender, whether written, oral or implicit, other than as expressly set out in the Amendment Documents or in the other Loan Documents, (b) there are no representations, warranties, covenants, undertakings or agreements by Lender as to the Loan Documents except as expressly set out in the Amendment Documents or in another Loan Document, (c) Lender has no fiduciary obligation toward Borrower with respect to any Loan Document or the transactions contemplated thereby, (d) the relationship pursuant to the Loan Documents between the Restricted Persons, on one hand, and Lender, on the other hand, is and shall be solely that of debtor and creditor, respectively, (e) no partnership or joint venture exists with respect to the Amendment Documents, the Loan Documents, or the Collateral between Borrower and Lender, (f) should a breach or other default occur or exist under the Amendment Documents, any Loan Document, or any document or instrument at any time delivered in connection therewith, Lender will determine in its sole discretion and for its own reasons what remedies and actions it will or will not exercise or take at that time, (g) without limiting any of the foregoing, Borrower is not relying upon any representation or covenant by Lender, or any representative of Lender, and no such representation or covenant has been made, that Lender will, at the time of any such breach or default, or at any other time, waive, negotiate, discuss, or take or refrain from taking any action permitted under the Loan Documents with respect thereto,

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and (h) Lender has relied upon the truthfulness of the acknowledgments in this section in deciding to execute and deliver the Amendment Documents.

ARTICLE V.

MISCELLANEOUS

(S) 5.1. Ratification of Agreements. The Loan Documents as amended by the Amendment Documents are hereby ratified and confirmed in all respects. Any reference to the Credit Agreement in any Loan Document shall be deemed to refer to this Amendment also. Any reference to the Note in any other Loan Document shall be deemed to be a reference to the Renewal Note issued and delivered pursuant to this Amendment. The execution, delivery and effectiveness of this Amendment and the other Amendment Documents shall not, except as expressly provided herein or therein, operate as a waiver of any right, power or remedy of Lenders under the Credit Agreement, the Note, or any other Loan Document nor

constitute a waiver of any provision of the Credit Agreement, the Note or any other Loan Document.

(S) 5.2. Survival of Agreements. All representations, warranties, covenants and agreements of Borrower herein shall survive the execution and delivery of this Amendment and the performance hereof, including without limitation the making or granting of the Loan, and shall further survive until all of the Obligations are paid in full. All statements and agreements contained in any certificate or instrument delivered by any Restricted Person hereunder or under the Credit Agreement to Lender shall be deemed to constitute representations and warranties by, or agreements and covenants of, Borrower under this Amendment and under the Credit Agreement.

(S) 5.3. Loan Documents. Each Amendment Document is a Loan Document, and all provisions in the Credit Agreement pertaining to Loan Documents apply thereto.

(S) 5.4. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of Texas and any applicable laws of the United States of America in all respects, including construction, validity and performance.

(S) 5.5. Counterparts. This Amendment may be separately executed in counterparts and by the different parties hereto in separate counterparts, each of which when so executed shall be deemed to constitute one and the same Amendment.

THIS AMENDMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS OF THE PARTIES.

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IN WITNESS WHEREOF, this Amendment is executed as of the date first above written.

ENCAP ENERGY CAPITAL FUND III, L.P.

By: ENCAP INVESTMENTS, L.C., general partner

By: _____
Robert L. Zorich
Managing Director

CHENIERE ENERGY, INC.

By: _____
Charif Souki
Chairman of the Board of Directors

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CONSENT AND AGREEMENT

The undersigned hereby consents to the provisions of this Amendment and the transactions contemplated herein, and hereby ratifies and confirms the Guaranty dated as of September 1, 1999 made by it for the benefit of Lender, and agrees that its obligations and covenants thereunder are unimpaired hereby and shall remain in full force and effect.

CHENIERE ENERGY OPERATING CO., INC.

By: _____
Walter L. Williams
President

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EXHIBIT A

PROMISSORY NOTE

\$3,621,904.62

Houston, Texas

February 29, 2000

FOR VALUE RECEIVED, the undersigned, Cheniere Energy, Inc., a Delaware corporation (herein called "Borrower"), hereby promises to pay to the order of

EnCap Energy Capital Fund III, L.P. (herein called "Lender"), the principal sum of Three Million Six Hundred Twenty One Thousand Nine Hundred Four and 62/100 Dollars (\$3,621,904.62), together with interest on the unpaid principal balance thereof as hereinafter set forth, both principal and interest payable as herein provided in lawful money of the United States of America at the offices of the Lender under the Credit Agreement, 1100 Louisiana, Suite 3150, Houston, Texas 77002, or at such other place within Harris County, Texas, as from time to time may be designated by the holder of this Note.

