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

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FORM 10-K

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

OR

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

FOR THE TRANSITION PERIOD FROM SEPTEMBER 1, 1997 TO DECEMBER 31, 1997

Commission File No. 0-9092

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

DELAWARE	95-4352386
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1200 SMITH STREET, SUITE 1740 HOUSTON, TEXAS	77002-4312
(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
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [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. [X]

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $25,022,902 as of June 30, 1998 (based upon the June 30, 1998 closing sales price of such common stock as reported by the Nasdaq SmallCap Market).

16,207,082 shares of the registrant's Common Stock were outstanding as of June 30, 1998.

Documents incorporated by reference: The Form 10-Q filed on January 14, 1998 by the registrant is incorporated herein by reference.

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CHENIERE ENERGY, INC.

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<CAPTION>

PART I

ITEMS 1. AND 2. BUSINESS AND PROPERTIES

GENERAL

Cheniere Energy, Inc. is a Delaware corporation engaged in exploration for oil and gas reserves. The terms "Cheniere" and "Company" refer to Cheniere Energy, Inc. and its subsidiaries. The Company principally operates through its wholly-owned subsidiary, Cheniere Energy Operating Co., Inc. ("Cheniere Operating"). Cheniere is a Houston-based company formed for the purpose of oil and gas exploration, development and exploitation. The Company is currently involved in a joint exploration program, which is engaged in the exploration for oil and natural gas along the Gulf Coast of Louisiana, onshore and in the shallow waters of the Gulf of Mexico. The Company commenced its oil and gas activities through such joint program in April 1996.

The Company has not yet established oil and gas production, nor has it booked proven oil and gas reserves. The Company is currently a development stage enterprise with no operating revenues and no expectation of generating significant operating revenues before 1999.

Cheniere is involved with one major project, a joint exploration program pursuant to an Exploration Agreement between Cheniere and Zydeco Exploration, Inc. ("Zydeco"), an operating subsidiary of Zydeco Energy, Inc. (the "Exploration Agreement"), with regard to a proprietary 3-D seismic exploration project in southern Louisiana (the "3-D Exploration Program"). Cheniere has earned a 50% participation in the 3-D Exploration Program. The 3-D seismic survey (the "Survey") covers 228 square miles within a 310 square-mile area running three to five miles north and generally eight miles south of the coastline in the most westerly 28 miles of Cameron Parish, Louisiana (the "Survey AMI"). The Survey AMI includes areas outside and adjacent to the Survey over which the 3-D Exploration Program has purchased and plans to purchase non-proprietary seismic data. Cheniere and Zydeco have designated the entire Survey AMI (onshore and offshore) as an area of mutual interest for five years ending May 15, 2001, during which period the two companies may continue to drill, test, and develop prospects within the Survey AMI.

Field acquisition of seismic data in the Survey was completed in July 1997. Area-wide processing of the data was completed in December 1997. Since beginning its interpretation work in July 1997, Cheniere has identified nine prospects for inclusion in an initial drilling program within the Survey AMI. The Company has leased acreage over most of the prospects in this initial drilling program and expects to begin drilling in late 1998. Interpretation work will continue throughout 1998.

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

On April 7, 1998, the Company's Board of Directors approved a change in fiscal year-end from August 31 to December 31. The change in year-end resulted in a transition period from September 1, 1997 to December 31, 1997. As a result, the Company is filing this Transition Report on Form 10-K for the four-month period ended December 31, 1997.

BUSINESS STRATEGY

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

Focus On Few Projects With Large Reserve Potential

The Company plans to focus its resources on relatively few projects that possess large reserve potential and favorable risk/reward characteristics. The Company believes that attractive oil and gas exploration opportunities are becoming difficult to identify and develop, and that the expertise of management and staff is best utilized by focusing on like projects that may have a meaningful impact on the value of its shares. Cheniere's current activities are focused on its proprietary 3-D Exploration Program in South Louisiana, an area which the Company believes has significant remaining undiscovered oil and gas reserve potential. The Company continually evaluates new investment opportunities, including exploration projects similar to the 3-D Exploration Program, as well as acquisitions of producing and undeveloped properties.

Maintain A Significant Working Interest In Each Project

Consistent with its intent to focus on a few meaningful projects, the Company aims to maintain a significant working interest in each project. As an example, Cheniere has earned a 50% participation in the 3-D Exploration Program. Cheniere does not intend to be an operator in this project, but intends to maintain a significant working interest to better leverage its administrative and technical resources and to better influence operator decisions.

Utilize the Latest Exploration, Development and Production Technology

The Company uses the latest technology to enhance the efficiency and economy of its exploration, development and production efforts. These include the use of advanced 3-D seismic acquisition and processing techniques in the Survey AMI.

Control Overhead Costs

The Company maintains a small, but experienced working staff, and leverages its talents through relationships with industry partners and outside consultants with appropriate geographic and technical experience. Beginning in July 1997, Cheniere engaged a consulting geophysicist through INEXS (Interactive Exploration Solutions, Inc.), a leading seismic consulting firm in Houston, to complement Zydeco's in-house interpretation effort. Further, in November 1997, Cheniere engaged a consulting geologist to assist in the interpretation process. These consultants became employees of Cheniere on January 1, 1998 and they are continuing to interpret the seismic data from the Survey and to generate prospects from such data.

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

The 3-D Exploration Program is located within an area referred to as the Transition Zone of Louisiana, which defines an area extending roughly three to five miles on either side of the coastline. The Company believes that the Transition Zone, including the westernmost 28 miles of Louisiana coastline that are within the Survey AMI, has significant remaining undiscovered oil and gas reserve potential. Substantial infrastructure along the Gulf Coast and in the shallow Gulf of Mexico should permit Cheniere 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 3-D Exploration Program is well positioned to evaluate, explore and develop properties in the area.

Exploration Agreement

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

Under the terms of the Exploration Agreement, Zydeco has the responsibility to perform, or cause to be performed, all of the planning, land, geologic, and interpretative functions necessary to the project, and to design and oversee the acquisition and processing of seismic data, interpret results, acquire leases and generate Prospects. The term "Prospect" is defined in the Exploration Agreement as a block of acreage suitable for exploration including the

leasehold, operating, nonoperating, mineral and royalty interests, licenses, permits, and contract rights

thereto. Cheniere has the right to review all data and may elect to generate its own Prospects. Neither party to the 3-D Exploration Program is permitted to sell or license the data without the other party's approval.

Cheniere has paid 100% of the first $13.5 million of Seismic Costs. Cheniere's 50% share of excess Seismic Costs through December 31, 1997, was estimated in the Seventh Amendment to the Exploration Agreement to be approximately $2.9 million, which amount was payable to Zydeco on December 31, 1997. Cheniere made such payment on December 31, 1997, thereby completing its payment obligations to earn a 50% participation in the 3-D Exploration Program.

The Exploration Agreement includes a joint operating agreement (the "Joint Operating Agreement") providing for the funding of prospect, exploratory and development costs subsequent to completion of the data acquisition, processing, and interpretation phases of the seismic work. Each party will pay its proportionate share of these costs and Zydeco, as operator, will conduct all operations in accordance with the terms of the Joint Operating Agreement.

Description of the Louisiana Transition Zone Survey AMI

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

The entire Survey AMI is located within an existing pipeline infrastructure. As a result, it will generally be more efficient to develop and connect reserves found onshore and in the shallow offshore areas to markets than would be the case for reserves found in the federal waters of the Gulf of Mexico. The Louisiana Gulf Coast/Gulf of Mexico region enjoys easy access to the premium-priced natural gas consumer markets of the East Coast.

Permit and Lease Status Within the Survey AMI

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

Onshore Area. Lease options were obtained over 28,000 acres, and farmouts had been obtained over 5,000 acres of land lying onshore in the central portion of the Survey AMI prior to the acquisition of the Survey. Subsequent to shooting, individual options were either exercised or dropped as they neared expiration, based on the prospectivity of the area. In addition, onshore acreage has been leased to supplement the exercised options over identified prospects.

State Waters. On February 14, 1996, the State of Louisiana awarded Zydeco the exclusive right (the "Louisiana Seismic Permit") to shoot and gather seismic data over the 51,360 net unleased acres of Louisiana State Waters (extending to a 3 1/2 mile limit located within the Survey AMI) in the western half of Cameron Parish. The initial term of the Louisiana Seismic Permit was 18 months; and it was extended for an additional six months. As discussed below in "Seismic Results to Date," the shooting and gathering of seismic data has been completed. During the term of the Louisiana Seismic Permit, Zydeco and Cheniere had the exclusive right to nominate blocks of acreage for leasing in the covered state waters. Although the period of exclusivity expired in February 1998, the Company and Zydeco may nominate blocks of acreage for leasing at any time.

At the State of Louisiana Mineral Board lease sale held on April 8, 1998, Cheniere and Zydeco acquired leases on four tracts, aggregating 1,830 acres. At the State of Louisiana Mineral Board lease sale held on June 10, 1998, Cheniere acquired leases on four tracts, aggregating 381 acres and Zydeco acquired leases on nine

tracts, aggregating 5,357 acres. Both Cheniere and Zydeco are continuing negotiations for leasehold interests or drilling rights with several onshore property owners.

Federal Waters. The Survey AMI includes an area extending southward generally up to 5 miles into federal waters. The Minerals Management Service holds periodic lease sales at which open federal acreage is available for bidding. In the March 1998 federal lease sale, Zydeco acquired leases over

3,095 acres within the Survey AMI, and Cheniere has the right to participate in these leases should it elect to do so.

Seismic Results to Date

In the fourth quarter of 1996 approximately 12% of the Survey was shot prior to a shutdown for the winter. Shooting resumed in April 1997 and was completed in July 1997. During the winter months, the initial data was processed and the optimal processing sequence was determined for the remainder of the data which was acquired in 1997. A second phase of processed data, created using pre-stack time migration techniques, became available beginning in November 1997 and was completed in December 1997. Interpretation of the Survey data, including prospect generation, continues to be conducted by Cheniere and Zydeco personnel.

Schedule for the 3-D Exploration Program

Interpretation of the Survey data will continue throughout 1998. Cheniere has identified nine prospects in the West Cameron area of Louisiana for inclusion in an initial drilling program in the area. The drilling program is the first of several which Cheniere expects to be generated within the area and is expected to be drilled over a 12-month period beginning in late 1998. The prospects of the initial program were selected to stay within a reasonable range of drilling depth, cost and risk, while maximizing hydrocarbon exposure. The initial prospects can be tested by wells drilled to depths of 10,000 to 13,000 feet.

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

COMPETITION AND MARKETS

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

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

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

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

GOVERNMENT REGULATION

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

Company is unable to predict the future cost or impact of complying with them.

Production

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

MMS Regulation

The Company conducts certain activities on federal oil and gas leases, which the Minerals Management Service ("MMS") administers. The MMS issues 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 are subject to change by the MMS). For offshore operations, lessees must obtain MMS approval for exploration plans and development and production plans prior to the commencement of such operations. In addition to permits required from other agencies (such as the Coast Guard, the Army Corps of Engineers and the Environmental Protection Agency), lessees must obtain a permit from the MMS prior to the commencement of drilling. The MMS has adopted regulations requiring offshore production facilities located on the 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.

The MMS has issued a notice of proposed rulemaking in which it proposes to amend its regulations governing the calculation of royalties and the valuation of crude oil produced from federal leases. This proposed rule would modify 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, establish a new MMS form for collecting differential data, and amend the valuation procedure for the sale of federal royalty oil. The Company cannot predict what action the MMS will take on this matter, nor can it predict how the Company will be affected by any change to 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

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

market prices, Congress could reenact price controls in the future.

Commencing in April 1992, the FERC issued its Order No. 636 and related clarifying orders ("Order No. 636"), which, among other things, purported to restructure the interstate natural gas industry and to require 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. Although Order No. 636 has largely been upheld on appeal, several appeals remain pending in related restructuring proceedings. The Company cannot predict when these remaining appeals will be completed or their impact on the Company. FERC continues to address Order 636-related issues (including capacity brokering, alternative and negotiated ratemaking and transportation policy matters) in a number of pending proceedings. It is unclear what impact, if any, increased competition within the natural gas industry under Order Nos. 636, et al. will have on the Company's activities. Although Order No. 636 could provide the Company with additional market access and more fairly applied transportation service rates, Order No. 636 could also subject the Company to more restrictive pipeline imbalance tolerances and greater penalties for violations of these tolerances.

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

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

and services of OCS transmission facilities under the NGA, it is possible that the Company could experience an increase in transportation costs associated with its OCS natural gas production and, possibly, reduced access to OCS transmission capacity.

The FERC has also issued numerous orders confirming the sale and abandonment of natural gas gathering facilities previously owned by interstate pipelines and acknowledging 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 inadequacy of existing laws affecting gathering rates and/or services. In addition, FERC's approval of transfers of previously regulated gathering systems to independent or pipeline-affiliated gathering companies that are not subject to FERC regulation may affect both the costs and the nature of gathering services that will be available to interested producers or shippers in the future. Whether on state or federal land or in offshore waters subject to OCSLA, natural gas gathering may receive greater federal regulatory scrutiny in the post-Order No. 636 environment. The effects, if any, of these policies on the Company's operations are uncertain.

Oil Sales and Transportation Rates

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

regulations will have on it; but other factors being equal, the regulations may tend to increase transportation costs or reduce wellhead prices for such commodities.

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 govern oil and gas operations regulating the discharge of materials into the environment or otherwise relating 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. The Company believes that it will be able to obtain, or be included under, such storm water discharge permits, where necessary.

In addition, the disposal of wastes containing naturally occurring

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

OPERATIONAL RISKS AND INSURANCE

The Company anticipates that any wells established by it will be drilled by proven industry contractors. Based on financial considerations, the Company may choose to utilize turnkey contracts that limit its financial and legal exposure. However, circumstances may arise where the Company is unable to secure a turnkey contract on satisfactory terms. In this case, the Company may decide to drill, or cause to be drilled, the applicable test well(s) on either a footage or day-work basis, and the drilling thereof will be subject to the usual drilling hazards such as cratering, explosions, uncontrollable flows of oil, gas or well fluids, fires, pollution, and other environmental risks. The Company's activities are also subject to perils specific to marine operations, such as capsizing, collision, and damage or loss from severe weather. These hazards can cause personal injury and loss of life, severe damage to and destruction of property and equipment, pollution or environmental damage, and suspension of operations. In accordance with customary industry practices, the Company intends to maintain insurance against some, but not all, of such risks, and some, but not all, of such losses. The occurrence of a significant event not fully insured or indemnified against could materially and adversely affect the Company's financial condition and operations. Moreover, no assurance can be given that the Company will be able to maintain adequate insurance in the future at rates considered reasonable by the Company.

REORGANIZATION

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

YOUNG CONSULTING AGREEMENT

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

EMPLOYEES

The Company had eight full-time employees as of June 30, 1998.

PROPERTIES

Until March 1998, the Company subleased its Houston, Texas headquarters from Zydeco under a month-to-month sublease covering approximately 1,498 square feet at a monthly rental of $1,179. In March 1998, Cheniere terminated its sublease from Zydeco and has leased 2,678 square feet of office space through March 2003 at a monthly rental rate of $4,190.

FORWARD-LOOKING STATEMENTS

This annual report contains or incorporates by reference certain statements that may be deemed "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements, other than statements of historical facts so included in this annual report that address activities, events, or developments that the Company intends, expects, projects, believes, or anticipates will or may occur in the future, including, without limitation: statements regarding the Company's business strategy, plans and objectives;

statements expressing beliefs and expectations regarding the ability of the Company to successfully raise the additional capital necessary to meet its obligations under the Exploration Agreement, the ability of the Company to secure the leases necessary to facilitate anticipated drilling activities and the ability of the Company to attract additional working interest owners to participate in the exploration and development within the Survey AMI.

YEAR 2000 ISSUE

The Company has initiated a comprehensive review of its computer systems and business processes to identify the areas that could be affected by the "Year 2000" issue. The Company does not expect the amounts which would be required to be incurred to prepare its systems for the year 2000 to be significant, and it expects all Year 2000 issues to be resolved in a timely manner during 1998 and 1999.

ITEM 3. LEGAL PROCEEDINGS

Legal proceedings currently pending against the Company are summarized in the following paragraphs.

1. Zydeco Exploration, Inc. v. Cheniere Energy, Inc., No. 70 198 00107 98, before the American Arbitration Association ("AAA").

This proceeding was commenced by Zydeco against the Company on April 17, 1998. Zydeco seeks arbitration of certain claims against the Company under the Exploration Agreement. Specifically, Zydeco seeks a declaration that Zydeco has complete management and control of the West Cameron project, that the Company is prohibited from bidding on leases within the Survey AMI defined in the Exploration Agreement, that the Company must assign to Zydeco leases that the Company acquired at a state lease sale on April 8, 1998, that the Company must pay damages for having allegedly competed with Zydeco at the state lease sale, that the Company must refrain from disclosing data to third parties, and that the Company is required to pay Zydeco 50% of certain costs incurred since December 31, 1997, or suffer a "discontinuance," which would reduce its ownership interest in the 3-D Exploration Project.

The Company filed an answer and counter claim on April 27, 1998.

On May 15, 1998, Zydeco filed an amended claim against the Company that adds allegations of conversion, tortious interference with prospective contacts, breach of fiduciary duties, and an unspecified amount of actual damages and punitive damages. The amended claim also adds allegations against two of the Company's employees, which allegations had originally been made in the state-court lawsuit discussed below.

On May 21, 1998, a panel of three arbitrators was appointed by the AAA to hear this dispute. The arbitrators have not yet held an initial scheduled conference and there is not yet in place any schedule.

Management believes that the Company has properly earned and preserved its interest in leases acquired within the Survey AMI, as defined in the Exploration Agreement, and that all of its actions to date, including its handling of confidential data, are entirely within the scope of the Exploration Agreement. Cheniere feels it will ultimately prevail in the arbitration process.

2. Zydeco Energy, Inc. and Zydeco Exploration, Inc. v. M.A. Wes Mosteller and Stephen C. Pollard, Cause No. 98-18094 in the 215/th/ Judicial District Court of Harris County, Texas.

This case was originally filed against two employees of the Company on April 22, 1998. Plaintiffs sought an injunction preventing these employees from utilizing or disclosing confidential information they received when they were allegedly acting as consultants to Plaintiffs.

On April 27, 1998, the Company intervened in the suit as a defendant to oppose the granting of an injunction. The Company also sought to have the case abated or dismissed and to have the claims resolved in arbitration.

On May 4, 1998, the Court entered an Agreed Temporary Injunction that expired on June 15, 1998. Under that injunction, all parties were required to use a certain form of Confidentiality Agreement when showing certain data to third parties. The injunction also contemplated that the claims in the lawsuit would be resolved in the arbitration proceeding discussed above.

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

The information requested by this item is incorporated by reference to Part II, Item 4 of the Company's Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 on Form 10-Q filed on January 14, 1998 (File No. 0-09092).

PART II

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

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

	High ($)	Low ($)
Period From July 3, 1996 to August 31, 1996	3-7/8	3
Three Months Ended		
November 30, 1996	5-1/2	2-13/32
February 28, 1997	5-5/8	2-3/4
May 31, 1997	5-1/2	3
August 31, 1997	4-1/4	2-31/32
Four Months Ended December 31, 1997	3-15/16	1-7/8

As of June 30, 1998, there were 16,207,082 shares of the Company's common stock outstanding held by 783 stockholders of record.

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

ITEM 6. SELECTED FINANCIAL DATA

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

<TABLE>
<CAPTION>

	For the Four Months Ended December 31,		For the Period Ended August 31,		From Inception to December 31, 1997
	1997	1996	1997	1996	
		(Unaudited)			
<S>	<C>	<C>	<C>	<C>	<C>
Net operating revenues	$ -	$ -	$ -	$ -	$ -
Loss from operations	(447,023)	(192,330)	(1,713,461)	(103,813)	(2,264,298)
Net loss	(388,361)	(193,553)	(1,676,468)	(121,847)	(2,186,676)
Net loss per share (basic and diluted)	$ (0.03)	$ (0.02)	$ (0.14)	$ (0.01)	$ (0.19)

	December 31,		August 31,	
	1997	1996	1997	1996
		(Unaudited)		
<S>	<C>	<C>	<C>	<C>

Cash	$ 787,523	$2,419,264	$ 234,764	$ 1,093,180
Oil and gas properties, unevaluated	16,534,054	6,000,000	13,500,000	4,000,000
Total assets	17,705,627	8,476,710	13,841,712	5,145,310
Long-term obligations	-	-	-	-
Total liabilities	4,285,599	262,798	888,291	718,855
Total stockholders' equity	13,420,028	8,213,912	12,953,421	4,426,455
Cash dividends per share	-	-	-	-

</TABLE>

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

GENERAL

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

On April 7, 1998, the Company's Board of Directors approved a change in fiscal year-end from August 31 to December 31. The change in year-end resulted in a transition period from September 1, 1997 to December 31, 1997. As a result, the Company is filing this Transition Report on Form 10-K for the four-month period ended December 31, 1997.

