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

FORM 10-K

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

OR

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

FOR THE YEAR ENDED DECEMBER 31, 1998

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 (Address of principal executive offices)	77002-4312 (Zip code)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such 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. [ ]

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $16,262,562 as of March 26, 1999 (based upon the March 26, 1999 closing sales price of such common stock as reported by the Nasdaq SmallCap Market). 21,786,277 shares of the registrant's Common Stock were outstanding as of March 26, 1999.

Documents incorporated by reference: Proxy Statement for the registrant's Annual Meeting of Stockholders to be held June 4, 1999 (to be filed within 120 days of the close of the registrant's fiscal year) is incorporated by reference into Part III. Certain disclosures included in Current Report on Form 8-K filed May 22, 1998 are incorporated by reference into Item 9.

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CHENIERE ENERGY, INC.

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PART I

ITEMS 1. AND 2. BUSINESS AND PROPERTIES

GENERAL

Cheniere Energy, Inc. is a Delaware corporation engaged in exploration for oil and gas reserves. The terms "Cheniere" and "Company" refer to Cheniere Energy, Inc. and its subsidiaries. The Company principally operates through its wholly-owned subsidiary, Cheniere Energy Operating Co., Inc. ("Cheniere Operating"). Cheniere is a Houston-based company formed for the purpose of oil and gas exploration, development and exploitation. The Company is currently 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 proven oil and gas reserves. The Company is currently a development stage enterprise with no operating revenues to date.

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 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 Exploration Program consists of a proprietary 3-D seismic survey (the "Survey") which 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 June 1998. Since beginning its interpretation work in July 1997, Cheniere and Zydeco have identified fifteen prospects for inclusion in an initial drilling program within the Survey AMI. The companies have leased acreage over most of the prospects in this initial drilling program, and drilling operations commenced in February 1999.

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.

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 owns a 50% interest in the 3-D Exploration Program. Cheniere intends to be the operator for certain prospects in this project in order to better control costs and the timing of activity. For those prospects it does not operate, Cheniere intends to maintain a significant working interest to better leverage its administrative and technical resources and to better influence outside 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, which leverages its talents through its relationships with outside directors who are experienced in the oil and gas industry, 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. In February 1999, the Company retained an additional geologist as a consultant to assist in its exploration activities.

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 owns a 50% share of all the seismic data and has elected to generate its own Prospects, which it has offered to Zydeco pursuant to the AMI provisions of the Exploration Agreement. Neither party to the 3-D Exploration Program is permitted to sell or license the data without the other party's approval.

Cheniere 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, 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 either Cheniere or 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. Permits, lease options and/or farmouts had been obtained over 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. As of December 31, 1998, Cheniere owns an interest in leases covering 2,114 gross acres (1,330 net) onshore in the State of Louisiana and has the right to participate in approximately 1,345 additional gross acres (673 net) which have been leased by Zydeco.

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 in 1997 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.

As of December 31, 1998, Cheniere owns an interest in leases covering 3,191 gross acres (2,103 net) in the state waters of Louisiana and has the right to participate in 4,522 additional gross acres (2,261 net) which have been leased by Zydeco.

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. Zydeco has acquired leases over 3,095 gross acres (1,547 net) within the Survey AMI, which Cheniere has the right to participate in 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 June 1998. (Prestack time migration is a state of the art processing technique which provides a geologically correct image of subsurface structures.) 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 is continuing. Cheniere and Zydeco have identified fifteen prospects in the West Cameron area of Louisiana for inclusion in an initial drilling program in the area. The prospects for 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 16,000 feet. Drilling of the initial well commenced in February 1999.

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 participate in drilling, testing, and developing 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. Cheniere is also investigating with certain oil and gas service companies the possibility of obtaining vendor financing for a portion of its drilling activities. The Company anticipates that competition will arise from other companies also seeking drilling funds from vendors and potential working interest partners. There can be no assurance that the Company will be successful in securing funds in this manner.

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

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

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

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

Commencing in April 1992, the FERC issued its Order No. 636 and related clarifying orders ("Order No. 636"), which, among other things, restructured the interstate natural gas industry and required interstate pipelines to provide transportation services separate, or "unbundled," from the pipelines' sales of natural gas. Order No. 636 and certain related proceedings have been the subject of a number of judicial appeals and orders on remand by the FERC. 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 market-based rates for interstate gas transmission. While any resulting FERC action would affect the Company only indirectly, FERC's current rules and policy statements may have the effect of enhancing competition in natural gas markets by, among other things, encouraging non-producer natural gas marketers to engage in certain purchase and sale transactions. The Company cannot predict what action FERC will take on these matters, nor can it accurately predict whether FERC's actions will achieve the goal of increasing competition in markets in which the Company's natural gas is sold. However, the Company does not believe that it will be treated materially differently than other natural gas producers and marketers with which it competes.

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

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

Oil Sales and Transportation Rates

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

Operating Hazards and Environmental Matters

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

Extensive federal, state and local laws and regulations applicable to oil and gas operations regulate the discharge of substances into the environment or otherwise relate to the protection of the environment. These laws

and regulations may require the acquisition of a permit before drilling commences, restrict or prohibit the types, quantities and concentration of substances that can be released into the environment or wastes that can be disposed of in connection with drilling and production activities, prohibit

drilling activities on certain lands lying within 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 provided such consulting services to the Company for two years at a rate of $75,000 per year. The agreement terminated on July 3, 1998.

EMPLOYEES

The Company had nine full-time employees as of March 26, 1999.

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 leased 2,678 square feet of office space through March 2003 at a monthly rental rate of $4,190. In February 1999, Cheniere amended its office lease to cover a total of 12,102 square feet at a monthly rental of $19,612.

FORWARD-LOOKING STATEMENTS

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

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

The following are some of the important factors that could affect the Company's financial performance or could cause actual results to differ materially from estimates contained in the Company's forward-looking statements.

- -- The Company's ability to generate sufficient cash flows to support capital expansion plans, obligations to repay debt and general operating activities.

- -- The Company's ability to obtain additional financing from lenders, through debt or equity offerings, through sales of a portion of its interest in the 3-D Exploration Program or through vendor financing arrangements with oil and gas service companies.

- -- The Company's ability to encounter hydrocarbons in sufficient quantities to be economically viable, and its ability to overcome the operating hazards that are inherent in the oil and gas industry.

- -- Changes in laws and regulations, including changes in accounting standards, taxation requirements (including tax rate changes, new tax laws and revised tax law interpretations) and environmental laws in domestic or foreign jurisdictions.

- -- The uncertainties of potential litigation as well as other risks and uncertainties detailed from time to time in the Company's Securities and Exchange Commission filings.

- -- The Company's or its business partners' ability to replace, modify or upgrade computer programs in ways that adequately address the Year 2000 issue.

The foregoing list of important factors is not exclusive.

YEAR 2000 ISSUES

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

The Company is currently addressing Year 2000 issues and is presently focussing on its internal business systems and processes. To the extent necessary, the Company will assess the readiness of any key business partners (financial institutions, customers, vendors, oil and gas operators, etc.).

It has been the Company's strategy to use, wherever possible, industry prevalent products and processes with minimal customization. As a result, the Company does not expect any extensive in-house hardware, software or process conversions in an effort to be Year 2000 compliant nor does the Company expect its Year 2000 compliance related costs to be material to its operations.

The Company's goal is to be Year 2000 compliant by June 30, 1999 wherever possible and to have contingency plans in place where compliance is not possible in a timely manner. While it is the Company's goal to be Year 2000 compliant, there can be no assurance that there will not be a material adverse effect on the Company as a result of a Year 2000 related issue. The Company's business partners may present the area of greatest risk to the Company, in part because of the Company's limited ability to influence actions of third parties, and in part because of the Company's inability to estimate the level and impact of noncompliance of third parties. Additionally, there are many variables and uncertainties associated with judgments regarding any contingency plans developed by the Company.

ITEM 3. LEGAL PROCEEDINGS

There are no legal proceedings currently pending against the Company.

In December 1998, the Company received the binding award of an independent panel of arbitrators reviewing claims against the Company by Zydeco and counterclaims by the Company related to certain rights and obligations pursuant to the Exploration Agreement.

The panel confirmed Cheniere's 50% ownership in the proprietary 3-D Seismic Data, including the right to possess field tapes and all volumes of such data acquired prior to December 31, 1997. The panel also confirmed Cheniere's right to review Zydeco's seismic interpretations within the AMI and to purchase an interest of up to 50% in any prospects generated by Zydeco in the AMI and Cheniere's right to acquire ownership of all seismic data processing volumes generated after December 1997 related to such prospects. The arbitration panel confirmed Zydeco's right to manage the exploration process for a period of 90 days after it declares a prospect's assembly and development to be complete. In addition, the panel affirmed Cheniere's right to generate prospects and manage the exploration process for any prospect generated by Cheniere and rejected, or not accepted within 30 days, by Zydeco (subject to Zydeco's right to acquire a 50% interest in any lease acquired by Cheniere).

Ownership of the existing prospects was also determined by the panel. All ownership in prospects acquired by either party, where the non-acquiring party declined to participate, was confirmed to belong to the acquiring party. Consequently, Cheniere has 100% ownership in six prospects, Cheniere and Zydeco have 50% ownership each in three prospects and 25% each in another prospect, and Zydeco has 100% ownership in one Federal lease which covers a portion of one prospect.

In addition, the panel decreed that all prospects on leases acquired by Zydeco in the June 1998 Louisiana state lease sale must be offered to Cheniere and that Cheniere would have 30 days from such offer to review the prospects and elect or decline to participate.

The panel found that in future state lease sales, Zydeco may require Cheniere to advance its 50% share of the proposed bid at the time of the sale or forfeit its right to acquire an interest in such leases, but only if the lease relates to a prospect which Zydeco has notified Cheniere is completely assembled and developed, and only if adequate decision-making data is provided 30 days prior to the sale.

The panel has found that certain activities related to the selling of prospects are the equivalent of marketing, sale or licensure of the proprietary seismic data acquired under the Exploration Agreement. In the event such marketing, sale or licensure of data occurs, the Exploration Agreement provides that 100% of the proceeds related to seismic data will be directed to Cheniere until Cheniere recoups $13,500,000 of its investment; thereafter the proceeds will be shared 50/50 between Cheniere and Zydeco.

