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

Form 10-K

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

For the fiscal year ended December 31, 2002

OR

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

For the transition period from __________ to __________

Commission File No. 1-16383

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

DELAWARE	95-4352386
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
333 Clay Street, Suite 3400 Houston, Texas	77002-4102
(Address of principal executive offices)	(Zip code)

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

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

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, $ 0.003 PAR VALUE	AMERICAN STOCK EXCHANGE
(Title of Class)	(Name of each exchange on which registered)

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 [X] No [ ]

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b - 2 of the Act). Yes [ ] No [X]

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant was approximately $15,044,368 as of June 30, 2002 (based upon the June 28, 2002 closing market price of such common stock as reported on The American Stock Exchange).

13,297,393 shares of the registrant's Common Stock were outstanding as of March 26, 2003.

Documents incorporated by reference: The definitive 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., a Delaware corporation, is a Houston-based company engaged in oil and gas exploration, development and exploitation and in the development of a liquefied natural gas (LNG) receiving terminal business. The LNG receiving terminal business consists of receiving deliveries of LNG from LNG ships, processing such LNG to return it to a gaseous state and delivering it to pipelines for transportation to purchasers. The terms Cheniere and the Company refer to Cheniere Energy, Inc. and its subsidiaries. The Company has historically focused on evaluating and generating drilling prospects using a regional and integrated approach with a large seismic database as a platform. Cheniere's management expects that the Company's active interpretation of 3D seismic data and generation of prospects will continue, though its participation in the drilling of wells within the coming year or two will be leveraged through the sale of these prospects on a promoted basis to industry participants, whereby the capital costs are borne by industry partners. The Company is also focusing, and expects to continue to focus, its attention on the development of its LNG receiving terminal business.

Cheniere has been publicly traded since July 3, 1996 under the name Cheniere Energy, Inc. The Company's principal executive offices are located at 333 Clay Street, Suite 3400, Houston, Texas 77002, and its telephone number is (713) 659-1361.

On October 16, 2000 the Company's stockholders approved a one-for-four reverse stock split. The reverse stock split became effective on October 18, 2000 and reduced Cheniere's issued and outstanding shares from 43,989,572 shares to 10,997,393 shares. All historical share and per share data appearing in this document have been restated to reflect the reverse stock split.

As used in this Report, Mcf means thousand cubic feet, Mmcf means million cubic feet, Bcf means billion cubic feet, Bbl means barrel or 42 U.S. gallons liquid volume, Mbbl means thousand barrels, Mcfe means thousand cubic feet of natural gas equivalent using the ratio of six Mcf of natural gas to one Bbl of crude oil, condensate and natural gas liquids, Mmcfe means million cubic feet of natural gas equivalent, Bcfe means billion cubic feet of natural gas equivalent, and Mmbtu means million British thermal units. This Report includes various other capitalized terms that are defined when first used.

ACCESS TO PUBLIC FILINGS

Cheniere provides public access to its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed with the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934 (the "Exchange Act"). These reports may be accessed free of charge through Cheniere's internet website (located at www.cheniere.com), where the Company provides a link to the SEC's website (at www.sec.gov).

GENERAL DEVELOPMENT OF BUSINESS

Cheniere Energy Operating Co., Inc. (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. Cheniere Operating became a wholly owned subsidiary of the Company.

Cameron Project. In 1996, Cheniere entered into an exploration agreement with Zydeco Exploration, Inc. to acquire and process proprietary seismic data along the transition zone (the area approximately 3-5 miles on either side of the Gulf of Mexico shore line) in Cameron Parish, Louisiana, covering a 228-square-mile area (the Cameron Project). The 228-square-mile survey was acquired jointly by Cheniere and its industry partner, and initial

processing was completed in 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 areas, and five prospects were drilled during 1999. In January 2000, Cheniere reprocessed the Cameron data. Leasing over additional prospects began later in 2000 and continues to date. In September 2001, Cheniere acquired for $500,000 all rights to the Cameron Project from the industry partner with whom it had jointly acquired the data in 1996 and 1997. Concurrent with this acquisition, Cheniere sold the seismic data to a seismic marketing company for $2,500,000 and a 50% share in licensing proceeds generated by the marketing company. In September 2002, Cheniere sold its remaining interest in future licensing proceeds to the marketing company for $825,000. Cheniere retains a license to all of the seismic data for use in its exploration program. See Exploration Programs.

Offshore Louisiana Area. In an effort to provide continued access to high quality drilling prospects, the Company expanded beyond the Cameron Project and into the shallow waters of the Gulf of Mexico. In 1999, Cheniere licensed 8,800 square miles of seismic data from Fairfield Industries (the Offshore Louisiana Area). The Company also made a commitment (estimated to be approximately $5,500,000 at the time) to fund the reprocessing of the entire 8,800-square-mile seismic database.

On September 15, 2000 Cheniere entered into an agreement (the Gryphon Transaction) with Warburg, Pincus Equity Partners, L.P. (Warburg), a global private equity fund based in New York, to fund exploration and development in the Offshore Louisiana Area through a newly formed private corporation, Gryphon Exploration Company (Gryphon). The Company contributed to Gryphon: (i) the Company's license from Fairfield Industries to seismic data covering the Offshore Louisiana Area; (ii) the Company's interest in its Joint Exploration Agreement with Samson Offshore Company (Samson), (iii) certain offshore leases, including its Shark prospect on West Cameron Block 49, (iv) a well eventually being drilled, (v) certain prepaid expenses and (vi) furniture and fixtures, all in exchange for (i) the assumption by Gryphon of certain accounts payable and (ii) 100% of the common stock of the subsidiary and cash. Warburg invested $25,000,000 and received preferred stock, with an 8% accruing dividend, convertible into 63.2% of Gryphon's common stock. In the event Gryphon's board of directors approves a capital call and Gryphon delivers written notice of such capital call to the terms of the agreement, Cheniere and Warburg have an option, subject to certain customary conditions, to contribute to Gryphon their respective shares of an additional $75,000,000 investment. The Gryphon Transaction was consummated on October 11, 2000. See Investment in Gryphon Exploration Company.

Offshore Texas Project Area. Between June 2000 and October 2000, Cheniere acquired two licenses to approximately 6,800 square miles of seismic data primarily in the shallow waters offshore Texas and also in the West Cameron area in the Gulf of Mexico (the Offshore Texas Project Area) in separate transactions with Seitel Data Ltd., a division of Seitel Inc., and JEBCO Seismic, L.P. Cheniere had committed to reprocess all of the data from the Offshore Texas Project Area at a cost of approximately $8,500,000, payable by Cheniere in

installments beginning in October 2000 and continuing through the final delivery of reprocessed data, which is expected to occur in 2003.

In June 2001, Cheniere sold to Gryphon for $3,500,000 one of its two licenses to the Seitel 3D seismic data. Gryphon paid $853,197 in cash to Cheniere and agreed to pay $2,646,803 of Cheniere's obligations related to the reprocessing of the data. Cheniere remained responsible for payment of the final $1,061,692 in reprocessing charges upon final delivery of all reprocessed data, which is anticipated to be received in 2003. This payment obligation was assumed by Gryphon in connection with Cheniere's March 2002 sale of 51,400 shares of Gryphon common stock to Gryphon. (See Note 12 in Notes to Consolidated Financial Statements.) Cheniere retains one license to the seismic data.

In July 2001, Cheniere sold to Gryphon one of its two licenses to the Jebco 3D seismic data covering an additional 3,000 square miles. Gryphon agreed to pay Cheniere's accounts payable of $1.3 million and the remaining commitment of $2.9 million related to the reprocessing of the data. In connection with the transaction, Cheniere also transferred to Gryphon 6,740 shares of Gryphon common stock, valued by the parties at approximately $418,000 or $62 per share, based on the estimated fair market value of the Gryphon common stock, which considered the fair value of such stock at the formation of Gryphon and any significant changes in Gryphon's operations or market conditions since that date. The proceeds at closing of $1.3 million were allocated as a reduction to the carrying amount of Cheniere's investment in Gryphon ($418,000) and unproved oil and gas properties ($882,000). Cheniere retains one license to the seismic data.

Cheniere's existing data set covering the Cameron Project and the reprocessed data set covering the Offshore Texas Project Area, as it is delivered, provide to the Company the framework with which to identify potential drilling prospects which may then be acquired through leasing at the area-wide federal and state lease sales and from private mineral rights owners onshore, through farm-ins (agreements whereby a third party owner of lease interests grants to the Company the right to earn an assignment of an interest in the lease, typically by drilling one or more wells), and through participation in industry prospects. Cheniere plans to continue to identify potential drilling prospects and may participate in any drilling activities by selling interests on a promoted basis to industry participants.

As a part of its plans to quickly expand its exploration activities, in December 2000, Cheniere entered into a consulting agreement with Aurora Exploration, LLC (Aurora) to assist Cheniere in the interpretation of the Company's seismic data sets. The initial term of the agreement was through March 2001, but it was extended through September 2001. Aurora, based in Lafayette, LA, focused its efforts on the Texas and Louisiana offshore areas of the Gulf of Mexico shelf, using a portion of Cheniere's licensed seismic data from the Offshore Texas Project Area. Aurora also generated prospects in the shallow water Main Pass area of offshore Louisiana, using other seismic data provided by Cheniere.

LNG Receiving Terminal Development. In 2000, Cheniere undertook a feasibility study to assess the long-term natural gas markets in the U.S. and, in particular, the potential role of LNG in meeting a portion of the gas supply deficit expected to develop later in this decade. Based on that analysis, Cheniere's management concluded that LNG would become an economically viable source of natural gas supply in the U.S.

In 2001, Cheniere assembled an experienced LNG project development team and began a study to determine viable locations for LNG receiving terminals in the U.S. The Company then acquired options to enter into long-term leases for two terminal sites and an option to purchase one terminal site, all along the Texas Gulf Coast. The options may be renewed through the payment of annual or semiannual rentals.

In 2002, Cheniere engaged outside engineering, environmental and regulatory consultants and substantially completed the project design and planning phase of the Freeport project, including the preparation of materials to be filed with the Federal Energy Regulatory Commission (FERC). The design work, the federal and state regulatory coordination, and the 13 resource reports which comprise the environmental filing to the FERC were substantially completed during the year. It is anticipated that the FERC filing will be submitted in March 2003.

During the first half of 2002, the Company worked, with the assistance of Petrie Parkman & Co. as its financial advisor, to identify and secure funding for the development/pre-construction phase of the Freeport project. In August 2002, Cheniere entered into a Contribution Agreement with entities controlled by Michael S. Smith providing for the formation of a limited partnership, Freeport LNG Development, L.P. (Development) to develop the Freeport receiving terminal.

Under the terms of the Contribution Agreement, Cheniere contributed its site lease option at Freeport, its technical expertise and know-how, and all of the work in progress related to the Freeport project in exchange for a 40% interest in Development. Michael S. Smith, through a controlled entity, Freeport

LNG Investments, LLC (Investments), will pay Cheniere $5,000,000 in installments and contribute up to $9,000,000 to fund Freeport project expenses before additional contributions may be required of Cheniere. Investments holds a 60% interest in Development and Michael S. Smith will manage the project as chief executive officer of Development. The transaction was consummated on February 27, 2003. On March 1, 2003, pursuant to an existing option agreement, Cheniere sold a 10% interest in Development to a third party for $2,333,333, payable over time. In connection with the closing of the transactions in 2003, Cheniere issued warrants for the purchase of 1,000,000 shares of its common stock at a price of $2.50 per share, exercisable for a period of 10 years. Cheniere retained a 30% interest in Development.

BUSINESS STRATEGY

It is the Company's belief that the long-term outlook for natural gas prices in the U.S. is one that will sustain prices at or above $3.00 per Mcf. The Company believes that such an environment will favor not only domestic exploration and production, but also LNG imports into the U.S. The Company's objective is to develop its LNG receiving terminal business and to expand the net value of its assets by building an oil and gas reserve base in a cost-efficient manner, through its investment in Gryphon and through exploitation of its seismic database to

facilitate identifying drilling prospects. Cheniere's exploration program combines the use of regional 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.

LNG Receiving Terminals

Cheniere has assembled a team of professionals with extensive experience in the LNG industry. The Company has researched the LNG opportunity, developed a plan to exploit the opportunity and initiated the process of identifying and securing sites for LNG receiving terminals as well as undertaking the necessary regulatory and permitting work to advance the project. A substantial portion of the time and attention of Cheniere's employees is currently focused on developing LNG terminals.

Seismic Data

Cheniere has acquired two significant seismic database assets: (i) a license to a 228-square-mile seismic program covering the transition zone in Cameron Parish (the Cameron Project described above), and (ii) a 6,800-square-mile seismic database comprising several seismic surveys in the shallow waters offshore Texas (the Offshore Texas Project Area described above). The offshore Texas 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 another technology known as prestack time migration (PSTM). Both DMO and PSTM are processing techniques which improve seismic data quality to more accurately image subsurface features and delineate hydrocarbon accumulations. Of the two techniques, PSTM is more advanced and technically accurate. The regional PSTM data is the technology tool which management believes gives Cheniere a competitive advantage.

Analysis and Methodology

Cheniere has developed a prospect generation infrastructure capable of detailed analyses of large volumes of seismic, geological, and engineering data. 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 and strict adherence to the methodology, Cheniere believes it can reduce the risk of dry holes and achieve significant growth, while maintaining a competitive cost of finding and development.

Experience

Cheniere has built a technical and management team that is experienced in the Gulf of Mexico and in various technical specialties required for its exploration program. The technical staff averages over 30 years of experience exploring for oil and gas in the Gulf Coast. The Company believes this experienced team allows it to be very productive in the generation and acquisition of prospects.

LNG RECEIVING TERMINAL BUSINESS

LNG is natural gas that has been reduced to a fraction of its volume through a sophisticated refrigeration process. The liquefication of natural gas (into LNG) allows it to be transported long distances comparatively safely and economically. Outside the U.S., utilization of LNG has grown dramatically, with 15 sites in 12 countries capable of producing 6 Tcf (gas equivalent) of LNG per year and 42 terminals in 11 countries capable of importing LNG. In the U.S., due mainly to an historically abundant supply of natural gas, LNG has not been a major energy source. However, the recent experience of U.S. natural gas producers' limited ability to increase supply and the increasing cost of domestic exploration and production, the Company believes LNG will become a competitive supply alternative to domestic natural gas and other import alternatives. Assuming current construction costs of LNG-related facilities and tankers, LNG can be economically produced and delivered as natural gas into U.S. pipelines at a cost of $2.50 - $3.50/MMBtu.

Cheniere has been developing its LNG business since late 2000 and has made substantial progress. After completing a U.S. gas market study and preliminary terminal location study in 2000, Cheniere decided to focus on developing terminals on the Texas and Louisiana Gulf Coast. Texas offers several important advantages, including (i) it is the largest natural gas-consuming state in the U.S., (ii) the government and general population are familiar with and supportive of the energy industry, (iii) with the expected decline in production, Texas will have under-utilized intrastate and interstate pipelines with access to premium Midwest, Northeast, Mid-Atlantic and Southeast U.S. markets, and (iv) Texas has an extended coast providing a number of ports with adequate facilities for such a terminal. Louisiana, the third largest gas consuming state in the U.S., offers otherwise identical advantages.

Cheniere secured lease options on sites in Freeport, Corpus Christi and Brownsville, Texas and Sabine Pass, Louisiana. In connection with Cheniere's acquisition of its option to lease the Freeport, Texas LNG receiving terminal site, Cheniere issued 500,000 shares of common stock valued at $1,150,000 or $2.30 per share, the closing price of the Company's common stock on the date of the transaction. Additionally, Cheniere has committed to issue 750,000 shares of its common stock to the seller of the lease option in April 2003, and Cheniere will receive no additional consideration. Cheniere is also obligated to pay to the seller of the lease option an overriding royalty interest equal to $0.03 per Mcf on up to 1 Bcf per day of throughput from the LNG receiving terminals which Cheniere develops. Under the terms of the option to lease the Freeport site, the Company may exercise the option during the six-month period commencing on March 23, 2001, and such option is renewable for five additional six-month periods by paying additional consideration of $125,000 every six months commencing on September 23, 2001. In 2002, the Freeport site option was converted into a long-term lease in the name of Development, and at the closing of the partnership in February 2003, Development assumed the royalty obligation as it relates to throughput at the Freeport facility.

In connection with Cheniere's acquisition of its option to lease the Brownsville, Texas LNG terminal site, Cheniere paid $33,600 for a one-year option commencing in June 2001. Such option was renewable for two additional one-year periods for additional consideration of $33,600 per year, and the Company renewed the option in June 2002.

Cheniere obtained a one-year purchase option to acquire the LNG terminal site in Sabine Pass, Texas, commencing in November 2001, in exchange for initial consideration of $200,000, of which $75,000 was paid in cash at closing and $125,000 was due six months from closing, provided that such option was not terminated at an earlier date. The purchase option expired during 2002, and no additional consideration beyond the $75,000 was paid. Cheniere entered into negotiations for an option to lease a different tract in Sabine Pass and acquired such option in February 2003.

In December 2002, Cheniere entered into a non-binding Memorandum of Understanding with Sherwin Alumina L.P. (Sherwin) providing for the negotiation of a partnership agreement which would grant Sherwin a 33% interest in Cheniere's Corpus Christi receiving terminal project in exchange for Sherwin's agreement to fund the first $4,500,000 in project development costs. Completion of the partnership agreement is scheduled to occur by April 15, 2003. In the event that such an agreement is not consummated by that date, Sherwin will grant to Cheniere a lease option on the terminal site lands in Corpus Christi. The option rentals will be $100,000 per year for up to 5 years. Upon exercise of the option, lease rentals would be $400,000 per year for an initial term of 33 years, renewable for two additional terms of 33 years each.

Initially, through its participation in Development, Cheniere plans to permit the Freeport site with average annual capacity of 365 Bcf of gas per year. Cheniere has commenced development of its Freeport, Texas site, including (i) completing a feasibility study, (ii) initiating the preparation of forms and collection of information for the permitting and Federal Energy Regulatory Commission related filings, (iii) meeting with local agencies and planners and

(iv) conducting preliminary discussions concerning the financing of the project. In order to exploit the opportunity to develop an LNG receiving terminal, Cheniere will need to obtain additional equity or debt financing. Cheniere has executed non-binding Memoranda of Understanding (MOUs) for the sale of 500 MMbtu per day of natural gas from the proposed terminal and is pursuing discussions with other consumers of natural gas to arrange for additional gas sales through the terminal. Cheniere and Development have also held discussions with several LNG suppliers. Assuming prompt regulatory approvals and adequate financing, and subject to all of the risks inherent in a new venture of this type, as described under the "Forward Looking Statements and Risk Factors" herein, construction of the first terminal could commence as early as 2004 with LNG being imported in 2007. However, there can be no assurance whether or when such regulatory approvals and financing may be obtained. See Forward Looking Statements and Risk Factors.

EXPLORATION PROGRAMS

The Company's current oil and gas exploration and development activities are focused on two areas: (i) the Cameron Project, which covers an area extending roughly three to five miles on either side of the westernmost 28 miles of Louisiana coastline; and (ii) the Offshore Texas Project Area, which covers approximately 6,800 square miles in the shallow waters offshore Texas and the West Cameron Area of offshore Louisiana. 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 Company is well-positioned to evaluate, explore and develop properties in these areas.

Cameron Project Seismic Exploration Program

Under the terms of an exploration agreement with an industry partner covering the Cameron Project, Cheniere paid for certain seismic costs in the amount of approximately $16,500,000 and acquired ownership of seismic data covering the Cameron Project, among other interests that have subsequently expired or terminated. After the termination of the exploration agreement, Cheniere sold the seismic data to a seismic marketing company for $2,500,000 and a 50% share in licensing proceeds generated by the marketing company. Cheniere subsequently sold its remaining interest in future licensing proceeds to the marketing company for $825,000. Cheniere retains a license to all of the seismic data for use in its exploration program. Cheniere is also entitled to receive at no additional cost any subsequent reprocessing of the data which may be performed by the seismic marketing company.

Seismic Exploration Program in Offshore Texas Project Area

In June 2000, Cheniere acquired a license to approximately 1,900 square miles of seismic data from Seitel Data Ltd., a division of Seitel Inc. In October 2000, Cheniere exercised its option to expand the agreement with Seitel Data Ltd. to cover an additional 1,900 square miles of seismic data. Together, the licenses acquired from Seitel represent coverage of over 433 Outer Continental Shelf blocks in the shallow waters offshore Texas and Louisiana in the Gulf of Mexico.

In October 2000, Cheniere negotiated a Master Data Users Agreement with the Houston-based firm, JEBCO Seismic L.P., to acquire 3,000 square miles (333 blocks) of seismic data in both state and federal waters offshore Texas, bringing Cheniere's total data set in the shallow waters offshore Texas and Louisiana to approximately 6,800 square miles of seismic coverage. Cheniere had committed to reprocess all of the data from the Offshore Texas Project Area at a cost of approximately $8,500,000, payable in installments beginning in October 2000 and continuing through the final delivery of reprocessed data, which is expected to occur in 2003. As of December 31, 2002, Cheniere had received reprocessed data for the 3,000 square miles of seismic data in the Jebco data set and 2,200 of the approximately 3,800 square miles of seismic data in the Seitel data set, representing 76% of the total reprocessing to be done in the Offshore Texas Project Area.

Cheniere's exploration team generated and captured 16 prospects during 2001 and 2002 and sold interests in 14 of the prospects to industry partners, retaining various overriding royalty interests and working interests ranging from an overriding royalty interest (a share of the hydrocarbons produced from an oil and gas property, free of the expense of production) of less than 1% to a carried working interest (an agreement whereby Cheniere retains an interest in a well but bears none, or only a portion of the cost of drilling the initial well) of approximately 24%. Seven of the prospects sold during 2001 and 2002 have been drilled by its industry partners, and Cheniere expects that the remaining prospects sold during those years will be drilled by its industry partners during 2003, but Cheniere does not serve as operator of the wells and does not control the timing of such drilling activities.

Drilling Activities

In 1999, the Company drilled and completed two discovery wells located in adjacent fault blocks on West Cameron Block 49 in Louisiana state waters: the Redfish well and the Stingray well. The wells were tied into a common platform and began production during September 1999. Both wells 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 owned a 30% working interest in the Redfish well and a 45% working interest in the Stingray well. In April 2002, Cheniere sold its interest in these two wells and the common platform to the operator of the wells.

During 2000, the Company commenced drilling an additional exploration well on West Cameron Block 49, known as the Shark well. In connection with the Gryphon Transaction, Cheniere assigned its interest in the Shark well, which was then being drilled, to Gryphon. Gryphon subsequently completed the well in February 2001. Production of natural gas from the Shark well is handled through a common platform which, since September 1999, has also handled production from the Company's previously-owned Stingray and Redfish wells.

During 2001, Cheniere did not participate in the drilling of any wells.

In 2002, Cheniere did not participate directly in the drilling of any wells. Eight wells, however, were drilled during the year by Cheniere's industry partners on prospects generated by the Company. Six of the eight wells were productive. Cheniere does not have a cost-bearing interest in the wells; it holds overriding royalty interests (0.7% to 3.7%), some of which are convertible into working interests of 8.4% at payout.

INVESTMENT IN GRYPHON EXPLORATION COMPANY

Cheniere owns 100% of the outstanding common stock of Gryphon and exercises significant influence over Gryphon's financial and operating policies through its participation on Gryphon's board of directors; however, Cheniere does not participate in the day-to-day management of Gryphon, does not exercise control over Gryphon and cannot effect a change in the management of Gryphon. Cheniere's equity share of Gryphon's losses for 2002 was $2,184,847, calculated by applying Cheniere's 100% common stock ownership interest to Gryphon's net loss of $519,000, reducing such result for Gryphon's preferred dividend arrearages of $5,844,746 for the year and limiting the cumulative amount of net loss recognized to the balance of Cheniere's investment in Gryphon. During 2002, Cheniere's basis of its investment in Gryphon was reduced to zero, but not below zero, because Cheniere does not guarantee any obligations of Gryphon and is not committed to provide additional financial support to Gryphon. The amount of Gryphon's net loss that has not yet been recorded by Cheniere was $4,179,000 at December 31, 2002. As of December 31, 2002, after giving effect to the conversion of all shares of Gryphon's convertible preferred stock to shares of Gryphon common stock, Cheniere had a 9.3% interest in Gryphon.

In the Gryphon Transaction, the Company contributed the license to 8,800 square miles of seismic data that it had originally licensed from Fairfield Industries. The data covered more than 1,100 outer continental shelf blocks in the shallow waters of the Gulf of Mexico (the Offshore Louisiana Area). Cheniere also assigned its rights in its Joint Exploration Agreement with Samson, which ran from March 2000 through August 2001.

During 2001, Gryphon drilled nine exploratory wells, yielding four discoveries and five dry holes. During 2002, Gryphon drilled seven exploratory wells, yielding three discoveries and four dry holes, and two development wells, both of which were discoveries. As of March 13, 2003, Gryphon had ten wells on production and one well being drilled. Depending on rig availability, Gryphon anticipates drilling up to fourteen exploratory wells and four development wells during 2003. Gryphon is also engaged in acquiring drilling prospects through leasing at area-wide federal and state lease sales and through farm-ins of leased acreage.

PRODUCTION AND SALES

The following table presents certain information with respect to oil and natural gas production attributable to the Company, average sales prices received and average production costs during 2002, 2001 and 2000. In April 2002, Cheniere sold its interests in its West Cameron Block 49 wells.

	Year Ended December 31,		
	2002	2001	2000
Production:			
Oil (bbls)	495	2,608	3,703

Gas (mcf)	91,470	542,774	1,459,897
Gas equivalents (mcfe)	94,441	558,422	1,482,117
Average sales prices:			
Oil (per barrel)	$ 20.03	$ 27.43	$ 29.78
Gas (per mcf)	$ 2.58	$ 4.48	$ 3.79
Selected data per mcfe:			
Average sales price	$ 2.53	$ 4.25	$ 3.59
Production costs	$ 0.95	$ 0.75	$ 0.26
Oil and gas depreciation, depletion and amortization excluding impairments	$ 0.79	$ 1.84	$ 2.04

For the years ended December 31, 2002 and 2001, Gryphon had production of 3,550,000 Mcfe and 824,458 Mcfe, respectively. Gryphon had no production in 2000; it was formed in October 2000.