RESULTS OF OPERATIONS -- PERIOD FROM INCEPTION (FEBRUARY 21, 1996) TO DECEMBER 31, 1997

The Company's operating results reflect accumulated losses of $2,186,676 or $0.19 per share, (both basic and diluted) as the Company has yet to generate revenues from operations. General and administrative ("G&A") expenses of $2,264,298 included a one-time, non-cash charge of $624,400 incurred during the year ended August 31, 1997, relating to 200,000 shares of common stock issued in exchange for investment banking services. The balance of the G&A expense is comprised primarily of the costs of professional expenses, salary and compensation, insurance, occupancy and office expense. Interest expense of $39,001 was incurred with respect to two short-term

promissory notes. Interest income of $116,623 was generated on the Company's cash balances and on funds it has advanced into the 3-D Exploration Program.

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

The Company's operating results for the four months ended December 31, 1997, reflect a loss of $388,361 or $0.03 per share (both basic and diluted) as compared to a loss of $193,553, or $0.02 per share for the four months ended December 31, 1996. The Company did not generate revenues from operations in either of the periods. The increased loss in the most recent four-month period is primarily due to higher G&A expenses of $447,023, as compared to $192,330 a year earlier. G&A expenses are higher in the most recent period as the result of: (a) increased professional fees related to financing activities and to the Company's initial annual stockholders' meeting in November 1997, (b) fees related to recruiting technical professionals who were hired January 1, 1998 and (c) insurance expenses for coverages not carried in the earlier period. Interest income of $58,662 in the four months ended December 31, 1997 includes $49,000 related to an agreement that interest earned from inception to date on funds advanced by Cheniere into the 3-D Exploration Program accrues to the benefit of the Company.

RESULTS OF OPERATIONS--COMPARISON OF THE PERIODS ENDED AUGUST 31, 1997 AND 1996

The Company's operating results for the fiscal year ended August 31, 1997, reflect a loss of $1,676,468 or $0.14 per share (both basic and diluted) as compared to a loss of $121,847, or $0.01 per share for the six-month period from inception (February 21, 1996) to August 31, 1996. The Company did not generate revenues from operations in either of the periods. The increased loss in the most recent fiscal year is primarily due to higher G&A expenses of $1,713,461, as compared to $103,814 in the period ended August 31, 1996. The higher level of G&A expenses in the more recent period is the result of: (a) a one-time, non-cash charge of $624,400 for investment banking services, (b) increased professional fees related to registrations of previously issued shares of the Company's common stock, (c) insurance expenses for coverages not carried in the earlier period, and (d) the inclusion of a full year of salary and compensation,

occupancy and office expenses as compared to a partial year for the period ended August 31, 1996. The increased loss is additionally due to professional fees of $164,812 related to an acquisition that was not consummated. Interest income of $56,161 in the latter period exceeded the $1,800 earned in the prior period, based on larger average cash balances and the comparatively longer period.

LIQUIDITY AND CAPITAL RESOURCES

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

Private Placements of Equity

Since its inception, Cheniere's primary source of financing for operating expenses and payments to the 3-D Exploration Program has been the sale of its equity securities. Through December 31, 1997, $15.6 million of proceeds, net of offering costs, has been raised through the sale of equity, and $16.6 million (funded in part by the December 1997 issuance of $4,000,000 in term notes payable) has been invested in the 3-D Exploration Program.

From inception through the Reorganization, Cheniere Operating raised $2.8 million, net of offering costs, from the sale of common stock (which was exchanged for common stock of Cheniere Energy, Inc. following the Reorganization) to "accredited investors" (as defined in Rule 501(a) promulgated under the Securities Act of 1933, as amended (the "Securities Act")) pursuant to Rule 506 of Regulation D promulgated under the Securities Act ("Regulation D"). The proceeds, together with proceeds of a $425,000 short-term note, were used to fund Cheniere's initial $3 million payment to the 3-D Exploration Program.

Subsequent to the Reorganization and prior to August 31, 1996, the Company raised $1.7 million, net of offering costs, from the sale of common stock pursuant to Regulation D and common stock and warrants to purchase common stock pursuant to Regulation S promulgated under the Securities Act ("Regulation S"). Proceeds were used to fund a $1 million payment to the 3-D Exploration Program in August 1996.

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

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

Subsequent to December 31, 1997, the Company has raised approximately $3.0 million through private placements of common stock ($2.2 million) and short-term bridge notes and advances ($0.8 million). Proceeds have been and will be used for the acquisition of leases and other exploration costs, as well as for general corporate purposes.

Short-Term Promissory Notes

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

additional warrants have identical terms as the June Warrants, in accordance with the terms of the original Note Agreement. The Remaining Noteholder was not an affiliate of the Company.

On July 31, 1997, Cheniere borrowed $500,000 from a related party, evidenced by a promissory note bearing interest at 10% per annum and due on August 29, 1997. On August 28, 1997, the maturity date was extended to September 29, 1997. The note was repaid by the Company on September 22, 1997, including all incurred interest. The collateral securing the note has been released.

In December 1997, Cheniere completed the private placement of a $4,000,000 bridge financing (the "December 1997 Bridge Financing"). The senior term notes payable issued by Cheniere had an initial maturity date of March 15, 1998 and have been extended at the option of the Company to September 15, 1998. Proceeds from the December 1997 Bridge Financing were used to fund the Company's activities related to the 3-D Exploration Program and for general corporate purposes.

In conjunction with the December 1997 Bridge Financing, Cheniere issued 100,000 shares of common stock and 4-year warrants to purchase 1,333,334 shares of common stock at $2-3/8 per share. Additional warrants to purchase 266,667 shares of Cheniere common stock will be issued for each month the notes remain outstanding during the period from March 15, 1998 through the maturity of the notes in September 1998. The senior term notes bear interest at an annual rate of LIBOR plus 4%; interest is payable quarterly.

Management's Plans and Continued Capital Raising Activities

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. Cheniere is a development stage company which has not yet generated any operating revenues. At various times during the life of the Company to date, it has been necessary for the Company to raise additional capital through private placements of debt or equity financing. When such a need has arisen, the Company has met it successfully. It is management's belief that it will continue to be able to meet its needs for additional capital as such needs arise in the future.

At December 31, 1997, the Company had outstanding $4,000,000 in senior term notes payable which mature on or before September 15, 1998. These notes were issued as part of a bridge financing in conjunction with an offering of units comprised of preferred stock and warrants to purchase common stock. The units offering was subsequently withdrawn, and the Company has not yet determined whether it will seek to raise additional capital for the repayment of the notes or seek to refinance the notes.

In the event that the Company should not be successful in future efforts to raise capital for its operations, management is confident that through trades or sales of partial interests to industry partners the value of the oil and gas assets in which it has earned an ownership interest can be utilized to accomplish the Company's financial objectives of exploring and developing its oil and gas properties.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

CHENIERE ENERGY, INC. AND SUBSIDIARIES

<TABLE>
<CAPTION>

</TABLE>

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, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Cheniere Energy, Inc. and its subsidiaries (a development stage company) at December 31, 1997, August 31, 1997 and August 31, 1996, and the results of their operations and their cash flows for the four-month period ended December 31, 1997, the year ended August 31, 1997, the period from inception (February 21, 1996) through August 31, 1996 and the period from inception (February 21, 1996) through December 31, 1997 in conformity with generally accepted accounting principles. 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 generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 13 to the financial statements, the Company is a development stage enterprise which has not yet generated any operating revenues and which, since its inception in February 1996, has been dependent on capital contributions to finance its oil and gas exploration activities. The recoverability of the Company's unevaluated oil and gas properties is dependent on future events, including obtaining adequate financing for its exploration and development program, the successful completion of its planned drilling program, and the achievement of a level of operating revenues that is sufficient to support the Company's cost structure. In addition, at December 31, 1997 the Company has $4,000,000 of senior term debt outstanding which are due on or before September 15, 1998. Management's plans in regard to these matters are also described in Note 13. The uncertainties associated with these matters raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

PRICEWATERHOUSECOOPERS LLP

Houston, Texas
June 12, 1998

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

<TABLE>
<CAPTION>

	December 31, 1997	August 31, 1997	August 31, 1996
ASSETS			
- ------			
<S>	<C>	<C>	<C>
CURRENT ASSETS			
Cash	$ 787,523	$ 234,764	$ 1,093,180
Accounts Receivable	102,330	-	-
Debt Issuance Costs, net	224,306	-	-
Prepaid Expenses and Other Current Assets	10,543	57,141	4,800
TOTAL CURRENT ASSETS	1,124,702	291,905	1,097,980
OIL AND GAS PROPERTIES, full cost method			

Unevaluated	16,534,054	13,500,000	4,000,000
FIXED ASSETS, net	46,871	49,807	47,330
TOTAL ASSETS	$ 17,705,627	$ 13,841,712	$ 5,145,310
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts Payable and Accrued Liabilities	$ 369,766	$ 388,291	$ 292,894
Notes Payable	2,000,000	-	425,000
Note Payable - Related Party	2,000,000	500,000	-
Less Cost of Detachable Warrants	(84,167)	-	-
Advance from Officers	-	-	961
TOTAL LIABILITIES	4,285,599	888,291	718,855
COMMITMENTS AND CONTINGENCIES	-	-	-
STOCKHOLDERS' EQUITY			
Common Stock, $.003 par value Authorized: 45,000,000 shares at December 31, 1997; 20,000,000 prior; Issued and Outstanding: 14,457,866 shares at December, 1997; 14,160,866 and 9,931,767 at August 31, 1997 and 1996, respectively	43,374	42,483	29,795
Preferred Stock, $.0001 par value Authorized: 5,000,000 shares at December 31, 1997; 1,000,000 prior; Issued and Outstanding: none	-	-	-
Additional Paid-in-Capital	15,563,330	14,709,253	4,518,507
Deficit Accumulated During the Development Stage	(2,186,676)	(1,798,315)	(121,847)
TOTAL STOCKHOLDERS' EQUITY	13,420,028	12,953,421	4,426,455
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 17,705,627	$ 13,841,712	$ 5,145,310

</TABLE>

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

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

<TABLE>
<CAPTION>

	Four Months Ended December 31,		Year Ended August 31,	Period Ended August 31,	Cumulative from the Date of Inception
	1997	1996	1997	1996	
<S>	<C>	(Unaudited) <C>	<C>	<C>	<C>
Revenue	$ -	$ -	$ -	$ -	$ -
General and Administrative Expenses	447,023	192,330	1,713,461	103,814	2,264,298
Loss from Operations Before Other Income and Income Taxes	(447,023)	(192,330)	(1,713,461)	(103,814)	(2,264,298)
Interest Income	58,662	7,329	56,161	1,800	116,623
Interest Expense	-	(8,552)	(19,168)	(19,833)	(39,001)

Loss From Operations Before Income Taxes	(388,361)	(193,553)	(1,676,468)	(121,847)
(2,186,676)				
Provision for Income Taxes	$ -	$ -	$ -	$ -
$ -				
Net Loss	$ (388,361)	$ (193,553)	$ (1,676,468)	$ (121,847)
$ (2,186,676)				
Net Loss Per Share (basic and diluted)	$ (0.03)	$ (0.02)	$ (0.14)	$ (0.01)
$ (0.19)				
Weighted Average Number of Shares Outstanding	14,348,128	10,601,368	12,143,919	8,610,941
11,681,140				

</TABLE>

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

CHENIERE ENERGY, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY

<TABLE>
<CAPTION>

	Common Stock		Additional	
Total				
			Paid-In	Retained
Stockholders'				
	Per Share	Shares	Amount	Capital	Deficit
Equity					
<S>	<C>	<C>	<C>	<C>	<C>
<C>					
Sale of Shares on April 9, 1996	$0.012	6,242,422	$ 18,727	$ 56,276	$ -
$ 75,003					
Sale of Shares on May 5, 1996	1.50	2,000,000	6,000	2,994,000	-
3,000,000					
Issuance of Shares to an Employee on July 1, 1996	1.00	30,000	90	29,910	-
30,000					
Issuance of Shares in Reorganization to Former Bexy Shareholders	-	600,945	1,803	(1,803)	-
-					
Sale of Shares on July 30, 1996	2.00	50,000	150	99,850	-
100,000					
Sale of Shares on August 1, 1996	2.00	508,400	1,525	1,015,275	-
1,016,800					
Sale of Shares on August 30, 1996	2.00	500,000	1,500	998,500	-
1,000,000					
Expenses Related to Offerings	-	-	-	(686,251)	-
(686,251)					
Issuance of Warrants	-	-	-	12,750	-
12,750					
Net Loss	-	-	-	-	(121,847)
(121,847)					
Balance - August 31, 1996		9,931,767	29,795	4,518,507	(121,847)
4,426,455					
Sale of Shares on September 12, 1996	2.00	50,000	150	99,850	-
100,000					
Sale of Shares on September 16, 1996	2.00	80,250	241	160,259	-
160,500					
Conversion of Debt	2.00	105,000	315	209,685	-
210,000					
Sale of Shares on October 30, 1996	2.25	457,777	1,373	1,028,627	-
1,030,000					
Issuance of Warrants	-	-	-	6,450	-
6,450					

Sale of Shares on December 6, 1996	2.25	475,499	1,426	1,068,448	-
1,069,874					
Sale of Shares on December 9, 1996	2.50	400,000	1,200	998,800	-
1,000,000					
Sale of Shares on December 11, 1996	2.25	22,222	67	49,933	-
50,000					
Sale of Shares on December 19, 1996	2.50	200,000	600	499,400	-
500,000					
Sale of Shares on December 20, 1996	2.50	220,000	660	549,340	-
550,000					
Sale of Shares on February 28, 1997	4.25/*/	352,947	1,059	1,498,967	-
1,500,026					
Sale of Shares on March 4, 1997	4.25/*/	352,947	1,059	1,498,966	-
1,500,025					
Sale of Shares on May 22, 1997	3.00	535,000	1,605	1,603,395	-
1,605,000					
Issuance of Shares to Adjust Prices of Shares Sold on February 28 and March 4	- /*/	294,124	883	(883)	-
-					
Sale of Shares on June 26, 1997	3.00	33,333	100	99,900	-
100,000					
Sale of Shares on July 24, 1997	3.00	250,000	750	749,250	-
750,000					
Issuance of Shares in Connection with Financial Advisory Services	3.125	200,000	600	624,400	-
625,000					
Sale of Shares on July 30, 1997	3.00	100,000	300	299,700	-
300,000					
Sale of Shares on August 19, 1997	3.00	100,000	300	299,700	-
300,000					
Expenses Related to Offerings	-	-	-	(1,153,441)	-
(1,153,441)					
Net Loss	-	-	-	-	(1,676,468)
(1,676,468)					
		14,160,866	42,483	14,709,253	(1,798,315)
12,953,421					
Sale of Shares on September 15, 1997	3.00	67,000	201	200,799	-
201,000					
Sale of Shares on September 16, 1997	3.00	130,000	390	389,610	-
390,000					
Expenses related to offerings				(74,532)	
(74,532)					
Issuance of Warrants and Shares with Bridge Notes on December 15, 1997	2.375	100,000	300	338,200	
338,500					
Net Loss		-	-	-	(388,361)
(388,361)					
		14,457,866	$ 43,374	$ 15,563,330	$ (2,186,676)
$ 13,420,028					

* Additional shares were issued to the purchasers of shares sold on February 28, 1997 and March 4, 1997 pursuant to the terms of those sales. All of the sales of shares indicated above were made pursuant to private placement transactions.

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

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

<TABLE>
<CAPTION>

	Four Months Ended December 31,		Year Ended	Period Ended Cumulative
	1997	1996	August 31, 1997	August 31, 1996 from the Date of Inception
		(Unaudited)		
<S>	<C>	<C>	<C>	<C>

CASH FLOWS FROM OPERATING ACTIVITIES				
Net Loss	$ (388,361)	$ (193,553)	$ (1,676,468)	$ (121,847)
$ (2,186,676)				
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities:				
Depreciation and Amortization	2,936	2,695	8,268	3,603
14,807				
Compensation Paid in Common Stock	-	-	624,400	30,000
654,400				
(Increase) in Accounts Receivable	(102,330)	-	-	-
(102,330)				
(Increase) Decrease in Prepaid Expenses and Other Current Assets	46,598	(1,832)	(52,341)	(4,800)
(10,543)				
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(18,525)	(31,056)	95,397	292,894
369,766				
Increase (Decrease) in Advance from Officers	-	-	(961)	961
-				
Non-Cash Interest Expense (Issuance of Warrants)	-	-	6,450	12,750
19,200				
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(459,682)	(223,746)	(995,255)	213,561
(1,241,376)				
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of Fixed Assets	-	(6,180)	(10,745)	(50,933)
(61,668)				
Proceeds from Sale of Oil and Gas Seismic Data	46,000	-	-	-
46,000				
Oil and Gas Property Additions	(3,050,027)	(2,000,000)	(9,500,000)	(4,000,000)
(16,550,027)				
NET CASH USED IN INVESTING ACTIVITIES	(3,004,027)	(2,006,180)	(9,510,745)	(4,050,933)
(16,565,705)				
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from Issuance of Notes with Detachable Warrants	4,000,000	-	-	425,000
4,425,000				
Proceeds from Issuance of Notes	-	-	500,000	-
500,000				
Repayment of Notes Payable	(500,000)	(215,000)	(215,000)	-
(715,000)				
Sale of Common Stock	591,000	4,460,375	10,516,025	5,191,803
16,298,828				
Offering Costs	(74,532)	(689,365)	(1,153,441)	(686,251)
(1,914,224)				
NET CASH PROVIDED BY FINANCING ACTIVITIES	4,016,468	3,556,010	9,647,584	4,930,552
18,594,604				
NET INCREASE (DECREASE) IN CASH	552,759	1,326,084	(858,416)	1,093,180
787,523				
CASH - BEGINNING OF PERIOD	234,764	1,093,180	1,093,180	-
-				
CASH - END OF PERIOD	$ 787,523	$ 2,419,264	$ 234,764	$ 1,093,180
$ 787,523				
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash Paid for Interest	$ 6,718	$ 8,552	$ 15,635	$ -
$ 22,353				

Cash Paid for Income Taxes	$ -	$ -	$ -	$ -

SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES:
The Company issued 105,000 shares of common stock upon the conversion of $210,000 of notes payable in September 1996.
In conjunction with its December 1997 Bridge Financing, the Company issued 100,000 shares of common stock, valued at $237,500, and recorded as debt issuance costs. In the same financing, 1,333,334 warrants were issued, valued at $101,000. The amortization of such debt issuance and warrant costs was included in interest expense which was capitalized as a cost of oil and gas properties.

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

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

NOTE 1-ORGANIZATION AND NATURE OF OPERATIONS

Cheniere Energy, Inc., a Delaware corporation, is a development stage company engaged in exploration for oil and gas reserves. The terms "Cheniere" and "Company" refer to Cheniere Energy, Inc. and its subsidiaries. The Company operates principally through its wholly-owned subsidiary, Cheniere Energy Operating Co., Inc. ("Cheniere Operating"). Cheniere Operating is a Houston-based company formed for the purpose of oil and gas exploration, development and exploitation. The Company is currently involved in a joint exploration program, which is engaged in the exploration for oil and natural gas along the Gulf Coast of Louisiana, onshore and in the shallow waters of the Gulf of Mexico. The Company commenced its oil and gas activities through such joint program in April 1996.

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

NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

in a transition period from September 1, 1997 to December 31, 1997. As a result, the Company is filing this Transition Report on Form 10-K for the four-month period ended December 31, 1997.

Oil and Gas Properties

The Company follows the full cost method of accounting for its oil and gas properties. Under this method, all productive and nonproductive exploration and development costs incurred for the purpose of finding oil and gas reserves are capitalized. Such capitalized costs include lease acquisition, geological and geophysical work, delay rentals, drilling, completing and equipping oil and gas wells, together with internal costs directly attributable to property acquisition, exploration and development activities. Interest is capitalized on oil and gas properties not subject to amortization and in the process of development. The Company capitalized interest in the amount of $49,616 during the four-month period ended December 31, 1997.

The costs of the Company's oil and gas properties, including the estimated future costs to develop proved reserves, will be 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.

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

Debt Issuance Costs

Costs incurred in connection with the issuance of debt are capitalized and amortized using the straight-line method over the term of the related debt. Accumulated amortization was $13,194 as of December 31, 1997.

Fixed Assets

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

Offering Costs

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

Income Taxes

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

Stock-Based Compensation

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

Earnings (Loss) Per Share

Earnings (loss) per share ("EPS") is computed in accordance with the requirements of SFAS No. 128, "Earnings Per Share," which the Company adopted effective December 31, 1997. Basic EPS excludes dilution and is computed by dividing net income (loss) by the weighted average number of shares outstanding during the period.

Dilutive 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. Although SFAS No. 128 requires retroactive restatement of prior period EPS information in the period of adoption, the adoption of these provisions had no impact on the Company's EPS calculations for the periods prior to December 31, 1997 presented herein, since the effect of the Company's options and warrants is antidilutive to its net loss per share under both SFAS No. 128 and the former accounting method for calculating EPS.