This Note (a) is issued and delivered under that certain Credit Agreement dated as of September 1, 1999 among Borrower and Lender (herein, as from time to time supplemented, amended or restated, called the "Credit Agreement"), and is the "Note" as defined therein, and (b) is subject to the terms and provisions of the Credit Agreement, which contains provisions for payments and prepayments hereunder and acceleration of the maturity hereof upon the happening of certain stated events. Payments on this Note shall be made and applied as provided herein and in the Credit Agreement. Reference is hereby made to the Credit Agreement for a description of certain rights, limitations of rights, obligations and duties of the parties hereto and for the meanings assigned to terms used and not defined herein.

The principal amount of this Note, together with all interest accrued hereon, shall be due and payable in full on the Maturity Date. Additional payments of principal are due as required under the Credit Agreement. Interest payments on this Note are due on each Monthly Payment Date, beginning on the date hereof.

The principal amount of this Note (exclusive of any past due principal or interest) from time to time outstanding shall bear interest on each day outstanding at the Base Rate in effect on such day; provided that if an Event of Default has occurred and is continuing, the principal amount of this Note (exclusive of any past due principal or interest) from time to time outstanding shall bear interest on each day outstanding at the Default Rate in effect on such day. All past due principal and interest on the Loan shall bear interest on each day outstanding at the Default Rate in effect on such day, and such interest shall be due and payable daily as it accrues. Notwithstanding the foregoing provisions of this paragraph: (a) this Note shall never bear interest in excess of the Highest Lawful Rate, and (b) if at any time the rate at which interest is payable on this Note is limited by the Highest Lawful Rate (by the foregoing clause (a) or by reference to the Highest Lawful Rate in the definitions of Base Rate and Default Rate), this Note shall, to the extent permitted by applicable law, bear interest at the Highest Lawful Rate and shall continue to bear interest at the Highest Lawful Rate until such time as the total amount of interest accrued hereon equals (but does not exceed) the total amount of interest which would have accrued hereon had there been no Highest Lawful Rate applicable hereto.

Notwithstanding the foregoing paragraph and all other provisions of this Note or any other Loan Document, in no event shall the interest payable hereon, together with any other

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amounts constituting interest on the Obligations, whether before or after maturity, exceed the maximum amount of interest which, under applicable law, may be charged on this Note and such other Obligations, and this Note is expressly made subject to the provisions of the Credit Agreement which more fully set out the limitations on how interest accrues hereon. In the event applicable law provides for an interest ceiling under Chapter 303 of the Texas Finance Code (the "Texas Finance Code") as amended, for any day, the ceiling for such day shall be the "weekly ceiling" as defined in the Texas Finance Code and such ceiling shall be used in this Note for calculating the Highest Lawful Rate and for all other purposes, provided that if any applicable law permits greater interest, the applicable law permitting the greatest interest shall apply. The term "applicable law" as used in this Note shall mean the Laws of the State of Texas including the Laws of the United States, as such laws now exist or may be changed or amended or come into effect in the future.

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

Borrower and all endorsers, sureties and guarantors of this Note hereby severally waive demand, presentment, notice of demand and of dishonor and nonpayment of this Note, protest, notice of protest, notice of intention to accelerate the maturity of this Note, declaration or notice of acceleration of the maturity of this Note, diligence in collecting, the bringing of any suit against any party and any notice of or defense on account of any extensions, renewals, partial payments or changes in any manner of or in this Note or in any of its terms, provisions and covenants, or any releases or substitutions of any security, or any delay, indulgence or other act of any trustee or any holder

hereof, whether before or after maturity.

This Note is given in renewal and increase, but not in extinguishment or novation, of that certain promissory note by Borrower to the order of Lender in the original principal amount of \$3,100,000 dated September 1, 1999.

THIS NOTE AND THE RIGHTS AND DUTIES OF THE PARTIES HERETO SHALL BE GOVERNED BY THE LAWS OF THE STATE OF TEXAS (WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW), EXCEPT TO THE EXTENT THE SAME ARE GOVERNED BY APPLICABLE FEDERAL LAW.

CHENIERE ENERGY, INC.