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, 2002.

	Developed Acres		Undeveloped Acres (1)	
	Gross	Net	Gross	Net
Louisiana	-	-	10,000	9,500
Texas	-	-	720	171
Total	-	-	10,720	9,671

(1) The Company has no leases which expire in 2003.

At December 31, 2002, the Company had no working interest in any producing wells; it has overriding royalty interests in six wells.

At December 31, 2002, Gryphon held interests in leases covering 29,428 gross (11,087 net) developed acres and 167,846 gross (129,111 net) undeveloped acres. Gryphon has interests in 9 gross (3.2 net) producing wells at December 31, 2002.

DRILLING ACTIVITIES

All of Cheniere's drilling activities have been conducted through arrangements with independent contractors. Cheniere owns no drilling equipment. In 2000, the Company commenced drilling a well on its Shark Prospect, but prior to completion the Company assigned its interest in the Shark well to Gryphon, its unconsolidated affiliate in connection with the Gryphon Transaction in October 2000. In 2001 and 2002, the Company did not participate in the drilling of any wells. Although Cheniere did not participate directly in the drilling of any wells in 2002, eight wells were drilled during the year by Cheniere's industry partners on prospects generated by the Company. Six of the eight wells were productive. Cheniere does not have a cost-bearing interest in the wells; it

holds overriding royalty interests (0.7% to 3.7%), some of which are convertible into working interests of 8.4% at prospect payout.

During 2001, Gryphon drilled 9 gross (3.1 net) wells of which 4 gross (1.6 net) wells were successful. During 2002, Gryphon drilled 9 gross (3.1 net) wells of which 5 gross (1.6 net) wells were successful.

OIL AND GAS RESERVES

Substantially all of the information herein regarding estimates of Cheniere's proved reserves, related future net revenues and PV-10 is taken from reports generated by Ryder Scott Company, the Company's independent 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.

<TABLE>
<CAPTION>

	December 31, 2002 Proved Reserves			
	Oil (Bbls)	Gas (Mcf)	Mcfe	PV-10 (1)

<S>	<C>	<C>	<C>	<C>
Cheniere Reserves				
Offshore Texas	3,917	1,175,000	1,198,502	$ 4,495,345
Offshore Louisiana	63	158,000	158,378	$ 636,118
Proved Reserves	3,980	1,333,000	1,356,880	$ 5,131,463
Proved Developed Reserves	1,605	502,000	511,630	$ 1,938,335
Equity Interest in Reserves of Unconsolidated Affiliate (2)				
Proved Reserves	371,808	27,508,000	29,738,848	$ 106,939,136
Proved Developed Reserves	165,421	16,332,000	17,324,526	$ 62,854,965

</TABLE>

(1) The PV-10 amount (present value of estimated pre-tax future net revenues discounted at 10%) is calculated using year-end prices of $29.23 per barrel of oil and $4.64 per Mcf of gas.

(2) Includes Cheniere's proportional share, based on its 100% common stock ownership, of the proved reserves, proved developed reserves and PV-10 value of Gryphon. Such proportional share of Gryphon reserves and PV-10 value is based upon Cheniere's ownership of 100% of Gryphon's common stock and will be reduced to 9.3% upon the conversion of Gryphon's preferred shares outstanding at December 31, 2002. Upon such conversion, Cheniere's equity interest in Gryphon's proved reserves and PV-10 value would be reduced to 2,765,713 Mcfe and $9,945,340, respectively. See General Development of Business.

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.

In accordance with SEC guidelines, the 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. The Company may receive amounts different than the estimates for a number of reasons, including changes in prices.

See Supplemental Information to Consolidated Financial Statements. 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, 2002.

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.

Although the LNG receiving business is in its developmental stages, several companies are exploring the possibility of engaging or developing an LNG business. Many of these companies 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. The Company anticipates that competition will arise from other companies seeking drilling funds from potential working interest partners. There can be no assurance that the Company will be successful in securing funds in this manner.

The availability of a ready market for and the price of any hydrocarbons produced by the Company will depend on many factors beyond the control of the Company, including the extent of domestic production and imports of foreign oil, the marketing of competitive fuels, the proximity and capacity of natural gas pipelines, the availability of transportation and other market facilities, the demand for hydrocarbons, the political conditions in international oil-producing regions, the effect of federal and state regulation of allowable rates of production, taxation, the conduct of drilling operations and federal regulation of natural gas. In the past, as a result of excess deliverability of natural gas, many pipeline companies 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.

In addition, in the event the Company completes LNG receiving facilities, the profitability of its operations and the price of its gas will be dependent on the availability of liquefied natural gas, the volume and price of domestic production of natural gas, 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, taxation and the domestic demand for natural gas.

GOVERNMENT REGULATION

The Company's oil and gas exploration, production and related operations are, and its LNG receiving facility will be, 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.

Cheniere's construction and operation of the proposed LNG receiving terminals will be subject to extensive federal, state and local laws and regulations, including laws and regulations relating to safety, as well as laws and regulations governing environmental protection and pollution control. These laws and regulations will require the

acquisition of certain permits or other authorizations before construction and operation of the terminal may occur. For example, in order to site, construct and operate the proposed receiving terminal, Cheniere will be required to apply for and receive authorization from the FERC under Section 3 of the Natural Gas Act of 1938 (NGA). While Cheniere believes that the likelihood is great that it will be able to obtain all permits and approvals necessary for the construction and operation of the proposed facilities, including NGA Section 3 authorization from FERC, Cheniere cannot guarantee that it will be able to do so. Nor can Cheniere guarantee that the authorizations and permits will not include unfavorable terms or conditions. The permits and authorizations required for various operations and activities are, in many instances, subject to revocation, modification and renewal by the issuing authorities.

While these compliance activities increase the cost of planning, installing and operating facilities, Cheniere does not expect environmental and other regulatory compliance matters to have a material adverse effect on its financial position or results of operations. However, because such laws and regulations are frequently changed and may impose increasingly stricter requirements, Cheniere is unable to predict the ultimate cost of complying with such laws and regulations.

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 other 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.

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 FERC regulates the transportation and sale for resale of natural gas in interstate commerce pursuant to the NGA and the Natural Gas Policy Act of 1978 (the NGPA). In the past, the federal government has regulated the prices at which 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 non-price 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. The 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 also subject the Company to more restrictive pipeline imbalance tolerances and greater penalties for violations of these tolerances.

The 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, the 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 the FERC will take on these matters, nor can it accurately predict whether the 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 the FERC has opted not to impose the regulations of Order No. 509, in which the FERC implemented OCSLA, on gatherers and other non-jurisdictional entities, the 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, the 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, the 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. The 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, the 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. The 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, the 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 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.

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 drilling contracts that limit its financial and legal

exposure. Under a turnkey drilling contract, a negotiated price is agreed upon and the money is placed in escrow. The drilling 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. 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. Under a footage drilling contract, the operator pays to the drilling contractor an agreed sum per foot drilled. Under a day-rate drilling contract, the operator pays an agreed sum for each day of drilling required to reach contract depth. All risk and expense, including cost overruns, of drilling a well to total depth lies with the operator in both footage and day-rate contracts. The drilling of such test wells will be subject to the usual drilling hazards such as cratering, explosions, uncontrollable flows of oil, gas or well fluids, fires, pollution and other environmental risks. The Company's activities are also subject to perils specific to marine operations, such as capsizing, collision and damage or loss from severe weather. These hazards can cause personal injury and loss of life, severe damage to and destruction of property and equipment, pollution or environmental damage and suspension of operations. In accordance with customary industry practices, the Company intends to maintain insurance against some, but not all, of such risks and some, but not all, of such losses. The occurrence of a significant event not fully insured or indemnified against could materially and adversely affect the Company's financial condition and operations. Moreover, no assurance can be given that the Company will be able to maintain adequate insurance in the future at rates considered reasonable by the Company.

EMPLOYEES

The Company had 14 full-time employees as of March 26, 2003.

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 of 1933, as amended (Securities Act), and Section 21E of the United Stated Securities Exchange Act of 1934, as amended (Exchange Act). 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 and 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, 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 is subject to the expenses, difficulties and uncertainties generally associated with early stage companies.

Cheniere has a limited operating history with respect to its oil and gas exploration activities, and the Company has not yet started operating any LNG receiving facilities. Cheniere faces all of the risks inherent in the establishment and growth of any new business. From the Company's inception, Cheniere has incurred losses and may continue to incur losses, depending on whether it generates sufficient revenue either from producing reserves acquired through acquisitions or drilling activities or from the eventual commencement of LNG receiving operations. Cheniere may be unable to implement and complete its business plan, and the Company's business may be ultimately unsuccessful. These factors make evaluating Cheniere's business and forecasting its future operating results difficult. Furthermore, any continued losses and any delays in the implementation or completion of the Company's business plan may have a material adverse effect on Cheniere's business, its results of operations, its financial condition and the market price of its common stock.

The Company's future growth and profitability are highly dependent on the

success of its exploration program and the development of its LNG receiving terminal business.

The primary focus of Cheniere's operations has been identifying drilling prospects, but Cheniere is also currently focusing on developing its LNG receiving facilities. Almost all of the Company's assets are represented by investments to date in its exploration program, including the seismic data related thereto. Through its drilling in 1999 and 2000, Cheniere has established only limited proved reserves (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). Furthermore, the Company has achieved only limited oil and gas production as of the date of this report. Cheniere's future growth and profitability therefore depend heavily on the success of its exploration program in locating additional proved reserves and achieving additional oil and gas production or the development of its LNG receiving facilities. Failure to locate such additional reserves and to achieve additional production may have a material adverse effect on Cheniere's business, results of operations and financial condition.

Failure to obtain approvals and permits from governmental and regulatory agencies with respect to the Company's LNG project could have a detrimental effect on the project and on the Company.

Cheniere is currently focusing on developing its LNG receiving facilities. The transportation of LNG is highly regulated, and Cheniere has yet to obtain several governmental and regulatory approvals and permits required in order to complete and maintain its LNG project. Company management estimates that it may take two to three years of work to obtain the approvals and permits necessary to proceed with the construction and operation of an LNG receiving terminal. The Company has no control over the outcome of the review and approval process. If Cheniere is unable to obtain the approvals and permits, the Company may not be able to recover its investment in the project. In addition, failure to obtain these approvals and permits may have a material adverse effect on the Company's business, results of operations and financial condition.

Failure of LNG to become a competitive factor in the U.S. oil and gas industry could have a detrimental effect on the Company's ability to implement and complete its business plan.

In the U.S., due mainly to an abundant supply of natural gas, LNG has not historically been a major energy source. Furthermore, LNG may not become a competitive factor in the U.S. oil and gas industry. The failure of LNG

to become a competitive supply alternative to domestic natural gas and other import alternatives may have a material adverse effect on Cheniere's ability to implement and complete its business plan as well as the Company's business, results of operations and financial condition.

The Company may not be able to obtain additional financing on terms that are acceptable to the Company, which could harm its ability to conduct business.

As of December 31, 2002, Cheniere had $1,848,820 of current assets and a working capital deficit of $1,413,235. Because of its low level of current assets, the Company may need additional capital for a number of purposes. If the Company is 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 and its ability to construct LNG terminals. Cheniere's needs for additional financing include the following:

- Additional capital may 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 determined in part by the number of prospects generated within its exploration program, by the working interest that the Company retains in those prospects and by the Company's ability to identify partners willing to bear a portion of drilling costs which would otherwise be attributable to the Company.

- The Company may need capital to fund its pro-rata share of the capital calls by Gryphon that are approved by Gryphon's board of directors. If the Company subscribes to its pro-rata portion of such capital calls but fails to fund, it would lose its ability to subscribe to any future capital calls and would suffer further dilution of its holdings in Gryphon. In 2002, Gryphon made cash calls in the aggregate amount of $30,000,000, which were funded entirely by Warburg, in March, June, September and November 2002. Cheniere declined to participate in these cash calls and its interest in Gryphon has been reduced from 20.2% to 9.3% on an as-converted basis, as of December 31, 2002. It is anticipated that Gryphon will make cash calls for additional funds. The Company's share of such future capital calls could

total up to approximately $1,400,000. If the Company elects not to fund its pro-rata portion of such capital calls, and Warburg funds its portion, as they would be entitled to do, and as they have since the formation of Gryphon, the Company's ownership percentage of Gryphon's common stock on an as-converted basis will be further reduced (to as low as 8%). See Liquidity and Capital Resources - Exploration Funding under Item 7 of this report.

- The Company will need substantial additional funds to execute its plan for developing and expanding its LNG receiving terminal business, including engineering, environmental, marine, regulatory, construction and legal work, including any such work involved in permitting and FERC filings related to Cheniere's second and third sites. Such costs are estimated to be approximately $3,000,000 per year for each terminal to be developed.

Additional capital could be obtained from a combination of funding sources, many of which may have a material adverse effect on the Company's business, results of operations and financial condition. These potential funding sources include:

- cash flow from operating activities, which is sensitive to prices the Company receives for its oil and natural gas,

- borrowings from financial institutions, which may subject the Company to certain restrictive covenants, including covenants restricting the Company's ability to raise additional capital or pay dividends,

- 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 would cause dilution of its common stock,

- sales of portions of its working interest in the prospects within its exploration program, which would reduce future revenues from its exploration program,

- sale to an industry partner of a participation in the Company's exploration program, which would reduce future revenues from its exploration program,

- sale of all or a portion of the Company's producing oil and gas properties, which would reduce future revenues,

- additional sales of interests in the Company's LNG projects and

- arrangement of a business development loan from, or prepayment of terminal use fees by, prospective sellers or purchasers of LNG.

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, capital may not become available to the Company from any particular source or at all. Even if additional capital becomes available, it may not be on terms acceptable to the Company. Failure to obtain additional financing on acceptable terms may have a material adverse effect on the Company's business, results of operations and financial condition.

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.

The Company is an independent energy company and is not actively engaged in any other industry. Cheniere's revenues and profits are 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 business, results of operations and financial condition, including its ability to develop and implement its LNG project and to obtain capital from lending institutions, industry participants, private or public investors or other sources.

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. In addition, the businesses of such competitors are in many cases more diversified than that of Cheniere. Cheniere may not 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 have a substantially negative impact on Cheniere's operating revenues.

Fluctuation in energy prices or supply of liquefied natural gas could adversely affect our LNG receiving terminals business.

If LNG prices are higher than prices of domestically produced natural gas or natural gas derived from other sources, our ability to compete with such suppliers may be negatively impacted. In addition, in the event the supply of LNG is limited or restricted for any reason, our ability to profitably operate an LNG receiving facility could be materially impacted. Revenues generated by an LNG receiving terminal depend on the volume of LNG processed and the price of the natural gas produced, both of which can be affected by the price of natural gas and natural gas liquids.

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. Moreover, the Company may not be able to maintain adequate insurance in the future at rates it considers reasonable. The occurrence of a significant event not fully insured or indemnified against could seriously harm the Company's business, results of operations and financial condition.

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.

In the event the Company completes the LNG receiving terminal, the operations of such facility will be subject to the inherent risks normally associated with those operations, including explosions, pollution, release of toxic substances, fires, hurricanes and adverse weather conditions and other hazards, each of which could result in damage to or destruction of the Company's facilities or damages to persons and property. In addition, the Company's operations face possible risks associated with acts of aggression on our assets. If any of these events were to occur, the Company could suffer substantial losses. The Company will maintain insurance against these types of risks to the extent and in the amounts that it believes are reasonable. Its financial condition and operations could be adversely affected if a significant event occurs that is not fully covered by insurance.

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. The wells drilled by the Company may not discover any 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, 3D seismic data can only assist the Company in identifying subsurface reservoirs and hydrocarbon indicators, and will not allow the Company to determine conclusively if hydrocarbons will in fact be present and recoverable. If the Company's exploration efforts are unsuccessful, its business and financial condition will be substantially harmed.

The Company may not be able to acquire the oil and gas leases it needs to sustain profitable operations.

In order to engage in oil and gas exploration in the areas covered by its 3D seismic data, the Company must first acquire rights to conduct exploration and recovery activities on such properties. Cheniere may not be successful in acquiring farm-outs (agreements whereby the Company, as owner of lease interests, grants to a third party the right to earn an assignment of an interest in the lease, typically by drilling one or more wells), seismic permits, lease

options, leases or other rights to explore for or recover oil and gas. Both the United States Department of the Interior and the States of Texas and Louisiana award oil and gas leases on a competitive bidding basis. 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. In addition, 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 unsuccessful in acquiring these leases, permits, options and other interests, the area covered by the Company's 3D seismic data that could be explored through drilling will be significantly reduced, and Cheniere's business, results of operations and financial condition will be substantially harmed.

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. Under a turnkey drilling contract, a negotiated price is agreed upon and the money 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.

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. Under a day-rate drilling contract, the operator pays an agreed sum for each day of drilling required to reach contract depth. All risk and expense of drilling a well to total depths lies with the operator in day-rate contracts. The drilling of such test wells would subject the Company 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 would also be liable for any cost overruns attributable to drilling problems that otherwise would have been covered by a turnkey contract. These liabilities, if incurred, may have a materially adverse impact on Cheniere's business and financial condition.

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, if acquired, would 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 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.

The Company's operations are also subject to extensive federal, state and local laws and regulations governing the discharge of oil and hazardous materials into the environment or otherwise relating to environmental protection. These laws and regulations may require the acquisition of 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 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.

Federal laws and regulations such as the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), the Clean Air Act (CAA), the Oil Pollution Act of 1990 (OPA) and the Clean Water Act (CWA) and analogous state laws 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.

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.

There is only limited trading in Cheniere's common stock, which makes its stock more difficult for an investor to sell than the stock of companies with more active markets. For the year 2002, the average daily trading volume of Cheniere's common stock on The American Stock Exchange was approximately 17,000 shares.

The Company has not paid dividends and does not expect to do so 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 45,000,000 authorized shares of stock, consisting of 40,000,000 shares of common stock and 5,000,000 shares of preferred stock. As of December 31, 2002, approximately 67% 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 common stock, among other reasons, in order to raise capital to sustain operations and/or to finance future oil and gas exploration projects. In addition, the Company has reserved 2,593,521 shares of the common stock for issuance upon the exercise of outstanding warrants and 2,000,000 shares of the common stock for issuance upon the exercise of stock options. As of December 31, 2002, there were 1,983,611 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 Company's 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. The loss of the services of any of these individuals could seriously harm the Company. Although Cheniere has agreements relating to compensation and benefits with certain of its executive officers, Cheniere does not have any employment contracts or other agreements with key personnel binding them to provide services for any particular term. In addition, the Company's future success will depend in part on its ability to attract and retain additional qualified personnel. Cheniere currently has 14 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 few employees and limited operating revenues, it is and will continue to be largely dependent on industry partners for the success of the Company's oil and gas exploration projects. Cheniere could be seriously harmed if its industry partners do not perform satisfactorily on projects that affect it. The Company often has and will continue to have no control over factors that would 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 cause events to occur that are not in the interests of the Company's stockholders with smaller holdings. BSR Investments, Ltd. (BSR) is an entity controlled by the mother of Charif Souki, Cheniere's chairman. BSR owns approximately 10% of the outstanding common stock. Accordingly, it is likely that BSR 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.

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 stockholders.

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.

A significant portion of the value of the Company is derived from its ownership interest in Gryphon, over which the Company exercises no day-to-day control.

Cheniere owns 100% of the outstanding common stock of Gryphon (9.3% effective ownership after giving effect to the conversion of Gryphon's preferred stock outstanding at December 31, 2002) and a significant portion of the Company's value is derived from this investment. Cheniere exercises significant influence, primarily through board participation. Cheniere does not exercise control over Gryphon and therefore does not have the ability to effect a change of control of Gryphon. Accordingly, Gryphon's management team could make business decisions without Cheniere's consent that could impair the value of Cheniere's investment in Gryphon.

ITEM 3. LEGAL PROCEEDINGS

The Company has been and may in the future be involved as a party to various legal proceedings, which are incidental to the ordinary course of business. Management regularly analyzes current information and as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. In the opinion of management and legal counsel, as of December 31, 2002, there were no threatened or pending legal matters that would have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In February 2002, the Company received a copy of a lawsuit styled Fairfield Industries Incorporated (Fairfield) vs. Cheniere Energy, Inc. and Gryphon Exploration Company, which was filed in district court in Harris County, Texas. The lawsuit related to a seismic license agreement between Fairfield and

Cheniere, which was later assigned to Gryphon. In the lawsuit, Fairfield alleged that Cheniere and Gryphon conspired to defraud the plaintiff of certain transfer payments, which may be owed by Cheniere in connection with the transfer to Gryphon of the initial seismic contributed at the time of its formation. In March 2002, Fairfield, Gryphon, and the Company settled this lawsuit. Existing and contingent obligations to Fairfield by Cheniere totaling $2,500,000 have been fully

discharged through agreement by Gryphon to make current and contingent payments in exchange for the transfer of 30,000 Gryphon common shares from Cheniere to Gryphon.

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

None.

PART II

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

Beginning on March 5, 2001, the common stock of the Company has traded on The American Stock Exchange under the symbol CXY. Effective March 24, 2003, the Company changed its symbol from CXY to LNG. Between December 14, 2000 and March 2, 2001, Cheniere's common stock traded on the OTC Bulletin Board under the symbol CHEX. Between April 11, 1997 and December 13, 2000, the common stock of the Company traded on The Nasdaq SmallCap Market under the symbol CHEX. From the time the Company first traded publicly until April 11, 1997, the Company's common stock 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 OTC Bulletin Board and The American Stock Exchange, for each quarter during 2001 and 2002.

	High	Low
Three Months Ended		
March 31, 2001	$ 3.38	$ 2.09
June 30, 2001	$ 2.88	$ 1.85
September 30, 2001	$ 2.19	$ 0.90
December 31, 2001	$ 1.25	$ 0.75
Three Months Ended		
March 31, 2002	$ 1.50	$ 0.93
June 30, 2002	$ 1.50	$ 0.82
September 30, 2002	$ 1.30	$ 0.90
December 31, 2002	$ 1.35	$ 0.80

As of March 26, 2003, there were 13,297,393 shares of the Company's common stock outstanding held by approximately 2,800 beneficial owners.

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.

Equity Compensation Plan Disclosure Table - The following table summarizes the Company's use of equity securities as a form of compensation for services rendered to the Company.

<TABLE>
<CAPTION>

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
<S>	<C>	<C>	<C>
Equity compensation plans approved by security holders	1,983,611	$ 2.07	16,389
Equity compensation plans not approved by security holders	450,000	$ 2.92	-

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Total	2,433,611	$ 2.22	16,389

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</TABLE>

The Company has issued warrants for the purchase of 450,000 shares of its common stock at exercise prices ranging from $1.20 to $11.50 per share as additional compensation for various services rendered to the Company, including assistance in private placements of equity securities, investor relations and marketing of LNG terminal capacity, as well as pursuant to the terms of an employment agreement.

ITEM 6. SELECTED FINANCIAL DATA

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

<TABLE>
<CAPTION>

	Year Ended December 31,				
	2002	2001	2000	1999	1998
<S>	<C>	<C>	<C>	<C>	<C>
Revenues	$ 239,055	$ 2,372,632	$ 5,320,432	$ 1,614,055	$ -
Production costs	90,038	420,242	388,637	128,859	-
Depreciation, depletion and amortization	368,562	1,243,828	3,371,383	1,361,644	39,171
Ceiling test write-down	-	5,126,248	-	-	-
General and administrative expenses	3,475,362	4,291,963	1,938,659	1,908,805	1,619,307
Loss from operations	(3,694,907)	(8,709,649)	(378,247)	(1,785,253)	(1,658,478)
Interest income (expense)	7,733	18,578	23,916	31,530	20,634
Equity in net loss of affiliate (1)	(2,184,847)	(2,974,191)	(426,649)	-	-
Gain on sale of properties	340,257	-	-	-	-
Loss on extinguishment of debt	(100,544)	-	-	-	-
Net loss	(5,632,308)	(11,665,262)	(780,980)	(1,753,723)	(1,637,844)
Net loss per share (basic and diluted) (2)	(0.42)	(0.89)	(0.07)	(0.27)	(0.41)
Cash dividends per share	$ -	$ -	$ -	$ -	$ -
Weighted average shares outstanding (basic and diluted) (2)	13,297,393	13,035,256	10,732,678	6,449,104	4,003,864

</TABLE>

<TABLE>
<CAPTION>

	December 31,				
	2002	2001	2000	1999	1998
<S>	<C>	<C>	<C>	<C>	<C>
Cash	$ 590,039	$ 610,718	$ 1,888,562	$ 1,175,950	$ 143,868
Oil and gas properties, proved, net	842,882	1,929,124	6,727,613	9,459,041	-
Oil and gas properties, unproved	16,751,347	16,236,962	18,253,731	20,648,923	20,000,425

Total assets	21,059,390	25,023,676	34,665,618	34,481,275	20,840,474
Long-term notes payable	-	-	-	-	2,025,020
Total liabilities	3,262,055	1,874,401	1,604,410	6,735,537	4,523,144
Total stockholders' equity	17,797,335	23,149,275	33,061,208	27,745,738	16,317,330

</TABLE>

(1) Represents the Company's equity in the net loss of Gryphon. See Note 7 to the Company's Consolidated Financial Statements.

(2) Net loss per share and weighted average shares outstanding have been restated to give effect to the one-for-four reverse stock split which was effective in October 2000. See Note 2 to Consolidated Financial Statements.

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

GENERAL

Cheniere is engaged in oil and gas exploration, development and exploitation and in the development of an LNG receiving terminal business. The Company has historically focused on evaluating and generating drilling prospects using a regional and integrated approach with a large seismic database as a platform. The Company is currently focusing, and expects to continue to focus, its attention and resources on the development of its LNG receiving terminal business. Cheniere's management expects that the Company's active interpretation of 3D seismic data and generation of prospects will continue, through its participation in the drilling of wells will be accomplished through farmout arrangements and back-in interests, whereby the capital costs are borne by industry partners.