Cash Equivalents

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

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short maturity of those instruments. The carrying value of the Company's notes payable is considered to approximate the fair value of those instruments based on the borrowing rates currently available to the Company for loans with similar terms and maturities.

Use of Estimates

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

NOTE 3-FIXED ASSETS

Fixed assets consist of the following:

	December 31,	August 31,	
	1997	1997	1996
Furniture and Fixtures	$ 29,914	$ 29,914	$ 26,006
Computers and Office Equipment	31,764	31,764	24,427
Other	-	-	500
	61,678	61,678	50,933
Less: Accumulated Depreciation	(14,807)	(11,871)	(3,603)
Fixed Assets, Net	$ 46,871	$ 49,807	$ 47,330

NOTE 4- OIL AND GAS PROPERTIES

The Company's investment in oil and gas properties has been made pursuant to an Exploration Agreement between Cheniere Operating and Zydeco Exploration, Inc. ("Zydeco"), an operating subsidiary of Zydeco Energy, Inc. (the "Exploration Agreement"). The Exploration Agreement defines a proprietary 3-D seismic exploration project in southern Louisiana (the "3-D Exploration Program"). The 3-D seismic survey covers 228 square miles within a 310 square-mile area running three to five miles north and generally eight miles south of the coastline in the most westerly 28 miles of Cameron Parish, Louisiana.

As of December 31, 1997, August 31, 1997, and August 31, 1996, payments made by Cheniere to the 3-D Exploration Program totaled $16,427,000, $13,500,000 and $4,000,000, respectively. As the result of its cash payments through December 31, 1997, the Company has earned a 50% interest in the 3-D Exploration Program. Under the terms of the Exploration Agreement and its amendments, additional payments will be required as prospects are generated within the 3-D Exploration Program. The Company's level of participation in such prospects will depend upon its making such required payments when due.

The Company's financial statements reflect its proportionate interest in the revenues, costs, expenses, and capital with respect to the 3-D Exploration Program. Because the exploration project has not reached the drilling phase as of December 31, 1997, a determination has not yet been made as to the extent of any oil and gas reserves that should be classified as proved. Consequently, all of the Company's oil and gas property costs are classified as unevaluated and are not yet subject to depreciation, depletion and amortization. The Company estimates that amortization of these costs will begin in 1999.

NOTE 5-NOTES PAYABLE

December 1997 - $4,000,000 Bridge Financing

In December 1997, Cheniere completed the private placement of a $4,000,000 bridge financing (the "December 1997 Bridge Financing"). The senior term notes payable issued by Cheniere had an initial maturity date of March 15, 1998 which has been extended to September 15, 1998. The senior term notes bear interest at an annual rate of 9.90625% (LIBOR plus 4% as of December 15, 1997, the date of closing), which is payable quarterly. The securities purchase agreements which govern the bridge financing specify that, during the term of the notes, capital raised by the Company in excess of $5,000,000 must be directed to the repayment of the senior term notes.

The Company's $4,000,000 December 1997 Bridge Financing included two tranches: one domestic and one European. In conjunction with the European tranche, BSR Investments, Ltd., a major shareholder of the Company, purchased $2,000,000 of the notes and pledged a portion of its investment in Cheniere common stock to fund its participation.

In connection with the December 1997 Bridge Financing, Cheniere issued 100,000 shares of common stock and 4-year warrants to purchase 1,333,334 shares of common stock at $2-3/8 per share (Note 7). Additional warrants to purchase 266,667 shares of Cheniere common stock will be issued for each month the notes remain outstanding during the period from March 15, 1998 through September 15, 1998. The common stock issued at closing was recorded as a debt issuance cost at the then-current market price for the shares.

July 1997 - $500,000 Note Payable Related Party

On July 31, 1997, Cheniere Operating borrowed $500,000 from Sam B. Myers, Jr., Chairman of Zydeco Energy, Inc., evidenced by a promissory note bearing interest at 10% per annum and due on August 29, 1997. On August 28, 1997, the maturity date was extended to September 29, 1997. The Company repaid the $500,000 promissory note, including all accrued interest, on September 22, 1997.

June 1996 - $425,000 Bridge Notes

In June 1996, Cheniere Operating borrowed $425,000 through a private placement of short-term promissory notes with an initial interest rate of 8% (the "Notes"). The Notes were due on September 14, 1996 (the "Maturity Date"). In connection with the placement of the Notes, Cheniere Operating issued warrants, which, following the Reorganization, were exchanged for an aggregate of 141,666 and 2/3 (as adjusted for the 10,000-to-1 stock split referred to in Note 1) warrants to purchase shares of the common stock, to the holders of the

Notes (the "Noteholders"), each of which warrants entitles the holder to purchase one share of the common stock at an exercise price of $3.00 per share at any time on or before June 14, 1999 (Note 7).

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

In addition, one of the Noteholders purchased the promissory notes of the remaining Noteholders, increasing his total holdings of the Notes to $215,000. As per the terms of the Notes, the interest rate on these outstanding Notes increased to 13% per annum, effective September 14, 1996. The holder of the Notes was also entitled to receive up to an aggregate of 21,500 additional warrants for each month or partial month any amounts remain due and payable after September 14, 1996, up to a maximum aggregate number of 86,000 such additional warrants. On

December 13, 1996, the Company repaid the $215,000 Notes and related accrued interest. Upon repaying the Notes, the Company issued 64,500 warrants in accordance with the loan agreement (Note 7).

NOTE 6-INCOME TAXES

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

At December 31, 1997, the Company had net operating loss ("NOL") carryforwards for tax reporting purposes of approximately $2,933,000. In accordance with SFAS No. 109, a valuation allowance equal to the tax benefit for deferred taxes has been established due to the uncertainty of realizing the benefit of such NOL carryforwards.

Deferred tax assets and liabilities reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at December 31, 1997 and August 31, 1997 and 1996 are as follows:

	December 31,	August 31,	
Deferred Tax Assets	1997	1997	1996
NOL Carryforwards	$ 997,000	$ 865,000	$ 295,000
Less: Valuation Allowance	(997,000)	(865,000)	(295,000)
Net Deferred Tax Assets	$ -	$ -	$ -

Net operating loss carryforwards expire starting in 2006 through 2012. Per year availability of losses incurred prior to July 3, 1996 of approximately $747,000 is subject to change of ownership limitations under Internal Revenue Code Section 382.

NOTE 7-WARRANTS

As of December 31, 1997 the Company has issued and outstanding 1,720,000 and 2/3 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 issuances and terms of the warrants are described below.

December 1997 Bridge Financing Warrants

In conjunction with Cheniere's $4,000,000 December 1997 Bridge Financing (Note 5), the Company issued warrants to purchase 1,333,334 shares of common stock exercisable at a price of $2-3/8 per share any time on or before December 31, 2001. Additional warrants to purchase 266,667 shares of Cheniere common stock will be issued for each month the notes remain outstanding during the period from March 15, 1998 through September 15, 1998. Pursuant to APB Opinion

No. 14, the warrants have been valued at the differential rate between the stated rate (9.9%) and the then estimated market rate (20%), applied to the principal balance outstanding for the initial term of the senior term notes. This value ($101,000) has been credited to additional paid-in capital and $16,833 of this amount has been recorded as interest expense, which has been capitalized to oil and gas properties, in the four-month period ended December 31, 1997.

Unit Warrants

In August 1996, the Company sold 100,000 units, each such unit consisting of 5 shares of common stock and a warrant to purchase one share of common stock for total proceeds of $1,000,000. Each such warrant is

exercisable on or before September 1, 1999 at an exercise price of $3.125 per share. The exercise price represents the approximate market price of the underlying common stock at the time of the transaction.

Adviser Warrants

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

June Warrants

In conjunction with the issuance of the Notes (Note 5), the Company issued and continues to have outstanding 141,666 and 2/3 warrants (collectively, the "June Warrants"), each of which entitles the registered holder thereof to purchase one share of common stock. The June Warrants are exercisable at any time on or before June 14, 1999, at an exercise price of $3.00 per share. The exercise price was determined at a 100% premium to the sales price of Cheniere stock by private placement during May 1996. The June Warrants were originally issued by Cheniere and were converted to warrants of Cheniere following the Reorganization. The June Warrants were issued to a group of eleven investors in connection with a private placement of unsecured promissory notes. Pursuant to APB Opinion No. 14, the warrants issued have been valued at the differential rate between the initial interest rate (8%) and the estimated market rate (20%), applied to the outstanding principal balance. This value, $12,750, has been credited to additional paid-in capital and charged to interest expense for the period ended August 31, 1996.

Effective September 14, 1996, the Company had not paid all amounts due and payable under the Notes by the Maturity Date. Certain of the Noteholders converted their Notes into 105,000 shares of common stock. One of the Noteholders purchased the promissory notes of the remaining noteholders. As per the terms of the Notes, the holder was entitled to receive up to an aggregate of 21,500 additional warrants for each month, or partial month, any amounts remained due and payable after September 14, 1996, up to a maximum aggregate number of 86,000 such additional warrants. These Notes were repaid on December 14, 1996, and upon repayment the Company issued 64,500 warrants in accordance with the loan agreement. The terms of the warrants are similar to the June Warrants. Pursuant to APB Opinion No. 14, these additional warrants have been valued at the differential rate between the rate charged (13%) and the then estimated market rate (25%), applied to the principal balance for each month outstanding after September 14, 1996. This value, $6,450, has been credited to additional paid-in capital and charged to interest expense for the period ended August 31, 1997.

Commission Warrants

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

NOTE 8-STOCK OPTIONS

In 1997 the Company established the Cheniere Energy, Inc. 1997 Stock Option Plan (the "Option Plan"). The option plan allows for the issuance of options to purchase up to 950,000 shares of Cheniere common stock. Grants made by the Company are summarized in the following table:

<TABLE>
<CAPTION>

	December 31,	August 31,	
	1997	1997	1996
<S>	<C>	<C>	<C>
Outstanding at beginning of period	319,444 2/3	319,444 2/3	-
Options granted at an exercise price of $3.00 per share	220,000	12,000	300,000
Options granted at an exercise price of $1.80 per share	-	-	19,444 2/3
Options canceled	-	(12,000)	-
Outstanding at end of period	539,444 2/3	319,444 2/3	319,444 2/3
Exercisable at end of period	131,944 2/3	131,944 2/3	19,444 2/3
Weighted average exercise price of options outstanding	$ 2.96	$ 2.93	$ 2.93
Weighted average exercise price of options exercisable	$ 2.82	$ 2.82	$ 1.80
Weighted average remaining contractual life of options outstanding	4.0 years	4.0 years	5.0 years

</TABLE>

The disclosure-only provisions of SFAS No. 123 do not have a material effect on the Company's financial statements.

NOTE 9-COMMON STOCK RESERVED

The Company has reserved 1,720,000 and 2/3 shares of common stock for issuance upon the exercise of outstanding warrants (Note 7).

The Company has reserved 950,000 shares of common stock for insurance upon the exercise of options which have been granted or which may be granted (Note 8).

NOTE 10-RELATED PARTY TRANSACTIONS

The Company's $4,000,000 December 1997 Bridge Financing included two tranches: one domestic and one European. In conjunction with the European tranche, BSR Investments, Ltd., a major shareholder of the Company, purchased $2,000,000 of the notes and pledged a portion of its investment in Cheniere common stock to fund its participation. In conjunction with the financing, BSR received warrants to purchase 166,667 shares of the Company's common stock.

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 the Company's Co-Chairman, Charif Souki, is a principal. Payments to IAS totaled $255,000 during the year ended August 31, 1997. Such payments were recorded as offering costs and reflected as a reduction of additional paid-in capital.

NOTE 11-COMMITMENTS AND CONTINGENCIES

The Company subleased its Houston, Texas headquarters from Zydeco under a month-to-month sublease until March 1998. See Note 12 for a description of the

Company's office leasing activity subsequent to December 31, 1997.

Rent expense recorded in the financial statements is as follows:

<TABLE>
<CAPTION>

	Four-Month Period Ended December 31, 1997	Period Ended August 31	
		1997	1996
<S>	<C>	<C>	<C>
Office Rental (including parking)	$ 6,887	$ 22,403	$ 3,884
Other Rental Property (terminated June, 1997)	-	48,000	13,920
	$ 6,887	$ 70,403	$ 17,804

</TABLE>

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

NOTE 12-SUBSEQUENT EVENTS

Subsequent to December 31, 1997, the Company completed four private placements of its common stock pursuant to Regulation D under the Securities Act of 1933 (the "Act"). In April 1998 Cheniere issued 530,000 shares, generating net proceeds of $1,018,000. In May 1998 the Company issued 22,000 shares with proceeds of $44,000 and an additional 70,000 shares in partial payment of $215,000 of legal charges related principally to previous offerings of the Company's common stock. In June 1998 Cheniere issued 890,644 shares of common stock, generating net proceeds of $1,175,900. In conjunction with the June 1998 financing, the Company also issued $180,000 in short-term notes with detachable warrants.

In March 1998, the Company terminated its sublease from Zydeco for office space and entered into a lease for 2,678 square feet of office space from an unrelated third party. The term of the lease is six years. Rentals total $4,190 per month.

On April 7, 1998, the Audit Committee of the Company's Board of Directors elected to change the fiscal year-end of the Company from August 31 to December 31.

At the State of Louisiana Mineral Board lease sale held on April 8, 1998, Cheniere and Zydeco acquired leases on four tracts, aggregating 1,830 acres. At the State of Louisiana Mineral Board lease sale held on June 10, 1998, Cheniere acquired leases on four tracts, aggregating 381 acres and Zydeco acquired leases on nine tracts, aggregating 5,357 acres.

On April 21, 1998, Zydeco filed a petition with the American Arbitration Association for arbitration in order to resolve certain disputes that have arisen with the Company. These disputes pertain to the rights and obligations of the parties involved and the claims for reimbursement of certain seismic costs and expenses incurred by Zydeco. The Company believes it has properly earned and preserved its interest in the project area covered by the Exploration Agreement and that all of its actions to date have been entirely within the scope of the Exploration Agreement. The Company believes it will ultimately prevail in the arbitration process.

On April 27, 1998, the Company filed a counterclaim to the petition filed by Zydeco. The Company denies all claims made in the Zydeco filing. In its counterclaim, the Company asserts that Zydeco is liable for material misrepresentations, mismanagement and breaches of the Exploration Agreement. Cheniere seeks recovery of damages and other relief.

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

The accompanying consolidated financial statements have been prepared

assuming that the Company will continue as a going concern. Cheniere is a development stage company which has not yet generated any operating revenues. At various times during the life of the Company to date, it has been necessary for the Company to raise additional capital through private placements of debt or equity financing. When such a need has arisen, the Company has met it successfully. It is management's belief that it will continue to be able to meet its needs for additional capital as such needs arise in the future.

At December 31, 1997, the Company had $4,000,000 outstanding in senior term notes payable which mature on or before September 15, 1998. These notes were issued as part of a bridge financing in conjunction with an offering of units comprised of preferred stock and warrants to purchase common stock. The units offering was subsequently withdrawn, and the Company has not yet determined whether it will seek to raise additional capital for the repayment of the notes or seek to refinance the notes.

In the event that the Company should not be successful in future efforts to raise capital for its operations, management is confident that through trades or sales of partial interests to industry partners the value of the oil and gas assets in which it has earned an ownership interest can be utilized to accomplish the Company's financial objectives of exploring and developing its oil and gas properties.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information concerning the directors and executive officers of the Company as of June 30, 1998:

<TABLE>
<CAPTION>

NAME	DIRECTOR SINCE	AGE	POSITION
<S>	<C>	<C>	<C>
Keith F. Carney	-	42	Executive Vice President
William D. Forster	1996	50	Co-Chairman of the Board of Directors
Kenneth R. Peak	1997	52	Director
Charles M. Reimer	1998	53	Director
Charif Souki	1996	45	Co-Chairman of the Board of Directors
Don A. Turkleson	-	43	Chief Financial Officer, Secretary and Treasurer
Walter L. Williams	1996	70	President, Chief Executive Officer and Director
Efrem Zimbalist, III	1996	51	Director

</TABLE>

The executive officers of the Company serve at the pleasure of the Board of Directors and are subject to annual appointment by the Board. The Company had five executive officers during the four-month period ended December 31, 1997. Information concerning the backgrounds of the directors and executive officers of the Company is provided in the following paragraphs.

Keith F. Carney is currently Executive Vice President of Cheniere. He served as Chief Financial Officer and Treasurer of the Company from July 1996 through November 1997. Prior to joining Cheniere, Mr. Carney was a securities analyst in the oil and gas exploration/production sector with Smith Barney, Inc. from 1992-1996. From 1982-1990 he was employed by Shell Oil as an exploration geologist, with assignments in the Gulf of Mexico, the Middle East and other areas. He received a Master of Science degree in geology from Lehigh University in 1982 and a Master of Business Administration/Finance degree from the University of Denver in 1992. Mr. Carney currently serves as a Director for Pyr Energy.

William D. Forster, co-founder of Cheniere, is currently Co-Chairman of the Board of Directors and a member of the Stock Option Committee. He served as President and Chief Executive Officer of Cheniere from July 1996 to September 1997. Mr. Forster was an investment banker with Lehman Brothers from 1975 to 1990, serving as a Managing Director for 11 years, initially in the oil and gas department for seven years, and then in various other areas. In 1990, he founded his own private investment bank, W. Forster & Co. Inc. Mr. Forster is a Director of Equity Oil Company, a Nasdaq National Market company. He holds a Bachelor of Arts degree in economics from Harvard College and a Master of Business Administration degree from Harvard Business School.

Kenneth R. Peak is currently a Director of Cheniere and a member of the Audit Committee and the Stock Option Committee. Mr. Peak has been the President of Peak Enernomics, Incorporated, a company engaged in consulting activities in the oil and gas industry, since forming the company in 1990. From 1989 to 1990 Mr. Peak served as a Managing Director and Co-Manager, Corporate Finance, of Howard Weil Incorporated, an investment banking firm. Prior to joining Howard Weil Incorporated, Mr. Peak served as Vice President-Finance for Forest Oil

Corporation from 1988 to 1989. Mr. Peak received a Bachelor of Science in physics from Ohio University and a Master of Business Administration degree from Columbia University. He currently serves as a director of NL Industries, Inc. and Cellxion, Inc.

Charles M. Reimer is currently a Director of Cheniere. He is also Chairman and CEO of Virginia Indonesia Company (VICO), the operator on behalf of Union Texas Petroleum Holdings, Inc. and LASMO plc, of major gas and oil reserves and production located in East Kalimantan, Indonesia. Mr. Reimer began his career with Exxon Company USA in 1967 and held various professional and management positions in Texas and Louisiana. After leaving Exxon, Mr. Reimer was named President of Phoenix Resources Company in 1985 and relocated to Cairo, Egypt to begin eight years of international assignments.

Charif Souki, also co-founder of Cheniere, is currently Co-Chairman of the Board of Directors and a member of the Audit Committee and the Stock Option Committee. Mr. Souki is an independent investment banker with twenty years of experience in the industry. In the past few years he has specialized in providing financing for promising microcap and small capitalization companies with an emphasis on the oil and gas industry. He holds a Bachelor of Arts degree from Colgate University and a Master of Business Administration from Columbia University.

Don A. Turkleson is currently Chief Financial Officer, Secretary and Treasurer of Cheniere. Prior to joining Cheniere, Mr. Turkleson was employed by PetroCorp Incorporated from 1983 to 1996, as Controller until 1986, then as Vice President-Finance, Secretary and Treasurer. From 1975 to 1983 he worked as a Certified Public Accountant in the natural resources division of Arthur Andersen & Co. Mr. Turkleson received a Bachelor of Science degree in accounting from Louisiana State University in 1975. He is a member of the American Institute of Certified Public Accountants and of the Texas Society of Certified Public Accountants. He is a Director, Treasurer and past Chairman of the Board of Neighborhood Centers, Inc.

Walter L. Williams is currently President and Chief Executive Officer and a Director of Cheniere. Prior to joining Cheniere, Mr. Williams spent 32 years as a founder and later Chairman and Chief Executive Officer of Texoil, Inc., a publicly held Gulf Coast exploration and production company. Prior to that time he was an independent petroleum consultant. He received a Bachelor of Science degree in petroleum engineering from Texas A&M University in 1949 and is a Registered Engineer in both the states of Louisiana and Texas. Mr. Williams has served as a Director and Member of the Executive Committee of the Board of the Houston Museum of Natural Science.

Efrem Zimbalist, III is currently a Director of Cheniere, Chairman of the Audit Committee and a member of the Stock Option Committee. He is also President and Chief Executive Officer of Times Mirror Magazines, a division of Times Mirror Co., and a Vice President of Times Mirror Co. He formerly served as Vice President, Strategic Development for Times Mirror Co. from 1993 to 1995. Previously he served as Chairman and Chief Executive Officer of Correia Art Glass, Inc., a family owned business. He also served five years as a senior engagement manager at the management consulting firm of McKinsey and Co., Inc. in Los Angeles. Mr. Zimbalist received a Bachelor of Arts degree in economics from Harvard College and a Master of Business Administration degree from Harvard Business School.