By:

Charif Souki
Chairman of the Board of Directors

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SCHEDULE 4.1 (a)

The representations and warranties contained in Article V of the Original Agreement are true and correct, subject to the matters below:

Section 5.1 -- Defaults

Subject to the agreements, understandings, and waivers set forth in the Amendment Documents and the other documents contemplated therein, no Restricted Person is in default in the performance of any of the covenants and agreements contained in any Loan Document and no event has occurred and is continuing which constitutes a Default except as follows:

Sections 6.7, 6.11, 8.1(f), 8.1(g) Borrower has failed to timely pay obligations under contracts to which it is a party, including Borrower's obligations under the Fairfield Agreement and disputed amounts under its agreement with RP&C International, Inc.

Section 7.3 By December 31, 1999, Borrower has not entered into Hedging Contracts as contemplated in Section 7.3.

Section 5.12 Title to Properties

The Stingray Prospect and the Redfish Prospect are encumbered by mechanics and materialmens liens in favor of Schlumberger Technology Corporation, as contemplated in the First Amendment to Credit Agreement, dated as of December 31, 1999, between Borrower and Lender, and the Amendment Documents, as such term is defined therein.

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CHENIERE ENERGY, INC.

TWO ALLEN CENTER
1200 SMITH STREET, SUITE 1740
HOUSTON, TEXAS 77002-4312
(713) 659-1361
FAX: (713) 659-5459

April 30, 1999

Lender

Form of Sixth Amendment to Securities Purchase Agreement ("Sixth Amendment")

Dear Lender:

Reference is made to the Securities Purchase Agreement dated as of December 15, 1997 as amended by the Third Amendment dated on or about September 13, 1998, by the Fourth Amendment dated January 12, 1999 and by the Fifth Amendment dated March 15, 1999 (as amended, the "Agreement"), between Cheniere Energy, Inc., a Delaware corporation ("Borrower"), and Lender. Unless otherwise indicated, all capitalized terms herein are used as defined in the Agreement.

The purpose of this amendment to the Agreement is to extend the maturity date from April 30, 1999 to July 15, 1999 as described below.

For good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Borrower and Lender agree as follows:

1. Amendment of Maturity Date. The definition of Maturity Date in Section 12 shall be hereby amended by replacing the paragraph captioned MATURITY DATE in its entirety with the following paragraph:

"MATURITY DATE means the earlier of (a) July 15, 1999 and (b) the date that the Senior Notes are declared immediately due and payable pursuant to SECTION 11 in the event of a Default; provided that Lender's rights continue until the Obligation has been paid and performed in full."

2. Representations and Warranties. Borrower represents and warrants that it possesses all requisite power and authority to execute, deliver and comply with the terms of this instrument, which has been duly authorized and approved by all necessary corporate action and for which no consent of any person is required.
3. Fees and Expenses. Borrower agrees to pay the reasonable fees and expenses of counsel to Lender for services rendered in connection with the negotiation and execution of this instrument.
4. Loan Paper; Effect. This instrument is a Loan Paper and, therefore, is subject to the applicable provisions of Section 13 of the Agreement, all of which are incorporated herein by reference the same as if set forth herein verbatim. In the event of any inconsistency between the terms of the Agreement as hereby modified (the "Amended Agreement") and any other Loan Papers, the terms of the Amended Agreement shall control and such other document shall be deemed to be amended hereby to conform to the terms of the Amended Agreement.
5. No Waiver of Defaults. This instrument does not constitute a waiver of, or a consent to any present or future violation of or default under, any provision of the Loan Papers, or a waiver of Lender's right to insist upon future compliance with each term, covenant, condition and provision of the Loan Papers, and the Loan Papers shall continue to be binding upon, and inure to the benefit of, Borrower, Lender and their respective successors and assigns.
6. Final Agreement. THE LOAN PAPERS, AS AMENDED HEREBY, REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO ORAL AGREEMENTS BETWEEN THE PARTIES.

If the foregoing terms and conditions are acceptable to Lender, Lender should indicate its acceptance by signing in the space provided below and returning an executed copy hereof to Borrower, whereupon this letter shall become an agreement binding upon and inuring to the benefit of Borrower and

Lender and their respective successors and assigns.

Sincerely,

CHENIERE ENERGY, INC.

By:

Don A. Turkleson
Chief Financial Officer

Accepted and agreed to as of the day
and year first set forth in this Sixth
Amendment.