PRODUCTION AND PRODUCT PRICES

Information concerning the Company's production and average prices received for the years ended December 31, 2002, 2001 and 2000 is presented in the following table.

	Year Ended December 31,		
	2002	2001	2000
Production:			
Oil (Bbls)	495	2,608	3,703
Gas (Mcf)	91,470	542,774	1,459,897
Gas equivalents (Mcfe)	94,441	558,422	1,482,117
Average sales prices:			
Oil (per Bbl)	$ 20.03	$ 27.43	$ 29.78
Gas (per Mcf)	$ 2.58	$ 4.48	$ 3.79

RESULTS OF OPERATIONS - COMPARISON OF THE FISCAL YEARS ENDED DECEMBER 31, 2002 AND 2001

The Company's financial results for the year ended December 31, 2002 reflect a loss of $5,632,308, or $0.42 per share (basic and diluted), compared to a loss of $11,665,262 or $0.89 per share (basic and diluted) in 2001. The major factors contributing to the Company's loss in 2002 were: general and administrative expenses of $3,475,362 and equity in loss of unconsolidated affiliate of $2,184,847 (including accrued dividend obligations totaling $5,844,746 for the year, payable by Gryphon, related to its preferred stock).

Oil and gas revenues decreased to $239,055 in 2002 from $2,372,632 in 2001 as a result of decreased production volumes (94,441 Mcfe in 2002 compared with 558,422 Mcfe in 2001). The decline in production volumes primarily results from the sale of the Company's two producing wells at West Cameron Block 49 in April 2002. Adding to the effect of declining production was a decrease in average gas prices to $2.58 per Mcf in 2002 compared to $4.48 per Mcf in the prior year. Production costs decreased 79% to $90,038 in 2002 from $420,242 in 2001.

Depreciation, depletion and amortization (DD&A) decreased to $368,562 in 2002 from $1,243,828 in 2001 as a result of both the decline in the Company's production volumes, described above, and a lower DD&A rate per unit ($0.79 per Mcfe versus $1.84 per Mcfe). The Company's DD&A rate has declined due to its change in emphasis toward selling prospects for front-end fees plus carried interests, as opposed to direct participation in drilling costs, and due to the effect of ceiling test write-downs recorded in 2001.

Gross general and administrative (G&A) expenses totaled $5,915,444 in 2002, compared to $5,073,963 in 2001. The most significant component of the increase

between years was in consulting fees, which increased by $1,207,248 to $2,391,011 in 2002, compared to $1,183,763 in 2001. The increased consulting expense in 2002 principally related to permitting, environmental and regulatory work related to the LNG receiving terminals project. Offsetting total G&A expenses were amounts capitalized to the Company's oil and gas properties and recoveries of

LNG related expenses in connection with the sale of Cheniere's Freeport LNG terminal project. Cheniere capitalizes as oil and gas property costs that portion of G&A expenses directly related to its exploration and development activities. Cheniere capitalized $829,000 in 2002 compared to $782,000 in 2001. In connection with Cheniere's sale of its Freeport LNG project to Development, Cheniere was reimbursed $1,611,082 related to G&A expenses incurred on the project subsequent to June 30, 2002. G&A expenses, net of amounts capitalized and recoveries, were $3,475,362 and $4,291,963 in 2002 and 2001, respectively.

Equity in net loss of unconsolidated affiliate for 2002 includes Cheniere's equity share of Gryphon's losses of $2,184,847, calculated by applying Cheniere's 100% common stock ownership interest to Gryphon's net loss of $519,000, reducing such result for Gryphon's preferred dividend arrearages of $5,844,746 for the year and limiting the cumulative amount of net loss recognized to the balance of Cheniere's investment in Gryphon. During 2002, Cheniere's basis of its investment in Gryphon was reduced to zero, but not below zero, because Cheniere does not guarantee any obligations of Gryphon and is not committed to provide additional financial support to Gryphon. The amount of Gryphon's net loss that has not yet been recorded by Cheniere was $4,179,000 at December 31, 2002. Cheniere's equity share of Gryphon's losses for 2001 was $2,974,191, calculated by applying Cheniere's 100% common stock ownership interest to Gryphon's net income of $84,000 and reducing such result for Gryphon's preferred dividend arrearages of $3,058,191. At such time as Warburg converts its preferred shares to common shares, Cheniere's equity share of Gryphon's earnings will be calculated at 9.3% based on ownership interests outstanding at December 31, 2002.

Results of Operations - Comparison of the Fiscal Years Ended December 31, 2001 and 2000

The Company's financial results for the year ended December 31, 2001 reflect a loss of $11,665,262, or $0.89 per share (basic and diluted), compared to a loss of $780,980, or $0.07 per share (basic and diluted) in 2000. The major factors contributing to the Company's loss in 2001 were: $5,126,248 in ceiling test write-downs, general and administrative expenses of $4,291,963 and equity in loss of unconsolidated affiliate of $2,974,191 (including accrued dividend obligations totaling $3,058,191 for the year, payable by Gryphon, related to its preferred stock).

Oil and gas revenues decreased to $2,372,632 in 2001 from $5,320,432 in 2000 as a result of decreased production volumes (558,422 Mcfe in 2001 compared with 1,482,117 Mcfe in 2000). The decline in production volumes represents normal depletion of currently producing zones for the Company's two producing wells at West Cameron Block 49. The effect of declining production was partially offset by an increase in average gas prices to $4.48 per Mcf in 2001 compared to $3.79 per Mcf in the prior year. Production costs increased 8% to $420,242 in 2001 from $388,637 in 2000.

Depreciation, depletion and amortization (DD&A) decreased to $1,243,828 in 2001 from $3,371,383 in 2000 as a result of both a lower DD&A rate per unit ($1.84 per Mcfe versus $2.04 per Mcfe) and the decline in the Company's production volumes.

Gross general and administrative (G&A) expenses totaled $5,073,963 in 2001, compared to $4,366,207 in 2000. The most significant component of the increase between years was in legal fees, which increased by $716,588 to $912,514 in 2001 compared to $195,926 in 2000. The increased legal expenses in 2001 include approximately $545,000 related to the Company's development of an LNG receiving terminal business and approximately $120,000 related to Cheniere's buyout of its partner's interest in the proprietary Cameron 3D seismic data set. Also affecting the net G&A expenses reported between the years were reduced recoveries from management fees and reduced amounts capitalized as oil and gas property costs. In 2000, Cheniere received management fees from an industry partner in the amount of $1,684,193 of which $988,548 was recorded as a recovery of G&A expenses. The exploration agreement under which these management fees were received was assigned to Gryphon in October 2000. Cheniere received no management fees in 2001. Cheniere capitalizes as oil and gas property costs that portion of G&A expenses directly related to its exploration and development activities. Cheniere capitalized $782,000 in 2001 compared to $1,439,000 in 2000, the change being a direct result of the decreased level of exploration activity following the Gryphon Transaction in October 2000. G&A expenses, net of recoveries and amounts capitalized, were $4,291,963 and $1,938,659 in 2001 and 2000, respectively.

Equity in net loss of unconsolidated affiliate for 2001 includes Cheniere's

equity share of Gryphon's losses of $2,974,191, calculated by applying Cheniere's 100% common stock ownership interest to Gryphon's net income of $84,000 and reducing such result for Gryphon's preferred dividend arrearages of $3,058,191 for the year. Cheniere's equity share of Gryphon's losses for the period from October 11, 2000 through December 31, 2000 was

$426,649, calculated by applying Cheniere's 100% common stock ownership interest to Gryphon's net income of $19,003 and reducing such result for Gryphon's preferred dividend arrearages of $445,652. At such time as Warburg converts its preferred shares to common shares, Cheniere's equity share of Gryphon's earnings will be calculated at 20.2% based on ownership interests outstanding at December 31, 2001.

LIQUIDITY AND CAPITAL RESOURCES

Management expects that the Company will meet all of its liquidity requirements for the next twelve months through a combination of cash balances, collection of receivables and cash flows from current operations. Such sources are not expected to be adequate to meet future liquidity requirements as the Company expands its LNG terminal business. The Company expects that future liquidity requirements will be met by one or more of the following: the divestiture of producing oil and gas properties, sales of portions of its working interest in the prospects within its exploration program, sale to an industry partner of a participation in the Company's exploration program, sale of a participation interest in the Company's LNG projects and/or additional offerings of the Company's debt or equity securities. In the event that the Company is unable to obtain additional capital from one or more of these sources, its operations could be adversely affected.

At December 31, 2002, Cheniere had a working capital deficit of $1,413,235. A significant portion of this deficit, a $750,000 note payable, was canceled in March 2003, without requiring the use of cash by the Company, when Cheniere sold an interest in its Freeport LNG project. Additionally, approximately $200,000 included in accrued liabilities will be satisfied through the issuance of warrants rather than the expenditure of cash.

Cash Flow from Operating Activities

Net cash used in operations for the year ended December 31, 2002 totaled $2,764,325, compared to net cash used in operations of $2,212,277 in 2001. In April 2002, the Company sold its West Cameron Block 49 producing oil and gas properties. Throughout the remainder of 2002, Cheniere generated and sold new prospects, retaining overriding royalty interests which revert to larger working interests after payout of the prospects. Revenues from this program are expected to be approximately $450,000 per month by the end of 2003.

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, 2002, the Company has issued 13,297,393 shares of its common stock, generating net proceeds of $39,090,960. No equity securities were sold by the Company in 2002. During 2001, the Company raised $493,329, net of offering costs, from the sale of units (common stock and warrants) to accredited investors pursuant to Regulation D. Proceeds of the offering were used for the acquisition of leases and other exploration costs and for general corporate purposes.

In February 2001, the Company issued to one stockholder 250,000 units at a cash purchase price of $2.00 per unit (for an aggregate offering price of $500,000), each unit consisting of one share of common stock, $.003 par value per share, and one warrant to purchase one-sixth of a share of common stock. Warrants issued in connection with this sale of units are exercisable at a price of $3.00 per share on or before December 31, 2003. These units were sold pursuant to offers made exclusively to accredited investors, in reliance on the exemption from registration provided by Section 506 of Regulation D. No underwriting discounts or commissions were made with respect to the offering. Proceeds of the offering, net of offering costs, were $493,329. The purchaser of the shares of common stock issued in this private placement was granted certain registration rights.

In May 2001, as compensation for assistance in the Company's listing on The American Stock Exchange, Cheniere issued to a consultant warrants to purchase 50,000 shares of common stock at an exercise price of $3.00 per share, exercisable on or before April 30, 2005. The issuance was made to one consultant without any advertising or solicitation. This issuance was made in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

In June 2001, Cheniere issued 500,000 shares of common stock to Crest Financial Ltd. in exchange for 100% ownership of Freeport LNG Terminal, LLC, whose sole asset was a lease option on an LNG receiving terminal site in

Freeport, Texas. The stock was valued at the closing market price on the date of the transaction, $2.30 per share, for an aggregate transaction value of $1,150,000. The stock was issued as part of the consideration

pursuant to an agreement resolving certain disputes between Crest Financial Ltd. and Cheniere. Based on the fact that the issuance was made to a single person without any advertisement or solicitation, this issuance was made in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

In connection with the sale of the Company's proved oil and gas properties, Cheniere issued warrants to purchase 50,000 shares of Cheniere common stock to a consultant valued at $22,695. The Company issued warrants to purchase 200,000 shares of Cheniere common stock and extended the expiration period on existing warrants to purchase 255,417 shares of Cheniere common stock, all at a value of $265,993, in connection with a short-term bridge financing arrangement with an unrelated third party lender. Cheniere issued warrants to purchase 50,000 shares of Cheniere common stock to a consultant valued at $39,269 for assistance in marketing the Company's LNG terminal. The Company issued 12,500 stock options valued at $10,435 to a consultant for assistance in developing the LNG terminal business. Cheniere issued warrants to purchase 12,500 shares of Cheniere common stock to an investor relations consultant valued at $10,435.

The warrant issuances were made without any advertising or solicitation, in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

Short-Term Promissory Notes

At December 31, 2001, Cheniere had no outstanding debt obligations.

In March 2002, the Company entered into a short-term bridge financing arrangement with an unrelated third party lender. The amount of the borrowing was $500,000. The term was 120 days. Interest was payable monthly at 10% per annum. Warrants were issued to the lender for the purchase of 150,000 shares of Cheniere common stock, exercisable at a price of $2.50 per share on or before March 7, 2012. Additionally, Cheniere extended the term to March 7, 2012 on existing warrants for the purchase of 255,417 shares held by parties affiliated with the lender. Based on the Black-Scholes model, the warrants issued (150,000 shares) and the extension of existing warrants (255,417 shares) in connection with this financing arrangement have an aggregate value of $241,939. Debt discount of $163,045 was recorded based on the relative fair values of the note payable and the warrants. An additional 50,000 warrants were required to be issued to the lender for each month or partial month for which the principal remained unpaid after April 7, 2002. The Company repaid the loan on April 22, 2002, resulting in a loss on early extinguishment of debt in the amount of $100,544, which is classified as an ordinary loss in the Company's statement of operations. Cheniere also issued an additional 50,000 warrants to the lender, valued at $24,054 based on the Black-Scholes model.

In June 2002, Cheniere received $750,000 as a refundable payment for the sale of two options to purchase an aggregate of up to a 20% interest in its Freeport LNG receiving terminal project. In the event the first option is exercised, the payment is applied to the purchase price. In the event the option is not exercised, the payment is refundable, and repayment is secured by a note payable executed by Cheniere. The note is payable in full on July 15, 2003. It will bear interest at 8%, payable at maturity and accruing from the earlier of the time the option expires or the date the holder elects not to exercise. As of December 31, 2002, the note has not yet begun to bear interest. The note is secured by Cheniere's revenues, accounts receivable and other assets. On March 1, 2003, the option for a 10% interest in the Freeport project was exercised, Cheniere's note payable was canceled and the collateral was released.

Exploration Funding

On October 11, 2000, Cheniere completed a transaction with Warburg to fund its exploration program on approximately 8,800 square miles of seismic data in the Gulf of Mexico (the Louisiana Data Set) through a newly formed affiliated company, Gryphon. Cheniere contributed selected assets and liabilities in exchange for 100% of the common stock of Gryphon (36.8% effective interest after conversion of preferred stock) and $2,000,000 in cash. Such assets included: the Louisiana Data Set, certain offshore leases, a prospect then being drilled, its exploration agreement with an industry partner and certain other assets and liabilities. The net book value of the assets and liabilities contributed was $7,065,919, which consisted of assets of $9,115,963 (primarily unproved oil and gas properties) and liabilities of $2,050,044, (primarily accounts payable). Warburg contributed $25,000,000 and received preferred stock, with an 8% cumulative dividend, convertible into 63.2% of Gryphon's common stock.

Cheniere and Warburg also have the option, in connection with subsequent capital calls made by Gryphon,

to contribute up to an additional $75,000,000 to Gryphon, proportionate to their respective ownership interests. Under the terms of the agreement governing these additional contributions, in the event that either Cheniere or Warburg elects not to participate in any additional contribution, the other investor has the option to purchase the non-participating investor's proportionate share. Assuming (i) that Gryphon makes subsequent capital calls for an aggregate of $75,000,000, (ii) that Cheniere elects not to participate in any of the capital calls and (iii) that Warburg elects to purchase all of Cheniere's proportionate share, and giving effect to Cheniere's sale to Gryphon of 6,740 shares of Gryphon common stock in July 2001 and its sale to Gryphon of 51,400 shares of Gryphon common stock in March 2002, the Company's effective interest in Gryphon, after giving effect to the conversion of Gryphon's preferred stock, will be reduced to 8.0%. Cheniere accounted for the contribution of net assets at its historical cost, whereby the net amount of such assets and liabilities less the $2,000,000 in cash was reclassified to investment in unconsolidated affiliate. No gain or loss was recognized at the time of contribution.

During 2001 and 2002, Gryphon made cash calls totaling $60,000,000 against its capital commitment of $75,000,000. Cheniere declined to participate in such cash calls, and Warburg elected to purchase all of Cheniere's proportionate share of such cash calls. Also during 2001, Cheniere transferred 6,740 shares of Gryphon common stock to Gryphon in connection with the sale of licenses to certain seismic data. In March 2002, Cheniere sold 51,400 shares of its Gryphon common stock to Gryphon. As a result of these transactions, Cheniere's ownership interest in Gryphon, after the effect of converting preferred stock into common stock, was reduced from 36.8% at December 31, 2000 to 9.3% as of December 31, 2002.

In connection with the seismic license contributed to Gryphon upon its formation, Cheniere entered into an agreement with the third party issuer of the license. The agreement provided that Cheniere would pay a transfer fee to the third party in an aggregate amount of up to $2,500,000. Such transfer fee was contingent upon Gryphon's completion of up to ten successful wells during the license period and within the license area. Cheniere's existing and contingent obligations under this agreement were fully discharged in March 2002 in connection with its sale of 51,400 shares of Gryphon common stock to Gryphon and the related assumption by Gryphon of these obligations. Gryphon also assumed $1,061,692 of Cheniere's contingent liabilities related to the future reprocessing of certain 3D seismic data.

Cheniere accounts for its investment in Gryphon using the equity method of accounting. Although Cheniere's participation on the Gryphon board of directors provides significant influence over the operating and financial policies of Gryphon, Cheniere does not participate in the day-to-day management of Gryphon, does not exercise control over Gryphon and cannot effect a change in the management of Gryphon. Cheniere's equity share of Gryphon's losses for 2002 was $2,184,847, calculated by applying Cheniere's 100% common stock ownership interest to Gryphon's net loss of $519,000, reducing such result for Gryphon's preferred dividend arrearages of $5,844,746 for the year and limiting the cumulative amount of net loss recognized to the balance of Cheniere's investment in Gryphon. During 2002, Cheniere's basis of its investment in Gryphon was reduced to zero, but not below zero, because Cheniere does not guarantee any obligations of Gryphon and is not committed to provide additional financial support to Gryphon. The amount of Gryphon's net loss that has not yet been recorded by Cheniere was $4,179,000 at December 31, 2002.

Seismic Reprocessing

Between June 2000 and October 2000, Cheniere acquired licenses to approximately 6,800 miles of seismic data primarily in the shallow waters offshore Texas and also in the West Cameron area in the Gulf of Mexico (the "Offshore Texas Project Area") in separate transactions with Seitel Data Ltd., a division of Seitel Inc., and JEBCO Seismic, L.P. Cheniere committed to reprocess all of the data from the Offshore Texas Project Area at a cost of approximately $8,500,000, payable in installments beginning in October 2000 and continuing through the final delivery of reprocessed data, which is expected to occur in 2003. Deliveries of reprocessed data began in May 2001. After the assumption of liabilities by Gryphon related to its purchase in 2001 of one license to the data (discussed below), and related to the March 2002 sale of 51,400 shares of its Gryphon common stock back to Gryphon, Cheniere has no existing or contingent liability related to seismic reprocessing as of December 31, 2002.

Sale of Licenses to Seismic Data

In June and July 2001, Cheniere sold licenses to 6,800 square miles of seismic data to Gryphon for $7,000,000. Cash proceeds to Cheniere were $853,197. Gryphon also assumed $6,820,824 of Cheniere's obligation to fund the reprocessing of the seismic data. In connection with the transaction, Cheniere also transferred 6,740

shares of Gryphon common stock to Gryphon. Cheniere retains one license to all of the data in the Offshore Texas Project Area.

Sale of Proprietary Seismic Data

In September 2001, Cheniere acquired for $500,000 all rights to its 228-square-mile proprietary seismic database from the industry partner with whom it had jointly acquired the data in 1996 and 1997. Cheniere subsequently sold the seismic data to a seismic marketing company for $2,500,000 and a 50% share in licensing proceeds generated by the marketing company. In September 2002, Cheniere sold its remaining interest in future licensing proceeds to the marketing company for $825,000. Proceeds from the September 2001 and 2002 sales of 3D seismic data were recorded as a reduction to the Company's unproved oil and gas property costs. Cheniere retains a license to all of the seismic data for use in its exploration program.

Sale of Interest in Freeport, Texas LNG Terminal

In August 2002, Cheniere entered into an agreement with entities controlled by Michael S. Smith to sell a 60% interest in its planned LNG receiving facility at Freeport, Texas. In February 2003, Cheniere's Freeport LNG project was acquired by Freeport LNG Development, L.P. ("Freeport LNG"), in which Cheniere retained a 40% interest. Freeport LNG will pay Cheniere $5,000,000 in cash and will spend up to $9,000,000 to obtain permits and prepare the project for the construction phase with no further contribution by Cheniere. After contribution of the full $9,000,000, additional expenses will be borne by the parties pro rata based on their respective ownership interests. Smith, through a controlled entity, Freeport LNG Investments, LLC (Investments), holds a 60% interest in Freeport LNG. Smith will manage the project as chief executive officer of Freeport LNG.

The cash payments to Cheniere are payable $1,000,000 at closing; $750,000 on July 15, 2003 and October 15, 2003; and $2,500,000 30 days after all construction permits are obtained for the Freeport site. With the signing of a definitive lease agreement for the Freeport, Texas terminal site on December 19, 2002, Freeport LNG paid to Cheniere $650,000 for related costs and expenses, which amount would have been reimbursable by Cheniere should the sale to Freeport LNG not have been completed. Furthermore, at closing on February 27, 2003, Freeport LNG paid Cheniere $530,215 in cash and assumed Cheniere liabilities of $560,211 related to Freeport LNG project costs. These payments and assumptions of liabilities represent an aggregate of $1,740,426 in project cost recoveries to Cheniere, in addition to the $1,000,000 initial installment payment received at closing.

On March 1, 2003, Cheniere sold a 10% interest in Freeport LNG to a third party for $2,333,333, payable over time. Cheniere retained a 30% interest in Freeport LNG.

Corpus Christi, Texas LNG Terminal Funding Negotiations

In December 2002, Cheniere entered into a non-binding Memorandum of Understanding with Sherwin providing for the negotiation of a partnership agreement which would grant Sherwin a 33% interest in Cheniere's Corpus Christi receiving terminal project in exchange for Sherwin's agreement to fund the first $4,500,000 in project development costs. Completion of the partnership agreement is scheduled to occur by April 15, 2003. In the event that such an agreement is not consummated by that date, Sherwin will grant to Cheniere a lease option on the terminal site lands in Corpus Christi. The option rentals will be $100,000 per year for up to 5 years. Upon exercise of the option, lease rentals would be $400,000 per year for an initial term of 33 years, renewable for two additional terms of 33 years each.

Contractual Cash Obligations

Cheniere is committed to making cash payments in the future on certain of its contracts. The Company has no off-balance sheet debt or other such unrecorded obligations and Cheniere has not guaranteed the debt of any other party. Below is a schedule of the future payments that Cheniere was obligated to make based on agreements in place as of December 31, 2002.

<TABLE>
<CAPTION>

		Payments Due for Years Ended December 31,			
	Total	2003	2004	2005	2006 & Beyond
<S>	<C>	<C>	<C>	<C>	<C>
Operating Leases (1)	$ 488,344	$ 456,835	$ 31,509	$ -	$ -
LNG Consulting Retainer (2)	$ 200,000	$ 100,000	$ 100,000	$ -	$ -
Note Payable (3)	$ 750,000	$ 750,000	$ -	$ -	$ -

</TABLE>

(1) A discussion of operating leases can be found in Note 13 of the Notes to the Consolidated Financial Statements. Cheniere has no capital leases.

(2) In April 2001, the Company engaged research consultants in connection with the development of its LNG receiving terminal business. In connection with the February 2003 closing on the sale of the Freeport, Texas LNG terminal (described above), the Company agreed to make cash payments totaling $200,000 and issued warrants to purchase 225,000 shares of Cheniere common stock at a price of $2.50 per share to the consultants.

(3) At December 31, 2002, the Company had outstanding a short-term note payable in the amount of $750,000. This note was canceled in March 2003 in connection with Cheniere's sale of an interest in Freeport LNG.

Cheniere's obligations under LNG site options are renewable on an annual or semiannual basis. Cheniere may terminate its obligation at any time by electing not to renew or by exercising the option.

Recoverability of Investment in Oil and Gas Properties

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 reprocessing of the 3D seismic data in the Offshore Texas Project Area, the successful sale of prospects generated by the Company or 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.

Cheniere's needs for additional financing include the following:

- Additional capital may 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 determined in part by the number of prospects generated within its exploration program, by the working interest that the Company retains in those prospects and by the Company's ability to identify partners willing to bear a portion of drilling costs which would otherwise be attributable to the Company.

- The Company may need capital to fund its pro-rata share of the capital calls by Gryphon that are approved by Gryphon's board of directors. If the Company subscribes to its pro-rata portion of such capital calls but fails to fund, it would lose its ability to subscribe to any future capital calls and would suffer further dilution of its holdings in Gryphon. In 2002, Gryphon made cash calls in the aggregate amount of $30,000,000, which were funded entirely by Warburg, in March, June, September and November 2002. Cheniere declined to participate in these cash calls and its interest in Gryphon has been reduced from 20.2% to 9.3% on an as-converted basis, as of December 31, 2002. It is anticipated that Gryphon will make cash calls for additional funds. The Company's share of such future capital calls could total up to approximately $1,400,000. If the Company elects not to fund its pro-rata portion of such capital calls, and Warburg funds its portion, as they would be entitled to do, and as they have since the formation of Gryphon, the Company's ownership percentage of Gryphon's common stock on an as-converted basis will be further reduced (to as low as 8%).

- The Company will need substantial additional funds to execute its plan for developing and expanding its LNG receiving terminal business, including engineering, environmental, marine, regulatory, construction and legal work, including any such work involved in permitting and FERC filings related to Cheniere's second and third sites. Such costs are estimated to be approximately $3,000,000 per year for each terminal to be developed.

Additional capital could be obtained from a combination of funding sources, many of which may have a material adverse effect on the Company's business, results of operations and financial condition. These potential funding sources include:

- cash flow from operating activities, which is sensitive to prices the Company receives for its oil and natural gas,

- borrowings from financial institutions, which may subject the Company to certain restrictive covenants, including covenants restricting the Company's ability to raise additional capital or pay dividends,

- 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 would cause dilution of its common stock,

- sales of portions of its working interest in the prospects within its exploration program, which would reduce future revenues from its exploration program,

- sale to an industry partner of a participation in the Company's exploration program, which would reduce future revenues from its exploration program,

- sale of all or a portion of the Company's producing oil and gas properties, which would reduce future revenues ,

- additional sales of interests in the Company's LNG projects and

- arrangement of a business development loan from, or prepayment of terminal use fees by, prospective sellers or purchasers of LNG.