The panel found that Zydeco was not authorized to issue cash calls to Cheniere for seismic costs incurred after December 31, 1997. Accordingly, $1,115,143 in billings made by Zydeco to Cheniere were not allowed under the Exploration Agreement and Cheniere has no liability for such costs as billed. The panel also stated that some portion of such costs may be appropriately charged to Cheniere as a component of prospects in which Cheniere elects to acquire an interest.

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

There were no matters submitted for a vote by security holders during the year ended December 31, 1998.

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 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 Company changed its fiscal year end from August 31 to December 31, and as a result had a four-month transition period at the end of 1997. The quotes represent "inter-dealer" prices without retail markups, markdown, or commissions and may not necessarily represent actual transactions.

<TABLE>
<CAPTION>

	High ($)	Low ($)
<S>	<C>	<C>
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
Three Months Ended		
March 31, 1998	3-1/16	2
June 30, 1998	3-5/8	1-3/4
September 30, 1998	2-15/16	13/16
December 31, 1998	1-7/16	7/16

</TABLE>

As of March 26, 1999, there were 21,786,277 shares of the Company's common stock outstanding held by 773 stockholders of record.

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

With respect to equity securities sold by the Company during the fourth quarter of 1998 that were not registered under the Securities Act of 1933, as

amended ("Securities Act"), see "Liquidity and Capital Resources Private Placements of Equity" under Item 6 of this report.

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 Year Ended December 31,	For the Four Months Ended December 31,		For the Period Ended August 31,		From Inception to December 31,
	1998	1997	1996	1997	1996	1998
			(Unaudited)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net operating revenues	$ -	$ -	$ -	$ -	$ -	$ -
Loss from operations	(1,658,478)	(447,023)	(192,330)	(1,713,461)	(103,814)	(3,922,776)
Net loss	(1,637,844)	(388,361)	(193,553)	(1,676,468)	(121,847)	(3,824,520)
Net loss per share (basic and diluted)	$ (0.10)	$ (0.03)	$ (0.02)	$ (0.14)	$ (0.01)	(0.29)

</TABLE>

<TABLE>
<CAPTION>

	December 31,			August 31,	
	1998	1997	1996	1997	1996
			(Unaudited)		
<S>	<C>	<C>	<C>	<C>	<C>
Cash	$ 143,868	$ 787,523	$2,419,264	$ 234,764	$1,093,180
Oil and gas properties, unevaluated	20,000,425	16,534,054	6,000,000	13,500,000	4,000,000
Total assets	20,840,474	17,705,627	8,476,710	13,841,712	5,145,310
Long-term notes payable	2,025,020	2,025,020	-	-	-
Total liabilities	4,523,144	4,285,599	262,798	888,291	718,855
Total stockholders' equity	16,317,330	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.

Cheniere is a development stage company with no operating revenues to date. The Company has not yet established oil and gas production nor proven oil and gas reserves. The independent accountants' report on Cheniere's financial statements includes a reference to the Company's ability to continue as a going concern. See "Management's Plans and Continued Capital Raising Activities" below.

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.

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

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

Salaries and benefits increased to $698,973 for 1998 compared with $270,209 in fiscal year 1997 as a result of the Company's hiring of additional technical employees early in 1998 to assist in the interpretation of seismic data and the generation of prospects. Beginning in the fourth quarter of calendar 1997, Cheniere began capitalizing as oil and gas property costs that portion of G&A related to its exploration and development activities. Cheniere capitalized $444,000 of G&A expenses in 1998 but it did not capitalize any such costs in the fiscal year ended August 31, 1997. The remaining variance in G&A expenses is the net effect of several offsetting factors but is principally the result of a decrease in routine legal fees to $79,647 in 1998 from $144,538 in fiscal 1997, which is largely accounted for by the Company's change in 1997 from a New York based law firm to a Houston based law firm.

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

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

The Company's operating results for the four months ended December 31, 1997, reflect a loss of $388,361 or $0.03 per share (both basic and diluted) as compared to a loss of $193,553, or $0.02 per share (both basic and diluted) for the four months ended December 31, 1996. The Company did not generate revenues from operations in either of the periods. The increased loss in the 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 (both basic and diluted) 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.

RESULTS OF OPERATIONS - PERIOD FROM INCEPTION (FEBRUARY 21, 1996) TO DECEMBER 31, 1998

The Company's financial results reflect accumulated losses of $3,824,520 or $0.29 per share, (both basic and diluted) as the Company has yet to generate

revenues from operations. G&A expenses of $3,922,776 included significant non-recurring items such as $817,870 in legal and other expenses related to arbitration proceedings between the Company and Zydeco in 1998 as well a $624,400 non-cash charge related to financial advisory services and $164,812 in professional fees related to an acquisition that was not consummated in the fiscal year ended August 31, 1997. 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 $137,257 was generated on the Company's cash balances and on funds it has advanced into the 3-D Exploration Program.

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, vendor financing arrangements 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, future vendor agreements 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, 1998, the Company has issued approximately 19.0 million shares of its common stock, generating net proceeds of $20.1 million. Cash proceeds from the sales totaled $18.6 million; non-cash issuances of stock and warrants were valued at $1.5 million; and the issuance of bridge notes raised an additional $4.0 million. As of December 31, 1998, Cheniere has invested $20.0 million in oil and gas properties.

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) 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 investors pursuant to Regulation S. The proceeds, together with cash balances and proceeds from a $4.0 million December 1997 bridge financing, were used to fund a $2.9 million payment to the 3-D Exploration Program.

In 1998, the Company raised approximately $4.2 million, net of offering costs, from the sale of common stock to accredited investors pursuant to Regulation D. Proceeds of the offerings were used for the acquisition of leases and other exploration costs, as well as for general corporate purposes. Sales during the fourth quarter of 1998 consisted of: the November 1998 sale of 1,200,000 shares for a total purchase price of $800,000, and the December 1998 sale of 666,667 shares for a total purchase price of $500,000. All of the purchasers were accredited investors, and the sales were made pursuant to Rule 506 of Regulation D without the participation of any underwriters.

Short-Term Promissory Notes

In 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.

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 notes payable issued by Cheniere had an initial maturity date of March 15, 1998, which was extended to September 15, 1998 and further extended to January 15, 1999. In December 1998, Cheniere received commitments from certain noteholders to exchange notes payable for an aggregate of 2,812,528 shares of Cheniere common stock at a price of $0.72 per share. Accordingly, the $2,025,020 face amount of the exchanged notes is classified as a long-term obligation as of December 31, 1998. For those notes which were not exchanged for common stock, the maturity date has been extended to April 15, 1999. The notes bear interest at a rate of LIBOR plus 4% (ranging from 9.5% to 9.9% through December 31, 1998). The securities purchase agreements which govern such bridge financing specify that, during the term of the notes, capital raised by the Company in excess of $5,000,000 must be directed to repayment of the notes.

In connection with the December 1997 Bridge Financing, Cheniere issued 100,000 shares of common stock and four-year warrants to purchase 1,333,334 shares of common stock at $2-3/8 per share. Additional warrants to purchase 1,600,000 shares of Cheniere common stock were issued on September 15, 1998 in consideration for the extension to that date. In connection with the extension to January 15, 1999, the Company offered two alternatives of consideration. Holders of $3,000,000 of the notes elected to reduce the exercise price of their warrants to $1.50 per share. The holder of $1,000,000 of the notes elected to reduce the exercise price of its warrants to $2.00 per share, to extend the term of such warrants to five years from the latter of September 15, 1998 or the date of issue, to receive additional warrants to purchase 387,500 shares of common stock and to receive 50,000 shares of common stock. In January 1999, the maturity date was extended to March 15, 1999. In March 1999, the maturity date was extended to April 15, 1999. As consideration for the extension to April 15, 1999, the Company reduced the exercise price by $0.25 per share for all warrants issued in connection with the issuance or extensions of the notes. The common stock issued in connection with the December 1997 closing and the September 1998 extension was recorded as a debt issuance cost at the then-market price for the shares. 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 June 1998, the Company issued $180,000 in short-term notes with detachable warrants to purchase 83,334 shares of common stock at an exercise price of $2.00 per share on or before June 4, 2002. Such notes bore interest at LIBOR plus 4% (9.7%) and matured on August 14, 1998. After extensions to dates on or about August 31, 1998, the notes were repaid in full.

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, 1998, the Company had $4,000,000 outstanding in senior term notes payable which matured on January 15, 1999. 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. The Company has issued 2,812,528 shares of common stock in exchange for notes totaling $2,025,020. The remaining notes have been extended and mature on April 15, 1999. Cheniere intends to raise additional capital for the repayment of the notes through the sale of common stock.