- -----
Lender

CHENIERE ENERGY, INC.

TWO ALLEN CENTER
1200 SMITH STREET, SUITE 1740
HOUSTON, TEXAS 77002-4312
(713) 659-1361
FAX: (713) 659-5459

May 19, 1999

Lender

Form of Seventh Amendment to Securities Purchase Agreement ("Seventh Amendment")

Dear Lender:

Reference is made to the Securities Purchase Agreement dated as of December 15, 1997 as amended by the Third Amendment dated on or about September 13, 1998, by the Fourth Amendment dated January 12, 1999, by the Fifth Amendment dated March 15, 1999 and by the Sixth Amendment dated April 14, 1999 (as amended, the "Agreement"), between Cheniere Energy, Inc., a Delaware corporation ("Borrower"), and Lender. Unless otherwise indicated, all capitalized terms herein are used as defined in the Agreement.

The purpose for this amendment of the Agreement is to increase from \$5,000,000 to \$10,000,000 the amount of net funds which Borrower may raise through private placement of its equity securities or from the sale of seismic data and retain for use in its business before being required to direct the proceeds from such sources to prepayment of the Term Loan.

For good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Borrower and Lender agree as follows:

1. Amendment of Terms of Payment. Section 2 of the Agreement is hereby amended by replacing paragraph (c) of such Section in its entirety with the following paragraph:

(c) In addition to prepayments under clause (b) above, Borrower shall make prepayments of principal of the Term Loan equal to the net cash proceeds received by Borrower from any private placement of Borrower's equity securities or from any sale by Borrower of seismic data, less up to \$10,000,000 which may be retained by Borrower.
2. Representations and Warranties. Borrower represents and warrants that it possesses all requisite power and authority to execute, deliver and comply with the terms of this instrument, which has been duly authorized and approved by all necessary corporate action and for which no consent of any person is required.
3. Fees and Expenses. Borrower agrees to pay the reasonable fees and expenses of counsel to Lender for services rendered in connection with the negotiation and execution of this instrument.
4. Loan Paper; Effect. This instrument is a Loan Paper and, therefore, is subject to the applicable provisions of Section 13 of the Agreement, all of which are incorporated herein by reference the same as if set forth herein verbatim. In the event of any inconsistency between the terms of the Agreement as hereby modified (the "Amended Agreement") and any other Loan Papers, the terms of the Amended Agreement shall control and such other document shall be deemed to be amended hereby to conform to the terms of the Amended Agreement.
5. No Waiver of Defaults. This instrument does not constitute a waiver of, or a consent to any present or future violation of or default under, any provision of the Loan Papers, or a waiver of Lender's right to insist upon future compliance with each term, covenant, condition and provision of the Loan Papers, and the Loan Papers shall continue to be binding upon, and inure to the benefit of, Borrower, Lender and their respective successors and assigns.
7. Final Agreement. THE LOAN PAPERS, AS AMENDED HEREBY, REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO ORAL AGREEMENTS BETWEEN THE PARTIES.

If the foregoing terms and conditions are acceptable to Lender, Lender should indicate its acceptance by signing in the space provided below and returning an executed copy hereof to Borrower, whereupon this letter shall become an agreement binding upon and inuring to the benefit of Borrower and Lender and their respective successors and assigns.

Sincerely,

CHENIERE ENERGY, INC.

By:

Don A. Turkleson
Chief Financial Officer

Accepted and agreed to as of the day
and year first set forth in this Seventh
Amendment.

- -----
Lender

CHENIERE ENERGY, INC.

TWO ALLEN CENTER
1200 SMITH STREET, SUITE 1740
HOUSTON, TEXAS 77002-4312
(713) 659-1361
FAX: (713) 659-5459

July 13, 1999

Lender

Form of Eighth Amendment to Securities Purchase Agreement ("Eighth Amendment")

Dear Lender:

Reference is made to the Securities Purchase Agreement dated as of December 15, 1997 as amended by the Third Amendment dated on or about September 13, 1998, by the Fourth Amendment dated January 12, 1999, by the Fifth Amendment dated March 15, 1999, by the Sixth Amendment dated April 14, 1999 and by the Seventh Amendment dated May 19, 1999 (as amended, the "Agreement"), between Cheniere Energy, Inc., a Delaware corporation ("Borrower"), and Lender. Unless otherwise indicated, all capitalized terms herein are used as defined in the Agreement.