ITEM 11. EXECUTIVE COMPENSATION

The following table reflects all forms of compensation for the executive officers for services to the Company during the year ended December 31, 1997, the year ended August 31, 1997, and the period from inception (February 21, 1996) through August 31, 1996.

SUMMARY COMPENSATION TABLE

<TABLE>
<CAPTION>

		Annual Compensation		Long Term Compensation Awards
Name and Principal Position	Year(1)	Salary	Other Annual Compensation	Securities Underlying Options/SARs(#)
<S>	<C>	<C>	<C>	<C>
Walter L. Williams	1997c	$120,000	$0	50,000
President and	1997	$120,000	$0	--
Chief Executive Officer	1996	$0	$30,000(2)	150,000
Keith F. Carney	1997c	$90,833	$0	50,000
Executive Vice President	1997	$90,000	$0	--
	1996	$11,250 (3)	$0	150,000

Don A. Turkleson	1997c	$8,333 (4)	$0	50,000
Chief Financial Officer,	1997	$0	$0	--
Secretary and Treasurer	1996	$0	$0	--

(1) The Company's first period of operations was from inception (February 21, 1996) to August 31, 1996. The next period reported is the year ended August 31, 1997. The one-year period ending December 31, 1997 is indicated in the table above with the caption "1997c", and is included due to a change in the Company's fiscal year-end.

(2) Mr. Williams' Other Annual Compensation for 1996 represents 30,000 shares of common stock, valued at $1.00 per share, received in lieu of cash compensation for three months of employment from his inception date of June 1, 1996 through August 31, 1996 based on an annual salary of $120,000.

(3) Mr. Carney's 1996 salary was payment for six weeks of employment from his inception date of July 16, 1996 through August 31, 1996 based on an annual salary of $90,000. Effective December 1, 1997, Mr. Carney's annual salary was increased to $100,000.

(4) Mr. Turkleson's salary for the one-year period ended December 31, 1997 was payment for one month of employment from his inception date of December 1, 1997 based on an annual salary of $100,000.

OPTIONS GRANTS

Stock options granted to executive officers during the one-year period ended December 31, 1997 are summarized in the following table:

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
Name	Number of Securities Underlying Options/SARs Granted	% of Total Options/SARs Granted to Employees in Fiscal Period	Exercise or Base Price Per Share	Expiration Date	5%(1)	10%
Walter L. Williams	50,000	28.60%	$3.00	12/14/02	-	$36,215
Keith F. Carney	50,000	28.60%	$3.00	12/14/02	-	$36,215
Don A. Turkleson	50,000	28.60%	$3.00	12/14/02	-	$36,215

(1) The market price of the Company's common stock at the date of grant was $2.3125. At an assumed annual rate of appreciation of 5%, the market price of the Company's common stock would remain below the exercise price of $3.00 per share throughout the term of the options.

Outside members of the Board of Directors (those who do not serve as executive officers of the Company) are compensated for their services to the Company through the grant of options to purchase common stock of the Company. During the four months ended December 31, 1997, Mr. Peak received options to purchase 35,000 shares of common stock and Mr. Zimbalist received options to purchase 10,000 shares of common stock, all at an exercise price of $3.00 per share on or before September 28, 2002.

OPTION EXERCISES AND YEAR-END VALUES

The following table sets forth information regarding unexercised options to purchase shares of common stock granted by the Company to its executive officers. No executive officers exercised any Common Stock options during the one-year period ended December 31, 1997.

<CAPTION>

	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARs AT DECEMBER 31, 1997		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/SARs AT DECEMBER 31, 1997 (1)	
NAME	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
<S>	<C>	<C>	<C>	<C>
Walter L. Williams	75,000	125,000	--	--
Keith F. Carney	37,500	162,500	--	--
Don A. Turkleson	--	50,000	--	--

</TABLE>

(1) The value of unexercised options to purchase common stock at December 31, 1997 is nil since the $2.25 per share market value of the underlying securities at December 31, 1997 was less than the $3.00 exercise price.

BOARD REPORT ON EXECUTIVE COMPENSATION

The Board of Directors has furnished the following report on executive compensation for the four months ended December 31, 1997:

Because the Company is a development stage company, the Company has no employment agreements with any of its executive officers and two executive officers served with no compensation for the four months ended December 31, 1997. William D. Forster and Charif Souki, Co-Chairmen of the Board of Directors for the four months ended December 31, 1997, did not receive any compensation in the form of salary or options and the Company does not currently intend to pay any such compensation to such officers until the Company has raised significant additional capital.

For those executive officers receiving compensation, the Company seeks to relate a significant portion of the potential total executive compensation to the Company's financial performance. In general, executive financial rewards may be segregated into the following components: salary and stock-based benefits.

Base compensation for senior executive officers is intended to afford a reasonable degree of financial security and flexibility to those individuals who are regarded by the board as acceptably discharging the levels and types of responsibility implicit in the various executive positions. The board also takes into consideration industry and non-industry compensation levels for professional peer groups. Based on these factors, Walter L. Williams received salary at a rate of $120,000 per year beginning September 1, 1996; Keith F. Carney received salary at a rate of $90,000 per year beginning July 16, 1996, which was increased to $100,000 per year effective December 1, 1997; Don A. Turkleson received salary at a rate of $100,000 per year beginning December 1, 1997.

The board of directors is of the view that properly designed and administered stock-based incentives for senior executives closely align the executives' economic interests with those of stockholders and provide a direct continuing focus upon the goal of constantly striving to increase long-term stockholder value. Toward that goal, the Company (i) on June 1, 1996, granted Mr. Williams options to purchase 150,000 shares of the common stock and on July 3, 1996, granted Mr. Williams 30,000 shares of common stock in lieu of cash compensation for three months of employment from his inception date of June 1, 1996 until the end of the fiscal year on August 31, 1996, (ii) on July 16, 1996, granted Mr. Carney options to purchase 150,000 shares of common stock and (iii) on December 15, 1997 granted options to purchase 50,000 shares of common stock to each of Messrs. Williams, Carney and Turkleson. See "Executive Compensation--Summary Compensation Table and --Option Grants" for details.

Since the Company has no compensation committee, the foregoing report was given by the entire incumbent Board of Directors as of December 31, 1997.

THE BOARD OF DIRECTORS
William D. Forster, Co-Chairman
Charif Souki, Co-Chairman
Kenneth R. Peak
Walter L. Williams
Efrem Zimbalist III

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Because the Company has no compensation committee, all incumbent members of the Board of Directors, as of December 31, 1997, participated in deliberations

concerning executive officer compensation. In addition to serving as a director of the Company, several directors held positions as executive officers during the four months ended December 31, 1997. Mr. Forster served as Co-Chairman of the Board, Mr. Souki served as Co-Chairman of the Board and Mr. Williams served as President and Chief Executive Officer.

COMMON STOCK PERFORMANCE GRAPH

The following graph compares the cumulative total shareholder return on the Company's Common Stock against, the S&P Oil and Gas (Exploration & Production) Index, and the Russell 1000 Index for the period beginning on July 3, 1996 and ending at December 31, 1997. The Company's Common Stock began trading on the OTC Bulletin Board on July 3, 1996 and moved to the NASDAQ SmallCap Market on April 11, 1997. The graph was constructed on the assumption that $100 was invested in the Company's Common Stock, the S&P Oil and Gas (Exploration & Production) Index, and the Russell 2000 Index on July 3, 1996.

COMPARISON OF CUMULATIVE TOTAL RETURN
AMONG CHENIERE ENERGY, INC., S&P OIL & GAS (EXPLORATION & PRODUCTION) INDEX, AND RUSSELL 1000 INDEX

[Graph appears Here]

<TABLE>
<CAPTION>

	JULY 3, 1996	AUGUST 31, 1996	AUGUST 31, 1997	DECEMBER 31, 1997
<S>	<C>	<C>	<C>	<C>
Cheniere Energy, Inc.	$100	$117	$119	$102
S&P Oil & Gas (Exploration & Production) Index	$100	$ 98	$136	$148
Russell 1000 Index	$100	$ 99	$116	$106

</TABLE>

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS, DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth information with respect to the shares of common stock owned of record and beneficially as of June 30, 1998 by all persons who own of record or are known by the Company to own beneficially more than 5% of the outstanding common stock by each director and executive officer, and by all directors and executive officers as a group:

NAME	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP		PERCENT OF CLASS
BSR Investments, Ltd.	2,768,667	(1)	16.9%
Keith F. Carney	75,000	(2)	*
William D. Forster	2,846,211	(3)	17.6%
Kenneth R. Peak	--	(4)	*
Charles M. Reimer	28,571	(5)	*
Charif Souki	--	(6)	*
Don A. Turkleson	25,000	(7)	*
Walter L. Williams	180,000	(8)	1.1%
Efrem Zimbalist, III	22,000	(9)	*
All Directors and Officers as a group (8 persons)	3,176,782	(10)	19.3%

* Less than 1%

(1) BSR Investments, Ltd. is controlled by Nicole Souki, the President of BSR and the mother of Charif Souki. Charif Souki disclaims beneficial ownership of the shares. Includes warrants to purchase 166,667 of the Company's common stock. BSR's address is: c/o Harney, Westwood & Riegels, Box 71, Craigmuir

Chambers, Road Town, Tortola, B.V.I.

(2) Includes 75,000 shares issuable upon exercise of presently exercisable options. Excludes 125,000 shares issuable upon the exercise of options held by Mr. Carney but not exercisable within 60 days of the filing of this Form 10-K Transition Report.

(3) Does not include 100,000 shares held by a trust for the benefit of Mr. Forster's mother of which Mr. Forster is a 20% remainderman and of which shares he disclaims beneficial ownership. Mr. Forster's address is c/o Cheniere Energy, Inc., 1200 Smith Street, Suite 1740, Houston, TX 77002-4312.

(4) Excludes 35,000 shares issuable upon the exercise of options held by Mr. Peak but not exercisable within 60 days of the filing of this Form 10-K Transition Report.

(5) Excludes 35,000 shares issuable upon the exercise of options held by Mr. Reimer but not exercisable within 60 days of the filing of this Form 10-K Transition Report.

(6) Does not include 2,602,000 shares nor warrants to purchase 166,667 shares of Cheniere common stock held by BSR Investments, Ltd. of which Charif Souki disclaims beneficial ownership. BSR Investments, Ltd. is controlled by Nicole Souki, the President of BSR Investments, Ltd. and the mother of Charif Souki.

(7) Excludes 50,000 shares issuable upon the exercise of options held by Mr. Turkleson but not exercisable within 60 days of the filing of this Form 10-K Transition Report.

(8) Includes 150,000 shares issuable upon exercise of presently exercisable options. Excludes 50,000 shares issuable upon the exercise of options held by Mr. Williams but not exercisable within 60 days of the filing of this Form 10-K Transition Report.

(9) Excludes 10,000 shares issuable upon the exercise of options held by Mr. Zimbalist but not exercisable within 60 days of the filing of this Form 10-K Transition Report.

(10) Includes an aggregate of 225,000 shares issuable upon exercise of presently exercisable options. Excludes an aggregate of 270,000 shares issuable upon the exercise of options not exercisable within 60 days of the filing of this Form 10-K Transition Report.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

BSR Investments, Ltd. ("BSR"), an entity holding approximately 16.9% of the outstanding shares of the Company's common stock, is under the control of Nicole Souki, the mother of Charif Souki, Co-Chairman of the Board of Directors for the our months ended December 31, 1997. Charif Souki has been engaged, from time to time, as a consultant to BSR. Charif Souki disclaims beneficial ownership of all shares held by BSR.

The Company's $4,000,000 December 1997 Bridge Financing included two tranches: one domestic and one European. In conjunction with the European tranche, BSR purchased $2,000,000 of the notes and pledged a portion of its investment in Cheniere common stock to fund its participation. In conjunction with the financing, BSR received warrants to purchase 166,667 shares of the Company's common stock.

PART IV

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

(a) Financial Statements, Schedules and Exhibits

(1) Financial Statements

(2) Financial Statement Schedule

All consolidated financial statement schedules have been omitted because they are not required, are not applicable, or the

information has been included elsewhere.

(3) Exhibits

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

10.6	Form of Noteholders Agreement between Cheniere and the holders of promissory notes in the aggregate principal amount of $425,000 (Incorporated by reference to Exhibit 10.4 of the Company's Registration Statement under the Securities Act of 1933 on Form S-1 filed on August 27, 1996 (File No. 333-10905))
10.7	Form of Warrant Agreement governing warrants of Cheniere issued in exchange for warrants of Cheniere Operating (which were issued pursuant to the Noteholders Agreement) (Incorporated by reference to Exhibit 10.5 of the Company's Registration Statement under the Securities Act of 1933 on Form S-1 filed on August 27, 1996 (File No. 333-10905))
10.8	Asset Transfer, Assignment and Assumption Agreement between Bexy Communications, Inc. and Mar Ventures, Inc. (Incorporated by reference to Exhibit 10.6 of the Company's Registration Statement under the Securities Act of 1933 on Form S-1 filed on August 27, 1996 (File No. 333-10905))
10.9	Indemnification Agreement between Buddy Young, Cheniere, Cheniere Operating and the shareholders of Cheniere Operating named therein (Incorporated by reference to Exhibit 10.7 of the Company's Registration Statement under the Securities Act of 1933 on Form S-1 filed on August 27, 1996 (File No. 333-10905))
10.10	Form of Warrant Agreement between Cheniere and each of C.M. Blair, W.M. Foster & Co., Inc. and Redliw Corp. (Incorporated by reference to Exhibit 10.8 of the Company's Registration Statement under the Securities Act of 1933 on Form S-1 filed on August 27, 1996 (File No. 333-10905))
10.11	Consulting Agreement between Cheniere and Buddy Young (Incorporated by reference to Exhibit 10.9 of the Company's Registration Statement under the Securities Act of 1933 on Form S-1 filed on August 27, 1996 (File No. 333-10905))
10.12	Letter Agreement between Cheniere and Buddy Young regarding reverse splits of the Common Stock (Incorporated by reference to Exhibit 10.10 of the Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 on Form 10-K filed on November 27, 1996 (File No. 2-63115))
10.13	Fourth Amendment to the Exploration Agreement between FX Energy, Inc. (now known as Cheniere Operating) and Zydeco (Incorporated by

reference to Exhibit 10.12 of the Company's Registration Statement under the Securities Act of 1933 on Form S-1 filed on March 17, 1997 (File No. 333-23421))

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

10.15 Form of Warrant Agreement governing warrants issued in unit offering to each of Western Slopes, Ltd. and Great Heritage Holdings, Ltd. (Incorporated by reference to Exhibit 10.15 of the Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 on Form 10-K filed on October 14, 1997 (File No. 0-9092))

10.16 Form of Warrant Agreement between Cheniere and Reefs & Co., Ltd. (Incorporated by reference to Exhibit 10.16 of the Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 on Form 10-K filed on October 14, 1997 (File No. 0-9092))

10.17 Form of Warrant Agreement governing warrants issued pursuant to Noteholders Agreement (Incorporated by reference to Exhibit 10.17 of the Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 on Form 10-K filed on October 14, 1997 (File No. 0-9092))

10.18 Fifth Amendment to the Exploration Agreement between FX Energy, Inc. (now known as Cheniere Operating) and Zydeco (Incorporated by reference to Exhibit 10.18 of the Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 on Form 10-K filed on October 14, 1997 (File No. 0-9092))

10.19 Sixth Amendment to the Exploration Agreement between FX Energy, Inc. (now known as Cheniere Operating) and Zydeco (Incorporated by reference to Exhibit 10.19 of the Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 on Form 10-K filed on October 14, 1997 (File No. 0-9092))

10.20 Form of Letter Agreement between Cheniere and Sam B. Myers, Jr. regarding Promissory Note in the principal amount of $500,000 (Incorporated by reference to Exhibit 10.20 of the Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 on Form 10-K filed on October 14, 1997 (File No. 0-9092))

10.21 Form of Noteholder Agreement between Cheniere and Sam B. Myers, Jr. relating to Promissory Note in the principal amount of $500,000 (Incorporated by reference to Exhibit 10.21 of the Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 on Form 10-K filed on October 14, 1997 (File No. 0-9092))

10.22 Form of Security Agreement between Cheniere and Sam B. Myers, Jr. relating to Promissory Note in the principal amount of $500,000 (Incorporated by reference to Exhibit 10.22 of the Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 on Form 10-K filed on October 14, 1997 (File No. 0-9092))

10.23 Seventh Amendment to the Exploration Agreement between FX Energy, Inc. (now known as Cheniere Operating) and Zydeco (Incorporated by reference to Exhibit 10.23 of the Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 on Form 10-K filed on October 14, 1997 (File No. 0-9092))

10.24 Form of Letter Agreement between Cheniere and Sam B. Myers, Jr. regarding Promissory Note Extension (Incorporated by reference to Exhibit 10.24 of the Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 on Form 10-K filed on October 14, 1997 (File No. 0-9092))

10.25 Cheniere Energy, Inc. 1997 Stock Option Plan (Incorporated by reference to Exhibit 10.25 of the Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 on Form 10-Q filed on January 14, 1998 (File No. 0-9092))

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

10.27 Form of Securities Purchase Agreement dated December 15, 1997

10.28 Form of First Amendment to Securities Purchase Agreement dated December 15, 1997

10.29 Securities Purchase Agreement among Cheniere, Arabella S.A., Alba Limited and Scorpion Energy Partners dated December 15, 1997

10.30 Letter Agreement between Cheniere and Zydeco dated December 31, 1997

21.1 Subsidiaries of Cheniere Energy, Inc. (Incorporated by reference to Exhibit 21.1 of the Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 on Form 10-K filed on October 14, 1997 (File No. 0-9092))

27.1 Financial Data Schedule

(b) Reports On Form 8-K

The Company filed Current Reports on Form 8-K on September 24, 1997, regarding the repayment of a $500,000 short-term note payable, a rescheduling of amounts payable under the Exploration Agreement and sales of equity securities

pursuant to Regulation S; on October 10, 1997, regarding new director and management changes; on December 18, 1997, regarding a $4,000,000 bridge financing and a units offering; on April 23, 1998, regarding Zydeco's filing a petition for arbitration to resolve certain disputes; and on May 22, 1998 regarding a change in accountants.

SIGNATURES

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

CHENIERE ENERGY, INC.

By: /s/ WALTER L. WILLIAMS

Walter L. Williams
President and Chief Executive Officer
Date: July 2, 1998

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/ WILLIAM D. FORSTER William D. Forster	Co-Chairman of the Board	July 2, 1998
/s/ CHARIF SOUKI Charif Souki	Co-Chairman of the Board	July 2, 1998
/s/ WALTER L. WILLIAMS Walter L. Williams	President and Chief Executive Officer, Director	July 2, 1998
/s/ DON A. TURKLESON Don A. Turkleson	Chief Financial Officer, Secretary and Treasurer	July 2, 1998
/s/ KENNETH R. PEAK Kenneth R. Peak	Director	July 2, 1998
/s/ CHARLES M. REIMER Charles M. Reimer	Director	July 2, 1998
/s/ EFREM ZIMBALIST, III. Efrem Zimbalist, III	Director	July 2, 1998

Exhibit 3.3

RESOLUTIONS AMENDING CHENIERE BY-LAWS

ADOPTED BY THE BOARD OF DIRECTORS ON APRIL 7, 1998

Resolved that the Company change its fiscal year-end from August 31 to December 31 beginning with December 31, 1997, and reporting the transition period from September 1, 1997 to December 31, 1997 on Form 10-K;

Resolved Further that, effective December 31, 1997, Article VII, Section 7.01 of the Company's By-Laws be hereby amended to read, "Fiscal Year. The fiscal year of the Corporation shall end on the thirty-first day of December of each year unless changed by resolution of the Board."

Exhibit 10.26

[ZYDECO EXPLORATION, INC. LETTERHEAD]

October 30, 1997

Cheniere Energy, Inc.
1200 Smith Street, Suite 1710
Houston, Texas 77002

Attention: Mr. Walter L. Williams, President

Re: Eighth amendment to Exploration Agreement dated April 4, 1996
Between Zydeco Exploration, Inc. and FX Energy, Inc.

Gentlemen:

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

The Area of Mutual Interest is hereby expanded to include those Blocks within the area of 3-D seismic coverage acquired by Zydeco Exploration, Inc. from Fairfield Industries, Inc. by supplement Agreement No. 2 to Master License Agreement dated January 9, 1997, being all or those portions of the following described blocks lying or being situated outside of the existing AMI, to wit: West Cameron Blocks 46, 47, 48, 53, 54, 55, 56 and Sabine Pass Blocks 3 and 6.

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

Very truly yours,
ZYDECO EXPLORATION, INC.

By: /s/ JOHN O. SMITH
Title: President & COO

ACCEPTED AND AGREED TO
THIS 31 DAY OF OCTOBER, 1997.
CHENIERE ENERGY, INC.