In the event that the Company should not be successful in future efforts to raise capital for its operations, management believes that trades or sales of partial interests to industry partners would be utilized to explore and develop

the Company's oil and gas properties, but the ownership interest which would be retained by the Company would be reduced accordingly.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

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, 1998 and 1997, and the results of their operations and their cash flows for the year ended December 31, 1998, 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, 1998 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, 1998 the Company has $1,974,980 of senior term notes outstanding which are due on or before April 15, 1999. Management's plans in regard to these matters are also described in Note 13. The uncertainties associated with these matters raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

PRICEWATERHOUSECOOPERS LLP

Houston, Texas
March 15, 1999, except
as to Note 12 which is
as of March 26, 1999

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

<TABLE>
<CAPTION>

	December 31,	
	1998	1997
ASSETS		
<S>	<C>	<C>
CURRENT ASSETS		
Cash	$ 143,868	$ 787,523
Accounts Receivable	97,837	102,330
Subscriptions Receivable	500,000	-
Debt Issuance Costs, net	-	224,306
Prepaid Expenses and Other Current Assets	8,833	10,543
TOTAL CURRENT ASSETS	750,538	1,124,702
OIL AND GAS PROPERTIES, full cost method		
Unevaluated	20,000,425	16,534,054
FIXED ASSETS, net	89,511	46,871
TOTAL ASSETS	$ 20,840,474	$ 17,705,627
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	$ 523,144	$ 369,766
Notes Payable	1,974,980	1,974,980
Less: Cost of Detachable Warrants	-	(84,167)
Total Current Liabilities	2,498,124	2,260,579
LONG-TERM NOTES PAYABLE		
Related Party	2,000,000	2,000,000
Other	25,020	25,020
	2,025,020	2,025,020
TOTAL LIABILITIES	4,523,144	4,285,599
COMMITMENTS AND CONTINGENCIES (Note 11)		
STOCKHOLDERS' EQUITY		
Common Stock, $.003 par value; 40,000,000 shares authorized Issued and Outstanding: 18,973,749 and 14,457,866 shares at December 31, 1998 and 1997, respectively	56,922	43,374
Preferred Stock, $.0001 par value; 5,000,000 shares authorized Issued and Outstanding: none	-	-
Additional Paid-in-Capital	20,084,928	15,563,330
Deficit Accumulated During the Development Stage	(3,824,520)	(2,186,676)
TOTAL STOCKHOLDERS' EQUITY	16,317,330	13,420,028
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 20,840,474	$ 17,705,627

</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>

	Year Ended December 31,	Four Months Ended December 31,		Year Ended August 31,
	1998	1997	1996	1997
			(Unaudited)	
<S>	<C>	<C>	<C>	<C>
Revenue	$ -	$ -	$ -	$ -
General and Administrative Expenses	1,658,478	447,023	192,330	1,713,461

Loss from Operations Before Other Income and Income Taxes	(1,658,478)	(447,023)	(192,330)	(1,713,461)
Interest Income	20,634	58,662	7,329	56,161
Interest Expense	-	-	(8,552)	(19,168)
Loss From Operations Before Income Taxes	(1,637,844)	(388,361)	(193,553)	(1,676,468)
Provision for Income Taxes	-	-	-	-
Net Loss	$ (1,637,844)	$ (388,361)	$ (193,553)	$ (1,676,468)
Net Loss Per Share (basic and diluted)	$ (0.10)	$ (0.03)	$ (0.02)	$ (0.14)
Weighted Average Number of Shares Outstanding	16,015,455	14,348,128	10,601,368	12,143,919

	Period Ended August 31, 1996	Cumulative from the Date of Inception
Revenue	-	-
General and Administrative Expenses	103,814	3,922,776
Loss from Operations Before Other Income and Income Taxes	(103,814)	(3,922,776)
Interest Income	1,800	137,257
Interest Expense	(19,833)	(39,001)
Loss From Operations Before Income Taxes	(121,847)	(3,824,520)
Provision for Income Taxes	-	-
Net Loss	$ (121,847)	$ (3,824,520)
Net Loss Per Share (basic and diluted)	$ (0.01)	$ (0.29)
Weighted Average Number of Shares Outstanding	8,610,941	13,267,925

</TABLE>

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

<TABLE>
<CAPTION>

	Common Stock		Additional		Total
	Per Share	Shares	Amount	Paid-In Capital	Retained Deficit	Stockholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Sale of Shares on April 9, 1996	$0.012	6,242,422	$ 18,727	$ 56,276	$ -	$ 75,003
Sale of Shares on May 5, 1996	1.50	2,000,000	6,000	2,994,000	-	3,000,000
Issuance of Shares to an Employee on July 1, 1996	1.00	30,000	90	29,910	-	30,000
Issuance of Shares in Reorganization to Former Bexy Shareholders	-	600,945	1,803	(1,803)	-	

-						
Sale of Shares on July 30, 1996	2.00	50,000	150	99,850	-	
100,000						
Sale of Shares on August 1, 1996	2.00	508,400	1,525	1,015,275	-	
1,016,800						
Sale of Shares on August 30, 1996	2.00	500,000	1,500	998,500	-	
1,000,000						
Expenses Related to 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)						
		----------	-------	----------	---------	-------

Balance - August 31, 1997		14,160,866	42,483	14,709,253	(1,798,315)	
12,953,421						

</TABLE>

*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 statements.

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

<TABLE>
<CAPTION>

			Common Stock		Additional	

		Shares	Amount	Paid-In Capital	Retained Deficit	Total Stockholders' Equity
	Per Share					
<S>	<C>	<C>	<C>	<C>	<C>	
Balance - August 31, 1997		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)
Balance - December 31, 1997		14,457,866	43,374	15,563,330	(2,186,676)	13,420,028
Sale of Shares on April 8, 1998	2.00	530,000	1,590	1,058,410	-	1,060,000
Issuance of Shares in Settlement of Charges for Previous Legal Services	1.40	70,000	210	97,790	-	98,000
Sale of Shares on May 29, 1998	2.00	22,000	66	43,934	-	44,000
Sale of Shares on June 4, 1998	1.40	890,644	2,672	1,244,230	-	1,246,902
Expenses Related to Offerings	-	-	-	(168,000)	-	(168,000)
Issuance of Shares to Adjust Prices of Shares Sold on April 8 and May 29**	-	236,572	710	(710)	-	-
Issuance of Warrants with Bridge Notes on June 4, 1998	-	-	-	3,661	-	3,661
Issuance of Shares on August 26, 1998 Pursuant to Exercise of Warrants	1.00	100,000	300	99,700	-	100,000
Sale of Shares on August 31, 1998	0.67	750,000	2,250	499,000	-	501,250
Issuance of Warrants and Shares to Extend Bridge Notes on March 15 and September 15, 1998	0.67	50,000	150	349,183	-	349,333
Sale of Shares on November 15, 1998	0.67	1,200,000	3,600	796,400	-	800,000
Sale of Shares on December 30, 1998	0.75	666,667	2,000	498,000	-	500,000
Net Loss	-	-	-	-	(1,637,844)	(1,637,844)
Balance - December 31, 1998		18,973,749	56,922	20,084,928	(3,824,520)	16,317,330

**Additional shares were issued to the purchasers of shares sold on April 8, 1998 and May 29, 1998 at $2.00 per share in order to adjust the purchase price to the $1.40 per share price offered and received on June 4, 1998.

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 statements.

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

<TABLE>
<CAPTION>

	Year Ended	Four Months Ended December 31,

	December 31,		
	1998	1997	1996
(Unaudited)			
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Loss	$ (1,637,844)	$ (388,361)	$ (193,553)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities:			
Depreciation and Amortization	39,171	2,936	2,695
Compensation Paid in Common Stock	-	-	-
(Increase) Decrease in Accounts Receivable	4,493	(102,330)	-
(Increase) Decrease in Subscriptions Receivable	(500,000)	-	-
(Increase) Decrease in Prepaid Expenses and Other Current Assets	1,710	46,598	(1,832)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	251,378	(18,525)	(31,056)
Increase (Decrease) in Advances from Officers	-	-	-
Non-Cash Interest Expense (Issuance of Warrants)	-	-	-
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ (1,841,092)	$ (459,682)	(223,746)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of Fixed Assets	(81,810)	-	(6,180)
Proceeds from Sales of Oil and Gas Seismic Data	-	46,000	-
Oil and Gas Property Additions	(2,804,905)	(3,050,027)	(2,000,000)
NET CASH USED IN INVESTING ACTIVITIES	(2,886,715)	(3,004,027)	(2,006,180)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from Issuance of Notes with Detachable Warrants	180,000	4,000,000	-
Proceeds from Issuance of Notes Payable or Advances	697,000	-	-
Repayment of Notes Payable or Advances	(877,000)	(500,000)	(215,000)
Sale of Common Stock	4,252,152	591,000	4,460,375
Offering Costs	(168,000)	(74,532)	(689,365)
NET CASH PROVIDED BY FINANCING ACTIVITIES	4,084,152	4,016,468	3,556,010
NET INCREASE (DECREASE) IN CASH	(643,655)	552,759	1,326,084
CASH - BEGINNING OF PERIOD	787,523	234,764	1,093,180
CASH - END OF PERIOD	$ 143,868	$ 787,523	$ 2,419,264
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash Paid for Interest (net of amounts capitalized)	$ -	$ 6,718	$ 8,552

Cash Paid for Income Taxes	$ -	$ -	$ -

	Year Ended August 31, 1997	Period Ended August 31, 1996	Cumulative from the Date of Inception
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Loss	$ (1,676,468)	$ (121,847)	$ (3,824,520)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities:			
Depreciation and Amortization	8,268	3,603	53,978
Compensation Paid in Common Stock	624,400	30,000	654,400
(Increase) Decrease in Accounts Receivable	-	-	(97,837)
(Increase) Decrease in Subscriptions Receivable	-	-	(500,000)
(Increase) Decrease in Prepaid Expenses and Other Current Assets	(52,341)	(4,800)	(8,833)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	95,397	292,894	621,144
Increase (Decrease) in Advances from Officers	(961)	961	-
Non-Cash Interest Expense (Issuance of Warrants)	6,450	12,750	19,200
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(995,255)	213,561	(3,082,468)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of Fixed Assets	(10,745)	(50,933)	(143,488)
Proceeds from Sales of Oil and Gas Seismic Data	-	-	46,000
Oil and Gas Property Additions	(9,500,000)	(4,000,000)	(19,354,932)
NET CASH USED IN INVESTING ACTIVITIES	(9,510,745)	(4,050,933)	(19,452,420)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from Issuance of Notes with Detachable Warrants	-	425,000	4,605,000
Proceeds from Issuance of Notes Payable or Advances	500,000	-	1,197,000
Repayment of Notes Payable or Advances	(215,000)	-	(1,592,000)
Sale of Common Stock	10,516,025	5,191,803	20,550,980
Offering Costs	(1,153,441)	(686,251)	(2,082,224)
NET CASH PROVIDED BY FINANCING ACTIVITIES	9,647,584	4,930,552	22,678,756
NET INCREASE (DECREASE) IN CASH	(858,416)	1,093,180	143,868
CASH - BEGINNING OF PERIOD	1,093,180	-	-
CASH - END OF PERIOD	$ 234,764	$ 1,093,180	$

143,868

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash Paid for Interest (net of amounts capitalized)	$ 15,635	$ -	$ 22,353
Cash Paid for Income Taxes	$ -	$ -	$ -

</TABLE>

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

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

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.