The purpose of this amendment to the Agreement is to provide notice of the repayment of 50% of the outstanding principal balance on July 15, 1999, to extend the maturity date for the remaining principal balance from July 15, 1999 to October 15, 1999, to increase the interest rate effective July 16, 1999 from LIBOR plus 4% to LIBOR plus 6% and to increase from \$10,000,000 to \$12,000,000 the amount of net funds which Borrower may raise through private placement of its equity securities or from the sale of seismic data and retain for use in its business before being required to direct the proceeds from such sources to prepayment of the Term Loan.

For good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Borrower and Lender agree as follows:

1. Amendment of Maturity Date. The definition of Maturity Date in Section 12 shall be hereby amended by replacing the paragraph captioned MATURITY DATE in its entirety with the following paragraph:

"MATURITY DATE means the earlier of (a) October 15, 1999 and (b) the date that the Senior Notes are declared immediately due and payable pursuant to SECTION 11 in the event of a Default; provided that Lender's rights continue until the Obligation has been paid and performed in full."

2. Amendment of Contract Rate. The definition of CONTRACT RATE in the Senior Term Note shall be hereby amended by replacing the fourth paragraph of the Senior Term Note in its entirety with the following paragraph:

"The principal from day to day unpaid shall, except as stated below, bear interest at a rate per annum which shall from day to day be equal to the lesser of (a) the Maximum Rate (hereinafter defined) and (b) the sum of 6% plus LIBOR. At the option of the holder of this note and to the extent permitted by applicable law, all past-due principal of this note and accrued and past-due interest on this note shall bear interest from the date due and payable (stated or by acceleration) until paid at a rate per annum which shall from day to day be equal to the lesser of (a) the Maximum Rate and (b) the sum of 6% plus LIBOR, regardless of whether such payment is made before or after entry of a judgement. Each change in the Maximum Rate will become effective, without notice to Maker or any other person or entity, upon the effective date of such change."

3. Amendment of Terms of Payment. Section 2 of the Agreement is hereby amended by replacing paragraph (c) of such Section in its entirety with the following paragraph:

"In addition to prepayments under clause (b) above, Borrower shall make prepayments of principal of the Term Loan equal to the net cash proceeds received by Borrower from any private placement of Borrower's equity securities or from any sale by Borrower of seismic data, less up to \$12,000,000 which may be retained by Borrower."

4. Representations and Warranties. Borrower represents and warrants that it possesses all requisite power and authority to execute, deliver and comply with the terms of this instrument, which has been duly authorized

and approved by all necessary corporate action and for which no consent of any person is required.

- 5. Fees and Expenses. Borrower agrees to pay the reasonable fees and expenses of counsel to Lender for services rendered in connection with the negotiation and execution of this instrument.
- 6. Loan Paper; Effect. This instrument is a Loan Paper and, therefore, is subject to the applicable provisions of Section 13 of the Agreement, all of which are incorporated herein by reference the same as if set forth herein verbatim. In the event of any inconsistency between the terms of the Agreement as hereby modified (the "Amended Agreement") and any other Loan Papers, the terms of the Amended Agreement shall control and such other document shall be deemed to be amended hereby to conform to the terms of the Amended Agreement.
- 7. No Waiver of Defaults. This instrument does not constitute a waiver of, or a consent to any present or future violation of or default under, any provision of the Loan Papers, or a waiver of Lender's right to insist upon future compliance with each term, covenant, condition and provision of the Loan Papers, and the Loan Papers shall continue to be binding upon, and inure to the benefit of, Borrower, Lender and their respective successors and assigns.

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- 8. Final Agreement. THE LOAN PAPERS, AS AMENDED HEREBY, REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO ORAL AGREEMENTS BETWEEN THE PARTIES.

If the foregoing terms and conditions are acceptable to Lender, Lender should indicate its acceptance by signing in the space provided below and returning an executed copy hereof to Borrower, whereupon this letter shall become an agreement binding upon and inuring to the benefit of Borrower and Lender and their respective successors and assigns.

Sincerely,

CHENIERE ENERGY, INC.

By:

Don A. Turkleson
Chief Financial Officer

Accepted and agreed to as of the day and year first set forth in this Eighth Amendment.

Lender

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CHENIERE ENERGY, INC.