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, capital may not become available to the Company from any particular source or at all. Even if additional capital becomes available, it may not be on terms acceptable to the Company. Failure to obtain additional financing on acceptable terms may have a material adverse effect on the Company's business, results of operations and financial condition.

OTHER MATTERS

Critical Accounting Estimates and Policies

The selection and application of accounting policies is an important process that has developed as Cheniere's business activities have evolved and as the accounting rules have developed. Accounting rules generally do not involve a selection among alternatives, but involve an implementation and interpretation of existing rules, and the use of judgment, to the specific set of circumstances existing in Cheniere's business. The Company makes every effort to properly comply with all applicable rules on or before their adoption, and believes the proper implementation and consistent application of the accounting rules is critical. However, not all situations are specifically addressed in the accounting literature. In these cases, the Company must use its best judgment to adopt a policy for accounting for these situations. Cheniere accomplishes this by analogizing to similar situations and the accounting guidance governing them, and often consults with its independent accountants about the appropriate interpretation and application of these policies. Cheniere's most critical accounting policy is its accounting under the full cost method of accounting. This area involves complex situations and a high degree of judgment either in the application and interpretation of existing literature or in the development of estimates that impact the Company's financial statements.

Full Cost Method of Accounting

The Company follows the full cost method of accounting for its oil and gas properties. Under this method, all productive and non-productive 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 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. At June 30, 2001 and September 30, 2001, the Company's capitalized costs exceeded its capitalization ceiling, resulting in ceiling test write-downs totaling $5,126,248 for the year.

The Company's allocation of 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.

Commodity Prices

The Company's revenues, operating results, financial condition and ability to borrow funds or obtain additional capital depend substantially on prevailing prices for natural gas and, to a lesser extent, oil. Declines in oil and gas prices may materially adversely affect Cheniere's financial condition, liquidity, ability to obtain financing and operating results. Lower oil and gas prices also may reduce the amount of oil and gas that the Company can produce economically. Historically, oil and gas prices and markets have been volatile, with prices fluctuating widely, and they are likely to continue to be volatile. Depressed prices in the future would have a negative impact on Cheniere's future financial results. In particular, substantially lower prices would significantly reduce revenue and could potentially impact the outcome of the Company's ceiling test under Regulation S-X Rule 4-10. Because Cheniere's reserves are predominantly natural gas, changes in natural gas prices may have a particularly large impact on its financial results.

Oil and Gas Reserves

The process of estimating quantities of proved reserves is inherently uncertain, and the reserve data included in this document are only estimates. Reserve engineering is a subjective process of estimating underground accumulations of natural gas and crude oil that cannot be measured in an exact manner. The process relies on interpretations of available geologic, geophysic, engineering and production data. The extent, quality and reliability of this technical data can vary. The process also requires certain economic assumptions, some of which are mandated by the SEC, such as oil and gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. The accuracy of a reserve estimate is a function of the quality and quantity of available data, the interpretation of that data, the accuracy of various mandated economic assumptions and the judgment of the persons preparing the estimate.

Cheniere's proved reserve information included in this document is substantially based on estimates prepared by Ryder Scott Company. Estimates prepared by others may be higher or lower than Cheniere's estimates.

Because these estimates depend on many assumptions, all of which may substantially differ from actual results, reserve estimates may be different from the quantities of natural gas and crude oil that are ultimately recovered. In addition, results of drilling, testing and production after the date of an estimate may justify material revisions to the estimate.

The present value of future net cash flows does not necessarily represent the current market value of Cheniere's estimated proved natural gas and oil reserves. In accordance with SEC requirements, the Company bases the estimated discounted future net cash flows from proved reserves on prices and costs on the date of the estimate. Actual future prices and costs may be materially higher or lower than the prices and costs as of the date of the estimate.

Cheniere's rate of recording depreciation, depletion and amortization expense (DD&A) is dependent upon its estimate of proved reserves. If the estimate of proved reserves declines, the rate at which Cheniere records DD&A expense increases, reducing net income. Such a decline may result from lower market prices, which may make it uneconomic to drill for and produce higher cost fields.

Equity Method of Accounting

The Company uses the equity method of accounting to account for its investment in Gryphon in accordance with APB No. 18, The Equity Method of Accounting for Investments in Common Stock. We consider the equity method to be appropriate, because the Company exercises significant influence over the operating and financial policies of Gryphon through its two member board participation on Gryphon's six member board. See Note 7 in the Notes to the Consolidated Financial Statements.

New Accounting Pronouncements

In July 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations (ARO), which requires that an asset retirement cost be capitalized as part of the cost of the related long-lived asset and allocated to expense by using a systematic and rational method. Under this Statement, an entity is not required to re-measure an ARO liability at fair value each period but is required to recognize changes in an ARO liability resulting from the passage of time and revisions in cash flow estimates. This Statement is effective for

financial statements issued for fiscal years beginning after June 15, 2002. The Company will adopt SFAS 143 effective January 1, 2003. The Company believes that the initial adoption of SFAS 143 will not have a material impact on its earnings or statement of financial position; however, this pronouncement may have a significant effect on the Company in the future.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS 146 supersedes Emerging Issues Task Force (EITF) Issue No. 94-3. The principal difference between SFAS 146 and EITF Issue No. 94-3 relates to when an entity can recognize a liability related to exit or disposal activities. SFAS 146 requires that a liability be recognized for a cost associated with an exit or disposal activity when the liability is incurred. EITF Issue No. 94-3 allowed a liability related to an exit or disposal activity to be recognized at the date an entity commits to an exit plan. The provisions of SFAS 146 are effective for all exit or disposal activities initiated after January 1, 2003. This statement is not expected to have a material impact on the Company upon adoption.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities (FIN No. 46), which addresses consolidation by business enterprises of variable interest entities. FIN No. 46 clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company does not expect to identify any variable interest entities that must be consolidated. In the event a variable interest entity is identified, the Company does not expect the requirements of FIN No. 46 to have a material impact on its financial condition or results of operations.

OTHER DEVELOPMENTS

In February 2002, the Company received a copy of a lawsuit styled Fairfield Industries Incorporated vs. Cheniere Energy, Inc. and Gryphon Exploration Company, which was filed in district court in Harris County, Texas. The lawsuit was related to a seismic license agreement between Fairfield and Cheniere, which was later assigned to Gryphon. In the lawsuit, Fairfield alleged that Cheniere and Gryphon conspired to defraud the plaintiff of certain transfer payments, which may be owed by Cheniere in connection with the transfer to Gryphon of the initial seismic

contributed at the time of its formation. In March 2002, Fairfield, Gryphon, and the Company settled this lawsuit. All existing and contingent obligations to Fairfield by Cheniere have been fully discharged through agreement by Gryphon to make current and contingent payments totaling no more than $2,500,000 to Fairfield. Additionally, Gryphon has assumed all of Cheniere's remaining contingent obligations to Seitel for seismic reprocessing ($1,061,692). In exchange for Gryphon's assumption of these liabilities, Cheniere transferred to Gryphon 51,400 shares of Gryphon common stock. (See Note 12 in Notes to Consolidated 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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All schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the consolidated balance sheet of Cheniere Energy, Inc. and subsidiaries (the "Company") as of December 31, 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of Gryphon Exploration Company ("Gryphon"), the investment in which, as discussed in Note 7 to the financial statements, is accounted for by the equity method of accounting. The investment in Gryphon was zero as of December 31, 2002, and the equity in its net loss was $2,184,847 for the year then ended. The financial statements of Gryphon were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Gryphon, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cheniere Energy, Inc. and subsidiaries at December 31, 2002, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

MANN FRANKFORT STEIN & LIPP CPAs, L.L.P.

Houston, Texas
March 7, 2003

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Cheniere Energy, Inc. and its subsidiaries at December 31, 2001, and the results of their operations and their cash flow for each of the two years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. 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 of America, 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 our opinion.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 14 to the consolidated financial statements, the Company has experienced recurring losses from operations and has a negative working capital balance at December 31, 2001 that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 14. The

consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

PRICEWATERHOUSECOOPERS LLP

Houston, Texas
March 29, 2002

CHENIERE ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

<TABLE>
<CAPTION>

<S>	December 31, 2002 <C>	December 31, 2001 <C>
ASSETS		
CURRENT ASSETS		
Cash And Cash Equivalents	$ 590,039	$ 610,718
Accounts Receivable	1,137,682	636,527
Prepaid Expenses	121,099	96,914
Total Current Assets	1,848,820	1,344,159
OIL AND GAS PROPERTIES, full cost method		
Proved Properties, net	842,882	1,929,124
Unproved Properties, not subject to amortization	16,751,347	16,236,962
Total Oil and Gas Properties	17,594,229	18,166,086
LNG SITE COSTS	1,400,000	1,350,000
FIXED ASSETS, net	216,341	416,232
INVESTMENT IN UNCONSOLIDATED AFFILIATE	-	3,747,199
Total Assets	$ 21,059,390	$ 25,023,676
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	$ 1,828,267	$ 1,464,812
Accrued Liabilities	683,788	409,589
Note Payable	750,000	-
Total Current Liabilities	3,262,055	1,874,401
COMMITMENTS AND CONTINGENCIES (NOTE 13)	-	-
STOCKHOLDERS' EQUITY		
Preferred Stock, $.0001 par value Authorized: 5,000,000 shares Issued and Outstanding: none	-	-
Common Stock, $.003 par value Authorized: 40,000,000 shares Issued and Outstanding: 13,297,393 shares	39,892	39,892
Additional Paid-in-Capital	41,414,236	41,133,868
Accumulated Deficit	(23,656,793)	(18,024,485)
Total Stockholders' Equity	17,797,335	23,149,275
Total Liabilities and Stockholders' Equity	$ 21,059,390	$ 25,023,676

</TABLE>

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

CHENIERE ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS

<TABLE>
<CAPTION>

Year Ended
December 31,

<S> <C> <C> <C>

	2002	2001	2000
Revenues			
Oil and Gas Sales	$ 239,055	$ 2,372,632	$ 5,320,432
Total Revenues	239,055	2,372,632	5,320,432
Operating Costs and Expenses			
Production Costs	90,038	420,242	388,637
Depreciation, Depletion and Amortization	368,562	1,243,828	3,371,383
Ceiling Test Write-down	-	5,126,248	-
General and Administrative Expenses			
LNG Terminal Development	1,556,782	1,788,419	343,572
Other	1,918,580	2,503,544	1,595,087
General and Administrative Expenses	3,475,362	4,291,963	1,938,659
Total Operating Costs and Expenses	3,933,962	11,082,281	5,698,679
Loss from Operations	(3,694,907)	(8,709,649)	(378,247)
Equity in Net Loss of Unconsolidated Affiliate	(2,184,847)	(2,974,191)	(426,649)
Gain on Sale of Proved Oil and Gas Properties	340,257	-	-
Loss on Early Extinguishment of Debt	(100,544)	-	-
Interest Income	7,733	18,578	23,916
Loss Before Income Taxes	(5,632,308)	(11,665,262)	(780,980)
Provision for Income Taxes	-	-	-
Net Loss	$ (5,632,308)	$ (11,665,262)	$ (780,980)
Net Loss Per Share - Basic and Diluted	$ (0.42)	$ (0.89)	$ (0.07)
Weighted Average Number of Shares Outstanding - Basic and Diluted	13,297,393	13,035,256	10,732,678

</TABLE>

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

CHENIERE ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

Common Stock	Additional Paid-In	Accumulated	Total

	Shares	Amount	Capital	Deficit	Stockholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>
Balance - December 31, 1999	10,053,118	$ 30,159	$ 33,293,822	$ (5,578,243)	$ 27,745,738
Issuance of Shares in Exchange for Note	250,000	750	499,250	-	500,000
Issuance of Warrants	-	-	722,800	-	722,800
Issuances of Stock	2,244,275	6,733	5,199,767	-	5,206,500
Expenses Related to Offerings	-	-	(332,850)	-	(332,850)
Net Loss	-	-	-	(780,980)	(780,980)
Balance - December 31, 2000	12,547,393	$ 37,642	$ 39,382,789	$ (6,359,223)	$ 33,061,208
Issuance of Stock	750,000	2,250	1,647,750	-	1,650,000
Issuances of Warrants and Options	-	-	110,000	-	110,000
Expenses Related to Offerings	-	-	(6,671)	-	(6,671)
Net Loss	-	-	-	(11,665,262)	(11,665,262)
Balance - December 31, 2001	13,297,393	$ 39,892	$ 41,133,868	$ (18,024,485)	$ 23,149,275
Issuances of Warrants and Options	-	-	280,368	-	280,368
Net Loss	-	-	-	(5,632,308)	(5,632,308)
Balance - December 31, 2002	13,297,393	$ 39,892	$ 41,414,236	$ (23,656,793)	$ 17,797,335

</TABLE>

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

CHENIERE ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>
<CAPTION>

	Year Ended December 31,		
	2002	2001	2000
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Loss	$ (5,632,308)	$ (11,665,262)	$ (780,980)
Adjustments to Reconcile Net Loss to Net Cash Provided By (Used In) Operating Activities:			
Depreciation, Depletion and Amortization	368,562	1,243,828	3,371,383
Ceiling Test Write-down	-	5,126,248	-
Non-Cash Expense	(32,649)	380,000	134,250
Gain on Sale of Proved Oil and Gas Properties	(340,257)	-	-
Loss on Early Extinguishment of Debt	100,544	-	-
Equity in Net Loss of Unconsolidated Affiliate	2,184,847	2,974,191	426,649

	(3,351,261)	(1,940,995)	3,151,302
Changes in Operating Assets and Liabilities			
Accounts Receivable	(752,648)	591,672	54,863
Prepaid Expenses	(27,786)	14,818	(16,787)
Accounts Payable and Accrued Liabilities	1,367,370	(877,772)	2,014,028
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(2,764,325)	(2,212,277)	5,203,406
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of Fixed Assets	(14,506)	(407,817)	(320,362)
Oil and Gas Property Additions	(1,430,472)	(4,343,705)	(6,561,169)
Net Proceeds from Sale of Proved Oil and Gas Properties	2,235,365	-	-
Sale of Interest in Oil and Gas Prospects	628,259	2,039,429	-
Sale of Oil and Gas Seismic Data	825,000	3,353,197	-
Proceeds from Contribution of Assets to Unconsolidated Affiliate	-	-	2,000,000
LNG Site Costs	(250,000)	(200,000)	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	1,993,646	441,104	(4,881,531)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from Issuances of Notes Payable	1,250,000	-	2,605,000
Repayment of Notes Payable	(500,000)	-	(7,068,213)
Sale of Common Stock	-	500,000	5,156,500
Offering Costs	-	(6,671)	(302,550)
NET CASH PROVIDED BY FINANCING ACTIVITIES	750,000	493,329	390,737
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(20,679)	(1,277,844)	712,612
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	610,718	1,888,562	1,175,950
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 590,039	$ 610,718	$ 1,888,562

</TABLE>

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

CHENIERE ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1-ORGANIZATION AND NATURE OF OPERATIONS

Cheniere Energy, Inc., a Delaware corporation, is engaged in exploration for and production of oil and gas reserves and in the development of a liquefied natural gas (LNG) receiving terminal business. The terms Cheniere and Company refer to Cheniere Energy, Inc. and its subsidiaries. Cheniere is a Houston-based company formed for the purpose of oil and gas exploration, development,

exploitation and production. The Company is currently engaged in the exploration for and production of oil and natural gas along the Gulf Coast of Texas and Louisiana, onshore and in the shallow waters of the Gulf of Mexico. The Company employs a small staff of experienced oil and gas exploration professionals who utilize third party drilling contractors and others in the oilfield service industry in executing Cheniere's exploration program.

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. As of December 31, 2002, Cheniere also owned an effective 9.3% interest in an affiliated company, Gryphon Exploration Company, and accounts for this investment using the equity method of accounting (see Note 7). All significant intercompany accounts and transactions have been eliminated in consolidation.

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 totaling ($42,261), $165,813 and $1,154,099 and general and administrative expenses, net of reimbursements, totaling $829,000, $782,000 and $743,355 for the years 2002, 2001 and 2000, respectively. Capitalized interest for 2002 was negative due to a refund of interest that was paid in 2001.

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.

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

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.

Revenue Recognition

Revenues from the sale of oil and gas production are recognized upon passage of title, net of royalty interests. When sales volumes differ from the Company's entitled share, an underproduced or overproduced imbalance occurs. To the extent an 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, 2002

and 2001, the Company had no gas imbalances.

LNG Site Costs

The Company initially capitalizes the cost of options to purchase LNG sites and the cost of options to lease LNG sites. Upon execution of a lease agreement, such costs are amortized over the lease period. Should the Company make a decision not to lease a particular site, the costs associated with that site are expensed in the period in which the decision is made (see Note 13). All other costs incurred in the initial development of the Company's LNG receiving terminal business are charged to expense as incurred.

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 two to five years. Upon retirement or other disposition of fixed assets, 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 or charged to expense in the event of a terminated offering.

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 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 issued to employees 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. The Company accounts for stock-based compensation issued to non-employees using SFAS No. 123.

The fair value of options is calculated using the Black-Scholes option-pricing model. Assumptions used in the pricing model and pro forma effects on the Company's net losses had it adopted the optional recognition provisions of SFAS No. 123 are summarized in the following table. The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of future amounts.

<TABLE>
<CAPTION>

	Year Ended December 31,		
	2002	2001	2000
Dividend yield	0.0%	0.0%	0.0%
Weighted average volatility	107.8%	84.3%	82.0%
Risk-free interest rate	2.9%	3.5%	5.8%
Expected lives of options	4.0 years	4.0 years	4.0 years
Net loss	$ (5,632,308)	$ (11,665,262)	$ (780,980)
Net loss per share (basic and diluted)	$ (0.42)	$ (0.89)	$ (0.07)
Pro forma employee compensation	$ 607,766	$ 427,575	$ 238,228
Pro forma net loss	$ (6,240,074)	$ (12,092,837)	$ (1,019,208)
Pro forma net loss per share (basic and diluted)	$ (0.47)	$ (0.93)	$ (0.09)

</TABLE>

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. Potential dilutive common stock equivalents include stock options from employee benefit plans and warrants to purchase common stock. 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. No adjustments were made to reported net income in the computation of EPS.

Reverse Stock Split

On October 16, 2000, the Company's stockholders approved a one-for-four reverse stock split, which became effective on October 18, 2000. All per share amounts and numbers of shares in the financial statements have been restated for the effect of this reverse stock split.

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, accounts payable and note payable approximate fair value because of the short maturity of those 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.

Concentration of Credit Risk

All of the Company's revenues are derived from no more than two customers. The Company's products are

commodities and constantly have a readily available market for sale.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that the Company make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. The most significant estimate pertains to proved oil and gas reserve volumes. Actual results could differ from those estimates. Management believes its estimates are reasonable.

New Accounting Pronouncements

In July 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations (ARO), which requires that an asset retirement cost be capitalized as part of the cost of the related long-lived asset and allocated to expense by using a systematic and rational method. Under this Statement, an entity is not required to re-measure an ARO liability at fair value each period but is required to recognize changes in an ARO liability resulting from the passage of time and revisions in cash flow estimates. This Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company will adopt SFAS 143 effective January 1, 2003. The Company believes that the initial adoption of SFAS 143 will not have a material impact on its earnings or statement of financial position; however, this pronouncement may have a significant effect on the Company in the future.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS 146 supersedes Emerging Issues Task Force (EITF) Issue No. 94-3. The principal difference between SFAS 146 and EITF Issue No. 94-3 relates to when an entity can recognize a liability related to exit or disposal activities. SFAS 146 requires that a liability be recognized for a cost associated with an exit or disposal activity when the liability is incurred. EITF Issue No. 94-3 allowed a liability related to an exit or disposal activity to be recognized at the date an entity commits to an exit plan. The provisions of SFAS 146 are effective for all exit or disposal activities initiated after January 1, 2003. This statement is not expected to have a material impact on the Company upon adoption.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities (FIN No. 46), which addresses consolidation by

business enterprises of variable interest entities. FIN No. 46 clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company does not expect to identify any variable interest entities that must be consolidated. In the event a variable interest entity is identified, the Company does not expect the requirements of FIN No. 46 to have a material impact on its financial condition or results of operations.

NOTE 3-ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	December 31, 2002	December 31, 2001
Taxes other than income	$ 42,611	$ 91,695
Accrued LNG costs	391,177	270,000
Accrued oil and gas property costs	250,000	-
Other accrued liabilities	-	47,894
Accrued liabilities	$ 683,788	$ 409,589

NOTE 4-FIXED ASSETS

Fixed assets consist of the following:

	December 31, 2002	December 31, 2001
Furniture and fixtures	$ 48,618	$ 48,618
Computers and office equipment	303,151	342,674
Other	263,936	253,566
	615,705	644,858
Less accumulated depreciation	(399,364)	(228,626)
Fixed assets, net	$ 216,341	$ 416,232

Depreciation expense related to the Company's fixed assets totaled $185,396, $197,789 and $347,865 for the years ended December 31, 2002, 2001 and 2000, respectively.

NOTE 5-OIL AND GAS PROPERTIES

Investments in oil and gas properties are as follows:

	December 31, 2002	December 31, 2001
Oil and gas properties:		
Proved	$ 11,296,639	$ 12,308,315
Unproved	16,751,347	16,236,962
	28,047,986	28,545,277
Less accumulated depreciation, depletion and amortization	(10,453,757)	(10,379,191)
	$ 17,594,229	$ 18,166,086

Depreciation, depletion and amortization of oil and gas property costs totaled $74,566, $1,029,239 and $3,023,518 for the years ended December 31, 2002, 2001 and 2000, respectively. Depreciation, depletion and amortization per

equivalent Mcf (using an Mcf-to-barrel conversion factor of 6 to 1) was $0.79, $1.84 and $2.04 for the years ended December 31, 2002, 2001 and 2000, respectively.

Costs incurred for unproved oil and gas properties were $2,813,370 in 2002 and $4,807,808 in 2001. The

Company believes that all unproved property costs will be evaluated within five years.

At June 30, 2001 and September 30, 2001, the Company's capitalized costs exceeded its capitalization ceiling, resulting in ceiling test write-downs totaling $5,126,248 for the year ended December 31, 2001.

The Company has made substantial investments in acquiring, processing and reprocessing its seismic databases covering a 6,800-square-mile project area offshore Texas and Louisiana and a 228-square-mile project area onshore and offshore Louisiana. The costs of these projects become subject to amortization on a ratable basis as the oil and gas reserves expected to be recovered from the projects are discovered. The Company began drilling prospects identified within its seismic databases in 1999, but did not participate in the drilling of any wells in 2000, 2001 or 2002. Interpretation of this data and related prospect generation is ongoing.

In September 2001, Cheniere paid $500,000 to acquire all rights to its 228-square-mile proprietary seismic database from the industry partner with whom it had jointly owned the data since 1996. Concurrent with this acquisition, Cheniere sold the seismic data to a seismic marketing company for $2,500,000 and a 50% share in licensing proceeds generated by the marketing company. In September 2002, Cheniere sold its remaining interest in future licensing proceeds to the marketing company for $825,000. Proceeds from the September 2001 and 2002 sales of 3D seismic data were recorded as a reduction to the Company's unproved oil and gas property costs. Cheniere retains a license to all of the seismic data for use in its exploration program.

In March 2002, the Company entered into a purchase and sale agreement for the sale of its proved oil and gas properties in West Cameron Block 49. The purchase price, effective January 1, 2002, was $2,350,000. Net proceeds after a purchase price adjustment and payment of a commission were $2,235,365. Closing occurred on April 22, 2002.

NOTE 6-EXPLORATION AGREEMENT

On March 10, 2000, Cheniere entered into an exploration agreement with an industry partner. 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 over the subsequent eighteen-month period within a defined area of mutual interest in the Gulf of Mexico. Pursuant to the exploration agreement, Cheniere received a fixed management fee of $230,000 per month over the eighteen-month term of the agreement. In addition, Cheniere's partner paid a disproportionate share of the cost of leasing and of the initial test well on each prospect. Cheniere was the operator of the drilling program. Management fees received by Cheniere in 2000 totaled $1,684,193 and were reported as a $988,548 recovery of general and administrative expenses attributable to generating the management fee and a $695,645 reduction to the amount of general and administrative expenses which were capitalized as oil and gas property costs. Each such portion of the management fee was allocated based on the historical cost and expense structure of the Company. In October 2000, Cheniere assigned its rights and obligations under this agreement to Gryphon, its unconsolidated affiliate, in connection with the Company's investment in Gryphon, as described in Note 7.

NOTE 7-INVESTMENT IN UNCONSOLIDATED AFFILIATE

On October 11, 2000, Cheniere completed a transaction with Warburg to fund its exploration program on approximately 8,800 square miles of seismic data in the Gulf of Mexico (the Louisiana Data Set) through a newly formed affiliated company, Gryphon. Cheniere contributed selected assets and liabilities in exchange for 100% of the common stock of Gryphon (36.8% voting interest after conversion of preferred stock) and $2,000,000 in cash. Such assets included: the Louisiana Data Set, certain offshore leases, a prospect then being drilled, its exploration agreement with an industry partner and certain other assets and liabilities. The net book value of the assets and liabilities contributed was $7,065,919, which consisted of assets of $9,115,963 (primarily unproved oil and gas property) and liabilities of $2,050,044 (primarily accounts payable). Warburg contributed $25,000,000 and received preferred stock, with an 8% accrued dividend, convertible into 63.2% of Gryphon's common stock. Cheniere accounted for the contribution of net assets at its historical cost, whereby the net amount of such assets and liabilities less the $2,000,000 in cash was

reclassified to investment in affiliate. No gain or loss was recognized at the time of contribution, primarily due to Cheniere's commitment to provide additional funding described above and due to the uncertainty of realization of the carrying value of the contributed unproved oil and gas properties.