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 $1,058,595 for the year ended December 31, 1998 and $49,616 during the four-month period ended December 31, 1997. No interest was capitalized prior to the four-month period ended December 31, 1997.

The costs of the Company's oil and gas properties, including the estimated future costs to develop proved reserves, 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 into interest expense (which is then capitalized as a cost of oil and gas properties) using the straight-line method over the term of the related debt. Accumulated amortization was $271,000 as of December 31, 1998 and $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. Diluted EPS reflects potential dilution and is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period increased by the number of additional common shares that would have been outstanding if the potential common shares had been issued. Basic and diluted EPS for all periods presented are the same since the effect of the Company's options and warrants is antidilutive to its net loss per share under SFAS No. 128.

Cash Equivalents

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

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short maturity of those instruments. The carrying value of the Company's notes payable is considered to approximate the fair value of those instruments 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,	
	1998	1997
Furniture and Fixtures	$ 37,442	$ 29,914
Computers and Office Equipment	84,904	31,764
Other	21,143	-
	143,489	61,678
Less Accumulated Depreciation	(53,978)	(14,807)
Fixed Assets, Net	89,511	46,871

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 Zydeco relative 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 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 had not reached the drilling phase as of December 31, 1998, a determination had 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 during 1999 a portion of these costs will become evaluated and subject to depreciation, depletion and amortization as well as subject to the ceiling test limitations on capitalized costs described in Note 2.

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 notes payable issued by Cheniere had an initial maturity date of March 15, 1998, which was extended to September 15, 1998 and further extended to January 15, 1999. In December 1998, Cheniere received commitments from certain noteholders to exchange notes payable for an aggregate of 2,812,528 shares of Cheniere common stock at a price of $0.72 per share. Accordingly, the $2,025,020 face amount of the exchanged notes is classified as a long-term obligation as of December 31, 1998. For those notes which were not exchanged for common stock, the maturity date has been extended to April 15, 1999. The notes bear interest at a rate of LIBOR plus 4% (ranging from 9.5% to 9.9% through December 31, 1998). The securities purchase agreements which govern such bridge financing specify that, during the term of the notes, capital raised by the Company in excess of $5,000,000 must be directed to repayment of the notes.

In connection with the December 1997 Bridge Financing, Cheniere issued 100,000 shares of common stock and four-year warrants to purchase 1,333,334 shares of common stock at $2-3/8 per share. Additional warrants to purchase 1,600,000 shares of Cheniere common stock were issued on September 15, 1998 in consideration for the extension to that date. In connection with the extension to January 15, 1999, the Company offered two alternatives of consideration. Holders of $3,000,000 of the notes elected to reduce the exercise price of their warrants to $1.50. The holder of $1,000,000 of the notes elected to reduce the exercise price of its warrants to $2.00 per share, to extend the term of such warrants to five years from the latter of September 15, 1998 or the date of issue, to receive additional warrants to purchase 387,500 shares of common stock and to receive 50,000 shares of common stock. In January 1999, the maturity date was extended to March 15, 1999. In March 1999, the maturity date was extended to April 15, 1999. As consideration for the extension to April 15, 1999, the Company reduced the exercise price by $0.25 per share for all warrants issued in connection with the issuance or extensions of the notes. The common stock issued in connection with the December 1997 closing and the September 1998 extension was recorded as a debt issuance cost at the then-market price for the shares.

June 1998 - $180,000 Bridge Notes

In June 1998, the Company issued $180,000 in short-term notes with detachable warrants to purchase 83,334 shares of common stock at an exercise price of $2.00 per share on or before June 4, 2002. Such notes bore interest at LIBOR plus 4% (9.7%) and matured on August 14, 1998. After extensions to dates on or about August 31, 1998, the notes were repaid in full.

July 1997 - $500,000 Notes 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.

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, 1998, the Company had net operating loss ("NOL") carryforwards for tax reporting purposes of approximately $4,571,000. 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, 1998 and 1997 are as follows:

	December 31,	
Deferred Tax Assets	1998	1997
NOL Carryforwards	$ 1,554,000	$ 997,000
Less: Valuation Allowance	(1,554,000)	(997,000)
Net Deferred Tax Assets	$ -	$ -

Net operating loss carryforwards expire starting in 2006 extending through 2013. 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, 1998 the Company has issued and outstanding 4,703,334 and 2/3 warrants. The Company has reserved an equal number of shares of common stock for issuance upon the exercise of its outstanding warrants. Warrants issued by the Company do not confer upon the holders thereof any voting or other rights of a stockholder of the Company. The issuances and terms of the warrants are described below.

December 1997 Bridge Financing Warrants

In connection with Cheniere's $4,000,000 December 1997 Bridge Financing (Note 5), the Company issued warrants to purchase 1,333,334 shares of common stock at $2-3/8 per share. Additional warrants to purchase 1,600,000 shares of Cheniere common stock were issued on September 15, 1998 in consideration for the extension to that date. In connection with the extension to January 15, 1999, the Company offered two alternatives of consideration. Holders of warrants to purchase 2,200,000 shares of common stock elected to reduce the exercise price of their warrants to $1.50. The holder of warrants to purchase 733,334 shares of common stock elected to reduce the exercise price of its warrants to $2.00 per share, to extend the term of such warrants to five years from the latter of September 15, 1998 or the date of issue, to receive additional warrants to purchase 387,500 shares of common stock and to receive 50,000 shares of common stock. In January 1999, the maturity date was extended to March 15, 1999. In March 1999, the maturity date was extended to April 15, 1999. As consideration for the extension to April 15, 1999, the Company reduced the exercise price by $0.25 per share for all warrants issued in connection with the issuance or extensions of the notes. Pursuant to APB Opinion No. 14, the warrants have been valued at the differential between the stated interest rate (LIBOR plus 4%) and the Company's then-estimated market interest rate (20%), applied to the principal balance outstanding for the initial term of the notes and the term

of the extension for which shares were issued as consideration. These amounts ($420,494 in the aggregate) have been credited to additional paid-in capital and recorded as interest expense, which has been capitalized to oil and gas properties ($403,661 in the year ended December 31, 1998 and $16,833 in the four-month period ended December 31, 1997).

Unit Warrants

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

Adviser Warrants

In consideration of certain investment advisory and other services to the Company, and pursuant to warrant agreements, each dated as of August 21, 1996, the Company issued warrants to purchase 13,600 and 54,400 shares of common stock, (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 $425,000 in notes payable, 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 Company's then-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 Company's 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, and the Company has reserved 950,000 shares of common stock for issuance upon the exercise of options which have been granted or which may be granted. The term of options granted under the Option Plan is generally five years. The vesting schedule varies, but vesting generally occurs over four years, 25% on each anniversary of the grant date. Grants made by the Company are summarized in the following table:

<TABLE>
<CAPTION>

	December 31,	
	1998	1997

<S>	<C>	<C>
Outstanding at beginning of period	539,444.67	319,444.67
Options granted at an exercise price of $3.00 per share	135,000.00	220,000.00
Options granted at an exercise price of $1.50 per share	12,000.00	-
Options canceled	-	-
Outstanding at end of period	686,444.67	539,444.67
Exercisable at end of period	320,694.67	131,944.67
Weighted average exercise price of options outstanding	$ 1.68	$ 2.96
Weighted average exercise price of options exercisable	$ 1.67	$ 2.82
Weighted average fair value of options granted during the period	$ 0.79	na
Weighted average remaining contractual life of options outstanding	3.4 years	4.0 years

</TABLE>

The following table summarizes information about fixed options outstanding at December 31, 1998.

Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life
$1.50	587,000.00	4.9
$1.80	19,444.67	3.2
$3.00	80,000.00	4.0

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

On December 11, 1998, the Company adjusted the exercise price from $3.00 to $1.50 per share for the 575,000 options then issued and outstanding to management and employees.

NOTE 9-SUBSCRIPTIONS RECEIVABLE

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

NOTE 10-RELATED PARTY TRANSACTIONS

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 stockholder of the Company controlled by the mother of Charif Souki, Co-Chairman of Cheniere, 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. On September 15, 1998, BSR received warrants to purchase an additional 400,000 shares of common stock as consideration for extending the maturity of the notes to that date. Also in September 1998, the exercise price of the warrants held by BSR was reduced from $2.375 to $1.50 per share as consideration to extend the maturity date of the notes to January 15, 1999. In December 1998, BSR agreed to exchange notes payable of $2,000,000 for 2,777,778 shares of Cheniere common stock ($0.72 per share).

In conjunction with certain of the Company's private placements of equity, placement fees have been paid to Investors Administration Services, Limited ("IAS"), a company in which the brother of Charif Souki, Cheniere's Co-Chairman, is a principal. Placement fees paid to IAS totaled $138,000 for the year ended December 31, 1998 and $255,000 for the year ended August 31, 1997. Such payments were recorded as offering costs and reflected as a reduction of additional paid-in capital.

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

NOTE 11-COMMITMENTS AND CONTINGENCIES

The Company subleased its Houston, Texas headquarters from Zydeco under a month-to-month sublease until March 1998. 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 at a monthly rental of $4,190. The term of the lease is six years. In February 1999, Cheniere amended its office lease agreement to cover a total of 12,102 square feet with a monthly rental of $19,612.

Rent expense recorded in the financial statements is as follows:

<TABLE>
<CAPTION>

	Year Ended December 31, 1998	Four-Month Period Ended December 31, 1997	Period Ended August 31, 1997	Period Ended August 31, 1996
<S>	<C>	<C>	<C>	<C>
Office Rental (including parking)	$ 52,558	$ 6,887	$ 22,403	$ 3,884
Other Rental Property (terminated June 1997)	-	-	48,000	13,920
	$ 52,558	$ 6,887	$ 70,403	$ 17,804

</TABLE>

NOTE 12-SUBSEQUENT EVENTS

In January 1999, Cheniere sold for $658,000 a 15% working interest in each of three prospects and an option for the same company to participate in three additional prospects. Cheniere also sold for $275,000 a seismic option covering three more prospects within the Survey AMI. In February 1999, the Company commenced drilling a test well on the first prospect of its exploration program. On March 26, 1999, the Company abandoned its completion attempt on the first well and began drilling a test well on its second prospect.