BY: /s/ WALTER L. WILLIAMS
TITLE: President

Exhibit 10.27

CHENIERE ENERGY, INC.
Two Allen Center
1200 Smith Street, Suite 1710
Houston, Texas 77002-4312

December 15, 1997

Address~
Address1~
Address2~
Address3~

Re: FORM OF SECURITIES PURCHASE AGREEMENT

Cheniere Energy, Inc., a Delaware corporation ("BORROWER"), and the undersigned, a Lender ("LENDER"), in consideration of the mutual covenants contained herein, agree as follows:

1. COMMITMENT. In accordance with the terms and conditions set forth herein and upon receipt by Lender of the items listed on Schedule 1, Lender agrees to make a term loan hereunder to Borrower in the amount of $Term Loan Amount~ (the "TERM LOAN"). As additional consideration for the Term Loan, Borrower will issue to Lender (i) Lender Stock~ shares (the "LENDER STOCK") of Borrower's common stock, par value $.003 per share (the "COMMON STOCK") and (ii) warrants in the form of EXHIBIT A (the "LENDER WARRANTS") to purchase Lender Warrants~ shares of Common Stock at an exercise price of Exercise Price~ per share (the "EXERCISE PRICE") which expire on December 31, 2001 (the "EXPIRATION DATE").

2. TERMS OF PAYMENT.

a) The Term Loan shall be evidenced by, and payable in accordance with the terms of, a promissory note (the "NOTE") executed by Borrower, payable to the order of Lender, in substantially the form of EXHIBIT B.

b) Borrower may prepay the Note, in whole or in part, without premium or penalty, at any time.

c) In addition to prepayments under clause (b) above, Borrower shall make prepayments of principal of the Term Loan equal to the net cash proceeds received by Borrower from any private placement of Borrower's equity securities or from any sale by Borrower of seismic data, less up to $1,000,000 which may be retained by Borrower.

3. EXTENSION OF MATURITY DATE. If no Default or Potential Default exists, Borrower may extend the Maturity Date for a period of up to 180 days by notifying Lender of such extension prior to the original Maturity Date. If Borrower extends the Maturity Date hereunder, Borrower shall issue to Lender additional warrants (the "ADDITIONAL LENDER

WARRANTS") with an exercise price equal to the Exercise Price which expire on the Expiration Date in the form of EXHIBIT A to purchase Additional Lender Warrants~ shares of Common Stock for each 30 day period after the original Maturity Date during which any amount of the Term Loan is outstanding and unpaid until the date (the "FINAL REPAYMENT DATE") that is the earlier of (x) the date of repayment of the Term Loan in full and (y) 180 days after the original Maturity Date. The Additional Lender Warrants shall be issued within 10 days after the Final Repayment Date.

4. CERTAIN REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants to Lender that:

a) Borrower is a corporation duly organized, validly existing and in good standing under the laws of Delaware, is duly qualified to transact business as a foreign corporation in each jurisdiction where the nature and extent of its business require the same (except where the failure to do so would not constitute a Material Adverse Event), and possesses all requisite authority, powers, licenses, permits and franchises to conduct its business and execute,

deliver and comply with the terms of the Loan Papers executed or to be executed by it, all of which have been duly authorized and approved by all requisite corporate action and for which no approval or consent of any person, entity or governmental authority is required that has not been obtained;

b) Borrower is not, and the execution, delivery and performance of the Loan Papers will not cause it to be, in violation of any law, regulation or agreement (to the extent such violation is a Material Adverse Event) or its corporate charter or bylaws;

c) upon execution and delivery by all parties thereto, each Loan Paper will constitute a legal and binding obligation of Borrower, enforceable against it in accordance with its terms, except as enforceability may be limited by applicable Debtor Relief Laws and general principles of equity;

d) Borrower is not involved in or aware of the threat of any litigation which, if determined adversely to it, would be a Material Adverse Event, and there are no outstanding or unpaid judgments against Borrower;

e) all financial statements (or any replacements thereto) of Borrower and related information concerning Borrower delivered to Lender by Borrower were true and correct in all material respects as of the date thereof, were (in the case of financial statements) prepared in accordance with generally accepted accounting principles in the United States ("GAAP") and fairly present the financial condition, results of operations and all material liabilities of Borrower, and, except as previously disclosed to Lender, there have been no material adverse changes in the financial condition of Borrower since the date of such financial statements;

f) the Lender Warrants and Additional Lender Warrants (collectively, the "WARRANTS") when issued, will be binding obligations of Borrower, enforceable against it in accordance with the terms of the Warrants, except as enforceability may be limited by applicable Debtor Relief Laws and general principles of equity; the Common Stock issuable upon exercise of each Warrant will, when issued and paid for in accordance with such Warrant, be duly and validly authorized and issued, fully paid and nonassessable; and

g) the Note and the Warrants are not being offered or sold by any form of general solicitation or general advertising.

5. CERTAIN AFFIRMATIVE COVENANTS. Borrower shall:

a) use the proceeds of the Term Loan only for working capital and general corporate purposes (including, without limitation, payments to Zydeco Exploration, Inc., a subsidiary of Zydeco Energy, Inc., under Borrower's Exploration Agreement with them);

b) deliver to Lender each filing made by Borrower during the term of the Term Loan pursuant to the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT");

c) promptly pay when due all taxes due by Borrower, except taxes being contested in good faith by appropriate legal proceedings, for which adequate reserves in accordance with GAAP have been established.

6. CERTAIN NEGATIVE COVENANTS. Borrower will not, directly or indirectly:

a) use the proceeds of any advance hereunder (i) to acquire any other entity, (ii) to purchase or carry (or to extend credit to another for the purpose of purchasing or carrying) "margin stock" (as defined in Regulation U of the Federal Reserve System), (iii) to pay any wages (unless a payment to or deposit with the United States of all amounts of tax required to be deducted and withheld with respect thereto has been made), or (iv) for any unlawful purpose;

b) merge or consolidate with any entity, or dissolve;

c) declare, make or pay any distribution or dividend to its owners;

d) sell, lease or otherwise dispose of all or any substantial portion of its assets;

e) engage in any business other than that in which it is presently engaged; or

f) pledge any of its assets, including its interest in seismic data.

7. LENDER ACKNOWLEDGMENTS.

A) TRANSFER RESTRICTIONS. Lender acknowledges that (i) the Term Note, Lender Stock, Warrants and the Common Stock underlying the Warrants (collectively, the "RESTRICTED SECURITIES") to be issued to it hereunder have not been and are not being registered under the provisions of the Securities Act of 1933, as amended (the "SECURITIES ACT"), or any applicable state securities laws (except as provided in SECTION 9), and may not be offered, sold, pledged or otherwise transferred unless (A) the Restricted Securities are subsequently registered under the Securities Act and all applicable state securities laws or (B) the holder of the Restricted Securities shall have delivered to Borrower an opinion of counsel, reasonably satisfactory in form, scope and substance to Borrower, to the effect that the Restricted Securities may be sold or transferred pursuant to a valid exemption from such registration requirements; (ii) the Restricted Securities are and will be "restricted securities" (as defined in Rule 144 promulgated under the Securities Act); (iii) any sale of the Restricted Securities, as the case may be, made in reliance on Rule 144 promulgated under the Securities Act may be made only in accordance with the terms of said Rule and further, if said Rule is not applicable, any resale of the Restricted Securities, as the case may be, under circumstances in which the seller, or the person through whom the sale is made, may be deemed to be an underwriter, as that term is used in the Securities Act, may require compliance with some other exemption under the Securities Act or the rules and regulations of the Securities and Exchange Commission (the "SEC") thereunder; and (iv) neither Borrower nor any other person is under any obligation to register the Restricted Securities (other than as set forth in SECTION 9) under the Securities Act or any state securities laws or to comply with the terms and conditions of any exemption thereunder.

b) RESTRICTIVE LEGEND. Lender acknowledges and agrees that "stop transfer" instructions shall be given regarding the Restricted Securities on the transfer books of Borrower, and that the certificate(s) evidencing the Restricted Securities shall bear the following legend:

"THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED ("THE SECURITIES ACT"), OR ANY APPLICABLE STATE SECURITIES LAWS AND MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE DISPOSED OF FOR VALUE UNLESS A REGISTRATION STATEMENT HAS BECOME EFFECTIVE WITH RESPECT TO SUCH SECURITIES UNDER THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN OPINION OF COUNSEL REASONABLY ACCEPTABLE TO THE CORPORATION THAT THERE IS AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS."

8. LENDER REPRESENTATIONS, WARRANTIES AND COVENANTS.

Lender represents and warrants to, and covenants and agrees with, Borrower as follows:

a) Lender is purchasing the Restricted Securities for its own account, for investment only and not with a view towards the public sale or distribution thereof in violation of the Securities Act, and with no present intention of dividing or allowing others to participate in this investment.

b) If Lender is an individual, Lender is an "accredited investor" as that term is defined in Rule 501(a)(5) or (6) of Regulation D promulgated under the Securities Act by reason that Lender is an individual (i) having an individual net worth, or a joint net worth with Lender's spouse, at the time of the purchase that exceeds $1,000,000, or (ii) who had an individual income in excess of $200,000 in each of the two most recent years or joint income with Lender's spouse in excess of $300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year; or if Lender is a corporation or other business entity, the Lender is an "accredited investor" as that term is defined in Rule 501(a)(1), (2), (3), (7) or (8) of Regulation D promulgated under the Securities Act and Lender was not organized for the specific purpose of acquiring the Restricted Securities.

c) Lender has such knowledge, sophistication and experience in business, tax and financial matters that Lender is capable of evaluating, and is familiar with, the merits and risks of an investment in the Restricted Securities, can bear the substantial economic risk of an investment in the Restricted Securities for an indefinite period of time and can afford a complete loss of such investment.

d) Lender represents that its overall commitment to investments which are not readily marketable is not disproportionate to Lender's net worth, and Lender's investment in the Restricted Securities will not cause such overall commitment to become excessive.

e) All subsequent offers and sales of the Restricted Securities by Lender shall be made pursuant to registration of such securities under the Securities Act and applicable state securities laws or pursuant to a valid exemption from

such registration requirements.

f) Lender understands that the Restricted Securities are being offered and sold to it in reliance on specific exemptions from the registration requirements of United States federal and state securities laws and that Borrower is relying upon the truth and accuracy of, and Lender's compliance with, the representations, warranties, agreements, acknowledgments and understandings of Lender set forth herein in order to determine the availability of such exemptions and the eligibility of Lender to acquire the Restricted Securities. Lender agrees that, if any of the representations, warranties, agreements, acknowledgments or understandings deemed to have been made by it in connection with its investment in the Restricted Securities is no longer accurate, it shall promptly notify Borrower and consult with Borrower in order to determine an appropriate course of action.

g) Lender has carefully read the terms and provisions hereof and, to the extent that Lender believed necessary, has discussed the representations, warranties and agreements which

Lender makes herein and the applicable limitations upon Lender's resale of the Restricted Securities with Lender's counsel.

h) Lender and its advisors have been afforded the opportunity to ask questions of Borrower, and have received complete and satisfactory answers to any and all such inquiries and has had access to such financial and other information concerning Borrower and the Restricted Securities as it has deemed necessary in connection with its decision as to whether to make its investment.

i) Lender understands that no United States federal or state agency or any other government or governmental agency has passed on or made any recommendation or endorsement of the Restricted Securities.

9. REGISTRATION PROCEDURES.

a) Within 120 days after the issuance of the Note, Borrower shall prepare and file or cause to be filed with the SEC a registration statement (the "REGISTRATION STATEMENT") with respect to the Lender Stock and the shares of Common Stock underlying the Warrants (collectively, the "REGISTRABLE SHARES"). Borrower shall thereafter use diligence in attempting to cause the Registration Statement to be declared effective by the SEC and shall thereafter use reasonable efforts to maintain the effectiveness of the Registration Statement until the earlier to occur of (i) the date which is one year from the effective date of the Registration Statement, (ii) the date on which all of the Warrants and Registrable Shares are no longer held by Lender or (iii) the date on which no warrants are held by Lender and the Registrable Shares held by Lender can be resold pursuant to Rule 144.

b) Following effectiveness of the Registration Statement, Borrower shall furnish to Lender a prospectus as well as such other documents as Lender may reasonably request.

c) Borrower shall use reasonable efforts to (i) register or otherwise qualify the Registrable Shares for sale under the securities laws of such jurisdictions as Lender may reasonably request, (ii) prepare and file in those jurisdictions such amendments (including post-effective amendments) and supplements as may be required, (iii) take such other actions as may be necessary to maintain such registrations and/or qualifications in effect at all times while the Registration Statement is likewise maintained effective and (iv) take all other actions reasonably necessary or advisable to qualify the Registrable Shares for sale in such jurisdictions; provided, however, that Borrower shall not be required in connection therewith or as a condition thereto to (I) qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this SECTION 9(C), (II) subject itself to general taxation in any such jurisdiction, (III) file a general consent to service of process in any such jurisdiction, (IV) provide any undertakings that cause more than nominal expense or burden to Borrower or (V) make any change in its certificate of incorporation or bylaws, which in each case the Board of Directors of Borrower determines to be contrary to the best interests of Borrower and its stockholders.

d) Borrower shall, following effectiveness of the Registration Statement, as promptly as practicable after becoming aware of any such event, notify Lender of the happening of any event of which Borrower has knowledge, as a result of which the

prospectus included in the Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state a material

fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and use reasonable efforts promptly to prepare a supplement or amendment to the Registration Statement to correct such untrue statement or omission, and deliver a number of copies of such supplement or amendment to Lender or as Lender may reasonably request. Borrower may voluntarily suspend the effectiveness of such Registration Statement for a limited time, which in no event shall be longer than 90 days, if Borrower has been advised by legal counsel that the offering of Common Stock pursuant to the Registration Statement would adversely affect, or would be improper in view of (or improper without disclosure in a prospectus), a proposed financing, a reorganization, recapitalization, merger, consolidation, or similar transaction involving Borrower or its subsidiaries, and, during such suspension, Lender and its affiliates shall not sell or otherwise dispose for value any Registered Shares, in which event the one year period referred to in clause (i) of SECTION 9(A) shall be extended for an additional period of time beyond such one year period for an additional period of time equal to the number of days the effectiveness thereof has been suspended pursuant to this sentence.

e) Following effectiveness of the Registration Statement, Borrower, as promptly as practicable after becoming aware of any such event, will notify Lender of the issuance by the SEC of any stop order or other suspension of effectiveness of the Registration Statement at the earliest possible time.

f) Following effectiveness of the Registration Statement, Borrower will use reasonable efforts either to (i) cause all the Registrable Shares to be listed on each national securities exchange on which similar securities issued by Borrower are then listed, if any, if the listing of the Registrable Shares is then permitted under the rules of such exchange, or (ii) secure the quotation of the Registrable Shares on the Nasdaq Stock Market, Inc. ("NASDAQ"), if the listing of the Registrable Shares is then permitted under the rules of Nasdaq, or (iii) if, despite Borrower's reasonable efforts to satisfy the preceding clause (i) or (ii), Borrower is unsuccessful in satisfying the preceding clause (i) or (ii) and without limiting the generality of the foregoing, to use reasonable efforts to arrange for at least two market makers to register with the National Association of Securities Dealers, Inc. as such with respect to such Common Stock.

g) Provide a transfer agent and registrar, which may be a single entity, for the Registrable Shares not later than the effective date of the Registration Statement.

h) It shall be a condition precedent to the obligations of Borrower to take any action pursuant to this SECTION 9 that Lender shall furnish to Borrower such information regarding itself as Borrower may reasonably request to effect the registration of the Registrable Shares and shall execute such documents in connection with such registration as Borrower may reasonably request.

i) Lender agrees to cooperate with Borrower in any manner reasonably requested by Borrower in connection with the preparation and filing of the Registration Statement hereunder.

j) Lender agrees that, upon receipt of any notice from Borrower of the happening of any event of the kind described in SECTION 9(D) or 9(E), Lender will immediately discontinue disposition of Registrable Shares pursuant to the Registration Statement until Lender receives notice from Borrower that sales may resume and copies of the supplemented or amended prospectus and, if so directed by Borrower, shall deliver to Borrower (at the expense of Borrower) or destroy (and deliver to Borrower a certificate of destruction) all copies in Lender's possession of the prospectus covering the Registrable Shares current at the time of receipt of such notice.

k) All expenses, other than (i) underwriting discounts and commissions, (ii) other fees and expenses of investment bankers and (iii) brokerage commissions, incurred in connection with registrations, filings or qualifications pursuant to this SECTION 9, including, without limitation, all registration, listing and qualification fees, printers and accounting fees and the fees and disbursements of counsel to Borrower, shall be borne by Borrower.

l) To the extent permitted by law, Borrower will indemnify and hold harmless Lender, the directors, if any, of Lender, the officers, if any, of Lender, each person, if any, who controls Lender within the meaning of the Securities Act or the Exchange Act, any underwriter (as defined in the Securities Act) for Lender, the directors, if any, of such underwriter and the officers, if any, of such underwriter, and each person, if any, who controls any such underwriter within the meaning of the Securities Act or the Exchange Act (each, an "INDEMNIFIED PERSON"), against any losses, claims,

damages, expenses or liabilities (joint or several) (collectively, "CLAIMS") to which any of them may become subject under the Securities Act, the Exchange Act or otherwise, insofar as such Claims (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon any of the following statements, omissions or violations in the Registration Statement, or any post effective amendment thereof, or any prospectus included therein: (i) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or any post effective amendment thereof or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus if used prior to the effective date of such Registration Statement, or contained in the final prospectus (as amended or supplemented, if Borrower files any amendment thereof or supplement thereto with the SEC) or the omission or alleged omission to state therein any material fact necessary to make the statements made therein, in light of the circumstances under which the statements therein were made, not misleading or (iii) any violation or alleged violation by Borrower of the Securities Act, any state securities law or any rule or regulation under the Securities Act, the Exchange Act or any state securities law (the matters in the foregoing clauses (i) through (iii) are hereinafter collectively referred to as the "VIOLATIONS"). Subject to the restrictions set forth in SECTION 9(N) with respect to the number of legal counsel, Borrower shall reimburse Lender and each such underwriter or controlling person, promptly as such expenses are incurred and are due and payable, for any reasonable legal fees or other reasonable expenses incurred by them in connection with investigating or defending any such Claim. Notwithstanding anything to the contrary contained herein, the indemnity contained in this SECTION 9(L) (I) shall not apply to a Claim arising out of or based upon a Violation which occurs in reliance upon and in conformity with information furnished in writing to Borrower by any Indemnified Person or underwriter for such Indemnified Person

expressly for use in connection with the preparation of the Registration Statement or any such amendment thereof or supplement thereto; (II) with respect to any preliminary prospectus shall not inure to the benefit of any person from whom the person asserting any Claim purchased the Restricted Securities that are the subject thereof (or to the benefit of any person controlling such person) if the untrue statement or omission of material fact contained in the preliminary prospectus was corrected in the prospectus, as then amended or supplemented, if such final prospectus was timely made available by Borrower; (III) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of Borrower, which consent shall not be unreasonably withheld. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Indemnified Person and shall survive the transfer of the Restricted Securities by Lender; and (IV) shall not apply to a Claim arising out of or based upon the failure of an Indemnified Person to deliver a final prospectus to purchasers of Registrable Securities if Borrower provided such final prospectus to the Indemnified Person.

m) Lender agrees to indemnify and hold harmless, to the same extent and in the same manner set forth in SECTION 9(L), Borrower, each of its directors, each of its officers who signs the Registration Statement, each person, if any, who controls Borrower within the meaning of the Securities Act or the Exchange Act, any underwriter and any other stockholder selling securities pursuant to the Registration Statement or any of its directors or officers or any person who controls such stockholder or underwriter within the meaning of the Securities Act or the Exchange Act (each such person and each Indemnified Person, an "INDEMNIFIED PARTY"), against any Claim to which any of them may become subject, under the Securities Act, the Exchange Act or otherwise, insofar as such Claim arises out of or is based upon any Violation by Lender, in each case to the extent (and only to the extent) that (I) such Violation occurs in reliance upon and in conformity with written information furnished to Borrower by Lender expressly for use in connection with such Registration Statement or such prospectus or (II) is a result of the breach of federal or state securities laws pertaining to the transfer by Lender of the Restricted Securities or the securities underlying the Restricted Securities; and Lender will reimburse any reasonable legal or other expenses reasonably incurred by any Indemnified Party in connection with investigating or defending any such Claim; provided, however, that the indemnity contained in this SECTION 9(M) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of Lender, which consent shall not be unreasonably withheld; provided, further, that Lender shall be liable under this SECTION 9(M) for only that amount of a Claim as does not exceed the net proceeds to Lender as a result of the sale of Shares pursuant to such Registration Statement or such prospectus. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Indemnified Party and shall survive the transfer of the Restricted Securities (or underlying securities) by Lender. Notwithstanding anything to the contrary contained herein the indemnity contained in this SECTION 9(M) with respect to any preliminary prospectus shall not inure to the benefit of any Indemnified Party if the

untrue statement or omission of material fact contained in the preliminary prospectus was corrected on a timely basis in the prospectus, as then amended or supplemented.

n) Promptly after receipt by an Indemnified Person or Indemnified Party under SECTION 9(L) or 9(M) of notice of the commencement of any action (including any governmental action), such Indemnified Person or Indemnified Party shall, if a Claim in respect thereof is made against any indemnifying party under this SECTION 9, deliver to the

indemnifying party a written notice of the commencement thereof, and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, assume control of the defense thereof with counsel mutually satisfactory to the indemnifying parties; provided, however, that an Indemnified Person or Indemnified Party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnifying party, if, in the reasonable opinion of counsel retained by the indemnifying party, the representation by such counsel of the Indemnified Person or Indemnified Party and the indemnifying party would be inappropriate due to actual or potential conflicts of interest between such Indemnified Person or Indemnified Party and any other party represented by such counsel in such proceeding. Except as provided in the preceding sentence, Borrower shall pay for only one separate legal counsel for the Indemnified Persons. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall not relieve such indemnifying party of any liability to the Indemnified Person or Indemnified Party under this SECTION 9, except to the extent that the indemnifying party is prejudiced in its ability to defend such action. The indemnity required by this SECTION 9 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as such expense, loss, damage or liability is incurred and is due and payable.