TWO ALLEN CENTER
1200 SMITH STREET, SUITE 1740
HOUSTON, TEXAS 77002-4312
(713) 659-1361
FAX: (713) 659-5459

October 13, 1999

Lender

Form of Ninth Amendment to Securities Purchase Agreement ("Ninth Amendment")

Dear Lender:

Reference is made to the Securities Purchase Agreement dated as of December 15, 1997 as amended by the Third Amendment dated on or about September 13, 1998, by the Fourth Amendment dated January 12, 1999 and by the Fifth Amendment dated March 15, 1999, by the Sixth Amendment dated April 14, 1999, by the Seventh Amendment dated May 19, 1999 and by the Eighth Amendment dated July 13, 1999 (as amended, the "Agreement"), between Cheniere Energy, Inc., a Delaware corporation ("Borrower"), and Lender. Unless otherwise indicated, all capitalized terms herein are used as defined in the Agreement.

Cheniere is presently undertaking to raise \$12,000,000 through a private placement of convertible preferred stock in which San Jacinto Securities is acting as the financial advisor. It is expected that this preferred stock offering will close by the end of October. In addition, we have engaged RP&C International to assist in a European private placement of \$20,000,000 in convertible notes payable, which private placement will be initiated later this month and is expected to close in November. Repayment of the amounts due to Lender will be made from the proceeds of these offerings, and will occur as soon as practicable after the closing of the first offering.

The purpose of this amendment to the Agreement is to extend the maturity date from October 15, 1999 to December 15, 1999 as described below.

For good and valuable consideration, consisting of 10 percent of the outstanding balance of your note, payable in Cheniere common stock valued at \$1.20 per share, the receipt and adequacy of which are hereby acknowledged, Borrower and Lender agree as follows:

1. Amendment of Maturity Date. The definition of Maturity Date in Section 12 shall be hereby amended by replacing the paragraph captioned MATURITY DATE in its entirety with the following paragraph:

"MATURITY DATE means the earlier of (a) December 15, 1999 and (b) the date that the Senior Notes are declared immediately due and payable pursuant to SECTION 11 in the event of a Default; provided that Lender's rights continue until the Obligation has been paid and performed in full."
2. Representations and Warranties. Borrower represents and warrants that it possesses all requisite power and authority to execute, deliver and comply with the terms of this instrument, which has been duly authorized and approved by all necessary corporate action and for which no consent of any person is required.
3. Fees and Expenses. Borrower agrees to pay the reasonable fees and expenses of counsel to Lender for services rendered in connection with the negotiation and execution of this instrument.
4. Loan Paper; Effect. This instrument is a Loan Paper and, therefore, is subject to the applicable provisions of Section 13 of the Agreement, all of which are incorporated herein by reference the same as if set forth herein verbatim. In the event of any inconsistency between the terms of the Agreement as hereby modified (the "Amended Agreement") and any other Loan Papers, the terms of the Amended Agreement shall control and such other document shall be deemed to be amended hereby to conform to the terms of the Amended Agreement.
5. No Waiver of Defaults. This instrument does not constitute a waiver of, or a consent to any present or future violation of or default under, any provision of the Loan Papers, or a waiver of Lender's right to insist upon future compliance with each term, covenant, condition and provision of the Loan Papers, and the Loan Papers shall continue to be binding upon, and inure to the benefit of, Borrower, Lender and their respective

successors and assigns.

8. Final Agreement. THE LOAN PAPERS, AS AMENDED HEREBY, REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO ORAL AGREEMENTS BETWEEN THE PARTIES.

If the foregoing terms and conditions are acceptable to Lender, Lender should indicate its acceptance by signing in the space provided below and returning an executed copy hereof to Borrower, whereupon this letter shall become an agreement binding upon and inuring to the benefit of Borrower and Lender and their respective successors and assigns.

Sincerely,

CHENIERE ENERGY, INC.

By:

Don A. Turkleson
Chief Financial Officer

Accepted and agreed to as of the day
and year first set forth in this Ninth
Amendment.

Lender

CHENIERE ENERGY, INC.