On February 2, 1999 and March 15, 1999, the Company issued 2,812,528 shares of common stock in exchange for certain notes payable with an aggregate face amount of $2,025,020.

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, 1998, the Company had $4,000,000 outstanding in senior term notes payable which matured on January 15, 1999. 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. The Company has issued 2,812,528 shares of common stock in exchange for notes totaling $2,025,020. The remaining notes have been extended and mature on April 15, 1999. Cheniere intends to raise additional capital for the repayment of the notes through the sale of common stock.

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

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

The information required to be presented under this item, concerning the Company's change in certifying accountants, is incorporated by reference to the Current Report on Form 8-K filed by the Company on May 22, 1998.

PART III

In accordance with paragraph (3) of General Instruction G to form 10-K, Part III of this Report is omitted because the Company will file with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year ended December 31, 1998 a definitive proxy statement pursuant to Regulation 14A involving the election of directors, which proxy statement is incorporated herein by reference (with the exception of certain portions noted therein that are not so incorporated by reference).

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 on Form S-1 filed on August 27, 1996 (File No. 333-10905))
3.2	By-laws of Cheniere as amended through April 7, 1997
4.1	Specimen Common Stock Certificate of Cheniere (Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-1 filed on August 27, 1996 (File No. 333-10905))
10.1	Exploration Agreement between FX Energy, Inc. (now known as Cheniere Energy Operating Co., Inc. ("Cheniere Operating")) and Zydeco Exploration, Inc. ("Zydeco") (Incorporated by reference to Exhibit 10.1 of the Company's Registration Statement under the Securities Act of 1933 on Form S-1 filed on August 27, 1996 (File No. 333-10905))
10.2	First Amendment to the Exploration Agreement between FX Energy, Inc. (now known as Cheniere Operating) and Zydeco (Incorporated by reference to Exhibit 10.2 of the Company's Registration Statement on Form S-1 filed on August 27, 1996 (File No. 333-10905))
10.3	Second Amendment to the Exploration Agreement between FX Energy, Inc. (now known as Cheniere Operating) and Zydeco (Incorporated by reference to Exhibit 10.3 of the Company's Registration Statement on Form S-1 filed on August 27, 1996 (File No. 333-10905))
10.4	Third Amendment to the Exploration Agreement between FX Energy, Inc. (now known as Cheniere Operating) and Zydeco (Incorporated by reference to Exhibit 10.4 of the Annual Report on Form 10-K filed on November 27, 1996 (File No. 2-63115))
10.5	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 on Form S-1 filed on August 27, 1996 (File No. 333-10905))
10.6	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 on Form S-1 filed on August 27, 1996 (File No. 333-10905))

10.7 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 on Form S-1 filed on August 27, 1996 (File No. 333-10905))

10.8 Form of Warrant Agreement between Cheniere and each of C.M. Blair, W.M. Foster & Co., Inc. and Redliw Corp. (Incorporated by reference to Exhibit 10.8 of the Company's Registration Statement on Form S-1 filed on August 27, 1996 (File No. 333-10905))

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

10.10 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 on Form S-1 filed on March 17, 1997 (File No. 333-23421))

10.11 Form of Warrant Agreement between Cheniere and Reefs & Co., Ltd. (Incorporated by reference to Exhibit 10.16 of the Annual Report on Form 10-K filed on October 14, 1997 (File No. 0-9092))

10.12 Form of Warrant Agreement governing warrants issued pursuant to Noteholders Agreement (Incorporated by reference to Exhibit 10.17 of the Annual Report on Form 10-K filed on October 14, 1997 (File No. 0-9092))

10.13 Fifth Amendment to the Exploration Agreement between FX Energy, Inc. (now known as Cheniere Operating) and Zydeco (Incorporated by reference to Exhibit 10.18 of the Annual Report on Form 10-K filed on October 14, 1997 (File No. 0-9092))

10.14 Sixth Amendment to the Exploration Agreement between FX Energy, Inc. (now known as Cheniere Operating) and Zydeco (Incorporated by reference to Exhibit 10.19 of the Annual Report on Form 10-K filed on October 14, 1997 (File No. 0-9092))

10.15 10.21 10.22 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 on Form 10-K filed on October 14, 1997 (File No. 0-9092))

10.16 Cheniere Energy, Inc. 1997 Stock Option Plan (Incorporated by reference to Exhibit 10.25 of the Quarterly on Form 10-Q filed on January 14, 1998 (File No. 0-9092))

10.17 Eighth Amendment to the Exploration Agreement between FX Energy, Inc. (now known as Cheniere Operating) and Zydeco (Incorporated by reference to Exhibit 10.26 of the Transition Report in Form 10-K for the period from September 1, 1997 to December 31, 1997 (File No. 0-9092))

10.18 Form of Securities Purchase Agreement dated December 15, 1997 (Incorporated by reference to Exhibit 10.27 of the Transition Report in Form 10-K for the period from September 1, 1997 to December 31, 1997 (File No. 0-9092))

10.19 Form of First Amendment to Securities Purchase Agreement dated December 15, 1997 (Incorporated by reference to Exhibit 10.28 of the Transition Report in Form 10-K for the period from September 1, 1997 to December 31, 1997 (File No. 0-9092))

10.20 Securities Purchase Agreement among Cheniere, Arabella S.A., Alba Limited and Scorpion Energy Partners dated December 15, 1997 (Incorporated by reference to Exhibit 10.29 of the Transition Report in Form 10-K for the period from September 1, 1997 to December 31, 1997 (File No. 0-9092))

10.21 Letter Agreement between Cheniere and Zydeco dated December 31, 1997 (Incorporated by reference to Exhibit 10.30 of the Transition Report in Form 10-K for the period from September 1, 1997 to December 31, 1997 (File No. 0-9092))

10.22 Services Agreement dated October 1, 1998 between Cheniere and Charif Souki

10.23 Form of Second Amendment to Securities Purchase Agreement dated December 15, 1997

10.24 Form of Third Amendment to Securities Purchase Agreement dated December 15, 1997

10.25 Form of Fourth Amendment to Securities Purchase Agreement dated December 15, 1997

10.26 Form of Fifth Amendment to Securities Purchase Agreement dated December 15, 1997

10.27 Exchange Agreement between Cheniere and BSR Investments, Ltd.

21.1 Subsidiaries of Cheniere Energy, Inc. (Incorporated by reference to Exhibit 21.1 of the Annual Report on Form 10-K filed on October 14, 1997 (File No. 0-9092))

23.1 Consent of PricewaterhouseCoopers LLP

27.1 Financial Data Schedule

(b) Reports On Form 8-K

The Company filed a Current Report on Form 8-K on December 14, 1998, regarding its binding award from an independent panel of arbitrators.

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: March 26, 1999

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.

<TABLE>
<CAPTION>

Signature	Title	Date
<S>	<C>	
/s/ WILLIAM D. FORSTER William D. Forster	Co-Chairman of the Board	March 26, 1999
/s/ CHARIF SOUKI Charif Souki	Co-Chairman of the Board	March 26, 1999
/s/ WALTER L. WILLIAMS Walter L. Williams	President and Chief Executive Officer, Director	March 26, 1999
/s/ DON A. TURKLESON Don A. Turkleson	Chief Financial Officer, Secretary and Treasurer	March 26, 1999
/s/ MICHAEL L. HARVEY Michael L. Harvey	Director	March 26, 1999
/s/ KENNETH R. PEAK Kenneth R. Peak	Director	March 26, 1999
/s/ CHARLES M. REIMER Charles M. Reimer	Director	March 26, 1999
/s/ EFREM ZIMBALIST, III. Efrem Zimbalist, III	Director	March 26, 1999

</TABLE>

EXHIBIT 3.2

BY-LAWS

OF

CHENIERE ENERGY, INC.

As amended by the Board of
Directors by resolutions
through April 7, 1998

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BY-LAWS

OF

CHENIERE ENERGY, INC.

ARTICLE I.

OFFICES

SECTION 1.1. Registered Office. Unless and until otherwise determined by the Board of Directors of Cheniere Energy, Inc. (the "Corporation"), the registered office of the Corporation in the State of Delaware shall be at the office of Corporation Service Company, 1013 Centre Road, City of Wilmington 19805, County of New Castle and the registered agent in charge thereof shall be Corporation Service Company.

SECTION 1.2. Other Offices. The Corporation may also have an office or offices at any other place or places within or without the State of Delaware as the Board of Directors of the Corporation (the "Board") may from time to time determine or the business of the Corporation may from time to time require.

ARTICLE II.

MEETING OF STOCKHOLDERS

SECTION 2.1. Annual Meetings. The annual meeting of stockholders of the Corporation for the election of directors of the Corporation ("Directors") and for the transaction of such other business as may properly come before such meeting, shall be held at such place, date and time as shall be fixed by the Board and designated in the notice or waiver of notice of such annual meeting; provided, however, that no annual meeting of stockholders need be held if all actions, including the election of Directors, required by the General Corporation Law of the State of Delaware (the "General Corporation Law") to be taken at such annual meeting are taken by written consent in lieu of meeting pursuant to Section 2.09 hereof.

SECTION 2.2. Special Meetings. Special meetings of stockholders for any purpose or purposes may be called by the Board or the Chairman of the Board, the Vice-Chairman, the President or the Secretary of the Corporation or by the recordholders of at least a majority of the shares of common stock of the Corporation issued and outstanding ("Shares") and entitled to vote thereat, to be held at such place, date and time as shall be designated in the notice or waiver of notice thereof.