Cheniere and Warburg also have the option, in connection with subsequent capital calls made by Gryphon, to contribute up to an additional $75,000,000 to Gryphon, proportionate to their respective ownership interests. Under the terms of the agreement governing these additional contributions, in the event that either Cheniere or Warburg elects not to participate in any additional contribution, the other investor has the option to purchase the non-participating investor's proportionate share. Assuming (i) that Gryphon makes subsequent capital calls for an aggregate of $75,000,000, (ii) that Cheniere elects not to participate in any of the capital calls and (iii) that Warburg elects to purchase all of Cheniere's proportionate share, and giving effect to Cheniere's sale to Gryphon of 6,740 shares of Gryphon common stock in July 2001 and its sale to Gryphon of 51,400 shares of Gryphon common stock in March 2002 (see Note 12), the Company's effective interest in Gryphon, after giving effect to the conversion of Gryphon's preferred stock, will be reduced to 8.0%.

During 2001 and 2002, Gryphon made cash calls totaling $60,000,000 against its capital commitment of $75,000,000. Cheniere declined to participate in such cash calls, and Warburg elected to purchase all of Cheniere's proportionate share of such cash calls. Also during 2001, Cheniere transferred 6,740 shares of Gryphon common stock to Gryphon in connection with the sale of licenses to certain seismic data. In March 2002, Cheniere sold 51,400 shares of its Gryphon common stock to Gryphon, subject to certain repurchase options (discussed below). As a result of these transactions, Cheniere's ownership interest in Gryphon, after the effect of converting preferred stock into common stock, was reduced from 36.8% at December 31, 2000 to 9.3% as of December 31, 2002.

In connection with the seismic license contributed to Gryphon upon its formation, Cheniere entered into an agreement with the third party issuer of the license. The agreement provided that Cheniere would pay a transfer fee to the third party in an aggregate amount of up to $2,500,000. Such transfer fee was contingent upon Gryphon's completion of up to ten successful wells during the license period and within the license area. Cheniere's existing and contingent obligations under this agreement were fully discharged in March 2002 in connection with its sale of 51,400 shares of Gryphon common stock to Gryphon and the related assumption by Gryphon of these obligations. Cheniere has a one-year option to repurchase all or a portion of the 51,400 shares at a price of $50 per share if exercised within 120 days of the sale or at prices increasing ratably thereafter to approximately $68 per share one year after the sale.

Cheniere accounts for its investment in Gryphon using the equity method of accounting. Although Cheniere's participation on the Gryphon board of directors provides significant influence over the operating and financial policies of Gryphon, Cheniere does not participate in the day-to-day management of Gryphon, does not exercise control over Gryphon and cannot effect a change in the management of Gryphon. Cheniere's equity share of Gryphon's losses for the period from October 11, 2000 through December 31, 2000 was $426,649, calculated by applying Cheniere's 100% common stock ownership interest to Gryphon's net income of $19,003 and reducing such result for Gryphon's preferred dividend arrearages of $445,652. For 2001, Cheniere's equity share of Gryphon's losses was $2,974,191, calculated by applying Cheniere's 100% common stock ownership interest to Gryphon's net income of $84,000 and reducing such result for Gryphon's preferred dividend arrearages of $3,058,191 for the year. Cheniere's equity share of Gryphon's losses for 2002 was $2,184,847, calculated by applying Cheniere's 100% common stock ownership interest to Gryphon's net loss of $519,000, reducing such result for Gryphon's preferred dividend arrearages of $5,844,746 for the year and limiting the cumulative amount of net loss recognized to the balance of Cheniere's investment in Gryphon. During 2002, Cheniere's basis of its investment in Gryphon was reduced to zero, but not below zero, because Cheniere does not guarantee any obligations of Gryphon and is not committed to provide additional financial support to Gryphon. The amount of Gryphon's net loss that has not yet been recorded by Cheniere was $4,179,000 at December 31, 2002. At such time as Warburg converts its preferred shares to common shares, Cheniere's equity share of Gryphon's earnings (losses) will be calculated using the effective ownership interest at the time of such conversion, and will no longer be reduced by preferred dividends. Gryphon's preferred stock is convertible at the option of the holder at a rate of $100 per share of common stock at any time after the holders of a majority of the preferred stock execute a written consent permitting a conversion of the preferred stock or, if earlier, at any time after August 31, 2010. In the event the holders of a majority of the preferred stock vote to convert all of their shares of preferred stock into common stock, all shares of preferred stock shall automatically be converted, without further action by Gryphon or its shareholders. In addition, Gryphon has the right, at its option, to convert shares of preferred stock into common stock upon Gryphon's closing of a firm commitment qualified public offering.

CHENIERE ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summarized financial information relative to Gryphon is set forth below (in thousands):

	December 31, 2002	December 31, 2001
Current assets	$ 12,215	$ 14,864
Oil and gas properties, full cost method	91,007	53,551
Fixed assets	458	616
Current liabilities	11,870	5,001
Long-term liabilities	-	-
Deferred tax liabilities	2,043	1,182

	Year Ended December 31, 2002	2001	2000
Revenues	$ 11,143	$ 2,382	$ -
Income (loss) from continuing operations	(674)	82	29
Net income (loss)	(519)	84	19
Preferred dividends in arrears	(5,845)	(3,058)	(446)
Cheniere's equity in losses from unconsolidated affiliate	(2,185)	(2,974)	(427)

The following items represent the differences between Cheniere's equity share of Gryphon's net assets and the balance in Cheniere's investment in unconsolidated affiliate (in thousands).

	December 31, 2002	December 31, 2001
Cheniere's equity share of Gryphon's net assets	$ 4,767	$ 7,848
Gryphon losses not yet recorded by Cheniere	4,179	-
Preferred stock dividends in arrears	(9,349)	(3,504)
Excess of Cheniere cost basis	(500)	(1,500)
Gryphon offering expenses	903	903
Cheniere's investment basis	$ -	$ 3,747

NOTE 8-NOTES PAYABLE

At December 31, 2002, Cheniere had a $750,000 short-term note payable outstanding. At December 31, 2001, Cheniere had no outstanding debt obligations. Set forth below is a description of financing facilities used by the Company under which financing cash inflows and outflows occurred during the three years ended December 31, 2002.

June 2002 - LNG Receiving Terminal Financing

In June 2002, Cheniere received $750,000 as a refundable payment for the sale of two options to purchase an aggregate of up to a 20% interest in its Freeport LNG receiving terminal project. In the event the first option is exercised, the payment is applied to the purchase price. In the event the option is not exercised, the payment is refundable, and repayment is secured by a note payable executed by Cheniere. The note is payable in full on July 15, 2003. It will bear interest at 8%, payable at maturity and accruing from the earlier of the time the option expires or the date the holder elects not to exercise. As of December 31, 2002, the note has not yet begun to bear interest. The note is secured by Cheniere's revenues, accounts receivable and other assets. In March 2003, the option was exercised and the note payable was canceled.

March 2002 - $500,000 Bridge Financing

In March 2002, the Company entered into a short-term bridge financing arrangement with an unrelated third party lender. The amount of the borrowing was $500,000. The term was 120 days. Interest was payable monthly at 10% per annum. Warrants were issued to the lender for the purchase of 150,000 shares of Cheniere common stock, exercisable at a price of $2.50 per share on or before March 7, 2012. Additionally, Cheniere extended the term to March 7, 2012 on

existing warrants for the purchase of 255,417 shares held by parties affiliated with the lender. Based on the Black-Scholes model, the warrants issued (150,000 shares) and the extension of existing warrants (255,417 shares) in connection with this financing arrangement have an aggregate value of $241,939. Debt discount of $163,045 was recorded based on the relative fair values of the note payable and the warrants. An additional 50,000 warrants were required to be issued to the lender for each month or partial month for which the principal remained unpaid after April 7, 2002. The Company repaid the loan on April 22, 2002, resulting in a loss on early extinguishment of debt in the amount of $100,544, which is classified as an ordinary loss in the Company's statement of operations. Cheniere also issued an additional 50,000 warrants to the lender, valued at $24,054 based on the Black-Scholes model.

April 2000 - $2,000,000 Bridge Financing

In April 2000, the Company established a bridge financing facility which provided for: borrowings of up to $2,000,000 bearing interest at a rate equal to LIBOR plus 2%, a placement fee equal to 2% of the commitment amount, the issuance of warrants to purchase 250,000 shares of common stock at an exercise price of $4.00 per share on or before September 6, 2003, and conversion of the notes payable into common stock, at Cheniere's election, at a price per share equal to $2.00 per share. Cheniere borrowed an aggregate of $2,000,000 under the facility during 2000. In September 2000, the Company repaid $500,000 in cash and issued 250,000 shares to satisfy an additional $500,000. In December 2000, Cheniere repaid the remaining balance of $1,000,000 plus accrued interest.

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 were repaid from Cheniere's share of net cash flow from production through the West Cameron Block 49 platform. The note was secured by Cheniere's oil and gas properties and had a maturity date of June 30, 2000. Financing costs included interest at 10% per annum and a 5% net profit interest in the initial two wells producing through the platform. During 2000, the Company borrowed an additional $605,000 under the same facility and repaid all principal and interest due thereunder.

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 was payable at 10% per annum. The note was secured by Cheniere's oil and gas properties and matured on July 5, 2000. All principal and related interest under the agreement were repaid during 2000.

December 1997 - $4,000,000 Bridge Financing

In December 1997, Cheniere completed the private placement of a $4,000,000 bridge financing. The notes payable issued by Cheniere had an initial maturity date of March 15, 1998, which was extended ultimately to March 15, 2000, when the then-remaining balance of $755,000 was paid.

NOTE 9-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.

At December 31, 2002, the Company had net operating loss (NOL) carryforwards for tax reporting purposes of approximately $22,234,000. In accordance with SFAS No. 109, a valuation allowance equal to the net 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, 2002 and 2001 are as follows:

	Year Ended December 31,	
	2002	2001
Deferred tax assets		

NOL carryforwards	$ 8,226,583	$ 11,802,327
Oil and gas properties and fixed assets	70,169	150,330
Investment in unconsolidated affiliate	513,190	-
	8,809,942	11,952,657
Deferred tax liabilities		
Investment in unconsolidated affiliate	-	560,532
	-	560,532
Net deferred tax assets	8,809,942	11,392,125
Less: valuation allowance	(8,809,942)	(11,392,125)
	$ -	$ -

NOL carryforwards expire starting in 2012 extending through 2022. Certain of the Company's NOLs are subject to per year availability of approximately $1,900,000 under Internal Revenue Code Section 382 change of ownership limitations.

The gross change in the valuation allowance for deferred tax assets was approximately $(2,582,183), $7,739,165 and $679,000 during the years ended December 31, 2002, 2001 and 2000, respectively.

NOTE 10-WARRANTS

As of December 31, 2002, Cheniere has issued and outstanding 2,593,521 warrants for the purchase of its common stock. 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. The Company has granted warrants in connection with certain of its debt or equity financings and as compensation for services. In instances where warrants were granted in connection with financings, such warrants were valued based on the estimated fair market value of the stock at the date of issuance. Where warrants were issued for services, fair value was calculated using the Black-Scholes pricing model. The terms of warrants outstanding at December 31, 2002 range from three years to approximately fourteen years, with a weighted average remaining life of 2.7 years at December 31, 2002. All outstanding warrants are fully exercisable. Prices at which the warrants are exercisable range from $1.20 to $11.50 per share, with a weighted average exercise price of $4.06 per share at December 31, 2002. Information related to Cheniere's warrants is summarized in the following table:

<TABLE>
<CAPTION>

	December 31,		
	2002	2001	2000
<S>	<C>	<C>	<C>
Outstanding at beginning of period	2,850,288	2,758,621	2,116,951
Warrants issued	312,500	91,667	1,291,462
Warrants exercised	-	-	(234,375)
Warrants canceled	(569,267)	-	(415,417)
Outstanding at end of period	2,593,521	2,850,288	2,758,621
Weighted average exercise price of warrants outstanding	$ 4.06	$ 4.47	$ 4.52
Weighted average remaining contractual life of warrants outstanding	2.7 years	1.8 years	2.5 years

</TABLE>

The following table summarizes information about warrants outstanding at December 31, 2002:

Exercise Prices	Number Outstanding	Weighted Average Years Remaining Contractual Life
$9.50 - $11.50	25,000	1.7
$7.00 - $8.00	313,542	1.0
$5.00 - $6.00	461,367	4.8
$4.00	756,100	0.5
$2.50 - $3.00	600,012	4.7
$1.20 - $1.75	437,500	2.8

	2,593,521

In March and May 2002, the Company issued to an unrelated third party lender warrants to purchase 200,000 shares of Cheniere common stock at an exercise price of $2.50 per share, exercisable in or before 2012. These warrants were issued in connection with the March 2002 short-term bridge financing. (See Note 8 for discussion of this Note Payable.)

In April 2002, as compensation for assistance in the Company's sale of its West Cameron Block 49 oil and gas proved properties, Cheniere issued to a consultant warrants to purchase 50,000 shares of Cheniere common stock at an exercise price of $2.50 per share, exercisable on or before April 22, 2007.

In August 2002, as compensation for assistance in the marketing of the Company's LNG terminal capacity, Cheniere issued to a consultant warrants to purchase 50,000 shares of Cheniere common stock at an exercise price of $1.20 per share, exercisable on or before August 26, 2007.

In December 2002, as compensation for assistance in the Company's investor relations program, Cheniere issued to a consultant warrants to purchase 12,500 shares of Cheniere common stock at an exercise price of $1.25 per share, exercisable on or before December 19, 2007.

NOTE 11-STOCK-BASED COMPENSATION

In 1997, the Company established the Cheniere Energy, Inc. 1997 Stock Option Plan, as amended, (the Option Plan), which allows for the issuance of options to purchase up to 2,000,000 shares of Cheniere common stock. The Company has reserved 2,000,000 shares of common stock for issuance upon the exercise of options which have been granted or which may be granted. As of December 31, 2002 the Company had granted options on 1,983,611 shares. The term of options granted under the Option Plan is generally five years. Vesting varies, but generally occurs over three or four years, in increments of 33% or 25%, respectively, on each anniversary of the grant date. All options granted under the Option Plan have exercise prices equal to or greater than fair market value at the date of grant.

A summary of the status of the Company's stock options is presented below:

	December 31,		
	2002	2001	2000
Outstanding at beginning of period	1,741,111	884,236	540,299
Options granted at an exercise price of $6.00 per share	-	-	83,750
Options granted at an exercise price of $2.75 per share	-	-	450,875
Options granted at an exercise price of $2.38 per share	-	20,000	-
Options granted at an exercise price of $2.16 per share	-	20,000	-
Options granted at an exercise price of $1.94 per share	-	-	380,000
Options granted at an exercise price of $1.70 per share	-	100,000	-
Options granted at an exercise price of $1.25 per share	267,500	-	-
Options granted at an exercise price of $1.20 per share	30,000	-	-
Options granted at an exercise price of $1.06 per share	-	760,000	-
Options granted at an exercise price of $0.93 per share	50,000	-	-
Options canceled	(105,000)	(43,125)	(570,688)
Outstanding at end of period	1,983,611	1,741,111	884,236

Exercisable at end of period	1,106,111	664,444	220,799
Weighted average exercise price of options outstanding	$ 2.07	$ 2.21	$ 3.45
Weighted average exercise price of options exercisable	$ 2.56	$ 3.16	$ 5.03
Weighted average fair value of options granted during the period	$ 1.20	$ 0.76	$ 1.39
Weighted average remaining contractual life of options outstanding	3.4 years	4.1 years	4.3 years

</TABLE>

The following table summarizes information about fixed options outstanding at December 31, 2002:

	Options Outstanding		Options Exercisable
Exercise Prices	Number Outstanding	Weighted Average Years Remaining Contractual Life	Number Outstanding
$12.00	8,750	0.3	8,750
$ 7.20	4,861	0.9	4,861
$ 6.00	210,000	1.8	192,500
$ 2.75	225,000	2.6	175,000
$ 2.38	20,000	3.0	6,667
$ 2.16	20,000	3.1	6,667
$ 1.94	367,500	2.9	263,333
$ 1.70	50,000	3.7	33,333
$ 1.25	267,500	5.0	80,000
$ 1.20	30,000	4.7	-
$ 1.06	730,000	3.9	335,000
$ 0.93	50,000	4.8	-
	1,983,611		1,106,111

In June 1999, the Company issued 250,000 warrants to its president and chief executive officer and 50,000 warrants to another member of its board of directors, both of whom were instrumental in negotiating the Company's license of 8,800 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 $6.00 per share. The 250,000 warrants issued to Cheniere's president and chief executive officer were canceled in October 2000, when he resigned from Cheniere to become president and chief executive officer of Gryphon. An additional 250,000 warrants were issued to Cheniere's new president and chief executive officer in October 2000,

pursuant to the terms of his employment agreement. The fair value of these warrants is included in the above pro forma net loss calculated under SFAS No. 123.

NOTE 12-RELATED PARTY TRANSACTIONS

In March 2002, Cheniere sold 51,400 shares of its Gryphon common stock to Gryphon, subject to an option to repurchase the shares, thereby reducing its interest in Gryphon from its then-current 20.2% to 13.7% on an as-converted basis. Such sale was made in connection with the settlement of a lawsuit filed by Fairfield Industries Incorporated against Cheniere and Gryphon. In connection with its sale of Gryphon common stock to Gryphon, Cheniere has a one-year option to repurchase all or a portion of the 51,400 shares at a price of $50 per share if exercised within 120 days of the sale or at prices increasing ratably thereafter to approximately $68 per share one year after the sale. As consideration for the shares, Gryphon agreed to make payments in full satisfaction of certain existing and contingent obligations of Cheniere totaling $3,561,692. Cheniere, Gryphon, and Fairfield Industries, Inc. reached a settlement agreement whereby a lawsuit and related claims asserted by Fairfield

against Cheniere and Gryphon were dismissed.

In April 2002, Cheniere's president advanced amounts totaling $30,000 to the Company. Subsequent to its sale of producing oil and gas properties, Cheniere repaid the advances on April 25, 2002, with accrued interest at 10% per annum totaling $122.

Commencing October 1, 2001, Cheniere has made office space available for use by a non-management director. The pro rata amount of office lease expense related to that space was $4,500 in 2002 and $1,125 in 2001.

In April 2001, the Company sold an interest in a prospect to Gryphon. Gryphon paid Cheniere $225,563 for a 50% interest in the related leases and will pay a disproportionate share of the drilling costs on terms representative of what a third party would pay for participation in the prospect generated by Cheniere.

In June 2001, Cheniere sold to Gryphon for $3,500,000 one of its two licenses to the Seitel 3D seismic data. Gryphon paid $853,197 in cash to Cheniere and agreed to pay $2,646,803 of Cheniere's obligations related to the reprocessing of the data. Cheniere remained responsible for payment of the final $1,061,692 in reprocessing charges upon final delivery of all reprocessed data, which is anticipated to be received in 2003. This payment obligation was assumed by Gryphon in connection with Cheniere's March 2002 sale of 51,400 shares of Gryphon common stock to Gryphon.

In July 2001, Cheniere sold to Gryphon one of its two licenses to certain 3D seismic data covering an additional 3,000 square miles. Gryphon agreed to pay Cheniere's accounts payable of $1.3 million and the remaining commitment of $2.9 million related to the reprocessing of the data. In connection with the transaction, Cheniere also transferred to Gryphon 6,740 shares of Gryphon common stock, valued at approximately $418,000 or $62 per share, based on the estimated fair market value of the Gryphon common stock, which considered the fair value of such stock at the formation of Gryphon and any significant changes in Gryphon's operations or market conditions since that date. The proceeds at closing of $1.3 million were allocated as a reduction to the carrying amount of Cheniere's investment in Gryphon ($418,000) and unproved oil and gas properties ($882,000). Cheniere retains one license to the seismic data. At December 31, 2001, Cheniere has included $376,493 in accounts receivable and in accounts payable related to reprocessing charges which are to be paid by Gryphon.

In September 2001, the Company made a payment of $40,000 to its chairman representing consulting fees for the months of October 2001 through January 2002. The unearned balance of $10,000 was included in prepaid expenses at December 31, 2001.

Under the terms of the Contribution and Subscription Agreement dated October 11, 2000 by and among the Company, Gryphon and the other investors listed therein, Gryphon provided office space to Cheniere at no cost from the closing date of October 11, 2000 until Cheniere relocated in December 2000, and Cheniere provided accounting and cash management services to Gryphon without charge for six months following the closing date. The values of the office space and the accounting and cash management services offset and were not significant to the Company.

In 2000, Cheniere served as contract operator for the well contributed to Gryphon on which drilling was underway at the date of Gryphon's inception. Cheniere received industry standard overhead reimbursements from all

working interest owners, including Gryphon, in accordance with the terms of the joint interest operating agreement.

In conjunction with certain of the Company's private placements of equity, placement fees have been paid 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 $30,000 for 2001 and $99,000 for 2000. As of December 31, 2001, the Company had accrued placement fees of $30,000 included in accrued liabilities. Such payments made in 2000 were recorded as offering costs and reflected as a reduction of additional paid-in capital. Payments made in 2001 were expensed.

NOTE 13-COMMITMENTS AND CONTINGENCIES

Lease Commitments

In November 2000, the Company entered into an office lease agreement with a term which runs through March 31, 2003. In March 2003, the Company entered into a lease agreement related to its existing office space with a term which runs through March 31, 2004. Future minimum lease payments are $126,835 and $31,509

for the years ending December 31, 2003 and 2004, respectively. Effective in October 2000, Cheniere assigned its rights and obligations under a previous office lease agreement to Gryphon. Cheniere's total rental expense for office space for the years ending December 31, 2002, 2001 and 2000 was $131,038, $157,146 and $222,394, respectively. Cheniere also leases exploration software at a cost of $30,000 per month on a term which runs through December 2003.

LNG Commitments

In April 2001, the Company engaged research consultants in connection with the development of its LNG receiving terminal business. The engagement was terminated in July 2002. Consideration for services rendered will be payable after final closing of the equity financing of one or more LNG import terminals in Texas. Such consideration will include a cash payment of $200,000 and the issuance of warrants to purchase 225,000 shares of Cheniere common stock at a price of $2.50 per share, exercisable for a period of 10 years (valued at $173,576 using Black-Scholes methodology).

In connection with the Company's acquisition of its Freeport, Texas LNG receiving terminal site option in 2001, Cheniere issued 500,000 shares of common stock valued at $1,150,000 or $2.30 per share, the closing price of the Company's common stock on the date of the transaction. Additionally, Cheniere has committed to issue 750,000 shares of its common stock to the seller of the option on April 15, 2003, and Cheniere will receive no additional consideration. Cheniere was also obligated to pay to the seller of the option a royalty equal to approximately 10% of processing revenues from the LNG receiving terminals which Cheniere develops, up to a maximum of $10,950,000 per year. Under the terms of the Freeport lease option, the Company was obligated to make semiannual payments of $125,000 commencing in September 2001 and continuing throughout the 3-year term of the lease option. Such option payments have been and will be applied toward lease rentals upon the execution of a long-term lease. In connection with Cheniere's February 2003 sale of the Freeport project to Development, Development has assumed the royalty obligation on processing through the Freeport terminal. Additionally, Development has converted the Freeport lease option into a long term lease and is responsible for all rental and other obligations thereunder.

In connection with Cheniere's acquisition of its option to lease the Brownsville, Texas LNG terminal site, Cheniere paid $33,600 for a one-year option commencing in June 2001 and made the first renewal payment in June 2002. Such option is renewable for an additional one-year period, through June 2004 for additional consideration of $33,600 per year.

Cheniere obtained a one-year purchase option to acquire the LNG terminal site in Sabine Pass, Texas, commencing in November 2001, in exchange for initial consideration of $200,000, of which $75,000 was paid in cash at closing and $125,000 was due six months from closing, provided that such option was not terminated at an earlier date. The purchase option was terminated by Cheniere during 2002, and no additional consideration beyond the $75,000 was paid. Subsequent to December 31, 2002, Cheniere entered into a lease option for a different site at Sabine Pass, on the Louisiana side of the river. Lease option rentals, commencing in March 2003, are approximately $100,000 per year, renewable annually for up to six years.

In December 2002, Cheniere entered into a non-binding Memorandum of Understanding with Sherwin providing for the negotiation of a partnership agreement which would grant Sherwin a 33% interest in Cheniere's Corpus Christi receiving terminal project in exchange for Sherwin's agreement to fund the first $4,500,000 in project development costs. Completion of the partnership agreement is scheduled to occur by April 15, 2003. In the event that such an agreement is not consummated by that date, Sherwin will grant to Cheniere a lease option on the terminal site lands in Corpus Christi. The option rentals will be $100,000 per year for up to 5 years. Upon exercise of the option, lease rentals would be $400,000 per year for an initial term of 33 years, renewable for two additional terms of 33 years each.

Legal proceedings

The Company has been and may in the future be involved as a party to various legal proceedings, which are incidental to the ordinary course of business. Management regularly analyzes current information and as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. In the opinion of management and legal counsel, as of December 31, 2002, there were no threatened or pending legal matters that would have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In February 2002, the Company received a copy of a lawsuit styled Fairfield Industries Incorporated vs. Cheniere Energy, Inc. and Gryphon Exploration

Company, which was filed in district court in Harris County, Texas. The lawsuit related to a seismic license agreement between Fairfield and Cheniere, which was later assigned to Gryphon. In the lawsuit, Fairfield alleged that Cheniere and Gryphon conspired to defraud the plaintiff of certain transfer payments, which may be owed by Cheniere in connection with the transfer to Gryphon of the initial seismic contributed at the time of its formation. In March 2002, Fairfield, Gryphon, and the Company settled this lawsuit. Existing and contingent obligations to Fairfield by Cheniere totaling $2,500,000 have been fully discharged through agreement by Gryphon to make current and contingent payments in exchange for the transfer of 30,000 Gryphon common shares from Cheniere to Gryphon.