10. DEFAULT. "DEFAULT" means the occurrence of any one or more of the following (and "POTENTIAL DEFAULT" means the occurrence of any event which, with notice or lapse of time or both, would become a Default):

a) the failure or refusal of Borrower (i) to pay any principal, interest or other part of the Obligation when due, (ii) to punctually and properly comply with any covenant in SECTION 6, or (iii) to punctually and properly comply with any other covenant in any Loan Paper and such failure continues for a period of 10 days after Borrower has notice thereof;

b) Borrower becomes a party to (other than as a claimant or creditor) or is made the subject of any proceeding provided by any Debtor Relief Law which is not stayed or dismissed within 60 days;

c) Borrower fails to have discharged, within a period of 60 days after commencement, any judgment, warrant of attachment, sequestration or similar proceeding against its assets with a value in excess of $400,000; and

d) a default exists in respect of any other Senior Note.

11. REMEDIES AND RIGHTS. If a Default exists, then the holders of Senior Notes evidencing at least two-thirds of the aggregate principal amount then outstanding under the Senior Notes may exercise any and all legal and equitable rights and remedies afforded by the Loan Papers, applicable laws, or otherwise, including, without limitation, declaring the Senior Notes immediately due and payable. All rights available to the holders of the Senior Notes under the Loan Papers are cumulative of and in addition to all other rights at law or in equity. Any sums spent by Lender to exercise any right provided herein become part of the Obligation and bear interest from the date spent until the date repaid by Borrower at LIBOR plus 4% per annum. The obligations of Borrower and the rights of Lender under the Loan Papers continue in full force and effect until the Obligation is paid and performed in full.

12. DEFINITIONS.

DEBTOR RELIEF LAWS means the Bankruptcy Code of the United States of America and all other applicable liquidation, conservatorship, bankruptcy, moratorium, rearrangement, receivership, insolvency, reorganization, suspension of payments or similar laws affecting creditors' rights.

LIBOR means, initially, the three-month London InterBank Offered Rate, as published in the "Money Rates" column of The Wall Street Journal on the date of this agreement. With respect to any extension period under SECTION , "LIBOR" means the London InterBank Offered Rate, as published in such column on the original Maturity Date, for the period closest in length to such extension period.

LOAN PAPERS means this agreement, the Note, any and all other agreements, instruments and documents ever delivered pursuant hereto, and all renewals, extensions or restatements of, or amendments or supplements to, all or any part of the foregoing.

MATERIAL ADVERSE EVENT means any set of one or more circumstances or events which, individually or collectively, could result in any (a) material adverse effect upon the validity or enforceability of any material Loan Paper, (b) material adverse effect upon the financial condition or business operations of Borrower, or (c) Default.

MATURITY DATE means the earlier of (a) subject to the extension provisions of SECTION , March 15, 1998, and (b) the date that the Senior Notes are declared immediately due and payable pursuant to SECTION in the event of a Default; provided that Lender's rights continue until the Obligation has been paid and performed in full.

NOTE is defined in SECTION .

OBLIGATION means all debt now or hereafter owed to Lender by Borrower pursuant to any Loan Paper, together with all interest accruing thereon and costs, expenses and attorneys' fees incurred in the enforcement or collection thereof.

SENIOR NOTES means the Note issued under this agreement and each of the other promissory notes of similar tenor issued by Borrower under loan agreements of even date herewith, in an aggregate principal amount of $4,000,000.

TERM LOAN is defined in SECTION .

13. MISCELLANEOUS.

14. All financial terms shall be determined in accordance with GAAP, and the accounting principles applied in a current period shall be comparable in all respects to those applied during the preceding comparable period.

a) THE LAWS OF THE STATE OF TEXAS AND THE UNITED STATES SHALL GOVERN THE RIGHTS AND DUTIES OF THE PARTIES HERETO AND THE VALIDITY, CONSTRUCTION, ENFORCEMENT AND INTERPRETATION OF THE LOAN PAPERS. Where appropriate, words of any number shall include the plural and singular or of any gender shall include each other gender. Headings and

captions may not be used in interpreting provisions in the Loan Papers. References to monetary amounts and payments are to United States currency. Any action that is due on a non-Texas banking business day may be delayed until the next succeeding Texas banking business day, but interest accrues on any payment until made. Unless specifically otherwise provided, any communication under the Loan Papers to any party must be in writing (which may be by facsimile transmission if a facsimile number is provided herein for such party and if, without affecting the date such facsimile transmission was actually made, subsequently confirmed by delivery or mailing in accordance with this paragraph) to be effective and shall be deemed to have been given on the day actually delivered or, if mailed, on the third Texas banking business day after it is enclosed in an envelope, addressed to the party to be notified, properly stamped, sealed and deposited in the appropriate postal service. Until changed by notice pursuant hereto, the address for each party is set forth after its name on the first page of this agreement. The form, substance and number of counterparts of each writing to be furnished under any Loan Paper must be satisfactory to Lender. An exception to a covenant does not permit violation of any other covenant. All provisions in any Loan Paper shall survive all closings under the Loan Papers and shall not be affected by any investigation made by any party. If any provision in any Loan Paper is unenforceable, the remaining provisions thereof shall remain in full force and effect. The Loan Papers may be amended only by an instrument in writing executed jointly by Borrower and Lender, and supplemented only by documents delivered or to be delivered in accordance with the express terms thereof. If any payment is ever rescinded or must be restored or returned for any reason, then all rights and obligations are automatically reinstated as though the payment had not been made. Any conflict or ambiguity between the terms and provisions herein and terms and provisions in any other Loan Paper shall be controlled by the terms and provisions herein. Any Loan Paper may be executed in any number of counterparts, with the same effect as if all signatories had signed the same document, and all of those counterparts constitute, collectively, one agreement.

14. ENTIRETY. THE LOAN PAPERS REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS BY THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.

15. ACCEPTANCE; PARTIES BOUND. This agreement binds and inures to the benefit of

Lender and Borrower, and their respective successors and assigns; provided that Borrower may not, without the prior written consent of Lender, assign any rights, duties, or obligations hereunder, and any purported assignment without such consent is void.

Very truly yours,

CHENIERE ENERGY, INC.

Don A. Turkleson

Chief Financial Officer

The foregoing is accepted and agreed to in all respects.

LENDER:

By:

Name:

Title:

SCHEDULE 1

CLOSING DOCUMENTS

1. SECURITIES PURCHASE AGREEMENT between Borrower and Lender.

2. TERM NOTE executed by Borrower.

3. WARRANT AGREEMENT representing the Lender Warrants.

4. STOCK CERTIFICATES representing the Lender Stock.

EXHIBIT A

THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE FEDERAL SECURITIES ACT OF 1933, AS AMENDED ("ACT"), OR UNDER ANY APPLICABLE STATE SECURITIES LAWS, AND THEY CANNOT BE OFFERED FOR SALE, SOLD, TRANSFERRED, PLEDGED OR OTHERWISE HYPOTHECATED EXCEPT IN ACCORDANCE WITH THE REGISTRATION REQUIREMENTS OF THE ACT AND SUCH STATE LAWS OR UPON DELIVERY TO THE COMPANY OF AN OPINION OF LEGAL COUNSEL SATISFACTORY TO THE COMPANY THAT AN EXEMPTION FROM REGISTRATION IS AVAILABLE.

Form of
WARRANT TO PURCHASE COMMON STOCK

OF

CHENIERE ENERGY, INC.

This Warrant to Purchase Common Stock (this "Warrant") is issued _____, 1997, by Cheniere Energy, Inc., a Delaware corporation (the "Company"), to _____ (the "Holder").

1. Issuance of Warrant; Term. The Company hereby grants to Holder, subject to the provisions hereinafter set forth, the right to purchase _____ shares of common stock $.003 par value per share, of the Company (the "Common Stock"). The shares of Common Stock issuable upon exercise of this Warrant are hereinafter referred to as the "Shares." This Warrant shall be exercisable at any time before 5:00 p.m. (Houston, Texas time) on December 31, 2001.

2. Exercise Price. This exercise price per share for which all or any of

the Shares may be purchased pursuant to the terms of this Warrant shall be $_____ (the "Exercise Price").

3. Exercise

a This Warrant may be exercised by Holder in whole or in part, upon delivery of written notice of intent to the Company at the address of the Company set forth below its signature below or such other address as the Company shall designate in written notice to Holder, together with this Warrant and payment (in the manner described in Section 3(b) below) for the aggregate Exercise Price of the Shares so purchased. Upon exercise of this Warrant as aforesaid, the Company shall as promptly as practicable execute and deliver to Holder a certificate or certificates for the total number of whole Shares for which this Warrant is being exercised in such names and denominations as are requested by Holder. If this Warrant shall be exercised with respect to less than all of the Shares, Holder shall be entitled to receive a new Warrant covering the number of Shares in respect of which this Warrant shall not have been exercised, which new Warrant shall in all other respects be identical to this Warrant.

b Payment for the Shares to be purchased upon exercise of this Warrant may be made by the delivery of a certified or cashier's check payable to the Company for the aggregate Exercise Price of the Shares to be purchased.

4. Covenants and Conditions. The above provisions are subject to the following:

a Neither this Warrant not the Shares have been registered under the Securities Act of 1933, as amended (the "Act"), or any state securities laws ("Blue Sky Laws"). This Warrant and the Shares have been acquired for investment purposes and not with a view to distribution or resale, and the Shares may not be made subject to a security interest, pledged, hypothecated, sold or otherwise transferred without an effective registration statement therefor under the Act and such applicable Blue Sky Laws or an opinion of counsel (which opinion and counsel rendering same shall be reasonably acceptable to the Company) that registration is not required under the Act and under any applicable Blue Sky Laws. The certificates representing the Shares shall bear substantially the following legend:

> THE SHARES OF STOCK REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR QUALIFIED UNDER ANY APPLICABLE STATE SECURITIES LAWS, BUT HAVE BEEN ACQUIRED FOR THE PRIVATE INVESTMENT OF THE HOLDER HEREOF AND MAY NOT BE OFFERED, SOLD OR TRANSFERRED UNTIL (I) A REGISTRATION STATEMENT UNDER THE ACT OR SUCH APPLICABLE STATE SECURITIES LAWS SHALL HAVE BECOME EFFECTIVE WITH REGARD THERETO, OR (II) IN THE OPINION OF COUNSEL (WHICH OPINION AND COUNSEL SHALL BE REASONABLY SATISFACTORY TO THE COMPANY) REGISTRATION UNDER THE LAW OR SUCH APPLICABLE STATE SECURITIES LAWS IS NOT REQUIRED IN CONNECTION WITH SUCH PROPOSED OFFER, SALE OR TRANSFER.

Other legends as required by applicable federal and state laws may be placed on such certificates. Holder and the Company agree to execute such documents and instruments as counsel for the Company reasonably deems necessary to effect compliance of the issuance of this Warrant and any Shares issued upon exercise hereof with applicable federal and state securities laws.

b The Company covenants and agrees that all Shares which may be issued upon exercise of this Warrant will, upon issuance and payment therefor, be legally and validly issued and outstanding, fully paid and nonassessable.

5. Warrantholder not Stockholder. This Warrant does not confer upon Holder any voting rights or other rights as a stockholder of the Company.

6. Certain Adjustments.

6.1 Capital Reorganizations, Mergers, Consolidations or Sales of Assets. If at any time there shall be a capital reorganization (other than a combination or subdivision of Common Stock otherwise provided for herein), a share exchange (subject to and duly approved by the stockholders of the Company) or a merger or consolidation of the Company with or into another corporation, or the sale of the Company's properties and assets as, or substantially as, an entirety to any other person, then, as a part of such reorganization, share exchange, merger, consolidation or sale, lawful provision shall be made so that Holder shall thereafter be entitled to receive upon exercise of this Warrant, during the period specified in this Warrant and upon payment of the Exercise Price, the number of shares of stock or other securities or property of the Company or the successor corporation resulting from such reorganization, share, exchange, merger, consolidation or sale, to which Holder would have been entitled under the provisions of the agreement in such reorganization, share exchange, merger, consolidation or sale if this Warrant had been exercised immediately before that reorganization, share exchange, merger, consolidation or

sale. In any such case, appropriate adjustment (as determined in good faith by the Company's Board of Directors) shall be made in the application of the provisions of this Warrant with respect to the rights and interests of Holder after the reorganization, share exchange, merger, consolidation or sale to the end that the provisions of this Warrant (including adjustment of the Exercise Price then in effect and the number of the Shares) shall be applicable after that event, as near as reasonably may be, in relation to any shares or other property deliverable after that event upon exercise of this Warrant.

6.2 Splits and Subdivisions. If the Company at any time or from time to time fixes a record date for the effectuation of a split or subdivision of the outstanding shares of Common Stock or the determination of the holders of Common Stock entitled to receive a dividend or other distribution payable in additional shares of Common Stock or other securities or rights convertible into, or entitling the holder thereof to receive directly or indirectly, additional shares of Common Stock (hereinafter referred to as the "Common Stock Equivalents") without payment of any consideration by such holder for the additional shares of Common Stock or Common Stock Equivalents, then, as of such record date (or the date of such distribution, split or subdivision if no record date is fixed), the Exercise Price shall (i) in the case of a split or subdivision, be appropriately decreased and the number of the Shares shall be appropriately increased in proportion to such increase of outstanding shares and (ii) in the case of a dividend or other distribution, the holder of the warrant shall have the right to acquire without additional consideration, upon exercise of the warrant, such property or cash as would have been distributed in respect of the shares of Common Stock for which the warrant was exercisable had such shares of Common Stock been outstanding on the date of such distribution.

6.3 Combination of Shares. If the number of shares of Common Stock outstanding at any time after the date hereof is decreased by a combination or reverse stock split of the outstanding shares of Common Stock, the Exercise Price shall be appropriately increased and the number of the Shares shall be appropriately decreased in proportion to such decrease in outstanding shares.

6.4 Adjustments for Other Distributions. In the event the Company shall declare a distribution payable in securities of other persons, evidences of indebtedness issued by the Company or other persons, assets (excluding cash dividends) or options or rights not referred to in Section 6.2, upon exercise of this Warrant, Holder shall be entitled to a proportionate share of any such distribution as though Holder was the holder of the number of shares of Common Stock of the Company into which this Warrant may be exercised as of the record date fixed for the determination of the holders of Common Stock of the Company entitled to receive such distribution.

6.5 Certificate as to Adjustments. In the case of each adjustment or readjustment of the Exercise Price pursuant to this Section 6, the Company will promptly compute such adjustment or readjustment in accordance with the terms hereof and cause a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based to be delivered to Holder. The Company will, upon the written request at any time of Holder, furnish or cause to be furnished to Holder a certificate setting forth:

a Such adjustment and readjustments;

b The Exercise Price at the time in effect; and

c The number of Shares and the amount, if any, of other property at the time receivable upon the exercise of the Warrant.

6.6 Notices of Record Date, etc. In the event of:

a Any taking by the Company of a record of the holders of any class of securities of the Company for the purpose of determining the holders thereof who are entitled to receive any dividends or other distribution, or any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right; or

b Any capital reorganization of the Company, any reclassification or recapitalization of the capital stock of the Company or any transfer of all or substantially all of the assets of the Company to any other person or any consolidation, share exchange or merger involving the Company; or

c Any voluntary or involuntary dissolution, liquidation or winding up of the Company, the Company will mail to Holder at least 20 days prior to the earliest date specified herein, a notice specifying:

i The date on which any such record is to be taken for the purpose of such dividend, distribution or right, and the amount and character of such dividend, distribution or right; and

ii The date on which any such reorganization, reclassification, transfer, consolidation, share exchange, merger, dissolution, liquidation or winding up is expected to become effective and the record date for determining stockholders entitled to vote thereon.

7 Call of Warrant. This Warrant may be called and canceled by the Company at its election at any time following the date upon which the closing price of the Common Stock on its principal trading market has been 200% or more of the Exercise Price for a period of 20 consecutive trading days (all as determined in good faith by the Company's Board of Directors) at a price equal to $.01 per share of Common Stock for which this Warrant shall be exercisable on the Call Date (as defined below). The Company shall give the holder of this Warrant at least 30 days prior written notice of any such call of this Warrant, which notice shall certify the foregoing condition for such call and set forth the date upon which the call shall occur (the "Call Date"). The holder of this Warrant shall, however, be entitled to exercise this Warrant, in whole or in part, prior to the Call Date and, in that event, the Company's right to call this Warrant shall be limited to the extent to which the Warrant remains unexercised on the Call Date.

8 Reservation of Common Stock. The Company shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the exercise of this Warrant, such number of its shares of Common Stock as shall from time to time be sufficient to effect the exercise of this Warrant, and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the exercise of the entire Warrant, in addition to such other remedies as shall be available to the holder of this Warrant, the Company will use commercially reasonable efforts to take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose.

9 Split-Up, Combination, Exchange and Transfer of Warrants. Subject to and limited by the provisions of Section 4(a) hereof, this Warrant may be split up, combined or exchanged for another Warrant or Warrants containing the same terms and entitling the Holder to purchase a like aggregate number of Shares. If the Holder desires to split up, combine or exchange this Warrant, the Holder shall make such request in writing delivered to the Company and shall surrender to the Company this Warrant and any other Warrants to be so split up, combined or exchanged. Upon any such surrender for a split-up, combination or exchange, the Company shall execute and deliver to the person entitled thereto a Warrant or Warrants, as the case may be, as so requested. The Company shall not be required to effect any split-up, combination or exchange which will result in the issuance of a Warrant entitled the Warrantholder to purchase upon exercise a fraction of a share of Common Stock or a fractional Warrant.

The Company may require such Holder to pay a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any split-up, combination or exchange of Warrants.

10 Successors and Assigns. All the covenants and provisions of this Warrant shall bind and inure to the benefit of the Company's successors and assigns, and the heirs, legatees, devisees, executors, administrators, personal and legal representatives, and successors and permitted assigns of Holder.

11 Governing Law. This Warrant shall be governed by and construed in accordance with the laws, and not the laws of conflicts, of the State of Delaware. The Holder hereby consents and agrees to submit to the jurisdiction in the United States of the District Court of the State of Texas located in Harris County or of the United States District Court for the Southern District of Texas for any action or proceeding brought by the Company arising under this Warrant and to the venue of such action or proceeding in such courts.

CHENIERE ENERGY, INC.

By: _____

Name: _____

Title: _____

EXHIBIT B

FORM OF SENIOR TERM NOTE

$_____ December ___, 1997

FOR VALUE RECEIVED, the undersigned ("MAKER") hereby promises to pay to the order of _____ ("PAYEE"), at its offices at _____, the principal sum of _____ DOLLARS, together with interest, as hereinafter described.

This note is executed and delivered pursuant to the Agreement (as renewed, extended, and amended from time to time, the "AGREEMENT") dated as of December 15, 1997, between Maker and Payee. Unless indicated otherwise, capitalized terms in this note are used as defined in the Agreement. This note is one of the Loan Papers referred to in the Agreement and is therefore subject to the applicable provisions of the Agreement (including, without limitation, SECTION 13 thereof).

The principal of this note is due and payable on the Maturity Date. Interest on this note shall be due and payable quarterly as it accrues and at maturity.

The principal from day to day unpaid shall, except as stated below, bear interest at a rate per annum which shall from day to day be equal to the lesser of (a) the Maximum Rate (hereinafter defined) and (b) the sum of 4% plus LIBOR. At the option of the holder of this note and to the extent permitted by applicable law, all past-due principal of this note and accrued and past-due interest on this note shall bear interest from the date due and payable (stated or by acceleration) until paid at a rate per annum which shall from day to day be equal to the lesser of (a) the Maximum Rate and (b) the sum of 4% plus LIBOR, regardless of whether such payment is made before or after entry of a judgment. Each change in the Maximum Rate will become effective, without notice to Maker or any other person or entity, upon the effective date of such change.