SECTION 2.3. Notice of Meetings. (a) Except as otherwise provided by law, written notice of each annual or special meeting of stockholders stating the place, date and time of such meeting and, in the case of a special meeting, the purpose or purposes for which such meeting is to be held, shall be given personally or by first-

class mail (airmail in the case of international communications) to each recordholder of Shares (a "Stockholder") entitled to vote thereat, not less than 10 nor more than 60 days before the date of such meeting. If mailed, such notice shall be deemed to be given when deposited in the United States mail, postage prepaid, directed to the Stockholder at such Stockholder's address as it appears on the records of the Corporation. If, prior to the time of transmittal of notice, the Secretary of the Corporation (the "Secretary") shall have received from any Stockholder a written request that notices intended for such Stockholder are to be transmitted to some address other than the address that appears on the records of the Corporation, notices intended for such Stockholder shall be transmitted to the address designated in such request.

(b) Notice of a special meeting of Stockholders may be given by the person or persons calling the meeting, or, upon the written request of such person or persons, such notice shall be given by the Secretary on behalf of such person or persons. If the person or persons calling a special meeting of Stockholders give notice thereof, such person or persons shall deliver a copy of such notice to the Secretary. Each request to the Secretary for the giving of notice of a special meeting of Stockholders shall state the purpose or purposes of such meeting.

(c) Whenever notice is required to be given under any statute or the Certificate of Incorporation of the Corporation (the "Certificate of Incorporation") or these Bylaws to any Stockholder to whom (1) notice of two consecutive annual meetings, and all notice of meetings or of the taking of action by written consent without a meeting to such person during the period between such two consecutive annual meetings or (2) all, and at least two, payments (if sent by first class mail) of dividends or interest on securities during a twelve month period, have been mailed addressed to such person at his address as shown on the records of the Corporation and have been returned because undeliverable, the giving of notice to such person shall not be required. Any action or meeting which shall be taken or held without notice to such person shall have the same force and effect as if such notice had been duly given. If any such person shall deliver to the Corporation a written notice setting forth his then current address, the requirement that notice to such person shall have the same force and effect as if such notice be given to such person shall be reinstated. In the event that the action taken by the Corporation is such as to require the filing of a certificate under any of the other sections of the General Corporation Law, the certificate need not state that notice was not given to persons to whom notice was not required to be given pursuant to this Section 2.03(c).

SECTION 2.4. Waiver of Notice. Notice of any annual or special meeting of Stockholders need not be given to any Stockholder who files a written waiver of notice with the Secretary, signed by the person entitled to notice, whether before or after such meeting. Neither the business to be transacted at, nor the purpose of, any meeting of Stockholders need be specified in any written waiver of notice thereof. Attendance of a Stockholder at a meeting, in person or by proxy, shall constitute a waiver of notice of such meeting, except when such Stockholder attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business on the grounds that the notice of such meeting was in adequate or improperly given.

SECTION 2.5. Adjournments. Any Stockholders' meeting, annual or special, whether or not a quorum (as defined in Section 2.06 hereinafter) is present, may be adjourned by vote of a majority of the shares present, either in person or by proxy.

Whenever a meeting of Stockholders, annual or special, is adjourned to another date, time or place, notice need not be given of the adjourned meeting if the date, time and place thereof are announced at the meeting at which the adjournment is taken. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each Stockholder entitled to vote thereat. At the adjourned meeting, any business may be transacted which might have been transacted at the original meeting.

SECTION 2.6. Quorum. Except as otherwise provided by law or the Certificate of Incorporation, the recordholders of a majority of the Shares entitled to vote thereat, present in person or by proxy, shall constitute a quorum for the transaction of business at all meetings of Stockholders, whether annual or special. If, however, such quorum shall not be present in person or by proxy at any meeting of Stockholders, the meeting may be adjourned from time to time in accordance with Section 2.05 hereof until a quorum shall be present in person or by proxy. On all questions, the Stockholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough Stockholders to leave less than a quorum, if any action taken (other than adjournment) is approved by a number of shares which would otherwise constitute a majority of a quorum.

SECTION 2.7. Voting. Each Stockholder shall be entitled to one vote for each Share held of record by such Stockholder. Except as otherwise provided by law or the Certificate of Incorporation, when a quorum is present at any meeting of Stockholders, the vote of the recordholders of a majority of the Shares constituting such quorum shall decide any question brought before such meeting.

SECTION 2.8. Proxies. Each Stockholder entitled to vote at a meeting of Stockholders or to express, in writing, consent to or dissent from any action of Stockholders without a meeting may authorize another person or persons to act for such Stockholder by proxy. Such proxy shall be filed with the Secretary before such meeting of Stockholders or such action of Stockholders without a meeting, at such time as the Board may require. No proxy shall be voted or acted upon more than three years from its date, unless the proxy provides for a longer period.

SECTION 2.9. Stockholders' Consent in Lieu of Meeting. Except as may otherwise be provided by law or in the Certificate of Incorporation, any action required by the General Corporation Law to be taken at any annual or special meeting of Stockholders, and any action which may be taken at any annual or special meeting of Stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the recordholders of Shares having not less than the minimum number of votes necessary to authorize or take such action at a meeting at which the recordholders of all Shares entitled to vote thereon were present and voted.

ARTICLE III.
BOARD OF DIRECTORS

SECTION 3.1. General Powers. Except as may otherwise be provided bylaw or in the Certificate of Incorporation, the business and affairs of the Corporation shall be managed by the Board, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by law, the Certificate of Incorporation or these By-laws directed or required to be exercised or done by Stockholders.

SECTION 3.2. Number and Term of Office. The number of Directors shall be seven or such other number as shall be fixed from time to time by the Board. Directors need not be Stockholders. Directors shall be elected at the annual meeting of Stockholders or, if, in accordance with Section 2.01 hereof, no such annual meeting is held, by written consent in lieu of meeting pursuant to Section 2.09 hereof, and each Director shall hold office until his successor is elected and qualified, or until his earlier death or resignation or removal in the manner hereinafter provided.

SECTION 3.3. Resignation. Any Director may resign at any time by giving written notice to the Board, the Chairman of the Board of the Corporation(the "Chairman") or the Secretary. Such resignation shall take effect at the time specified in such notice or, if the time be not specified, upon receipt thereof by the Board, the Chairman or the Secretary, as the case may be. Unless otherwise specified therein, acceptance of such resignation shall not be necessary to make it effective.

SECTION 3.4. Removal. Any or all of the Directors may be removed, with or without cause, at any time by vote of the recordholders of a majority of the Shares then entitled to vote at an election of Directors, or by written consent of the recordholders of Shares pursuant to Section 2.09 hereof.

SECTION 3.5. Vacancies. Vacancies occurring on the Board as a result of the removal of Directors without cause may be filled only by vote of the recordholders of a majority of the Shares then entitled to vote at an election of Directors, or by written consent of such recordholders pursuant to Section 2.09 hereof. Vacancies occurring on the Board for any other reason, including, without limitation, vacancies occurring as a result of the creation of new directorships that increase the number of Directors, may be filled by such vote or written consent or by vote of the Board or by written consent of the Directors pursuant to Section 3.08 hereof. If the number of Directors then in office is less than a quorum, such other vacancies may be filled by vote of a majority of the Directors then in office or by written consent of all such Directors pursuant to Section 3.08 hereof. Unless earlier removed pursuant to Section 3.04 hereof, each Director chosen in accordance with this Section 3.05 shall hold office until the next annual election of Directors by the Stockholders and until his successor shall be elected and qualified.

SECTION 3.6. Meetings. (a) Annual Meetings. As soon as practicable after each annual election of Directors by the Stockholders, the Board shall meet for the purpose of organization and the transaction of other business, unless it shall have transacted all such business by written consent pursuant to Section 3.08 hereof.

(b) Other Meetings. Other meetings of the Board shall be held at

such times as the Chairman, the Vice-Chairman, the President of the Corporation(the "President"), the Secretary or a majority of the Board shall from time to time determine.

(c) Notice of Meetings. The Secretary shall give written notice to each Director of each meeting of the Board, which notice shall state the place, date, time and purpose of such meeting. Notice of each such meeting shall be given to each Director, if by mail, addressed to him at his residence or usual place of business, at least five days before the day on which such meeting is to be held, or shall be sent to him at such place by telecopy, telegraph, cable, or other form of recorded communication, or be delivered personally or by telephone not later than the day before the day on which such meeting is to be held. A written waiver of notice, signed by the Director entitled to notice, whether before or after the time of the meeting referred to in such waiver, shall be deemed equivalent to notice. Neither the business to be transacted at, nor the purpose of any meeting of the Board need be specified in any written waiver of notice thereof. Attendance of a Director at a meeting of the Board shall constitute a waiver of notice of such meeting, except as provided by law.

(d) Place of Meetings. The Board may hold its meetings at such place or places within or without the State of Delaware as the Board or the Chairman may from time to time determine, or as shall be designated in the respective notices or waivers of notice of such meetings.

(e) Quorum and Manner of Acting. A majority of the total number of Directors then in office shall be present in person at any meeting of the Board in order to constitute a quorum for the transaction of business at such meeting, and the vote of a majority of those Directors present at any such meeting at which a quorum is present shall be necessary for the passage of any resolution or act of the Board, except as otherwise expressly required by law, the Certificate of Incorporation or these By-laws. In the absence of a quorum for any such meeting, a majority of the Directors present thereat may adjourn such meeting from time to time until a quorum shall be present.

(f) Organization. At each meeting of the Board, one of the following shall act as chairman of the meeting and preside, in the following order of precedence:

(i) the Chairman, if any;

(ii) the Vice Chairman, if any,

(iii) the President;

(iv) any Director chosen by a majority of the Directors present.

The Secretary or, in the case of his absence, any person (who shall be an Assistant Secretary, if an Assistant Secretary is present) whom the chairman of the meeting shall appoint shall act as secretary of such meeting and keep the minutes thereof.