NOTE 14-LIQUIDITY

The accompanying financial statements have been prepared on a going concern basis, which contemplates continuity of operations, realization of assets and liquidation of liabilities in the ordinary course of business. As of December 31, 2001, the Company had experienced recurring losses from operations and, during 2001, had negative cash flows from operating activities. In addition, the Company had a working capital deficiency of $530,242 and an accumulated deficit of $18,024,485 as of December 31, 2001. These considerations raised substantial doubt about Cheniere's ability to continue as a going concern as of December 31, 2001.

As of December 31, 2002, management expects that the Company will meet all of its liquidity requirements for the next twelve months through a combination of cash balances, collection of receivables and cash flows from current operations. Such sources are not expected to be adequate to meet future liquidity requirements as the Company expands its LNG terminal business. The Company expects that future liquidity requirements will be met by one or more of the following: the divestiture of producing oil and gas properties, sales of portions of its working interest in the prospects within its exploration program, sale to an industry partner of a participation in the Company's exploration program, sale of a participation interest in the Company's LNG projects and/or additional offerings of the Company's debt or equity securities. In the event that the Company is unable to obtain additional capital from one or more of these sources, its operations could be adversely affected.

The recoverability of the Company's unevaluated oil and gas properties and development of its LNG receiving terminal business are dependent on future events, including obtaining adequate financing for these programs, the successful reprocessing of the 3D seismic data in the Offshore Texas Project Area, 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.

Cheniere's needs for additional financing include the following:

- Additional capital may 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 determined in part by the number of prospects generated within its exploration program, by the working interest that the Company retains in those prospects and by the Company's ability to identify partners willing to bear a portion of drilling costs which would otherwise be attributable to the Company.

- The Company may need capital to fund its pro-rata share of the capital calls by Gryphon that are approved by Gryphon's board of directors. If the Company subscribes to its pro-rata portion of such capital calls but fails to fund, it would lose its ability to subscribe to any future capital calls and would suffer further dilution of its holdings in Gryphon. In 2002, Gryphon made cash calls in the aggregate amount of $30,000,000, which were funded entirely by Warburg, in March, June, September and November 2002. Cheniere declined to participate in these cash calls and its interest in Gryphon has been reduced from 20.2% to 9.3% on an as-converted basis, as of December 31, 2002. It is anticipated that Gryphon will make cash calls for additional funds. The Company's share of such future capital calls could total up to approximately $1,400,000. If the Company elects not to fund its pro-rata portion of such capital calls, and Warburg funds its portion, as they would be entitled to do, and as they have since the formation of Gryphon, the Company's ownership percentage of Gryphon's common stock on an as-converted basis will be further reduced (to as low as 8%). See Liquidity

and Capital Resources - Exploration Funding under Item 7 of this report.

- The Company will need substantial additional funds to execute its plan for developing and expanding its LNG receiving terminal business, including engineering, environmental, marine, regulatory, construction and legal work, including any such work involved in permitting and FERC filings related to Cheniere's second and third sites. Such costs are estimated to be approximately $3,000,000 per year for each terminal to be developed.

Additional capital could be obtained from a combination of funding sources, many of which may have a material adverse effect on the Company's business, results of operations and financial condition. These potential funding sources include:

- cash flow from operating activities, which is sensitive to prices the Company receives for its oil and natural gas,

- borrowings from financial institutions, which may subject the Company to certain restrictive covenants, including covenants restricting the Company's ability to raise additional capital or pay dividends,

- 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 would cause dilution of its common stock,

- sales of portions of its working interest in the prospects within its exploration program, which would reduce future revenues from its exploration program,

- sale to an industry partner of a participation in the Company's exploration program, which would reduce future revenues from its exploration program,

- sale of all or a portion of the Company's producing oil and gas properties, which would reduce future revenues,

- additional sales of interests in the Company's LNG projects and

- arrangement of a business development loan from, or prepayment of terminal use fees by, prospective sellers or purchasers of LNG.

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, capital may not become available to the Company from any particular source or at all. Even if additional capital becomes available, it may not be on terms acceptable to the Company. Failure to obtain additional financing on acceptable terms may have a material adverse effect on the Company's business, results of operations and financial condition.

NOTE 15-SUPPLEMENTAL CASH FLOW DISCLOSURES AND DISCLOSURES OF NON-CASH TRANSACTIONS

In 2002, Cheniere transferred computer equipment with a net book value of $29,001 to an exploration consulting company as compensation for its services. The Company sold 51,400 shares of its Gryphon common stock to Gryphon in consideration for their assumption of certain existing and contingent liabilities of Cheniere totaling $3,561,692. In connection with the sale of the Company's proved oil and gas properties, Cheniere issued warrants to purchase 50,000 shares of Cheniere common stock to a consultant valued at $22,695. The Company issued warrants to purchase 200,000 shares of Cheniere common stock and extended the expiration period on existing warrants to purchase 255,417 shares of Cheniere common stock, all at a value of $265,993, in connection with a short-term bridge financing arrangement with an unrelated third party lender. Cheniere issued warrants to purchase 50,000 shares of Cheniere common stock to a consultant valued at $39,269 for assistance in marketing the Company's LNG terminal capacity. The Company issued 12,500 stock options valued at $10,435 to a consultant for assistance in developing the LNG terminal business. Cheniere issued warrants to purchase 12,500 shares of Cheniere common stock to an investor relations consultant valued at $10,435. During 2002, the Company accrued an additional $96,777 for the services of an LNG project consultant. As of December 31, 2002, Cheniere has accrued a liability to this consultant of $366,777, of which $166,777 is the estimated value of warrants to be issued to purchase 225,000 shares of Cheniere common stock.

In 2001, Cheniere issued warrants to purchase 50,000 shares of Cheniere common stock to a consultant valued at $93,000. The Company issued 500,000 shares valued at $1,150,00 to acquire an LNG site lease option. The Company sold

6,740 shares of Gryphon Cheniere common stock with a fair market value of $417,880 to Gryphon in connection with the sale of a license to 3D seismic data. Additional value ascribed to sale of seismic was $256,141 (see Note 12). In connection with the Company's sale of licenses to 3D seismic data to Gryphon, Gryphon assumed liabilities for reprocessing charges of $6,820,824 and made payment on behalf of Cheniere in the amount of $5,847,533 during 2001. The Company has accrued $270,000 as of December 31, 2001, related to an obligation to issue to a consultant an equity participation in its LNG project. The Company issued 25,000 stock options valued at $17,000 to a consultant for assistance in securing long-term supplies of LNG.

In 2000, Cheniere issued 16,667 shares of Cheniere common stock in exchange for seismic data reprocessing services valued at $50,000. The Company issued 50,000 shares of Cheniere common stock as a price adjustment to shares issued in 1999 for oil and gas drilling services. Cheniere issued warrants to purchase 25,000 shares of Cheniere common stock (valued at $30,300) as a placement fee in connection with the sale of securities. The Company issued warrants to purchase 250,000 shares of Cheniere common stock (valued at $528,000) in connection with the establishment of a bridge financing facility. Cheniere issued 250,000 shares of Cheniere common stock in satisfaction of $500,000 in short-term notes payable issued under a bridge financing facility. Cheniere also issued warrants to purchase 250,000 shares of Cheniere common stock to its president and chief executive officer in October 2000, pursuant to his employment agreement. The Company issued its financial advisers warrants to purchase 125,000 shares of Cheniere common stock, valued at $164,500, as consideration for assistance in the capitalization of Gryphon.

In connection with the Gryphon transaction in October 2000, Cheniere contributed to Gryphon certain assets and liabilities with a net book value of $7,065,919 for a 36.8% ownership interest in Gryphon.

The Company paid $55,920, $105,813 and $329,232 for interest in the years ended December 31, 2002, 2001 and 2000, respectively. The Company has not paid any income taxes in the three years ended December 31, 2002.

The values of securities issued by the Company in connection with the transactions described above are based on third party arms-length negotiated prices.

NOTE 16-SUBSEQUENT EVENTS

In August 2002, Cheniere entered into an agreement with entities controlled by Michael S. Smith to sell a 60% interest in its planned LNG receiving facility at Freeport, Texas. In February 2003, Cheniere's Freeport LNG project was acquired by Freeport LNG Development, L.P. ("Freeport LNG"), in which Cheniere retained a 40% interest. Freeport LNG will pay Cheniere $5,000,000 in cash and will spend up to $9,000,000 to obtain permits and prepare the project for the construction phase with no further contribution by Cheniere. After contribution of the full $9,000,000, additional expenses will be borne by the parties pro rata based on their respective ownership interests. Smith, through a controlled entity, Freeport LNG Investments, LLC (Investments) holds a 60% interest in Freeport LNG. Smith will manage the project as chief executive officer of Freeport LNG.

The cash payments to Cheniere are payable $1,000,000 at closing; $750,000 on July 15, 2003 and October 15, 2003; and $2,500,000 30 days after all construction permits are obtained for the Freeport site. With the signing of a definitive lease agreement for the Freeport, Texas terminal site on December 19, 2002, Freeport LNG paid to Cheniere $650,000 for related costs and expenses, which amount would have been reimbursable by Cheniere should the sale to Freeport LNG not have been completed. Furthermore, at closing on February 27, 2003, Freeport LNG paid Cheniere an additional $530,215 in cash and assumed Cheniere liabilities of $560,211, all related to Freeport LNG project costs. These payments and assumptions of liabilities represent an aggregate of $1,740,426 in project cost recoveries to Cheniere, in addition to the $1,000,000 initial installment payment received at closing.

Cheniere pledged its Gryphon common stock as collateral to secure potential repayment of the $650,000 advance received in December 2002. Management expects such collateral will be released by March 31, 2003.

The Company accounted for this transaction in accordance with Emerging Issues Task Force Issue No. 89-7, Exchange of Assets or Interest in a Subsidiary for a Noncontrolling Equity Interest in a New Entity, and, accordingly, recorded a gain on the assets transferred to the extent of the percentage interest not retained.

On March 1, 2003, pursuant to an existing option agreement, Cheniere sold a 10% interest in Freeport LNG to a third party for $2,333,333, payable over time,

including the cancellation of the Company's $750,000 short-term note payable. Cheniere retained a 30% interest in Freeport LNG. In connection with the closing of the transactions in 2003, Cheniere issued warrants for the purchase of 1,000,000 shares of its common stock at a price of $2.50 per share, exercisable for a period of 10 years.

The pro forma effects of the transactions on Cheniere's balance sheet, as if the transactions had been consummated at December 31, 2002, are as follows:

<TABLE>
<CAPTION>

		Unaudited		
	Historical	Pro Forma Adjustments		Pro Forma
		Debits	Credits	
<S>	<C>	<C>	<C>	<C>
Current Assets	$ 1,848,820	$ 526,000(5)	$ 60,000(3)	$ 3,299,820
		1,000,000(6)	1,086,000(5)	
		1,583,000(7)	512,000(5)	
Oil and Gas Properties	17,594,229			17,594,229
LNG Site Costs	1,400,000		1,400,000(1)	-
Investment in Partnership	-	1,400,000(1)	1,000,000(6)	4,939,000
		4,760,000(2)	1,571,000(7)	
		600,000(3)		
		750,000(4)		
Other	216,341			216,341
Total Assets	$ 21,059,390			$ 26,049,390
Current Liabilities	$ 3,262,055	$ 560,000(5)	$ 540,000(3)	$ 1,980,055
		512,000(5)		
		750,000(7)		
Stockholders' Equity				
Common Stock	39,892			39,892
Additional Paid-in-Capital	41,414,236		750,000(4)	42,164,236
Accumulated Deficit	(23,656,793)		4,760,000(2)	(18,134,793)
			762,000(7)	
Total Stockholders' Equity	17,797,335			24,069,335
Total Liabilities and Stockholders' Equity	$ 21,059,390			$ 26,049,390

</TABLE>

The pro forma adjustments include the following entries:

(1) To reclassify $1,400,000 in LNG site costs to Investment in Partnership,
(2) To record $4,760,000 gain on sale of 60% interest in Freeport project,
(3) To record $600,000 in financial advisor fees, of which $60,000 had been previously accrued,
(4) To record the issuance of warrants valued at $750,000,
(5) To record collection of $1,086,000 account receivable through $526,000 cash reimbursement, and $560,000 assumption of liabilities by Development, and repayment of $512,000 in payables,
(6) To record the $1,000,000 first installment payment by Development and
(7) To record $2,333,000 sale by Cheniere of 10% interest in Development and resulting $762,000 gain, establishing $1,583,000 in receivables and canceling $750,000 note payable.

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COSTS INCURRED IN OIL AND GAS PRODUCING ACTIVITIES

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

	Year Ended December 31,		
	2002	2001	2000
Acquisition of properties			
Proved properties	$ -	$ -	$ -

Unproved properties	2,813,370	4,807,808	6,603,296
Exploration costs	-	-	-
Development costs	15,011	99,800	673,136
Subtotal	2,828,381	4,907,608	7,276,432
Amounts contributed to unconsolidated affiliate	-	-	(9,379,534)
Total	$ 2,828,381	$ 4,907,608	$ (2,103,102)
Proportional share of unconsolidated affiliate (1)	$ 43,496,000	$ 36,576,000	$ 18,196,000

(1) Represents Cheniere's proportional share, based on its 100% common stock ownership, of the costs incurred in oil and gas activities of Gryphon. Upon the conversion of Gryphon's preferred shares, such proportional share of Gryphon activities would be reduced to 9.3%, or $4,045,000 for 2002.

Included in the above amounts for the years ended December 31, 2002, 2001 and 2000 were $849,240, $947,813 and $1,897,454, respectively, of capitalized general and administrative expenses, capitalized interest expense and capitalized debt discount 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,		
	2002	2001	2000
<S>	<C>	<C>	<C>
Proved properties	$ 11,296,639	$ 12,308,315	$ 10,951,317
Unproved properties	16,751,347	16,236,962	18,253,731
	28,047,986	28,545,277	29,205,048
Accumulated depreciation, depletion and amortization	(10,453,757)	(10,379,191)	(4,223,704)
	$ 17,594,229	$ 18,166,086	$ 24,981,344
Proportional share of unconsolidated affiliate (1)	$ 89,698,000	$ 53,551,000	$ 18,196,000

</TABLE>

(1) Represents Cheniere's proportional share, based on its 100% common stock ownership, of the capitalized costs related to oil and gas producing activities of Gryphon. Upon the conversion of Gryphon's preferred shares, such proportional share of Gryphon's capitalized costs related to oil and gas producing activities would be reduced to 9.3%, or $8,342,000 at December 31, 2002.

RESULTS OF OPERATIONS FROM OIL AND GAS PRODUCING ACTIVITIES

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

<TABLE>
<CAPTION>

	Year Ended December 31,		
	2002	2001	2000
<S>	<C>	<C>	<C>
Revenues	$ 239,055	$ 2,372,632	$ 5,320,432
Production costs	(90,038)	(420,242)	(388,637)
Depreciation, depletion and amortization	(74,566)	(1,029,239)	(3,023,518)
Ceiling test write-down	-	(5,126,248)	-
Income tax benefit (expense)	-	-	-
Results of operations from oil and gas producing activities			

(excluding corporate overhead and interest costs)	$ 74,451	$ (4,203,097)	$ 1,908,277
Equity in results of operations from oil and gas producing activities (excluding corporate overhead and interest costs) of unconsolidated affiliate (1)	$ 828,000	$ 907,000	$ -

</TABLE>

(1) Represents Cheniere's proportional share, based on its 100% common stock ownership, of the results of operations from oil and gas producing activities (excluding corporate overhead and interest costs). Such proportional share will be reduced to 9.3% upon the conversion of Gryphon's preferred shares, resulting in a decrease in Cheniere's proportional interest in the results of operations from oil and gas producing activities to $77,000 for 2002.

RESERVE QUANTITIES

Estimates of proved reserves of Cheniere and the related standardized measure of discounted future net cash flow information are substantially based on the reports generated by the Company's independent petroleum engineers (Ryder Scott Company) 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. All of the Company's oil and gas reserves are located within the United States or its territorial waters.

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The Company's estimates of its proved reserves and proved developed reserves of oil and gas as of December 31, 2002, 2001 and 2000 and the changes in its proved reserves are as follows:

<TABLE>
<CAPTION>

	2002		2001		2000	
	Oil (Bbls)	Gas (Mcf)	Oil (Bbls)	Gas (Mcf)	Oil (Bbls)	Gas (Mcf)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Proved reserves:						
Beginning of year	15,088	3,245,000	19,874	4,568,000	27,816	5,796,000
Revisions of prior estimates	-	-	(2,178)	(780,226)	(7,200)	(354,103)
Production	(495)	(91,470)	(2,608)	(542,774)	(3,703)	(1,459,897)
Sale of reserves in place	(14,598)	(3,177,278)	-	-	-	-
Extensions, discoveries and other additions	3,985	1,356,748	-	-	2,961	586,000
End of year	3,980	1,333,000	15,088	3,245,000	19,874	4,568,000
Interest in proved reserves of unconsolidated affiliate - end of year (1)	371,808	27,508,000	210,151	17,468,000	2,640	1,674,000
Proved developed reserves:						
Beginning of year	15,088	3,245,000	16,913	3,982,000	27,816	5,796,000
End of year	1,606	503,000	15,088	3,245,000	16,913	3,982,000

Interest in proved developed reserves of unconsolidated affiliate - end of year (1)	165,421	16,332,000	192,569	13,022,000	2,640	1,674,000

</TABLE>

(1) Represents Cheniere's proportional share, based on its 100% common stock ownership, of the proved reserves and proved developed reserves of Gryphon. Upon the conversion of Gryphon's preferred shares, such proportional share of Gryphon reserves would be reduced to 9.3%, or proved reserves of 34,578 Bbls and 2,558,000 Mcf and proved developed reserves of 15,384 Bbls and 1,519,000 Mcf at December 31, 2002. Such reserves were not considered in the Company's calculation of depreciation, depletion and amortization or the calculation of its ceiling test.

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.

STANDARD MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS

The standardized measure of discounted future net cash flows was calculated by applying year-end prices, (adjusted for location and quality differentials) to estimated future production, less future expenditures (based on year-end costs) to be incurred in developing and producing the Company's 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,		
	2002	2001	2000
<S>	<C>	<C>	<C>
Future gross revenues	$ 6,343,537	$ 8,076,063	$ 48,989,932
Less - future costs:			
Production	(163,683)	(2,570,550)	(5,853,817)
Development	(56,250)	(910,800)	(2,823,300)

	2002	2001	2000
Income Taxes	-	-	(7,947,748)
Future net cash flows	6,123,604	4,594,713	32,365,067
Less - 10% annual discount for estimated timing of cash flows	(992,141)	(1,671,812)	(11,747,065)
Standardized measure of discounted future net cash flows	$ 5,131,463	$ 2,922,901	$ 20,618,002

</TABLE>

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

<TABLE>
<CAPTION>

	Year Ended December 31,		
	2002	2001	2000
<S>	<C>	<C>	<C>
Standardized measure - beginning of period	$ 2,922,901	$ 20,618,002	$ 7,570,129
Sales of oil and gas produced, net of production costs	(149,017)	(1,952,390)	(4,931,795)
Extensions, discoveries and other additions	5,208,984	-	3,537,975
Revisions to previous quantity estimates, timing and other	(28,799)	(675,047)	(2,349,930)
Net changes in prices and production costs	-	(21,242,047)	20,424,190
Sale of reserves in place	(2,212,670)	-	-
Development costs incurred	15,011	99,800	673,136
Changes in estimated development costs	(624,947)	(1,556,205)	-
Net changes in income taxes	-	5,062,716	(5,062,716)
Accretion of discount	-	2,568,072	757,013
Standardized measure - end of period	$ 5,131,463	$ 2,922,901	$ 20,618,002
Standardized measure - end of period - proportional interest in reserves of unconsolidated affiliate (1)	$ 95,211,000	$ 28,778,000	$ 9,138,920
Current prices at year-end, used in standardized measure			
Oil (per barrel)	$ 29.23	$ 19.00	$ 29.72
Gas (per mcf)	$ 4.64	$ 2.61	$ 10.71

</TABLE>

(1) Represents Cheniere's proportional share, based on its 100% common stock ownership, of the standardized measure of Gryphon's proved oil and gas reserves. Such proportional share of Gryphon's standardized measure will be reduced to 9.3% upon the conversion of Gryphon's preferred shares, resulting in a decrease in Cheniere's proportional interest in the standardized measure of unconsolidated affiliate to $8,855,000 at December 31, 2002.

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The Company may receive amounts different than those incorporated into the standardized measure of discounted cash flow for a number of reasons, including changes in prices. 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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SUMMARIZED QUARTERLY FINANCIAL DATA
(unaudited)

Quarterly Financial Data - (unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Year ended December 31, 2002:					
Revenues	$ 161,604	$ 37,955	$ 21,998	$ 17,498	$ 239,055
Gross profit (2)	(18,423)	(52,528)	(111,912)	(36,682)	(219,545)
Income (loss) from operations (3)	(1,318,501)	(1,636,668)	(1,478,002)	738,264	(3,694,907)
Net income (loss) (3)	(2,530,967)	(2,366,029)	(1,474,972)	739,660	(5,632,308)
Net income (loss) per share - basic and diluted	$ (0.19)	$ (0.18)	$ (0.11)	$ 0.06	$ (0.42)
Year ended December 31, 2001:					
Revenues	$ 971,656	$ 774,832	$ 395,540	$ 230,604	$ 2,372,632
Ceiling test write-down	-	2,159,645	2,966,603	-	5,126,248
Gross profit (2)	523,248	(1,904,100)	(2,972,576)	(64,258)	(4,417,686)
Income (loss) from operations	(502,374)	(3,200,636)	(4,130,150)	(876,489)	(8,709,649)
Net income (loss) (1)	(910,851)	(3,785,625)	(5,057,915)	(1,910,871)	(11,665,262)
Net loss per share - basic and diluted (1)	$ (0.07)	$ (0.29)	$ (0.38)	$ (0.14)	$ (0.89)

(1) Third quarter results in 2001 have been restated to reverse a $425,678 ($0.03 per share) gain on sale of unconsolidated affiliate stock.

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

(3) Fourth quarter 2002 includes $1,611,082 in recoveries of general and administrative expenses reimbursable under the terms of the Contribution Agreement related to Cheniere's sale of its Freeport LNG site, which closed in February 2003.

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

On October 17, 2002, Cheniere Energy, Inc. (the "Registrant") dismissed PricewaterhouseCoopers LLP ("PWC") as the Registrant's principal accountant and engaged Mann Frankfort Stein & Lipp CPAs, L.L.P. ("Mann Frankfort") as the principal accountant for the fiscal year ending December 31, 2002. The change in principal accountant was approved by the audit committee of the Registrant's board of directors.

In connection with the audits of the Registrant's two fiscal years ended December 31, 2001, and the subsequent interim period through such dismissal, there were no disagreements between PWC and the Registrant on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of PWC, would have caused them to make a reference thereto in their report on the financial statements for such year.

The reports of PWC on the consolidated financial statements of the Registrant and subsidiaries as of and for the years ended December 31, 2001 and 2000 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles, except the report on the consolidated financial statements as of and for the year ended December 31, 2001 included an explanatory paragraph regarding the existence of substantial doubt about the Registrant's ability to continue as a going concern, and the report on the consolidated financial statements as of and for the year ended December 31, 2000 included an explanatory paragraph regarding the recoverability of the Registrant's unevaluated oil and gas properties.

During the Company's two most recent fiscal years and through October 17, 2002, the Registrant did not consult Mann Frankfort with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on

the Registrant's consolidated financial statements, or any other matters or reportable events listed in Items 304(a)(2)(i) and (ii) of Regulation S-K.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Pursuant to paragraph 3 of General Instruction G to Form 10-K, the information required by Item 10 of Part III of this Report is incorporated by reference from Cheniere's definitive proxy statement involving the election of directors, which is to be filed pursuant to Regulation 14A within 120 days after the end of Cheniere's fiscal year ended December 31, 2002.

ITEM 11. EXECUTIVE COMPENSATION

Pursuant to paragraph 3 of General Instruction G to Form 10-K, the information required by Item 11 of Part III of this Report is incorporated by reference from Cheniere's definitive proxy statement involving the election of directors, which is to be filed pursuant to Regulation 14A within 120 days after the end of Cheniere's fiscal year ended December 31, 2002.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Pursuant to paragraph 3 of General Instruction G to Form 10-K, the information required by Item 12 of Part III of this Report is incorporated by reference from Cheniere's definitive proxy statement involving the election of directors, which is to be filed pursuant to Regulation 14A within 120 days after the end of Cheniere's fiscal year ended December 31, 2002.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Pursuant to paragraph 3 of General Instruction G to Form 10-K, the information required by Item 13 of Part III of this Report is incorporated by reference from Cheniere's definitive proxy statement involving the election of directors, which is to be filed pursuant to Regulation 14A within 120 days after the end of Cheniere's fiscal year ended December 31, 2002.

ITEM 14. CONTROLS AND PROCEDURES

Within the 90 days prior to the date of this Report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Financial Statements, Schedules and Exhibits

(1) Financial Statements - Cheniere Energy, Inc. and Subsidiaries

Reports of Independent Accountants....................................39
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The financial statements of Gryphon Exploration Company, for which Cheniere uses the equity method of accounting, have been filed as part of this report on Form 10-K. (See Item 14 (d).)