If at any time the rate determined under either clause (b) in the foregoing paragraph (the "CONTRACT RATE") exceeds the Maximum Rate, the rate of interest on this note shall be limited to the Maximum Rate, but any subsequent reductions in the Contract Rate shall not reduce the rate of interest below the Maximum Rate until the total amount of interest accrued equals the amount of interest which would have accrued if the Contract Rate applicable from time to time had at all times been in effect. If at maturity (stated or by acceleration), or at final payment of this note, the total amount of interest paid or accrued is less than the amount of interest which would have accrued if the Contract Rate applicable from time to time had at all times been in effect, then, at such time and to the extent permitted by applicable law, Maker shall pay to the holder hereof an amount equal to the sum of (a) the lesser of the

amount of interest which would have accrued if the Contract Rate applicable from time to time had at all times been in effect and the amount of interest which would have accrued if the Maximum Rate had at all times been in effect minus (b) the amount of interest actually paid or accrued on this note.

Interest shall be calculated on the basis of actual days (including the first day but excluding the last day) elapsed but computed as if each calendar year consisted of 360 days (unless the result would exceed the Maximum Amount, in which event such interest shall be calculated on the basis of a year of 365 or 366 days, as the case may be).

As used herein, the terms "MAXIMUM AMOUNT" and "MAXIMUM RATE" mean, respectively, the maximum amount and the maximum rate of interest which, under applicable law, the holder hereof is permitted to contract for, charge, take, reserve or receive on this note. Regardless of any provision in the Loan Papers, the holder hereof shall never be entitled to contract for, charge, take, reserve, receive, or apply, as interest on this note any amount in excess of the Maximum Amount, and, if the holder hereof ever contracts for, charges, takes, reserves, receives or applies as interest any such excess, it shall be deemed a partial prepayment of principal and treated hereunder as such and any remaining excess shall be refunded to Maker. In determining whether or not the interest paid or payable, under any specific contingency, exceeds the Maximum Amount, Maker and the holder hereof shall, to the maximum extent permitted under applicable law, (a) treat all advances as but a single extension of credit (and the holder hereof and Maker agree that such is the case and that any provision herein for multiple advances is for convenience only), (b) characterize any nonprincipal payment as an expense, fee or premium rather than as interest, (c) exclude voluntary prepayments and the effects thereof, and (d) "spread" the total amount of interest throughout the entire contemplated term of this note; provided that if this note is paid in full prior to the end of the full contemplated term hereof, and if the interest received for the actual period of existence hereof exceeds the Maximum Amount, the holder hereof shall refund such excess, and, in such event, the holder hereof shall not to the extent permitted by applicable law, be subject to any penalties provided by any laws for contracting for, charging, taking, reserving or receiving interest in excess of the Maximum Amount. To the extent the laws of the State of Texas are applicable for purposes of determining the "Maximum Rate" or the "Maximum Amount," such term shall mean the "indicated rate ceiling" from time to time in effect under Article 1.04, Title 79, Revised Civil Statutes of Texas, as amended.

Maker and each surety, endorser, guarantor and other party ever liable for payment of any part hereof jointly and severally waive presentment and demand for payment, protest, notice of intention to accelerate, notice of acceleration and notice of protest and nonpayment, and agree that their liability on this note shall not be affected by, and hereby consent to, any renewal or extension

in the time of payment hereof, any indulgences, or any release or change in any security for the payment of this note.

CHENIERE ENERGY, INC.

By:

Name:

Title:

Exhibit 10.28

[Letterhead of Cheniere Energy, Inc.]

As of December 15, 1997

[Name and address of Lender]

Re: Form of First Amendment to Securities Purchase Agreement

Ladies & Gentlemen:

Reference is made to the Securities Purchase Agreement dated as of December 15, 1997 (the "AGREEMENT"), between Cheniere Energy, Inc., a Delaware corporation ("BORROWER"), and _____("LENDER"). Unless otherwise indicated, all capitalized terms herein are used as defined in the Agreement.

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

1. Amendment of Terms of Payment. SECTION 2 of the Agreement is hereby amended by adding to the end of such Section a new paragraph (d) which reads as follows in its entirety:

"(d) All payments on the Notes shall be applied pro rata to the then due and outstanding principal amounts or interest obligations, as the case may be, under each of the Notes."

2. REPRESENTATIONS AND WARRANTIES. BORROWER REPRESENTS AND WARRANTS THAT IT POSSESSES ALL REQUISITE POWER AND AUTHORITY TO EXECUTE, DELIVER AND COMPLY WITH THE TERMS OF THIS INSTRUMENT, WHICH HAS BEEN DULY AUTHORIZED AND APPROVED BY ALL NECESSARY CORPORATE ACTION AND FOR WHICH NO CONSENT OF ANY PERSON IS REQUIRED.

3. Fees and Expenses. Borrower agrees to pay the reasonable fees and expenses of counsel to Lender for services rendered in connection with the negotiation and execution of this instrument.

4. Loan Paper; Effect. This instrument is a Loan Paper and, therefore, is subject to the applicable provisions of SECTION 13 of the Agreement, all of which are incorporated herein by reference the same as if set further herein verbatim. Except as amended in this instrument, the Loan Papers are and shall be unchanged and shall remain in full force and effect. In the

event of any inconsistency between the terms of the Agreement as hereby modified (the "AMENDED AGREEMENT") and any other Loan Papers, the terms of the Amended Agreement shall control and such other document shall be deemed to be amended hereby to conform to the terms of the amended Agreement.

5. No Waiver of Defaults. This instrument does not constitute a waiver of, or a consent to any present or future violation of or default under, any provision of the Loan Papers, or a waiver of Lender's right to insist upon future compliance with each term, covenant, condition and provision of the Loan Papers, and the Loan papers shall continue to be binding upon, and inure to the benefit of, Borrower, Lender and their respective successors and assigns.

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

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

Sincerely,

CHENIERE ENERGY, INC.

By:_____
Don A. Turkleson

Chief Financial Officer

Accepted and agreed to as of the day and year first set forth in the foregoing letter.

[Lender's name]

By:_____

Exhibit 10.29

CHENIERE ENERGY, INC.

Two Allen Center
1200 Smith Street, Suite 1710
Houston, Texas 77002-4312

December 15, 1997

Arabella S.A.
35, rue Glesener
L-1631
Luxembourg

Alba Limited
c/o Huntlaw Corporate Services, Ltd.
P.O. Box 1350GT
The Huntlaw Building
Fort Street
Grand Cayman, Cayman Islands

Scorpion Energy Partners
505 Park Avenue, 12th Floor
New York, New York 10022

Re: SECURITIES PURCHASE AGREEMENT

Cheniere Energy, Inc. ("CHENIERE"), Arabella S.A. ("ARABELLA"), Alba Limited ("ALBA") and Scorpion Energy Partners ("SCORPION"; Arabella, Alba and Scorpion are collectively referred to herein as the "LENDER GROUP") in consideration of the mutual covenants contained herein, agree as follows:

1. ISSUANCE OF STOCK AND WARRANTS.

(a) In accordance with the terms and conditions set forth herein and as additional consideration for the purchase of Term Notes in the principal amount of $1,900,000 by Arabella and $100,000 by Alba from BSR Investments, Ltd. ("BSR"), Cheniere will issue (i) to Scorpion 50,000 shares (the "LENDER STOCK") of Cheniere's common stock, par value $.003 per share (the "COMMON STOCK"); (ii) to Arabella warrants in the form of EXHIBIT A (the "LENDER WARRANTS") to purchase 475,000 shares of Common Stock at an exercise price of 2.375 per share (the "EXERCISE PRICE"); and (iii) to Alba Lender Warrants to purchase 25,000 shares of Common Stock at the Exercise Price.

(b) If BSR extends the Maturity Date of the Term Notes pursuant to the terms of the Note Purchase Agreements, Cheniere will issue to Arabella and Alba additional warrants (the "ADDITIONAL LENDER WARRANTS" and together with the Lender Warrants, the "WARRANTS") with an exercise price equal to the Exercise Price which expire on the Expiration Date in the form of EXHIBIT A to

purchase 63,334 and 3,333 shares of Common Stock, respectively, for each 30 day period after the original Maturity Date during which any amount of the Term Loan is outstanding and unpaid until the date (the "FINAL REPAYMENT DATE") that is the earlier of (x) the date of repayment of the Term Loan in full and (y) 180 days after the original Maturity Date. The Additional Lender Warrants shall be issued within 10 days after the Final Repayment Date.

2. LENDER GROUP ACKNOWLEDGMENTS.

(a) TRANSFER RESTRICTIONS. Each member of the Lender Group acknowledges that (i) the Lender Stock, Warrants and the Common Stock underlying the Warrants (collectively, the "RESTRICTED SECURITIES") to be issued to it hereunder have not been and are not being registered under the provisions of the Securities Act of 1933, as amended (the "SECURITIES ACT"), or any applicable state securities laws (except as provided in SECTION 4), and may not be offered, sold, pledged or otherwise transferred unless (A) the Restricted Securities are subsequently registered under the Securities Act and all applicable state securities laws or (B) the holder of the Restricted Securities shall have delivered to Cheniere an opinion of counsel, reasonably satisfactory in form, scope and substance to Cheniere, to the effect that the Restricted Securities may be sold or transferred pursuant to a valid exemption from such registration requirements; (ii) the Restricted Securities are and will be "restricted securities" (as defined in Rule 144 promulgated under the Securities Act); (iii) any sale of the Restricted Securities, as the case may be, made in reliance on Rule 144 promulgated under the Securities Act may be made only in accordance with the terms of said Rule and further, if said Rule is not applicable, any resale of the Restricted Securities, as the case may be, under circumstances in which the seller, or the person through whom the sale is made, may be deemed to be an underwriter, as that term is used in the Securities Act, may require

compliance with some other exemption under the Securities Act or the rules and regulations of the Securities and Exchange Commission (the "SEC") thereunder; and (iv) Cheniere is not under any obligation to register the Restricted Securities (other than as set forth in SECTION 4) under the Securities Act or any state securities laws or to comply with the terms and conditions of any exemption thereunder.

(b) RESTRICTIVE LEGEND. Each member of the Lender Group acknowledges and agrees that "stop transfer" instructions shall be given regarding the Restricted Securities on the transfer books of Cheniere, and that the certificate(s) evidencing the Restricted Securities shall bear the following legend:

"THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED ("THE SECURITIES ACT"), OR ANY APPLICABLE STATE SECURITIES LAWS AND MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE DISPOSED OF FOR VALUE UNLESS A REGISTRATION STATEMENT HAS BECOME EFFECTIVE WITH RESPECT TO SUCH SECURITIES UNDER THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN OPINION OF COUNSEL REASONABLY ACCEPTABLE TO THE CORPORATION THAT THERE IS AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS."

3. LENDER GROUP REPRESENTATIONS, WARRANTIES AND COVENANTS.

Each member of the Lender Group jointly and severally represents and warrants to, and covenants and agrees with, Cheniere as follows:

(a) Each member of the Lender Group is purchasing the Restricted Securities for its own account, for investment only and not with a view towards the public sale or distribution thereof in violation of the Securities Act, and with no present intention of dividing or allowing others to participate in this investment.

(b) Each member of the Lender Group is an "accredited investor" as that term is defined in Rule 501(a)(1), (2), (3), (7) or (8) of Regulation D promulgated under the Securities Act and no member of the Lender Group was organized for the specific purpose of acquiring the Restricted Securities.

(c) Each member of the Lender Group has such knowledge, sophistication and experience in business, tax and financial matters that it is capable of evaluating, and is familiar with, the merits and risks of an investment in the Restricted Securities, can bear the substantial economic risk of an investment in the Restricted Securities for an indefinite period of time and can afford a complete loss of such investment.

(d) Each member of the Lender Group represents that its overall commitment to investments which are not readily marketable is not disproportionate to its net worth, and its investment in the Restricted Securities will not cause such overall commitment to become excessive.

(e) All subsequent offers and sales of the Restricted Securities by each member of the Lender Group shall be made pursuant to registration of such securities under the Securities Act and applicable state securities laws or pursuant to a valid exemption from such registration requirements.

(f) Each member of the Lender Group understands that the Restricted Securities are being offered and sold to it in reliance on specific exemptions from the registration requirements of United States federal and state securities laws and that Cheniere is relying upon the truth and accuracy of, and compliance by each member of the Lender Group with the representations, warranties, agreements, acknowledgments and understandings of each member of the Lender Group set forth herein in order to determine the availability of such exemptions and the eligibility of each member of the Lender Group to acquire the Restricted Securities. Each member of the Lender Group agrees that, if any of the representations, warranties, agreements, acknowledgments or understandings deemed to have been made by it in connection with its investment in the Restricted Securities is no longer accurate, it shall promptly notify Cheniere and consult with Cheniere in order to determine an appropriate course of action.

(g) Each member of the Lender Group has carefully read the terms and provisions hereof and, to the extent that it believed necessary, has discussed the representations, warranties and agreements which each member of the Lender Group makes herein and the applicable limitations upon the resale of the Restricted Securities by each member of the Lender Group with its counsel.

(h) Each member of the Lender Group and its advisors have been afforded the opportunity to ask questions of Cheniere, and have received complete and satisfactory answers to any and all such inquiries and has had access to such financial and other information concerning Cheniere and the Restricted Securities as it has deemed necessary in connection with its decision as to whether to make its investment.

(i) Each member of the Lender Group understands that no United States federal or state agency or any other government or governmental agency has passed on or made any recommendation or endorsement of the Restricted Securities.

4. REGISTRATION PROCEDURES.

(a) Within 120 days after the issuance of the Lender Stock and the Lender Warrants, Cheniere shall prepare and file or cause to be filed with the SEC a registration statement (the "REGISTRATION STATEMENT") with respect to the Lender Stock and the shares of Common Stock underlying the Warrants (collectively, the "REGISTRABLE SHARES"). Cheniere shall thereafter use diligence in attempting to cause the Registration Statement to be declared effective by the SEC and shall thereafter use reasonable efforts to maintain the effectiveness of the Registration Statement until the earlier to occur of (i) the date which is one year from the effective date of the Registration Statement, (ii) the date on which all of the Warrants and Registrable Shares are no longer held by Any member of the Lender Group or (iii) the date on which no warrants are held by any member of the Lender Group and the Registrable Shares held by any member of the Lender Group can be resold pursuant to Rule 144.

(b) Following effectiveness of the Registration Statement, Cheniere shall furnish to each member of the Lender Group a prospectus as well as such other documents as each member of the Lender Group may reasonably request.

(c) Cheniere shall use reasonable efforts to (i) register or otherwise qualify the Registrable Shares for sale under the securities laws of such jurisdictions as each member of the Lender Group may reasonably request, (ii) prepare and file in those jurisdictions such amendments (including post-effective amendments) and supplements as may be required, (iii) take such other actions as may be necessary to maintain such registrations and/or qualifications in effect at all times while the Registration Statement is likewise maintained effective and (iv) take all other actions reasonably necessary or advisable to qualify the Registrable Shares for sale in such jurisdictions; provided, however, that Cheniere shall not be required in connection therewith or as a condition thereto to (I) qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this SECTION 9(C), (II) subject itself to general taxation in any such jurisdiction, (III) file a general consent to service of process in any such jurisdiction, (IV) provide any undertakings that cause more than nominal expense or burden to Cheniere or (V) make any change in its certificate of incorporation or bylaws, which in each case the Board of Directors of Cheniere determines to be contrary to the best interests of Cheniere and its stockholders.

(d) Cheniere shall, following effectiveness of the Registration Statement, as promptly as practicable after becoming aware of any such event, notify each member of the Lender Group of the happening of any event of which Cheniere has knowledge, as a result of which the prospectus included in the Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and use reasonable efforts promptly to prepare a supplement or amendment to the Registration Statement to correct such untrue statement or omission, and deliver a number of copies of such supplement or amendment to each member of the Lender Group or as each member of the Lender Group may reasonably request. Cheniere may voluntarily suspend the effectiveness of such Registration Statement for a limited time, which in no event shall be longer than 90 days, if Cheniere has been advised by legal counsel that the offering of Common Stock pursuant to the Registration Statement would adversely affect, or would be improper in view of (or improper without disclosure in a prospectus), a proposed

financing, a reorganization, recapitalization, merger, consolidation, or similar transaction involving Cheniere or its subsidiaries, and, during such suspension, each member of the Lender Group and its affiliates shall not sell or otherwise dispose for value any Registered Shares, in which event the one year period referred to in clause (i) of SECTION 9(A) shall be extended for an additional period of time beyond such one year period for an additional period of time equal to the number of days the effectiveness thereof has been suspended pursuant to this sentence.

(e) Following effectiveness of the Registration Statement, Cheniere, as promptly as practicable after becoming aware of any such event, will notify each member of the Lender Group of the issuance by the SEC of any stop order or other suspension of effectiveness of the Registration Statement at the earliest possible time.

(f) Following effectiveness of the Registration Statement, Cheniere will use reasonable efforts either to (i) cause all the Registrable Shares to be listed on each national securities exchange on which similar securities issued by Cheniere are then listed, if any, if the listing of the Registrable Shares is

then permitted under the rules of such exchange, or (ii) secure the quotation of the Registrable Shares on the Nasdaq Stock Market, Inc. ("NASDAQ"), if the listing of the Registrable Shares is then permitted under the rules of Nasdaq, or (iii) if, despite Cheniere's reasonable efforts to satisfy the preceding clause (i) or (ii), Cheniere is unsuccessful in satisfying the preceding clause (i) or (ii) and without limiting the generality of the foregoing, to use reasonable efforts to arrange for at least two market makers to register with the National Association of Securities Dealers, Inc. as such with respect to such Common Stock.

(g) Provide a transfer agent and registrar, which may be a single entity, for the Registrable Shares not later than the effective date of the Registration Statement.

(h) It shall be a condition precedent to the obligations of Cheniere to take any action pursuant to this SECTION 9 that each member of the Lender Group shall furnish to Cheniere such information regarding itself as Cheniere may reasonably request to effect the registration of the Registrable Shares and shall execute such documents in connection with such registration as Cheniere may reasonably request.

(i) Each member of the Lender Group agrees to cooperate with Cheniere in any manner reasonably requested by Cheniere in connection with the preparation and filing of the Registration Statement hereunder.

(j) Each member of the Lender Group agrees that, upon receipt of any notice from Cheniere of the happening of any event of the kind described in SECTION 9(D) or 9(E), each member of the Lender Group will immediately discontinue disposition of Registrable Shares pursuant to the Registration Statement until each member of the Lender Group receives notice from Cheniere that sales may resume and copies of the supplemented or amended prospectus and, if so directed by Cheniere, shall deliver to Cheniere (at the expense of Cheniere) or destroy (and deliver to Cheniere a certificate of destruction) all copies of the prospectus covering the Registrable Shares current at the time of receipt of such notice in the possession of each member of the Lender Group.

(k) All expenses, other than (i) underwriting discounts and commissions, (ii) other fees and expenses of investment bankers and (iii) brokerage commissions, incurred in connection with registrations, filings or qualifications pursuant to this SECTION 9, including, without limitation, all

registration, listing and qualification fees, printers and accounting fees and the fees and disbursements of counsel to Cheniere, shall be borne by Cheniere.

(l) To the extent permitted by law, Cheniere will indemnify and hold harmless each member of the Lender Group, the directors, if any, of each member of the Lender Group, the officers, if any, of each member of the Lender Group, each person, if any, who controls each member of the Lender Group within the meaning of the Securities Act or the Exchange Act, any underwriter (as defined in the Securities Act) for any member of the Lender Group, the directors, if any, of such underwriter and the officers, if any, of such underwriter, and each person, if any, who controls any such underwriter within the meaning of the Securities Act or the Exchange Act (each, an "INDEMNIFIED PERSON"), against any losses, claims, damages, expenses or liabilities (joint or several) (collectively, "CLAIMS") to which any of them may become subject under the Securities Act, the Exchange Act or otherwise, insofar as such Claims (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon any of the following statements, omissions or violations in the Registration Statement, or any post effective amendment thereof, or any prospectus included therein: (i) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or any post effective amendment thereof or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus if used prior to the effective date of such Registration Statement, or contained in the final prospectus (as amended or supplemented, if Cheniere files any amendment thereof or supplement thereto with the SEC) or the omission or alleged omission to state therein any material fact necessary to make the statements made therein, in light of the circumstances under which the statements therein were made, not misleading or (iii) any violation or alleged violation by Cheniere of the Securities Act, any state securities law or any rule or regulation under the Securities Act, the Exchange Act or any state securities law (the matters in the foregoing clauses (i) through (iii) are hereinafter collectively referred to as the "VIOLATIONS"). Subject to the restrictions set forth in SECTION 9(N) with respect to the number of legal counsel, Cheniere shall reimburse each member of the Lender Group and each such underwriter or controlling person, promptly as such expenses are incurred and are due and payable, for any reasonable legal fees or other reasonable expenses incurred by them in connection with investigating or defending any such Claim. Notwithstanding anything to the contrary contained herein, the indemnity contained in this SECTION 9(L) (I) shall not apply to a Claim arising out of or based upon a Violation which occurs in reliance upon and in conformity with

information furnished in writing to Cheniere by any Indemnified Person or underwriter for such Indemnified Person expressly for use in connection with the preparation of the Registration Statement or any such amendment thereof or supplement thereto; (II) with respect to any preliminary prospectus shall not inure to the benefit of any person from whom the person asserting any Claim purchased the Restricted Securities that are the subject thereof (or to the benefit of any person controlling such person) if the untrue statement or omission of material fact contained in the preliminary prospectus was corrected in the prospectus, as then amended or supplemented, if such final prospectus was timely made available by Cheniere; (III) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of Cheniere, which consent shall not be unreasonably withheld. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Indemnified Person and shall survive the transfer of the Restricted Securities by the members of the Lender Group; and (IV) shall not apply to a Claim arising out of or based upon the failure of an Indemnified Person to deliver a final prospectus to purchasers of Registrable Securities if Cheniere provided such final prospectus to the Indemnified Person.