SECTION 3.7. Committees of the Board. The Board may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of one or more Directors. The Board may designate one or more Directors as alternate members of any committee, who may replace any absent or

disqualified member at any meeting of such committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another Director to act at the meeting in the place of any such absent or disqualified member. Any committee of the Board, to the extent provided in the resolution of the Board designating such committee, shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; provided, however, that no such committee shall have such power of authority in reference to amending the Certificate of Incorporation (except that such a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the Board as provided in Section 151(a) of the General Corporation Law, fix the designations and any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes of stock of the Corporation or fix the number of shares of any series of stock or authorize the increase or decrease of the shares of any series), adopting an agreement of merger or consolidation under Section 251 or 252 of the General Corporation Law, recommending to the Stockholders the sale, lease or exchange of all or substantially all the Corporation's property and assets, recommending to the Stockholders a dissolution of the Corporation or the revocation of a dissolution, or amending these By-laws; provided further, however, that, unless expressly so provided in the resolution of the Board designating such committee, no such committee shall have the power or authority to declare a dividend, to

authorize the issuance of stock, or to adopt a certificate of ownership and merger pursuant to Section 253 of the General Corporation Law. Each committee of the Board shall keep regular minutes of its proceedings and report the same to the Board when so requested by the Board.

SECTION 3.8. Directors' Consent in Lieu of Meeting. Any action required or permitted to be taken at any meeting of the Board or of any committee thereof may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by all the members of the Board or such committee and such consent is filed with the minutes of the proceedings of the Board or such committee.

SECTION 3.9. Action by Means of Telephone or Similar Communications Equipment. Any one or more members of the Board, or of any committee thereof, may participate in a meeting of the Board or such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting by such means shall constitute presence in person at such meeting.

SECTION 3.10. Compensation. Directors shall not receive any stated salary for their services as directors or as members of committees, except as fixed or determined by resolution of the Board of Directors. No such compensation or reimbursement shall preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor.

ARTICLE IV.

OFFICERS

SECTION 4.1. Officers. The officers of the Corporation shall be the President, the Secretary and a Treasurer and may include a Chairman or two Co-Chairmen, a Vice-Chairman, one or more Vice Presidents (including, one or more Executive and/or Senior Vice Presidents), a Chief Financial Officer, one or more Assistant Secretaries, one or more Assistant Treasurers and such other officers as the Board may determine. Any two or more offices may be held by the same person.

SECTION 4.2. Authority and Duties. All officers shall have such authority and perform such duties in the management of the Corporation as may be provided in these By-laws or, to the extent not so provided, by resolution of the Board.

SECTION 4.3. Term of Office, Resignation and Removal. (a) Each officer, except such officers as may be appointed in accordance with the provision of Section 4.04 or Section 4.05, shall be appointed by the Board and shall hold office for such term as may be determined by the Board. Each officer shall hold office until his successor has been appointed and qualified or his earlier death or resignation or removal in the manner hereinafter provided. The Board may require any officer to give security for the faithful performance of his duties.

(b) Any officer may resign at any time by giving written notice to the Board, the Chairman, the President or the Secretary. Such resignation shall take effect at the time specified in such notice or, if the time be not specified, upon receipt thereof by the Board, the Chairman, the President or the Secretary, as the case may be. Unless otherwise specified therein, acceptance of such resignation shall not be necessary to make it effective.

(c) All officers and agents appointed by the Board shall be subject to removal, with or without cause, at any time by the Board or by any officer upon whom such power of removal may be conferred by the Board.

SECTION 4.4. Subordinate Officers. The Board may empower the President to appoint such other officers as the business of the Corporation may require, each of whom shall hold the office for such period, have such authority and perform such duties as are provided in these Bylaws or as the Board or President may from time to time determine.

SECTION 4.5. Vacancies. Any vacancy occurring in any office of the Corporation, for any reason, shall be filled by action of the Board. Unless earlier removed pursuant to Section 4.03 hereof, any officer appointed by the Board to fill any such vacancy shall serve only until such time as the unexpired term of his predecessor expires unless reappointed by the Board.

SECTION 4.6. The Chairman or Co-Chairmen. The Chairman, if one shall be appointed, or Co-Chairmen, if they shall be appointed, shall have the power to call special meetings of Stockholders, to call special meetings of the Board and, if present, to preside at all meetings of Stockholders and all meetings of the Board. The Chairman or Co-Chairmen shall perform all duties incident to the office of Chairman of the

Board and all such other duties as may from time to time be assigned to him or them by the Board or these By-laws.

SECTION 4.7. The Vice-Chairman. The Vice-Chairman, if one shall be appointed, shall perform such duties as may from time to time be assigned to him by the Board or the Chairman, and in the absence or disability of the Chairman, shall perform the duties and exercise the powers of the Chairman.

SECTION 4.8. The President. The President shall have general and active management and control of the business and affairs of the Corporation, subject to the control of the Board, and shall see that all orders and resolutions of the Board are carried into effect. The President shall perform all duties incident to the office of President and all such other duties as may from time to time be assigned to him by the Board or these By-laws.

SECTION 4.9. Vice Presidents. Vice Presidents, if any, in order of their seniority or in any other order determined by the Board, shall generally assist the President and perform such other duties as the Board or the President shall prescribe, and in the absence or disability of the President, shall perform the duties and exercise the powers of the President.

SECTION 4.10. Chief Financial Officer. The Chief Financial Officer shall perform such duties as are customary for a chief financial officer to perform and such other duties as the Board or the President shall prescribe.

SECTION 4.11. The Secretary. The Secretary shall, to the extent practicable, attend all meetings of the Board and all meetings of Stockholders and shall record all votes and the minutes of all proceedings in a book to be kept for that purpose, and shall perform the same duties for any committee of the Board when so requested by such committee. He shall give or cause to be given notice of all meetings of Stockholders and of the Board, shall perform such other duties as may be prescribed by the Board, the Chairman or the President and shall act under the supervision of the President. He shall keep in safe custody the seal of the Corporation and affix the same to any instrument that requires that the seal be affixed to it and which shall have been duly authorized for signature in the name of the Corporation and, when so affixed, the seal shall be attested by his signature or by the signature of the Treasurer of the Corporation (the "Treasurer") or an Assistant Secretary or Assistant Treasurer of the Corporation. He shall keep in safe custody the certificate books and stockholder records and such other books and records of the Corporation as the Board, the Chairman or the President may direct and shall perform all other duties incident to the office of Secretary and such other duties as from time to time may be assigned to him by the Board, the Chairman or the President.

SECTION 4.12. Assistant Secretaries. Assistant Secretaries of the Corporation ("Assistant Secretaries"), if any, in order of their seniority or in any other order determined by the Board, shall generally assist the Secretary and perform such other duties as the Board or the Secretary shall prescribe, and, in the absence or disability of the Secretary, shall perform the duties and exercise the powers of the Secretary.

SECTION 4.13. The Treasurer. The Treasurer shall have the care and custody of all the funds of the Corporation and shall deposit such funds in such banks or other depositories as the Board, or any officer or officers, or any officer and agent jointly, duly authorized by the Board, shall, from time to time, direct or approve. He shall

disburse the funds of the Corporation under the direction of the Board and the President. He shall keep a full and accurate account of all moneys received and paid on account of the Corporation and shall render a statement of his accounts whenever the Board, the Chairman or the President shall so request. He shall perform all other necessary actions and duties in connection with the administration of the financial affairs of the Corporation and shall generally perform all the duties usually appertaining to the office of treasurer of a corporation. When required by the Board, he shall give bonds for the faithful discharge of his duties in such sums and with such sureties as the Board shall approve.

SECTION 4.14. Assistant Treasurers. Assistant Treasurers of the Corporation ("Assistant Treasurers"), if any, in order of their seniority or in any other order determined by the Board, shall generally assist the Treasurer and perform such other duties as the Board or the Treasurer shall prescribe, and, in the absence or disability of the Treasurer, shall perform the duties and exercise the powers of the Treasurer.

SECTION 4.15. Compensation. The compensation of the officers of the Corporation shall be fixed by the Board.

SECTION 4.16. Interested Directors; Quorum. (a) No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board or Committee thereof

which authorizes the contract or transaction, or solely because the votes of one or more of such directors or officers are counted for such purpose, if:

(1) The material facts as to that person's relationship or interest and as to the contract or transaction are disclosed or are known to the Board or the Committee, and the Board or Committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or

(2) The material facts as to that person's relationship or interest and as to the contract or transaction are disclosed or are known to the Stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the shareholders; or

(3) The contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board of Directors, a Committee thereof, or the shareholders.

(b) Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a Committee which authorizes the contract or transaction.

ARTICLE V.

SHARES AND TRANSFERS OF SHARES

SECTION 5.1. Certificates Evidencing Shares. Shares shall be evidenced by certificates in such form or forms as shall be approved by the Board. Certificates shall be issued in consecutive order and shall be numbered in the order of their issue, and shall be signed by the Chairman, the President or any Vice President and by the Secretary, any Assistant Secretary, the Treasurer or any Assistant Treasurer. Any or all of the signatures on a Certificate may be a facsimile. In the event any such officer who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to hold such office or to be employed by the Corporation before such certificate is issued, such certificate may be issued by the Corporation with the same effect as if such officer had held such office on the date of issue.

SECTION 5.2. Stock Ledger. A stock ledger in one or more counterparts shall be kept by the Secretary, in which shall be recorded the name and address of each person, firm or corporation owning the Shares evidenced by each certificate evidencing Shares issued by the Corporation, the number of Shares evidenced by each such certificate, the date of issuance thereof and, in the case of cancellation, the date of cancellation. Except as otherwise expressly required by law, the person in whose name Shares stand on the stock ledger of the Corporation shall be deemed the owner and recordholder thereof for all purposes.

SECTION 5.3. Transfers of Shares. Registration of transfers of Shares shall be made only in the stock ledger of the Corporation upon request of the registered holder of such shares, or of his attorney thereunto authorized by power of attorney duly executed and filed with the Secretary, and upon the surrender of the certificate or certificates evidencing such Shares properly endorsed or accompanied by a stock power duly executed, together with such proof of the authenticity of signatures as the Corporation may reasonably require.

SECTION 5.4. Addresses of Stockholders. Each Stockholder shall designate to the Secretary an address at which notices of meetings and all other corporate notices may be served or mailed to such Stockholder, and, if any Stockholder shall fail to so designate such an address, corporate notices may be served upon such Stockholder by mail directed to the mailing address, if any, as the same appears in the stock ledger of the Corporation or at the last known mailing address of such Stockholder.