(2) Financial Statement Schedules

All consolidated financial statement schedules have been omitted because they are not required, are not applicable, or the required 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) filed on August 16, 1999)
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) filed on August 16, 1999)
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) filed on March 29, 1999)
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) filed on January 14, 1998)

10.1	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) filed on January 14, 1998)
10.2	First Amendment to Cheniere Energy, Inc. 1997 Stock Option Plan. (Incorporated by reference to Exhibit 10.26 of the Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 0-9092) filed on March 29, 2000)
10.3	Seismic Data Purchase Agreement dated June 21, 2000 between Seitel Data and Cheniere. (Incorporated by reference to Exhibit 10.39 of the Quarterly Report on Form 10-Q for the quarter ended June 30, 2000 (File No. 0-9092) filed on August 11, 2000)
10.4	Contribution and Subscription Agreement dated October 11, 2000, by and among the Company, Gryphon Exploration Company and the other investors listed therein. (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on October 20, 2000) (File No. 0-9092))
10.5	Stockholders Agreement dated October 11, 2000. (Incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on October 20, 2000 (File No. 0-9092))
10.6	Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock of Gryphon Exploration Company. (Incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on October 20, 2000 (File No. 0-9092))
10.7	Settlement and Purchase Agreement, dated and effective as of June 14, 2001 by and between Cheniere Energy, Inc., CXY Corporation, Crest Energy, L.L.C., Crest Investment Company and Freeport LNG Terminal, LLC (Incorporated by reference to Exhibit 10.10 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 (File No. 1-16383) filed on April 1, 2002)
10.8	Stock Purchase Agreement by and between Gryphon Exploration Company and Cheniere Energy, Inc. dated March 19, 2002 (Incorporated by reference to Exhibit 10.10 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 (File No. 1-16383) filed on April 1, 2002)
10.9	Contribution Agreement, dated as of August 26, 2002, by and among Freeport LNG Investments, LLC, Freeport LNG-GP, Inc., Cheniere Energy, Inc., Cheniere LNG, Inc. and Freeport LNG Terminal, L.L.C. (Incorporated by reference to Exhibit 2 of the Company's Current Report on Form 8-K (File No. 1-16383) filed on September 4, 2002).
10.10	Extension and Amendment to Contribution Agreement, dated as of September 19, 2002, by and among Freeport LNG Investments, LLC, Freeport LNG-GP, Inc., Cheniere Energy, Inc., Cheniere LNG, Inc. and Freeport LNG Terminal, L.L.C. (Incorporated by reference to Exhibit 2 of the Company's Current Report on Form 8-K (File No. 1-16383) filed on September 26, 2002).
10.11	Second Extension and Amendment to Contribution Agreement, effective as of October 4, 2002, by and among Freeport LNG Investments, LLC, Freeport LNG-GP, Inc., Cheniere Energy, Inc., Cheniere LNG, Inc. and Freeport LNG Terminal, L.L.C. (Incorporated by reference to Exhibit 1 of

the Company's Current Report on Form 8-K (File No. 1-16383) filed on November 5, 2002).

10.12 Third Amendment to Contribution Agreement, dated as of February 27, 2003, by and among Freeport LNG Investments, LLC, Freeport LNG-GP, Inc., Cheniere Energy, Inc., Cheniere LNG, Inc. and Freeport LNG Terminal, L.L.C. (Incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K (File No. 1-16383) filed on March 7, 2003).

10.13 Amended and Restated Partnership Agreement of Freeport LNG Development, L.P., dated as of February 27, 2003, by and among Freeport LNG-GP, Inc., Freeport LNG Investments, LLC and Cheniere LNG, Inc. (Incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K (File No. 1-16383) filed on March 7, 2003).

10.14 Warrant to Purchase Common Stock, dated as of February 27, 2003, issued by Cheniere Energy, Inc. in favor of Freeport LNG Investments, LLC. (Incorporated by reference to Exhibit 10.6 of the Company's Current Report on Form 8-K (File No. 1-16383) filed on March 7, 2003).

10.15 Option Agreement, dated as of February 27, 2003, by and between Freeport LNG Investments, LLC and Cheniere Energy, Inc. (Incorporated by reference to Exhibit 10.7 of the Company's Current Report on Form 8-K (File No. 1-16383) filed on March 7, 2003).

10.16 Partnership Interest Purchase Agreement, dated as of March 1, 2003, by and among Contango Sundance, Inc., Contango Oil & Gas, Cheniere LNG, Inc. and Cheniere Energy, Inc. (Incorporated by reference to Exhibit 10.8 of the Company's Current Report on Form 8-K (File No. 1-16383) filed on March 7, 2003).

10.17 Warrant to Purchase Common Stock, dated as of March 1, 2003, issued by Cheniere Energy, Inc. in favor of Contango Sundance, Inc. (Incorporated by reference to Exhibit 10.9 of the Company's Current Report on Form 8-K (File No. 1-16383) filed on March 7, 2003). 21.1 Subsidiaries of Cheniere Energy, Inc.

21.1 Subsidiaries of Cheniere Energy, Inc.

23.1 Consent of Mann Frankfort Stein & Lipp CPAs, L.L.P.

23.2 Consent of PricewaterhouseCoopers LLP

23.3 Consent of KPMG LLP

99.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes - Oxley Act of 2002

99.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes - Oxley Act of 2002

(b) Reports On Form 8-K:

September 4, 2002 - The Company filed a Current Report on Form 8-K on September 4, 2002 to report that it had entered into a Contribution Agreement, dated as of August 26, 2002.

September 26, 2002 - The Company filed a Current Report on Form 8-K on September 26, 2002 to report that it had entered into an Extension and Amendment to Contribution Agreement, dated as of September 19, 2002, to extend the closing date of the transaction contemplated by the Contribution Agreement, dated as of August 26, 2002.

October 22, 2002 - The Company filed a Current Report on Form 8-K on October 22, 2002 to report a change in the Company's certifying independent public accountants.

November 5, 2002 - The Company filed a Current Report on Form 8-K on November 5, 2002 to report that it had entered into a Second Extension and Amendment to Contribution Agreement, effective as of October 4, 2002, amending the Contribution Agreement, dated as of August 26, 2002.

December 20, 2002 - The Company filed a Current Report on Form 8-K on December 20, 2002 to report the resignation of its president and chief executive officer.

March 7, 2003 - The Company filed a Current Report on Form 8-K on March 5, 2003 to report the sales of interests in the Company's Freeport LNG receiving terminal project.

(c) Not applicable.

(d) Gryphon Exploration Company Financial Statements, for which Cheniere uses the equity method of accounting, are filed as a part of this report beginning on page 77.

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.
(Registrant)

By:/s/ Charif Souki
Charif Souki
Chairman, President and Chief Executive Officer
Date: March 26, 2003

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 of Directors, President, (Principal Executive Officer) and Director	March 26, 2003
/s/ Walter L. Williams Walter L. Williams	Vice Chairman and Director	March 26, 2003
/s/ Don A. Turkleson Don A. Turkleson	Vice President, Chief Financial Officer, Secretary and Treasurer (Principal Financial and Accounting Officer)	March 26, 2003
/s/ Nuno Brandolini Nuno Brandolini	Director	March 26, 2003
/s/ Keith F. Carney Keith F. Carney	Director	March 26, 2003
/s/ Paul J. Hoenmans Paul J. Hoenmans	Director	March 26, 2003
/s/ John K. Howie John K. Howie	Director	March 26, 2003
/s/ Charles M. Reimer Charles M. Reimer	Director	March 26, 2003

CERTIFICATION BY CHIEF EXECUTIVE OFFICER PURSUANT TO SECURITIES EXCHANGE ACT RULE 13A-14

I, Charif Souki, certify that:

1. I have reviewed this annual report on Form 10-K of Cheniere Energy, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the

registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 26, 2003

/s/Charif Souki
- ----------------------------
Charif Souki
Chief Executive Officer

CERTIFICATION BY CHIEF FINANCIAL OFFICER PURSUANT TO SECURITIES EXCHANGE ACT RULE 13A-14

I, Don A. Turkleson, certify that:

1. I have reviewed this annual report on Form 10-K of Cheniere Energy, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of

registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 26, 2003

/s/Don A. Turkleson
- ------------------------
Don A. Turkleson
Chief Financial Officer

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GRYPHON EXPLORATION COMPANY

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
Gryphon Exploration Company

We have audited the accompanying balance sheet of Gryphon Exploration Company, as of December 31, 2002, and the related statements of income (loss), stockholders' equity, and cash flows for the year then ended. 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 audit.

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

In our opinion, the 2002 financial statements referred to above present fairly, in all material respects, the financial position of Gryphon Exploration Company, as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Houston, Texas
March 14, 2003

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
Gryphon Exploration Company

In our opinion, the accompanying balance sheet and the related statements of income (loss), stockholders' equity and cash flows present fairly, in all material respects, the financial position of Gryphon Exploration Company at December 31, 2001 and the results of its operations and its cash flows for the year ended December 31, 2001 and for the period from inception (October 11, 2000) through December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. 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 of America, 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 our opinion.

PRICEWATERHOUSECOOPERS LLP

Houston, Texas
March 29, 2002

GRYPHON EXPLORATION COMPANY
BALANCE SHEETS
(dollars in thousands, except share related items)

<TABLE>
<CAPTION>

<S>	December 31, 2002 <C>	December 31, 2001 <C>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 2,986	$ 7,931
Restricted Cash Deposits	260	1,751
Receivables from Joint Interest Owners and Revenue Receivables	3,188	1,941
Prepaid Expenses and Other	5,781	3,241
Total Current Assets	12,215	14,864
OIL AND GAS PROPERTIES, full cost method		
Proved Properties, net	54,322	25,484
Unproved Properties, not subject to amortization	36,685	28,067
Total Oil and Gas Properties	91,007	53,551
FIXED ASSETS, net	458	616
Total Assets	$ 103,680	$ 69,031
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	$ 5,773	$ 1,948
Advances from Joint Interest Owners	1,875	566
Revenue Payable	5	1,411
Short-term Note Payable	2,865	1,076
Hedge Liability	1,352	--
Total Current Liabilities	11,870	5,001
DEFERRED TAX LIABILITY	2,043	1,182
COMMITMENTS AND CONTINGENCIES (NOTE 10)		
STOCKHOLDERS' EQUITY		
Preferred Stock, $.01 par value		
Authorized: 500,000 shares; Issued and Outstanding: 85,000 shares in 2002 and 55,000 shares in 2001	2	1
Common Stock, $.01 par value		
Authorized: 4,000,000 shares; Issued: 145,600 shares Outstanding: 2002--87,460 shares; 2001--145,600 shares	1	1
Additional Paid-in-Capital	93,160	63,161
Retained Earnings (Deficit)	(416)	103
Treasury Stock		
Recorded at cost--58,140 shares in 2002 and 6,740 shares in 2001	(2,980)	(418)

Total Stockholders' Equity	89,767	62,848
Total Liabilities and Stockholders' Equity	$ 103,680	$ 69,031

</TABLE>

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

GRYPHON EXPLORATION COMPANY
STATEMENTS OF INCOME (LOSS)
(dollars in thousands)

<TABLE>
<CAPTION>

	Year ended December 31, 2002	Year ended December 31, 2001	Inception (October 11, 2000) Through December 31, 2000
Oil and Gas Revenue	$ 12,495	$ 2,382	$ --
Loss on Derivative Instruments	(1,352)	--	--
	11,143	2,382	--
Operating Costs and Expenses			
Production Costs	804	254	--
Workover Costs	3,226	--	--
Depreciation, Depletion and Amortization	6,521	1,769	113
General and Administrative Expenses	1,423	685	119
Total Operating Costs and Expenses	11,974	2,708	232
Loss From Operations Before Interest Income and Income Taxes	(831)	(326)	(232)
Interest Income	157	408	261
Income (Loss) From Operations Before Income Taxes	(674)	82	29
Income Tax Benefit / (Expense)	155	2	(10)
Net Income (Loss)	$ (519)	$ 84	$ 19

</TABLE>

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

GRYPHON EXPLORATION COMPANY
STATEMENTS OF STOCKHOLDERS' EQUITY
(dollars in thousands)

<TABLE>
<CAPTION>

Common Stock   Preferred Stock   Additional

	Shares	Amount	Shares	Amount	Paid-In Capital	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance - Date of Inception (October 11, 2000)	--	$ --	--	$ --	$ --	$ --	$ --	$ --
Issuance of Common Stock	145,600	1	--	--	9,064	--	--	9,065
Issuance of Preferred Stock	--	--	25,000	--	25,000	--	--	25,000
Offering Costs	--	--	--	--	(896)	--	--	(896)
Net Income	--	--	--	--	--	19	--	19
Balance - December 31, 2000	145,600	1	25,000	--	33,168	19	--	33,188
Treasury Stock	(6,740)	--	--	--	--	--	(418)	(418)
Issuance of Preferred Stock	--	--	30,000	1	29,999	--	--	30,000
Offering Costs	--	--	--	--	(6)	--	--	(6)
Net Income	--	--	--	--	--	84	--	84
Balance - December 31, 2001	138,860	$ 1	55,000	$ 1	$ 63,161	$ 103	$ (418)	$ 62,848
Treasury Stock	(51,400)	--	--	--	--	--	(2,562)	(2,562)
Issuance of Preferred Stock	--	--	30,000	1	29,999	--	--	30,000
Net Loss	--	--	--	--	--	(519)	--	(519)
Balance - December 31, 2002	87,460	$ 1	85,000	$ 2	$ 93,160	$ (416)	$ (2,980)	$ 89,767

</TABLE>

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

GRYPHON EXPLORATION COMPANY
STATEMENTS OF CASH FLOWS
(dollars in thousands)

<TABLE>
<CAPTION>

	Year ended December 31, 2002	Year ended December 31, 2001	Inception (October 11, 2000) Through December 31, 2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income (Loss)	$ (519)	$ 84	$ 19
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation, Depletion and Amortization	6,521	1,769	113
Non-Cash Expense	--	--	15
Loss on Derivative Instruments	1,352	--	

--

Deferred Income Taxes	862	(2)	10
	8,216	1,851	157
Changes in Operating Assets and Liabilities			
Restricted Cash Deposits	1,491	5,421	(7,172)
Accounts Receivable	(1,869)	(246)	(1,695)
Prepaid Expenses	(1,920)	(3,084)	(181)
Accounts Payable and Current Liabilities	5,517	(6,123)	10,962
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	11,435	(2,181)	2,071
CASH FLOWS FROM INVESTING ACTIVITIES:			
Oil and Gas Property Additions	(43,495)	(36,599)	(9,545)
Noncurrent Restricted Cash Deposits	--	2,608	(2,608)
Purchases of Fixed Assets	(323)	(513)	(70)
NET CASH USED IN INVESTING ACTIVITIES	(43,818)	(34,504)	(12,223)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Sale of Preferred Stock	30,000	30,000	25,000
Purchase of Treasury Stock	(2,562)	(418)	--
Offering Costs	--	(6)	(896)
Proceeds from borrowings	--	1,804	--
Repayment of borrowings	--	(716)	--
NET CASH PROVIDED BY FINANCING ACTIVITIES	27,438	30,664	24,104
NET INCREASE (DECREASE) IN CASH	(4,945)	(6,021)	13,952
CASH - BEGINNING OF PERIOD	7,931	13,952	--
CASH - END OF PERIOD	$ 2,986	$ 7,931	$ 13,952

</TABLE>

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

GRYPHON EXPLORATION COMPANY
NOTES TO FINANCIAL STATEMENTS
(dollars in thousands, except share related items)

NOTE 1-Organization and Nature of Operations

Gryphon Exploration Company, a Delaware corporation, ("Gryphon" or the "Company") 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 and production for oil and natural gas in the Gulf of Mexico. The Company began operations October 2000.

On October 11, 2000 ("Inception"), Gryphon completed a transaction with Warburg, Pincus Equity Partners, L.P. and certain affiliates thereof, ("Warburg") a global private equity fund based in New York, and Cheniere Energy, Inc. ("Cheniere") to fund an exploration program based upon approximately 8,800

square miles of 3D seismic data in the Gulf of Mexico (the "Fairfield data set"). Cheniere contributed selected net assets in exchange for 100% of the common stock of Gryphon. These assets included the Fairfield data set license, certain offshore leases, a prospect then being drilled, an exploration agreement with an industry partner (described in Note 4) and certain other assets and liabilities. In addition, Gryphon assumed certain liabilities and obligations of Cheniere in connection with the contribution of assets. The assets received from Cheniere less the liabilities assumed were recorded at their estimated net fair value at the date of the transaction. Also, at inception, Warburg contributed $25,000 and received Gryphon Series A convertible preferred stock, with an 8% cumulative dividend (Series A preferred stock). Cheniere and Warburg also agreed, under certain circumstances, to contribute additional capital up to $75,000 to Gryphon, proportionate to their respective ownership interests.

As further discussed in Note 7, Warburg and certain employees of the Company contributed an additional $60,000 in exchange for 60,000 shares of Series A preferred stock during 2002 and 2001.

NOTE 2-Summary of Significant Accounting Policies

Basis of Presentation

The financial statements include the accounts of Gryphon Exploration Company. As an independent oil and gas producer, the Company's revenue, profitability and future rate of growth are substantially dependent upon prevailing prices for natural gas, oil and condensate, which are dependent upon numerous factors beyond the Company's control, such as economic, political and regulatory developments and competition from other sources of energy. The energy markets have historically been very volatile, and there can be no assurance that oil and gas prices will not be subject to wide fluctuations in the future. A substantial or extended decline in oil and gas prices could have a material adverse effect on the Company's financial position, results of operations, cash flows, access to capital, and on the quantities of oil and gas reserves that may be economically produced.

Oil and Gas Properties

General. The Company uses the full cost method of accounting for exploration and development activities as defined by the U.S. Securities and Exchange Commission ("SEC"). Under this method of accounting, the costs for unsuccessful, as well as successful, exploration and development activities are capitalized as oil and gas properties. This includes any internal costs that are directly related to exploration and development activities. Gain or loss on the sale or other disposition of oil and gas properties is not recognized, unless the gain or loss would significantly alter the relationship between capitalized costs and proved reserves of oil and natural gas.

The sum of net capitalized costs and estimated future development and abandonment costs of oil and gas properties and mineral investments is amortized using the unit-of-production method. The carrying values of oil and gas properties included in these financial statements do not purport to represent replacement or market values.

In accordance with SEC Regulation S-X Rule 410 a(2), proved oil and gas reserves are the estimated quantities of natural gas, crude oil, condensate, and natural gas liquids that geological and engineering data demonstrate with reasonable certainty can be recovered in future years from new reservoirs under existing economic and operating conditions. Reserves are considered proved if they can be produced economically as demonstrated by either actual production or conclusive formation tests. The Company emphasizes that the volumes of reserves are

estimates which, by their nature, are subject to revision. The estimates are made using all available geological and reservoir data, as well as production performance data. These estimates, made by the Company's engineers and an independent third party reservoir engineering firm, are reviewed and revised, either upward or downward, as warranted by additional data. Revisions are necessary due to changes in assumptions based upon, among other things, reservoir performance, prices, economic conditions and governmental restrictions. Decreases in prices, for example, may cause a reduction in some proved reserves due to uneconomic conditions.

Unproved Oil and Gas Properties. Unproved oil and gas properties include costs that are excluded from proved oil and gas properties and are not subject to amortization. These amounts generally represent costs of investments in unproved properties, non-producing leases, seismic data sets, and major development projects. Gryphon excludes these costs until proved reserves are found or it is determined that the costs are impaired. All costs excluded are

reviewed at least annually to determine if impairment has occurred. Any impairment is transferred to the costs to be amortized (the proved oil and gas property pool). The Company evaluates significant properties, composed primarily of costs associated with offshore leases and seismic data sets, at least annually. Non-producing leases are evaluated based on the progress of the Company's exploration program to date. Exploration costs are transferred from unproved oil and gas properties to proved oil and gas properties upon completion of the first exploratory well on each property.

Capitalized Seismic Costs / General & Administrative Expenses. The Company capitalizes the costs associated with its 3D data sets as well as a portion of its General and Administrative expenses which are applicable to its exploration activities. As the direct costs associated with drilled properties are transferred from the Company's unproved oil and gas properties to its proved oil and gas properties, the Company allocates a portion of the capitalized 3D seismic and General and Administrative expense to the proved property pool. The Company's allocation of these costs is based upon the capitalized costs associated with each 3D data set area divided by the estimated number of prospects projected to be developed from each respective data set. During 2002, 2001 and 2000, the Company allocated approximately $3,400, $1,800 and $0, respectively, of seismic exploration cost, general and administrative, and other costs transferred by Cheniere at Inception, to the cost of proved properties based on this allocation method. It is reasonably possible, based on the results obtained from future drilling, that revisions to this estimate could occur in the future, which could affect the Company's capitalization ceiling.

Capitalized Interest. SFAS No. 34, "Capitalization of Interest Costs," provides standards for the capitalization of interest costs as part of the historical cost of acquiring assets. Financial Accounting Standards Board Interpretation ("FIN") No. 33 provides guidance for the application of SFAS No. 34 to the full cost method of accounting for oil and gas properties. Under FIN No. 33, costs of investments in unproved properties and major development projects, which are not subject to amortization and on which exploration or development activities are in progress, qualify for capitalization of interest. Capitalized interest is calculated by multiplying the Company's weighted-average interest rate on debt by the amount of costs included in unproved oil and gas properties. Capitalized interest cannot exceed gross interest expense. As costs are transferred from the unproved oil and gas properties pool to the proved oil and gas properties pool, the associated capitalized interest is also transferred to the proved oil and gas properties pool. The Company incurred no interest expense during 2002, 2001 or 2000, thus no interest costs were capitalized during those periods.

Ceiling Test. The Company limits the capitalized costs of proved oil and gas properties, net of accumulated Depreciation, Depletion, and Amortization ("DD&A") and the related deferred income taxes, to the estimated future net cash flows from proved oil and gas reserves, using prices in effect at the end of the applicable reporting period held flat for the life of production, discounted at 10%, net of related tax effects. If capitalized costs exceed this limit, the excess is charged to expense and reflected as additional DD&A.

Revenue Recognition

Revenues from the sale of oil and gas produced are recognized upon passage of title, net of royalty interests. When sales volumes differ from the Company's entitled share, an overproduced or underproduced 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, 2002, 2001 and 2000, the Company had no material gas imbalances.

Reimbursable expenses

The Company performs administrative services on behalf of third parties in accordance with certain contractual arrangements. The Company was reimbursed $810, $449 and $20 during 2002, 2001 and 2000, respectively, related to these services. These reimbursements are offset against general and administrative expenses of the Company.

Prepaid expenses

Prepaid expenses at December 31, 2002 and 2001 consist of prepaid insurance premiums of $4,093 and $1,850, respectively, as well as other prepaid expenses.

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 remaining useful lives, which are estimated as 9 to 36 months for software and computer equipment and 1 to 5 years for office furnishings. Leasehold improvements are amortized over the term of the underlying lease. 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.

Income Taxes

The Company utilizes the liability method of accounting for income taxes, as set forth in Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Under the liability method, deferred taxes are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Valuation allowances are recorded against deferred tax assets when it is considered more likely than not that the deferred tax assets will not be utilized.

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 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" ("APB 25"), and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the 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.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123. This statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in the notes to these consolidated financial statements.

The fair value of options is calculated using the Black-Scholes option-pricing model. Assumptions used for 2002, 2001 and 2000 were: no dividend yield, no volatility, risk-free interest rate of 4.3%, 3.8% and 5.6%, respectively, and an expected average option life of 5 years. If the Company had adopted the recognition provisions of SFAS No. 123 for 2002, 2001 and 2000, the Company's financial statements would have not reflected a change in reported net income.

Cash Equivalents

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

Restricted Cash Deposits

Current restricted cash deposits represent deposits reserved for the funding of contractual drilling costs on behalf of the Company and its working interest partners within one year.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and short-term debt approximate fair value because of the short maturities of those instruments.

Derivative Instruments

On January 1, 2001, the Company adopted SFAS No. 133, Accounting for Derivative Instruments and Certain Hedging Activities and SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activity, an Amendment of SFAS 133. SFAS Nos. 133 and 138 require that all derivative instruments be recorded on the balance sheet at their respective fair values. See Note 6 for information regarding the Company's derivative instruments and hedging activities.

Use of Estimates

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

Concentration of Credit Risk

The Company maintains cash balances with a bank and frequently exceeds federally insured limits. The Company invests its cash in money market securities, investment grade commercial paper, and U.S. Government-backed securities. The Company's joint interest partners consist primarily of independent oil and gas producers. The Company's oil and gas production purchasers consist primarily of independent marketers and major gas pipeline companies. The Company performs credit evaluations of its customers' financial condition and, if deemed necessary, obtains letters of credit and parental guarantees from selected customers. The Company has not experienced any significant losses from uncollectible accounts. All of the Company's derivative transactions have been carried out in the over-the-counter market.

Environmental Liabilities

Liabilities for loss contingencies, including environmental remediation costs, arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated.

Recently Issued Accounting Standards

In June 2001, the Financial Accounting Standard Board issued the Statement of Financial Accounting Standards No. 143 ("SFAS 143"), "Accounting for Asset Retirement Obligations" (ARO), which requires that an asset retirement cost be capitalized as part of the cost of the related long-lived asset and allocated to expense by using a systematic and rational method. Under this Statement, an entity is not required to re-measure an ARO liability at fair value each period but is required to recognize changes in an ARO liability resulting from the passage of time and revisions in cash flow estimates. This Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company expects to adopt SFAS 143 on January 1, 2003. The Company

has not yet determined the impact that the adoption of SFAS 143 will have on its earnings or statement of financial position.

In October 2001, the Financial Accounting Standard Board issued the Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets". The Statement requires that long-lived assets that are to be disposed of by sale be measured at lower of book value or fair value less cost of sale. The Statement also expanded the scope of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of this Statement are effective for fiscal years beginning after December 15, 2001. The provisions of this Statement will impact any asset dispositions the Company makes after January 1, 2002.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS No. 145 amends existing guidance on reporting gains and losses on the extinguishment of debt to prohibit the classification of the gain or loss as extraordinary, as the use of such extinguishments have become part of the risk management strategy of many companies. SFAS No. 145 also amends SFAS No. 13 to require sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. The provisions of the Statement related to the rescission of Statement No. 4 are applied in fiscal years beginning after May 15, 2002. Earlier application of these provisions is encouraged. The provisions of the Statement related to Statement No. 13 were effective for transactions occurring after May 15, 2002, with early application encouraged. The adoption of SFAS No. 145 is not expected to have a material effect on the Company's financial statements.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue 94-3, Liability Recognition

for Certain Employee Termination Benefits and Other Costs to Exit an Activity. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of SFAS No. 146 is not expected to have a material effect on the Company's financial statements.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statement No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and are not expected to have a material effect on the Company's financial statements. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 31, 2002.

In January 2003, the FASB issued Interpretation No. 46 Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interest in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. For nonpublic enterprises, such as the Company, with a variable interest in a variable interest entity created before February 1, 2003, the Interpretation is applied to the enterprise no later than the end of the first annual reporting period beginning after June 15, 2003. The application of this Interpretation is not expected to have a material effect on the Company's financial statements. The Interpretation requires certain disclosures in financial statements issued after January 31, 2003 if it is reasonably possible that the Company will consolidate or disclose information about variable interest entities when the Interpretation becomes effective.