(m) Each member of the Lender Group agrees to indemnify and hold harmless, to the same extent and in the same manner set forth in SECTION 9(L), Cheniere, each of its directors, each of its

officers who signs the Registration Statement, each person, if any, who controls Cheniere within the meaning of the Securities Act or the Exchange Act, any underwriter and any other stockholder selling securities pursuant to the Registration Statement or any of its directors or officers or any person who controls such stockholder or underwriter within the meaning of the Securities Act or the Exchange Act (each such person and each Indemnified Person, an "INDEMNIFIED PARTY"), against any Claim to which any of them may become subject, under the Securities Act, the Exchange Act or otherwise, insofar as such Claim arises out of or is based upon any Violation by any member of the Lender Group, in each case to the extent (and only to the extent) that (I) such Violation occurs in reliance upon and in conformity with written information furnished to Cheniere by any member of the Lender Group expressly for use in connection with such Registration Statement or such prospectus or (II) is a result of the breach of federal or state securities laws pertaining to the transfer by any member of the Lender Group of the Restricted Securities or the securities underlying the Restricted Securities; and each member of the Lender Group will reimburse any reasonable legal or other expenses reasonably incurred by any Indemnified Party in connection with investigating or defending any such Claim; provided, however, that the indemnity contained in this SECTION 9(M) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of such member of the Lender Group, which consent shall not be unreasonably withheld; provided, further, that each member of the Lender Group shall be liable under this SECTION 9(M) for only that amount of a Claim as does not exceed the net proceeds to such member of the Lender Group as a result of the sale of Registrable Shares pursuant to such Registration Statement or such prospectus. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Indemnified Party and shall survive the transfer of the Restricted Securities (or underlying securities) by the members of the Lender Group. Notwithstanding anything to the contrary contained herein the indemnity contained in this SECTION 9(M) with respect to any preliminary prospectus shall not inure to the benefit of any Indemnified Party if the untrue statement or omission of material fact contained in the preliminary prospectus was corrected on a timely basis in the prospectus, as then amended or supplemented.

(n) Promptly after receipt by an Indemnified Person or Indemnified Party under SECTION 9(L) or 9(M) of notice of the commencement of any action (including any governmental action), such Indemnified Person or Indemnified Party shall, if a Claim in respect thereof is made against any indemnifying party under this SECTION 9, deliver to the indemnifying party a written notice of the commencement thereof, and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, assume control of the defense thereof with counsel mutually satisfactory to the indemnifying parties; provided, however, that an Indemnified Person or Indemnified Party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnifying party, if, in the reasonable opinion of counsel retained by the indemnifying party, the representation by such counsel of the Indemnified Person or Indemnified Party and the indemnifying party would be inappropriate due to actual or potential conflicts of interest between such Indemnified Person or Indemnified Party and any other party represented by such counsel in such proceeding. Except as provided in the preceding sentence, Cheniere shall pay for only one separate legal counsel for the Indemnified Persons. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall not relieve such indemnifying party of any liability to the Indemnified Person or Indemnified Party under this SECTION 9, except to the extent that the indemnifying party is prejudiced in its ability to defend such action. The indemnity required by this SECTION 9 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as such expense, loss, damage or liability is incurred and is due

and payable.

(o) If Arabella exercises its right under the Pledge Agreement between BSR and Arabella to take possession of the shares of Common Stock held by BSR and pledged as security for the BSR Term Notes issued to Arabella and Alba (the "PLEDGED COMMON STOCK"), Arabella shall have the right, on one and only one occasion, to require Cheniere to prepare and file a registration statement regarding the Pledged Common Stock (the "PLEDGED COMMON STOCK REGISTRATION STATEMENT") pursuant to the terms and agreements regarding the registration of Registrable Shares set forth in SECTIONS 4(B) 4(G). Cheniere shall file the Pledged Common Stock Registration Statement within 120 days of receipt of the written request of Arabella for registration pursuant to this SECTION 4(H). For purposes of SECTIONS 4(B) 4(G) in connection with the Pledged Common Stock Registration Statement, the Pledged Common Stock shall be considered to be Restricted Securities.

5. MISCELLANEOUS.

(a) THE LAWS OF THE STATE OF TEXAS AND THE UNITED STATES SHALL GOVERN THE RIGHTS AND DUTIES OF THE PARTIES HERETO AND THE VALIDITY, CONSTRUCTION, ENFORCEMENT AND INTERPRETATION HEREOF. Where appropriate, words of any number shall include the plural and singular or of any gender shall include each other gender. Headings and captions may not be used in interpreting provisions hereof. Any action that is due on a non-Texas banking business day may be delayed until the next succeeding Texas banking business day. Unless specifically otherwise provided, any communication hereunder to any party must be in writing (which may be by facsimile transmission if a facsimile number is provided herein for such party and if, without affecting the date such facsimile transmission was actually made, subsequently confirmed by delivery or mailing in accordance with this paragraph) to be effective and shall be deemed to have been given on the day actually delivered or, if mailed, on the third Texas banking business day after it is enclosed in an envelope, addressed to the party to be notified, properly stamped, sealed and deposited in the appropriate postal service. Until changed by notice pursuant hereto, the address for each party is set forth after its name on the first page of this agreement. If any provision herein is unenforceable, the remaining provisions thereof shall remain in full force and effect. The terms herein may be amended only by an instrument in writing executed jointly by Cheniere, Arabella, Alba and Scorpion, and supplemented only by documents delivered or to be delivered in accordance with the express terms thereof. This Agreement may be executed in any number of counterparts, with the same effect as if all signatories had signed the same document, and all of those counterparts constitute, collectively, one agreement.

6. ACCEPTANCE; PARTIES BOUND. This agreement binds and inures to the benefit of Cheniere, Arabella, Alba and Scorpion, and their respective successors and assigns; provided that Cheniere may not, without the prior written consent of Arabella, Alba and Scorpion, assign any rights, duties, or obligations hereunder, and any purported assignment without such consent is void.

Very truly yours,

CHENIERE ENERGY, INC.

By: _____

Name: _____

Title: _____

The foregoing is accepted and agreed to in all respects.

ARABELLA S.A.

By: _____

Name: _____

Title: _____

ALBA LIMITED

By: _____

Name: _____

Title: _____

SCORPION ENERGY PARTNERS

By: _____

Name: _____

Title: _____

EXHIBIT A

THIS WARRANT AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE FEDERAL SECURITIES ACT OF 1933, AS AMENDED ("ACT"), OR UNDER ANY APPLICABLE STATE SECURITIES LAWS, AND THEY CANNOT BE OFFERED FOR SALE, SOLD, TRANSFERRED, PLEDGED OR OTHERWISE HYPOTHECATED EXCEPT IN ACCORDANCE WITH THE REGISTRATION REQUIREMENTS OF THE ACT AND SUCH STATE LAWS OR UPON DELIVERY TO THE COMPANY OF AN OPINION OF LEGAL COUNSEL SATISFACTORY TO THE COMPANY THAT AN EXEMPTION FROM REGISTRATION IS AVAILABLE.

Form of
WARRANT TO PURCHASE COMMON STOCK

OF

CHENIERE ENERGY, INC.

This Warrant to Purchase Common Stock (this "Warrant") is issued _____, 1997, by Cheniere Energy, Inc., a Delaware corporation (the "Company"), to _____ (the "Holder").

1. Issuance of Warrant; Term. The Company hereby grants to Holder, subject to the provisions hereinafter set forth, the right to purchase _____ shares of common stock $.003 par value per share, of the Company (the "Common Stock"). The shares of Common Stock issuable upon exercise of this Warrant are hereinafter referred to as the "Shares." This Warrant shall be exercisable at any time before 5:00 p.m. (Houston, Texas time) on December 31, 2001.

2. Exercise Price. This exercise price per share for which all or any of the Shares may be purchased pursuant to the terms of this Warrant shall be $_____ (the "Exercise Price").

3. Exercise

a This Warrant may be exercised by Holder in whole or in part, upon delivery of written notice of intent to the Company at the address of the Company set forth below its signature below or such other address as the Company shall designate in written notice to Holder, together with this Warrant and payment (in the manner described in Section 3(b) below) for the aggregate Exercise Price of the Shares so purchased. Upon exercise of this Warrant as aforesaid, the Company shall as promptly as practicable execute and deliver to Holder a certificate or certificates for the total number of whole Shares for which this Warrant is being exercised in such names and denominations as are requested by Holder. If this Warrant shall be exercised with respect to less than all of the Shares, Holder shall be entitled to receive a new Warrant covering the number of Shares in respect of which this Warrant shall not have been exercised, which new Warrant shall in all other respects be identical to this Warrant.

b Payment for the Shares to be purchased upon exercise of this Warrant may be made by the delivery of a certified or cashier's check payable to the Company for the aggregate Exercise Price of the Shares to be purchased.

4. Covenants and Conditions. The above provisions are subject to the following:

a Neither this Warrant not the Shares have been registered under the Securities Act of 1933, as amended (the "Act"), or any state securities laws ("Blue Sky Laws"). This Warrant and the Shares have been acquired for investment purposes and not with a view to distribution or resale, and the Shares may not be made subject to a security interest, pledged, hypothecated, sold or otherwise transferred without an effective registration statement therefor under the Act and such applicable Blue Sky Laws or an opinion of counsel (which opinion and counsel rendering same shall be reasonably acceptable

to the Company) that registration is not required under the Act and under any applicable Blue Sky Laws. The certificates representing the Shares shall bear substantially the following legend:

> THE SHARES OF STOCK REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR QUALIFIED UNDER ANY APPLICABLE STATE SECURITIES LAWS, BUT HAVE BEEN ACQUIRED FOR THE PRIVATE INVESTMENT OF THE HOLDER HEREOF AND MAY NOT BE OFFERED, SOLD OR TRANSFERRED UNTIL (I) A REGISTRATION STATEMENT UNDER THE ACT OR SUCH APPLICABLE STATE SECURITIES LAWS SHALL HAVE BECOME EFFECTIVE WITH REGARD THERETO, OR (II) IN THE OPINION OF COUNSEL (WHICH OPINION AND COUNSEL SHALL BE REASONABLY SATISFACTORY TO THE COMPANY) REGISTRATION UNDER THE LAW OR SUCH APPLICABLE STATE SECURITIES LAWS IS NOT REQUIRED IN CONNECTION WITH SUCH PROPOSED OFFER, SALE OR TRANSFER.

Other legends as required by applicable federal and state laws may be placed on such certificates. Holder and the Company agree to execute such documents and instruments as counsel for the Company reasonably deems necessary to effect compliance of the issuance of this Warrant and any Shares issued upon exercise hereof with applicable federal and state securities laws.

b The Company covenants and agrees that all Shares which may be issued upon exercise of this Warrant will, upon issuance and payment therefor, be legally and validly issued and outstanding, fully paid and nonassessable.

5. Warrantholder not Stockholder. This Warrant does not confer upon Holder any voting rights or other rights as a stockholder of the Company.

6. Certain Adjustments.

6.1 Capital Reorganizations, Mergers, Consolidations or Sales of Assets. If at any time there shall be a capital reorganization (other than a combination or subdivision of Common Stock otherwise provided for herein), a share exchange (subject to and duly approved by the stockholders of the Company) or a merger or consolidation of the Company with or into another corporation, or the sale of the Company's properties and assets as, or substantially as, an entirety to any other person, then, as a part of such reorganization, share exchange, merger, consolidation or sale, lawful provision shall be made so that Holder shall thereafter be entitled to receive upon exercise of this Warrant, during the period specified in this Warrant and upon payment of the Exercise Price, the number of shares of stock or other securities or property of the Company or the successor corporation resulting from such reorganization, share, exchange, merger, consolidation or sale, to which Holder would have been entitled under the provisions of the agreement in such reorganization, share exchange, merger, consolidation or sale if this Warrant had been exercised immediately before that reorganization, share exchange, merger, consolidation or sale. In any such case, appropriate adjustment (as determined in good faith by the Company's Board of Directors) shall be made in the application of the provisions of this Warrant with respect to the rights and interests of Holder after the reorganization, share exchange, merger, consolidation or sale to the end that the provisions of this Warrant (including adjustment of the Exercise Price then in effect and the number of the Shares) shall be applicable after that event, as near as reasonably may be, in relation to any shares or other property deliverable after that event upon exercise of this Warrant.

6.2 Splits and Subdivisions. If the Company at any time or from time to time fixes a record date for the effectuation of a split or subdivision of the outstanding shares of Common Stock or the determination of the holders of Common Stock entitled to receive a dividend or other distribution payable in additional shares of Common Stock or other securities or rights convertible into, or entitling the holder thereof to receive directly or indirectly, additional shares of Common Stock (hereinafter referred to as the "Common Stock Equivalents") without payment of any consideration by such holder for the additional shares of Common Stock or Common Stock Equivalents, then, as of such record date (or the date of such distribution, split or subdivision if no record date is fixed), the Exercise Price shall (i) in the case of a split or subdivision, be appropriately decreased and the number of the Shares shall be appropriately increased in proportion to such increase of outstanding shares and (ii) in the case of a dividend or other distribution, the holder of the warrant shall have the right to acquire without additional consideration, upon exercise of the warrant, such property or cash as would have been distributed in respect of the shares of Common Stock for which the warrant was exercisable had such shares of Common Stock been outstanding on the date of such distribution.

6.3 Combination of Shares. If the number of shares of Common Stock outstanding at any time after the date hereof is decreased by a combination or reverse stock split of the outstanding shares of Common Stock, the Exercise Price shall be appropriately increased and the number of the Shares shall be appropriately decreased in proportion to such decrease in outstanding shares.

6.4 Adjustments for Other Distributions. In the event the Company shall declare a distribution payable in securities of other persons, evidences of indebtedness issued by the Company or other persons, assets (excluding cash

dividends) or options or rights not referred to in Section 6.2, upon exercise of this Warrant, Holder shall be entitled to a proportionate share of any such distribution as though Holder was the holder of the number of shares of Common Stock of the Company into which this Warrant may be exercised as of the record date fixed for the determination of the holders of Common Stock of the Company entitled to receive such distribution.

6.5 Certificate as to Adjustments. In the case of each adjustment or readjustment of the Exercise Price pursuant to this Section 6, the Company will promptly compute such adjustment or readjustment in accordance with the terms hereof and cause a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based to be delivered to Holder. The Company will, upon the written request at any time of Holder, furnish or cause to be furnished to Holder a certificate setting forth:

a Such adjustment and readjustments;

b The Exercise Price at the time in effect; and

c The number of Shares and the amount, if any, of other property at the time receivable upon the exercise of the Warrant.

6.6 Notices of Record Date, etc. In the event of:

a Any taking by the Company of a record of the holders of any class of securities of the Company for the purpose of determining the holders thereof who are entitled to receive any dividends or other distribution, or any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right; or

b Any capital reorganization of the Company, any reclassification or recapitalization of the capital stock of the Company or any transfer of all or substantially all of the assets of the Company to any other person or any consolidation, share exchange or merger involving the Company; or

c Any voluntary or involuntary dissolution, liquidation or winding up of the Company, the Company will mail to Holder at least 20 days prior to the earliest date specified herein, a notice specifying:

i The date on which any such record is to be taken for the purpose of such dividend, distribution or right, and the amount and character of such dividend, distribution or right; and

ii The date on which any such reorganization, reclassification, transfer, consolidation, share exchange, merger, dissolution, liquidation or winding up is expected to become effective and the record date for determining stockholders entitled to vote thereon.

7 Call of Warrant. This Warrant may be called and canceled by the Company at its election at any time following the date upon which the closing price of the Common Stock on its principal trading market has been 200% or more of the Exercise Price for a period of 20 consecutive trading days (all as determined in good faith by the Company's Board of Directors) at a price equal to $.01 per share of Common Stock for which this Warrant shall be exercisable on the Call Date (as defined below). The Company shall give the holder of this Warrant at least 30 days prior written notice of any such call of this Warrant, which notice shall certify the foregoing condition for such call and set forth the date upon which the call shall occur (the "Call Date"). The holder of this Warrant shall, however, be entitled to exercise this Warrant, in whole or in part, prior to the Call Date and, in that event, the Company's right to call this Warrant shall be limited to the extent to which the Warrant remains unexercised on the Call Date.

8 Reservation of Common Stock. The Company shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the exercise of this Warrant, such number of its shares of Common Stock as shall from time to time be sufficient to effect the exercise of this Warrant, and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the exercise of the entire Warrant, in addition to such other remedies as shall be available to the holder of this Warrant, the Company will use commercially reasonable efforts to take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose.

9 Split-Up, Combination, Exchange and Transfer of Warrants. Subject to and limited by the provisions of Section 4(a) hereof, this Warrant may be split up, combined or exchanged for another Warrant or Warrants containing the same terms and entitling the Holder to purchase a like aggregate number of Shares. If the Holder desires to split up, combine or exchange this Warrant, the Holder

shall make such request in writing delivered to the Company and shall surrender to the Company this Warrant and any other Warrants to be so split up, combined or exchanged. Upon any such surrender for a split-up, combination or exchange, the Company shall execute and deliver to the person entitled thereto a Warrant or Warrants, as the case may be, as so requested. The Company shall not be required to effect any split-up, combination or exchange which will result in the issuance of a Warrant entitled the Warrantholder to purchase upon exercise a fraction of a share of Common Stock or a fractional Warrant. The Company may require such Holder to pay a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any split-up, combination or exchange of Warrants.

10 Successors and Assigns. All the covenants and provisions of this Warrant shall bind and inure to the benefit of the Company's successors and assigns, and the heirs, legatees, devisees, executors, administrators, personal and legal representatives, and successors and permitted assigns of Holder.

11 Governing Law. This Warrant shall be governed by and construed in accordance with the laws, and not the laws of conflicts, of the State of Delaware. The Holder hereby consents and agrees to submit to the jurisdiction in the United States of the District Court of the State of Texas located in Harris County or of the United States District Court for the Southern District of Texas for any action or proceeding brought by the Company arising under this Warrant and to the venue of such action or proceeding in such courts.

CHENIERE ENERGY, INC.

By: _____

Name: _____

Title: _____

Exhibit 10.30

[Letterhead of Cheniere Energy, Inc.]

December 31 1997

Mr. John O. Smith
President & Chief Operating Officer
Zydeco Exploration, Inc.
1710 Two Allen Center
1200
Smith Street

Houston, TX 77002

Re: Exploration Agreement dated April 4, 1996, as Amended
Payment Required on December 31, 1997 Per Seventh Amendment
dated August 28, 1997

Dear Mr. Smith:

In accordance with the provisions of the Exploration Agreement dated April 4, 1996, as amended, by and between Zydeco Exploration, Inc. ("Zydeco") and FX Energy, Inc. now and hereinafter referred to as Cheniere Energy Operating Co., Inc. ("Cheniere") (the "Agreement"), Cheniere is obligated to pay Zydeco on or before December 31, 1997 amounts as follows:

50% of Excess Costs accumulated to July 31, 1997 and 50% of the August cash call	$2,177,000
50% of estimated additional Program Expenses through December 31, 1997	750,000
Total amount payable December 31, 1997	$2,927,000

These amounts are as specified in the captioned Seventh Amendment to the Agreement, which Amendment also specifies that there be no grace period for amounts due on December 31, 1997, that timely payment on or before such date shall entitle Cheniere to assignment of a one-half interest in all leases and options acquired through such date by Zydeco for the joint account, and that Cheniere shall also own the 50% interest in the Seismic Data as provided in the Agreement.

Zydeco has requested that the payment be in the form of a wire transfer to its account No. 1890324955 at Bank One, Texas, NA, Houston, Texas. Accordingly, Cheniere is directing such a wire transfer to be made (copy of wire instructions attached).

By its acknowledgment below, Zydeco accepts payment by Cheniere and agrees that such payment satisfies its obligations for payment on December 31, 1997 as specified in the Seventh Amendment to the Agreement, that such payment entitles Cheniere to assignment of a one-half interest in all leases and options acquired through such date by Zydeco for the joint account, and that Cheniere owns the 50% interest in the Seismic Data as provided in the Agreement.

Very truly yours,

CHENIERE ENERGY OPERATING CO., INC.

/s/ WALTER L. WILLIAMS
- ----------------------
Walter L. Williams
President and Chief Executive Officer

ACCEPTED AND AGREED TO THIS
31st DAY OF DECEMBER, 1997

ZYDECO EXPLORATION, INC.

By: /s/ JOHN O. SMITH

Title: PRESIDENT, COO

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