TWO ALLEN CENTER
1200 SMITH STREET, SUITE 1740
HOUSTON, TEXAS 77002-4312
(713) 659-1361
FAX: (713) 659-5459

December 13, 1999

Lender

Form of Tenth Amendment to Securities Purchase Agreement ("Ninth Amendment")

Dear Lender:

Reference is made to the Securities Purchase Agreement dated as of December 15, 1997 as amended by the Third Amendment dated on or about September 13, 1998, by the Fourth Amendment dated January 12, 1999 and by the Fifth Amendment dated March 15, 1999, by the Sixth Amendment dated April 14, 1999, by the Seventh Amendment dated May 19, 1999, by the Eighth Amendment dated July 13, 1999, by letter agreement dated August 25, 1999 and by the Ninth Amendment dated October 13, 1999 (as amended, the "Agreement"), between Cheniere Energy, Inc., a Delaware corporation ("Borrower"), and Lender. Unless otherwise indicated, all capitalized terms herein are used as defined in the Agreement.

The purposes of this amendment to the Agreement are to extend the maturity date from December 15, 1999 to March 15, 2000 and to increase from \$12,000,000 to \$16,000,000 the amount of net funds which Borrower may raise through private placement of its equity securities or from the sale of seismic data and retain for use in its business before being required to direct the proceeds from such sources to prepayment of the Term Loan.

For good and valuable consideration, which includes the issuance of 12,971 shares of Cheniere Energy, Inc. common stock, the issuance of three-year warrants to purchase 89,227 shares of Cheniere common stock and the adjustment of the exercise price to a dollar amount yet to be determined, but which will fall within the range of \$0.75 to \$1.00 per share, for all outstanding warrants issued pursuant to the Agreement, the receipt and adequacy of which are hereby acknowledged, Borrower and Lender agree as follows:

2. Amendment of Terms of Payment. Section 2 of the Agreement is hereby amended by replacing paragraph (c) of such Section in its entirety with the following paragraph:

(c) "In addition to prepayments under clause (b) above, Borrower shall make prepayments of principal of the Term Loan equal to the net cash proceeds received by Borrower from any private placement of Borrower's equity securities or from any sale by Borrower of seismic data, less up to \$16,000,000 which may be retained by Borrower."

2. Amendment of Maturity Date. The definition of Maturity Date in Section 12 shall be hereby amended by replacing the paragraph captioned MATURITY DATE in its entirety with the following paragraph:

"MATURITY DATE means the earlier of (a) March 15, 2000 and (b) the date that the Senior Notes are declared immediately due and payable pursuant to SECTION 11 in the event of a Default; provided that Lender's rights continue until the Obligation has been paid and performed in full."

3. Representations and Warranties. Borrower represents and warrants that it possesses all requisite power and authority to execute, deliver and comply with the terms of this instrument, which has been duly authorized and approved by all necessary corporate action and for which no consent of any person is required.
4. Fees and Expenses. Borrower agrees to pay the reasonable fees and expenses of counsel to Lender for services rendered in connection with the negotiation and execution of this instrument.
5. Loan Paper; Effect. This instrument is a Loan Paper and, therefore, is subject to the applicable provisions of Section 13 of the Agreement, all of which are incorporated herein by reference the same as if set forth herein verbatim. In the event of any inconsistency between the terms of the Agreement as hereby modified (the "Amended Agreement") and any other Loan Papers, the terms of the Amended Agreement shall control and such other document shall be deemed to be amended hereby to conform to the terms of the Amended Agreement.

6. No Waiver of Defaults. This instrument does not constitute a waiver of, or a consent to any present or future violation of or default under, any provision of the Loan Papers, or a waiver of Lender's right to insist upon future compliance with each term, covenant, condition and provision of the Loan Papers, and the Loan Papers shall continue to be binding upon, and inure to the benefit of, Borrower, Lender and their respective successors and assigns.
7. Final Agreement. THE LOAN PAPERS, AS AMENDED HEREBY, REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO ORAL AGREEMENTS BETWEEN THE PARTIES.

If the foregoing terms and conditions are acceptable to Lender, Lender should indicate its acceptance by signing in the space provided below and returning an executed copy hereof to Borrower, whereupon this letter shall become an agreement binding upon and inuring to the benefit of Borrower and Lender and their respective successors and assigns.

Sincerely,

CHENIERE ENERGY, INC.

By:

Don A. Turkleson
Chief Financial Officer

Accepted and agreed to as of the day
and year first set forth in this Tenth
Amendment.

Lender

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-57533, 333-49847, 333-70195 and 333-83949) and on form S-8 (No. 333-52479) of Cheniere Energy, Inc. of our report dated March 15, 2000 appearing on page 25 of Cheniere Energy, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1999.

PRICEWATERHOUSECOOPERS LLP

Houston, Texas
March 24, 2000

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