NOTE 3-Fixed Assets

Fixed assets consisted of the following:

	December 31, 2002	December 31, 2001
Computers and Office Equipment	$ 1,362	$ 1,089
Furniture, Fixtures and Other	240	188
	1,602	1,277
Less Accumulated Depreciation	(1,144)	(661)
Fixed Assets, net	$ 458	$ 616

NOTE 4-Exploration AgreementS

In 2002, Gryphon entered into an exploration agreement with an industry partner. Under the terms of the agreement, the partner acquired an option to participate at a 25% working interest level in up to seven drilling prospects generated by Gryphon in the Gulf of Mexico. During the term of the agreement, Gryphon received overhead reimbursements from this partner. In addition, Gryphon receives an increased interest in each prospect after the partner has received cumulative cash flows equal to its capital costs in each respective prospect. Gryphon is the operator of the prospects drilled pursuant to this agreement. Overhead reimbursements received under the agreement are credited as a recovery of general and administrative expenses. Total overhead reimbursements received in 2002 under this program and from other various industry partners were $1,160.

During 2001 and 2000, the Company was party to an exploration agreement with an industry partner. Cheniere contributed this exploration agreement at Inception (see Note 1). Under the terms of the agreement, Gryphon's exploration partner acquired an option to participate at a 50% working interest level in any drilling prospect generated by Gryphon through August 2001 within a defined area of mutual interest in the Gulf of Mexico. During the term of the agreement, Gryphon received a management fee of $230 per month from its partner. In addition, for each well drilled, Gryphon's partner pays a disproportionate share of the cost of leasing and of the initial test well on each prospect. Gryphon is the operator of the drilling program. A portion of the management fee payments was credited as a recovery of general and administrative expenses and the

remaining portion reduced capitalized G&A expenses. Management fees received by Gryphon in 2001and 2000 totaled $1,120 and $617, respectively. Certain provisions of this agreement, including those related to management fees, expired August 2001.

The Company intends to enter into one or more new industry partner agreements in 2003.

NOTE 5-INCOME TAXES

The difference between the provision for income taxes and the amount that would be determined by applying the statutory federal income tax rate to the income or loss before income taxes is set forth below:

<TABLE>
<CAPTION>

	Year ended December 31, 2002	Year ended December 31, 2001	Inception (October 11, 2000) Through December 31, 2000
<S>	<C>	<C>	<C>
Federal Income Tax Expense at 34%	$ (229)	$ 28	$ 10
Permanent Differences	21	16	--
Other	53	(46)	--
Income Tax Provision (Benefit)	$ (155)	$ (2)	$ 10

</TABLE>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the carrying amounts used for income tax purposes. Deferred income taxes also reflect the net tax effects of net operating loss carryforwards. The tax effects of the Company's temporary differences and carryforwards are as follows:

	December 31, 2002	December 31, 2001
Deferred Tax Assets:		
Net Operating Loss Carryforwards	$ 7,529	$ 7,264
Total Deferred Tax Assets	7,529	7,264
Deferred Tax Liabilities:		
Differences between Book and Tax Bases of Oil and Gas Properties, Plant and Equipment	(9,572)	(8,446)
Deferred Tax Liabilities, net	$ (2,043)	$ (1,182)

There was no current income tax provision for 2002, 2001 or 2000 and no income taxes were payable during those periods.

The Company has determined that it is more likely than not that the deferred tax assets will be realized and a valuation allowance for such assets is not required.

At December 31, 2002, the Company had net operating loss (NOL) carryforwards for tax reporting purposes of approximately $22,144, which will expire as follows:

2020	$ 2,170
2021	19,251
2022	723

NOTE 6-DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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 maintains a commodity-price-risk management strategy that uses derivative instruments to minimize significant, unanticipated earning fluctuations caused by commodity-price volatility. The Company does not speculate using derivative instruments.

By using derivative financial instruments to reduce exposures to changes in commodity prices, the Company exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates credit risk for the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty and, therefore, it does not incur credit risk. The Company minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties whose credit rating is investment grade.

Market risk is the adverse effect on the value of a financial instrument that results from a change in commodity prices. The market risk associated with commodity-price contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

The Company periodically enters into natural gas and crude oil option contracts for a portion of its anticipated hydrocarbon sales, to reduce the price risk associated with fluctuations in market prices. The option contracts limit the unfavorable affect that price decreases will have on hydrocarbon sales. The maximum term over which the Company is hedging exposures to the variability of cash flows for commodity price risk is 24 months.

Effective January 1, 2001, the Company adopted SFAS No. 133 and SFAS No. 138, an amendment to SFAS 133. SFAS 133 and 138 require that derivatives be reported on the balance sheet at fair value and, if the derivative is not designated as a hedging instrument, changes in fair value must be recognized in earnings in the period of change. If the derivative is designated as a hedge and to the extent such hedge is determined to be effective, changes in fair value are either (a) offset by the change in fair value of the hedged asset or liability (if applicable) or (b) reported as a component of other comprehensive income (loss) in the period of change, and subsequently recognized in earnings when the offsetting hedged transaction occurs. During 2002 and 2001, the Company did not attempt to qualify for the hedge provisions under SFAS 133 and thus has not designated its derivative transactions during those periods as hedging instruments. Accordingly, the Company accounted for the changes in market value of these derivatives through current earnings.

As of December 31, 2002, the Company had hedged portions of its expected 2003 natural gas production as follows:

Instrument	Volume (mmbtus)	Prices
Swaps	2,300,000	$3.95-$4.08
Collars	1,320,000	floor--$3.50 / cap--$6.00

The fair value of these derivative positions at that date was a $1,352 liability.

NOTE 7-EQUITY TRANSACTIONS

At December 31, 2002, the Company had 85,000 shares of Series A preferred stock issued and outstanding. The preferred stock is convertible at the option of the holder at a rate of $100 per share of common stock upon the occurrence of certain qualifying events. The preferred stock has voting rights as if converted. Each share has a liquidation preference of $1,000. Dividends accrue at a rate of 8% per annum, become payable quarterly as declared, and are cumulative and payable in the event of liquidation of the Company. At December 31, 2002, 2001 and 2000, there were $9,349, $3,504 and $446, respectively, of undeclared dividends in arrears.

During 2002, the Company issued four private placements of Series A preferred stock in the amounts of $5,000, $10,000, $5,000, and $10,000, which were consummated on April 22, 2002, June 17, 2002, September 3,

2002, and November 5, 2002, respectively. During 2001, the Company issued three private placements of Series A preferred stock, each in the amount of $10,000, which closed on May 15, July 23, and November 19, 2001. As discussed in Note 1, Cheniere has a right to participate in offerings of Series A preferred stock by the Company. Cheniere elected not to participate in any of the Company's offerings during 2002 or 2001. Based upon the conversion features of the

Company's Series A preferred stock, the interests of the Company's holders of Series A preferred stock would represent approximately 91%, 80%, and 63% on an as converted basis of the outstanding and issued Common Stock at December 31, 2002, 2001, and 2000, respectively.

As further discussed in Note 8, in July 2001, the Company acquired a 3D seismic data set from Cheniere. In connection with that transaction, the Company repurchased 6,740 shares of Common Stock for aggregate consideration of approximately $418. These shares are included as treasury stock as of December 31, 2002 and 2001.

In March 2002, the Company and Cheniere settled litigation which had been filed against them on a joint and several basis by a seismic company (the "Claimant"). Pursuant to this settlement, the Company made a payment to the Claimant and committed to make certain additional payments if production rights are obtained by the Company or Cheniere in the area covered by the data set licensed from the Claimant. In addition, the Company agreed to become responsible for certain contingent obligations of Cheniere associated with the Seitel data set. The maximum amount of the assumed liabilities associated with this litigation and the contingent liabilities associated with the Seitel dataset was approximately $2,561 in the aggregate. As consideration for the Company's agreement to assume these contingent liabilities, Cheniere has transferred to Gryphon 51,400 shares of the Company's common stock which Cheniere held. Pursuant to this agreement, Cheniere has an option valid until March 16, 2003 to repurchase these shares from the Company at a cost equal to $50 per share, subject to an escalation adjustment. At December 31, 2002, the maximum amount of the contingent obligations assumed is $934.

Based upon the foregoing transactions, Cheniere holds an interest of approximately 9% in the Company, calculated on a fully diluted basis as of December 31, 2002.

NOTE 8-STOCK-BASED COMPENSATION

In 2000, the Company established the Gryphon Exploration Company 2000 Stock Option Plan (the "Option Plan"). In 2001, the Option Plan was amended and restated. The Option Plan, as amended, allows for the issuance of options to purchase up to 186,493 shares of Gryphon common stock at an exercise price of $100 per share. The Company has reserved an equivalent number of 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 ten years. Vesting occurs over a three-year period, one third on each anniversary of the grant date. The following table summarizes the Company's stock option activity and related information for the periods presented:

	Year ended December 31, 2002	Year ended December 31, 2001	Inception (October 11, 2000) Through December 31, 2000
Outstanding at Beginning of Period	81,122	39,400	--
Options Granted at an Exercise Price of $100 per share	20,332	42,722	39,750
Options Forfeited	(350)	(1,000)	(350)
Outstanding at End of Period	101,104	81,122	39,400
Exercisable at End of Period	40,604	13,483	--
Weighted Average Exercise Price of Options Outstanding	$ 100	$ 100	$ 100

Weighted Average Exercise Price of Options Exercisable	$ 100	$ 100	N/A
Weighted Average Fair Value of Options Granted During the Period	$ --	$ --	$ --
Weighted Average Remaining Contractual Life of Options Outstanding	8.44 years	9.3 years	9.8 years
Weighted Average Remaining Contractual Life of Options Exercisable	8.11 years	8.8 years	--

</TABLE>

The fair value of options is calculated using the Black-Scholes option-pricing model. Assumptions used for 2002, 2001 and 2000 were: no dividend yield, no volatility, risk-free interest rate of 4.3%, 3.8% and 5.6%, respectively, and an expected average option life of 5 years. If the Company had adopted the recognition provisions of SFAS No. 123 for 2002, 2001 and 2000, the Company's financial statements would have not reflected a change in reported net income.

NOTE 9-RELATED PARTY TRANSACTIONS

Under the terms of the Contribution and Subscription Agreement dated October 11, 2000 by and among the Company, Cheniere and the other investors listed therein, Gryphon provided office space to Cheniere at no cost from Inception through December 2000. Also, pursuant to that agreement, Cheniere provided accounting and cash management services to Gryphon without charge for six months following the closing date.

Cheniere served as contract operator throughout 2000 for the well contributed to Gryphon on which drilling was underway at Inception. Cheniere received industry standard overhead reimbursements from all working interest owners, including Gryphon, in accordance with the terms of the joint interest operating agreement.

In April 2001, Gryphon purchased from Cheniere a 50% working interest in a Texas offshore lease for cash consideration of $225, and simultaneously executed a joint operating agreement which provided that Gryphon would become the operator of the lease.

In June 2001, Gryphon completed a transaction with Cheniere for the purchase of a license for 3D seismic data (the Seitel data set) granted to Cheniere by Seitel Data Ltd. As a result of this transaction, Gryphon acquired the rights to approximately 3,900 square miles of seismic data in the Gulf of Mexico for a total purchase price of $3,500.

In July 2001, Gryphon purchased the right arising under an agreement between JEBCO and Cheniere whereby Cheniere was to receive a seismic data license (the JEBCO data set) to approximately 3,000 square miles of 3D seismic data in the Gulf of Mexico. As part of this transaction, Gryphon also acquired 6,740 shares of Gryphon common stock from Cheniere. The aggregate purchase price of $4,174 was allocated between seismic data and treasury stock based upon their relative fair values at date of the transaction. In June 2001, Gryphon completed a transaction with Cheniere for the purchase of a license for 3D seismic data (the Seitel data set) granted to Cheniere by Seitel Data Ltd. As a result of this transaction, Gryphon acquired the rights to approximately 3,900 square miles of seismic data in the Gulf of Mexico for a total purchase price of $3,500.

As discussed in Note 7 above, in March 2002, the Company entered into a settlement agreement to resolve litigation against Cheniere and the Company. Pursuant to the settlement, the Company agreed to assume certain obligations of Cheniere. The maximum amount of the assumed liabilities pursuant to the settlement and associated agreements was approximately $2,561 in the aggregate. As consideration for the Company's agreement to assume these contingent liabilities, Cheniere transferred to Gryphon 51,400 shares of the Company's common stock which Cheniere held. Pursuant to this agreement, Cheniere has an option valid for one year from the date of the agreement to repurchase these shares from the Company at a cost equal to $50 per share, subject to escalation beginning four months after the date of the stock transfer. At December 31, 2002, Cheniere had not exercised any its repurchase rights under the option agreement.

During 2002, 2001, and 2000, the Company issued nine private placements of Series A preferred stock for aggregate consideration of $85,000. Of this amount, Warburg contributed $84,679 and the Company's management contributed $321 (see

Note 7).

NOTE 10-COMMITMENTS AND CONTINGENCIES

The Company has entered into an office lease agreement with a non-cancelable term, which runs through March 2003. Future minimum lease payments are $66 for the year ended December 31, 2003. Total rental expense for office space for 2002, 2001 and 2000 was $286, $285 and $57, respectively.

At Inception, Gryphon acquired a master license agreement covering the license of approximately 8,800 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. At December 31, 2002, the Company had met its commitments related to future deliveries of reprocessed data.

In connection with the purchase from Cheniere of the JEBCO data set (see Note 9), the Company has an obligation to pay for the related seismic data once it has been delivered to the Company, and accepted by Cheniere.

NOTE 11-OIL AND GAS OPERATIONS

The Company uses the full cost method of accounting for its oil and natural gas properties. Unproved oil and gas properties include costs that are excluded from proved oil and gas properties and that are not subject to amortization. These amounts generally represent costs of investments in unproved properties, non-producing leases, seismic data sets, and major development projects. Gryphon excludes these costs until proved reserves are found or it is determined that the costs are impaired. The costs of unproved oil and natural gas properties are reviewed at least annually to determine if impairment has occurred. Any impairment is transferred to the proved oil and gas property pool. The Company evaluates significant properties, composed primarily of costs associated with offshore leases and seismic data sets, at least annually. Non-producing leases are evaluated based on the progress of the Company's exploration program to date.

The following table summarizes the cost of the properties not subject to amortization for the periods during which the costs were incurred:

	December 31,	
	2002	2001
Year cost incurred:		
Inception through December 31, 2000	$ 11,025	$ 13,422
2001	11,055	14,645
2002	14,605	-
Total	$ 36,685	$ 28,067

NOTE 12-SUBSEQUENT EVENTS

On February 10, 2003, the Company entered into a three-year, reserve based, revolving credit facility. The nominal amount of the facility is $100,000 and the initial borrowing base is $18,000. The borrowing base will be adjusted from time to time based upon changes in the Company's oil and gas reserves. Proceeds borrowed from the facility can be used to fund the Company's operations, for acquisitions, and for general corporate purposes. The facility requires quarterly interest payments based upon up floating rate indexes and includes covenants typically associated with similar credit agreements. The credit facility matures February 10, 2006. As of March 14, 2003, the Company had drawn $5,000 under the facility.

In January 2003, the Company entered into an amendment and extension to its office lease. Pursuant to this amendment, the Company expanded its office space by approximately 40% and extended the term by seven years from March 2003. The extended term includes an option which allows the Company to terminate the lease at the end of the fifth year of the extension period. The estimated aggregate obligation of the Company pursuant to the amendment is approximately $2,990 assuming a seven year extension or approximately $2,170 assuming the extension is terminated at the end of year five.

SUPPLEMENTAL OIL AND GAS DISCLOSURES (UNAUDITED)

The following tables set forth information about the Company's oil and gas producing activities pursuant to the requirements of Statement of Financial Accounting Standards No. 69, "Disclosures About Oil and Gas Producing Activities" ("SFAS 69").

Investments in oil and gas properties are set forth below:

	December 31, 2002	December 31, 2001
Oil and Gas Properties:		
Proved	$ 61,583	$ 26,705
Unproved	36,685	28,067
	98,268	54,772
Less Accumulated Depreciation, Depletion and Amortization	(7,261)	(1,221)
	$ 91,007	$ 53,551

As of December 31, 2002 and 2001, the Company's investment in oil and gas properties included $36,685 and $28,067, respectively in unevaluated properties, which have been excluded from amortization. Such costs will be evaluated in future periods based on management's assessment of exploration activities, expiration dates of licenses, permits and concessions, changes in economic conditions and other factors.

The Company began production of oil and gas in February 2001. The Company capitalized as oil and gas property costs approximately $2,408, $2,023 and $98 of general and administrative expenses directly related to its exploration and development activities in 2002, 2001 and 2000, respectively.

The Company has made a substantial investment in acquiring, processing and reprocessing Gulf of Mexico seismic data, which cover various areas having an aggregate size of 18,000 square miles. The costs of these projects become subject to amortization on a ratable basis as prospects are identified in each of the data set project areas.

Costs Incurred

Costs incurred in oil and gas property acquisition, exploration, and development activities are set forth in the table below:

<TABLE>
<CAPTION>

	Year ended December 31, 2002	Year ended December 31, 2001	Inception (October 11, 2000) Through December 31, 2000
<S>	<C>	<C>	<C>
Acquisition of Properties:			
Proved Properties	$ --	$ 227	$ --
Unproved Properties	9,806	14,360	7,876
Exploration Costs	25,079	12,430	2,018
Development Costs	8,611	9,559	729
	43,496	36,576	10,623
Assets Contributed at Inception	--	--	7,573
Total	$ 43,496	$ 36,576	$ 18,196

</TABLE>

For the years ended December 31, 2002 and 2001 depreciation, depletion and amortization of the capitalized costs of oil and gas properties was $1.70 and $1.52 per Mcfe, respectively. Depreciation, depletion and amortization of oil and gas properties during the period from Inception to December 31, 2000 was $0.

Reserve Quantities

The following table shows estimates of proved reserves and proved developed reserves, net of royalty interest, of natural gas, crude oil, and condensate owned at year-end and changes in proved reserves during the last two years and the period from Inception through December 31, 2000 prepared by independent petroleum engineers in accordance with the rules and regulations of the Securities and Exchange Commission. Volumes for natural gas are in millions of cubic feet (mmcf) at the official temperature and pressure bases of the areas in which the gas reserves are located. Liquid hydrocarbons, consisting of oil and condensates, are expressed in standard 42 gallon barrels (bbls). These estimates represent the Company's interest in the reserves associated with its properties. All of the Company's oil and gas reserves are located within the United States and its territorial waters.

The Company's reserves increased in 2002 and 2001 primarily from exploration and development drilling activities, offset in part by production. The Company emphasizes that the volumes of reserves shown below are estimates which, by their nature, are subject to revision. The estimates are made using all available geological and reservoir data as well as production performance data. These estimates are reviewed and revised, either upward or downward, as warranted by additional data. Revisions are necessary due to changes in assumptions based on, among other things, reservoir performance, prices, economic conditions and governmental restrictions. Decreases in prices, for example, may cause a reduction in some proved reserves due to uneconomic conditions.

GRYPHON EXPLORATION COMPANY
SUPPLEMENTAL INFORMATION TO THE FINANCIAL STATEMENTS
OIL AND GAS RESERVES AND RELATED FINANCIAL DATA
(dollars in thousands)

<TABLE>
<CAPTION>

	Year Ended December 31,				Inception (October 11,2000)through December 31, 2000	
	2002		2001			
	Oil (bbls)	Gas (mmcf)	Oil (bbls)	Gas (mmcf)	Oil (bbls)	Gas (mmcf)
Proved Reserves:						
Beginning of Period	210,151	17,468	2,640	1,674	--	--
Revisions of Previous Estimates	(41,342)	(3,904)	(845)	(1,268)	--	--
Extensions, Discoveries and Other Additions	243,319	17,222	219,099	17,822	2,640	1,674
Production	(40,320)	(3,278)	(10,743)	(760)	--	--
End of Period	371,808	27,508	210,151	17,468	2,640	1,674
Proved Developed Reserves:						
Beginning of Period	192,569	13,022	2,640	1,674	--	--
End of Period	165,421	16,332	192,569	13,022	2,640	1,674

</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.

Standardized Measure of Discounted Future Net Cash Flows

The following table sets forth estimates of future cash flows from proved reserves of gas, oil and condensate which were prepared by independent petroleum engineers. The standardized measure of discounted future cash flow amounts are based upon year-end prices of $31.35, $19.33 and $29.72 per barrel of oil (WTI--Cushing) and $4.75, $2.63 and $10.60 per mcf of natural gas (NYMEX--Henry Hub) at December 31, 2002, 2001 and 2000, respectively. Estimated future cash inflows are reduced by estimated future development and production costs based on year-end cost levels, assuming continuation of existing economic conditions, and by estimated future income tax expense. Income tax expense is calculated by applying the existing statutory tax rates, including any known future changes, to the pre-tax net cash flows giving effect to any permanent differences and reduced by the applicable tax basis. The effect of tax credits is considered in determining the income tax expense.

The present value of future net revenues does not purport to be an estimate of the fair market value of Gryphon's proved reserves. An estimate of fair value would also take into account, among other things, anticipated changes in future prices and costs, the expected recovery of reserves in excess of proved reserves and a discount factor more representative of the time value of money and the risks inherent in producing oil and gas. Significant changes in estimated reserve volumes or commodity prices could have a material effect on the Company's financial statements.

Under the full cost method of accounting, a non-cash charge to earning related to the carrying value of the Company's oil and gas properties on a country-by-country basis may be required when prices are low. Whether the Company will be required to take such a charge depends on the prices for crude oil and natural gas at the end of any quarter, as well as the effect of both capital expenditures and changes to proved reserves during the quarter. If a

non-cash charge were required, it would reduce earnings for the period and result in lower DD&A expense in future periods.

The standardized measure of discounted future net cash flows relating to proved oil and gas reserves is set forth in the following table:

<TABLE>
<CAPTION>

	December 31,	
	2002	2001
<S>	<C>	<C>
Future Cash Inflows (Sales)	$ 148,628	$ 49,949
Less - Future Costs:		
Production	(8,923)	(4,499)
Development and Dismantlement	(7,288)	(2,926)
Future Net Cash Flows before Income Taxes	132,417	42,524
Less - 10% Annual Discount for Estimated Timing of Cash Flow	(25,477)	(9,956)
Present Value of Future net Cash Flows before Income Taxes	106,939	32,568
Less - Present Value of Future Income Taxes	(11,728)	(3,790)
Standardized Measure of Discounted Future net Cash Flows	$ 95,211	$ 28,778

</TABLE>

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

<TABLE>
<CAPTION>

Inception

Year ended December 31, (October

11, 2000)

			Through December 31, 2000
	2002	2001	
<S>	<C>	<C>	<C>
Standardized Measure - Beginning of Period	$ 28,778	$ 9,139	$ --
Increases (Decreases) -			
Sales, net of Production Costs	(8,465)	(2,128)	--
Accretion of Discount	3,257	975	--
Net Change in Sales Prices, net of Production Costs	24,104	(11,258)	--
Changes in Estimated Future Development Costs	122	--	--
Revisions of Quantity Estimates	(14,784)	(3,047)	--
Extensions, Discoveries and Other Additions, net of Future Production and Development Costs	69,357	34,232	9,139
Development Costs Incurred during the Period that Reduced Previously Estimated Development Cost	1,308	735	--
Net Change in Income Taxes	(7,938)	138	--
Changes in Production Rates (timing) and Other	(528)	(8)	--
Standardized Measure - End of Period	$ 95,211	$ 28,778	$ 9,139

</TABLE>

Exhibit 21.1

Subsidiaries of Cheniere Energy, Inc.

<TABLE>
<CAPTION>

Name of Subsidiary	Jurisdiction of Incorporation or Organization	Assumed Names under which each Subsidiary Does Business
<S>	<C>	<C>
Cheniere Energy Operating Co., Inc.	Delaware	Not applicable
Cheniere Energy California, Inc.	Delaware	Not applicable
Cheniere - Gryphon Management, Inc.	Delaware	Not applicable
Cheniere LNG, Inc.	Delaware	Not applicable
Cheniere LNG Services, Inc.	Delaware	Not applicable
Freeport LNG Terminal, L.L.C.	Delaware	Not applicable

</TABLE>

Exhibit 23.1

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, 333-83949 and 333-94841) and on Form S-8 (No. 333-52479) of Cheniere Energy, Inc. of our report dated March 7, 2003 relating to the consolidated financial statements of Cheniere Energy, Inc., which appears in this Annual Report on Form 10-K on page 39.

MANN FRANKFORT STEIN & LIPP CPAs, L.L.P.

Houston, Texas
March 26, 2003

Exhibit 23.2

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, 333-83949 and 333-94841) and on Form S-8 (No. 333-52479) of Cheniere Energy, Inc. of our reports dated March 29, 2002 relating to the consolidated financial statements of Cheniere Energy, Inc., and the financial statements of Gryphon Exploration Company, which appear in this Annual Report on Form 10-K on page 40 and 79, respectively.

PRICEWATERHOUSECOOPERS LLP

Houston, Texas
March 26, 2003

Exhibit 23.3

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, 333-83949 and 333-94841) and on Form S-8 (No. 333-52479) of Cheniere Energy, Inc. of our report dated March 14, 2003 relating to the financial statements of Gryphon Exploration Company, which appears in this Annual Report on Form 10-K on page 78.

KPMG LLP

Houston, Texas
March 26, 2003

EXHIBIT 99.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Cheniere Energy, Inc. (the Company) on Form 10-K for the year ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the Report), I Charif Souki, Chief Executive Officer of the Company, certify , pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 26, 2003

/s/Charif Souki
\- ------------------------
Charif Souki
Chief Executive Officer

EXHIBIT 99.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Cheniere Energy, Inc. (the Company) on Form 10-K for the year ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the Report), I Don A. Turkleson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 26, 2003

/s/ Don A. Turkleson
- ------------------------
Don A. Turkleson
Chief Financial Officer