SECTION 5.5. Lost, Destroyed and Mutilated Certificates. Each recordholder of Shares shall promptly notify the Corporation of any loss, destruction or mutilation of any certificate or certificates evidencing any Share or Shares of which he is the recordholder. The Board may, in its discretion, cause the Corporation to issue a new certificate in place of any certificate theretofore issued by it and alleged to have been mutilated, lost, stolen or destroyed, upon the surrender of the mutilated certificate or, in the case of loss, theft or destruction of the certificate, upon satisfactory proof of such loss, theft or destruction, and the Board may, in its discretion, require the recordholder of the Shares evidenced by the lost, stolen or destroyed certificate or his legal representative to give the Corporation a bond sufficient to indemnify the

Corporation against any claim made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

SECTION 5.6. Regulations. The Board may make such other rules and regulations as it may deem expedient, not inconsistent with these By-laws, concerning the issue, transfer and registration of certificates evidencing Shares.

SECTION 5.7. Fixing Date for Determination of Stockholders of Record. In order that the Corporation may determine the Stockholders entitled to notice of or to vote at any meeting of Stockholders or any adjustment thereof, or to express consent to, or to dissent from, corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board may fix, in advance, a record date, which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other such action. A determination of the Stockholders entitled to notice of or to vote ata meeting of Stockholders shall apply to any judgment of such meeting; provided, however, that the Board may fix a new record date for the adjourned meeting.

ARTICLE VI.

SEAL

SECTION 6.1. Seal. The Board may approve and adopt a corporate seal, which shall be in the form of a circle and shall bear the full name of the Corporation, the year of its incorporation and the words "Corporate Seal Delaware".

ARTICLE VII.

FISCAL YEAR

SECTION 7.1. 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.

ARTICLE VIII.

VOTING OF SHARES IN OTHER CORPORATIONS

SECTION 8.1. Voting of Shares in Other Corporations. Shares in other corporations which are held by the Corporation may be represented and voted by the Chairman, President or a Vice President of the Corporation or by proxy or proxies appointed by one of them. The Board may however, appoint some other person to vote the shares.

ARTICLE IX.

INDEMNIFICATION AND INSURANCE

SECTION 9.1. Indemnification. (a) The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened,

pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

(b) The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation,

partnership, joint venture, trust or other enterprise against expenses(including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery of the State of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

(c) To the extent that a director, officer, employee or agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 9.01(a) and (b) of these By-laws, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

(d) Any indemnification under Section 9.01(a) and (b) of these By-laws (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in Section 9.01(a) and (b)of these By-laws. Such determination shall be made (i) by the Board by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (ii) if such a quorum is not obtainable, or, even if obtainable, a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (iii) by the stockholders of the Corporation.

(e) Expenses (including attorneys' fees) incurred by an officer or director in defending any civil, criminal, administrative or investigative action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation pursuant to this Article IX. Such expenses (including attorneys' fees) incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the Board deems appropriate.

(f) The indemnification and advancement of expenses provided by, or granted pursuant to, other Sections of this Article IX shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any law, by-law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office.

(g) For purposes of this Article IX, references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees or agents so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article IX with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

(h) For purposes of this Article IX, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves service by, such director, officer, employee or agent with respect to any employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article IX.

(i) The indemnification and advancement of expenses provided by, or granted pursuant to, this Article IX shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrator of such a person.

SECTION 9.2. Insurance for Indemnification. The Corporation may purchase

and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against

him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of Section 145 of the General Corporation Law.

ARTICLE X.

AMENDMENTS

SECTION 10.1. Amendments. Unless otherwise provided in the Certificate of Incorporation, any By-law (including these By-laws) may be adopted, amended or repealed by the vote of the recordholders of a majority of the Shares then entitled to vote at an election of Directors or by written consent of Stockholders pursuant to Section 2.09 hereof, or by vote of the Board or by a written consent of Directors pursuant to Section 3.08 hereof.

EXHIBIT 10.22

SERVICES AGREEMENT

This Services Agreement (the "Agreement") is made and entered into effective October 1, 1998 by and between Charif Souki ("Souki"), an individual and Co-Chair of the Board of Directors of Cheniere Energy, Inc., and Cheniere Energy, Inc. ("Cheniere"), a Delaware corporation with offices at 1200 Smith Street, Suite 1740, Houston, Texas 77002.

WHEREAS, Souki is experienced in business matters generally and particularly in the financial development and management of development stage enterprises,

WHEREAS, the involvement of Souki in the day-to-day management and operations of Cheniere has become increasingly substantial in recent months,

WHEREAS, to date, Souki has provided such services without compensation by Cheniere, and

WHEREAS, Cheniere desires to be assured of its ability to retain the services of Souki on an ongoing basis for several months, which represent a particularly critical time in the development of Cheniere,

NOW, THEREFORE, in consideration of the mutual agreements and covenants herein contained and other good and valuable consideration, the sufficiency of which is hereby acknowledged, Souki and Cheniere hereby agree as follows:

1. Scope of Services

Cheniere hereby retains Souki to provide consulting services related to the financing and management of Cheniere. In rendering the services described herein, Souki shall comply with all the terms of this Agreement.

2. Compensation, Consideration and Payment

In full and complete compensation for all services provided hereunder Cheniere agrees to pay or cause to be paid a consulting fee accruing at a rate of $10,000 per month (prorated for any partial months of service) plus reimbursement of necessary and reasonable expenses. Payment shall be made at such time as Cheniere shall determine in its sole discretion that it has adequate financial resources to make the payments without creating an unreasonable financial burden on Cheniere.

3. Term of Agreement

The term of this Agreement shall commence on October 1, 1998 and shall continue for a period of six months or until terminated by either party as prescribed in paragraph 7 below.

4. Independent Contractor

It is mutually agreed by Souki and Cheniere that for the purposes of this Agreement and all services to be provided hereunder, Souki shall be, and shall be deemed to be, an independent contractor, and not an employee of Cheniere.

5. Liability

Cheniere acknowledges that Souki has not made any expressed or implied warranty regarding the services provided under this Agreement and Souki disclaims any liability for Cheniere's actions. Cheniere agrees to and hereby holds Souki harmless from all costs, expenses and claims arising out of or in connection with this Agreement or any of the services provided hereunder, except in connection with any gross negligence or willful misconduct on the part of Souki..

6. Confidential Information

"Confidential Information" shall mean all confidential and/or proprietary information, that or documents of Cheniere disclosed to Souki by Cheniere which includes without limitation trade secrets, seismic data, technical data, intellectual property, methods, practices and other information that relates to past, present and future exploration, development and business activities, except such information as has been made available to the general public through reports, filings, press releases or other announcements by Cheniere. Souki shall not disclose, or permit any other person or entity to use or disclose any such Confidential Information. Upon termination or expiration of this Agreement, Souki shall return to Cheniere all written or descriptive matter, including but not limited to drawings, maps, plots, or other papers or documents which contain any such Confidential Information, as promptly as possible, but in no event later than five (5) days after such termination, expiration or request.

7. Termination

(a) This Agreement may be terminated without cause by either party upon thirty (30) days written notice to the other party.

(b) In the event Souki willfully breaches this Agreement to provide services pursuant to the terms hereof, Cheniere may terminate this Agreement by giving Souki one (1) day written notice.

8. Entire Agreement

This Agreement contains the entire agreement between the parties and it supersedes all prior agreements and understandings between the parties respecting the subject matter hereof. This Agreement may not be amended, changed or terminated orally by or on behalf of either party.

9. Governing Law and Compliance and Dispute Resolution

This Agreement shall be governed by and construed in accordance with the laws of the State of Texas. Souki shall comply with all applicable laws and regulations. In the event of a dispute hereunder, the parties agree to submit to binding arbitration under the auspices of the American Arbitration Association, all costs and expenses of which shall be shared equally by the parties. In addition, either party may apply for injunctive relief in any court of competent jurisdiction to restrain the breach, or threatened breach of this Agreement. No party shall be liable to the other party for consequential, punitive, or incidental damages.

10. Notices

Any notice or request herein required or committed to be given hereunder shall be given in writing.

11. Survivorship

The terms and provisions hereof shall survive the termination of this Agreement, and shall remain in full force and effect thereafter, and shall be binding upon the parties hereto, and their respective representatives, successors, and authorized assigns.

12. Assignment

This Agreement may not be assigned or delegated, in whole or in part, without prior written consent of the other party, which consent may be withheld in such other party's sole discretion.

EXECUTED EFFECTIVE THE 1/ST/ OF OCTOBER, 1998

Charif Souki

/s/ CHARIF SOUKI
- ----------------

Cheniere Energy, Inc.

By: /s/ WILLIAM D. FORSTER

Name: William D. Forster
Title: Co-Chairman of the Board

EXHIBIT 10.23

CHENIERE ENERGY, INC.
TWO ALLEN CENTER
1200 SMITH STREET, SUITE 1740
HOUSTON, TEXAS 77002-4312

April 3, 1998

Lender Name
Address

Re: (Form of) Second Amendment to Securities Purchase Agreement

Dear Lender:

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.

The purpose of this amendment to the Agreement is to increase from $1,000,000 to $5,000,000 the amount of net funds which Borrower may raise through private placement of its equity securities or from the sale of seismic data and retain for use in its business before being required to direct the proceeds from such sources to prepayment of the Term Loan.

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

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

> (c) In addition to prepayments under clause (b) above, Borrower shall make prepayments of principal of the Term Loan equal to the net cash proceeds received by Borrower from any private placement of Borrower's equity securities or from any sale by Borrower of seismic data, less up to $5,000,000 which may be retained by Borrower.

2. Representations and Warranties. Borrower represents and warrants that it possesses all requisite power and authority to execute, deliver and comply with the terms of this instrument, which has been duly authorized and approved by all necessary corporate action and for which no consent of any person is required.

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

4. Loan Paper; Effect. This instrument is a Loan Paper and, therefore, is subject to the applicable provisions of Section 13 of the Agreement, all of which are incorporated herein by reference the same as if set forth herein verbatim. 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 the Amended Agreement shall control and such other document shall be deemed to be amended hereby to conform to the terms of the Amended Agreement.

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

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

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

Sincerely,

CHENIERE ENERGY, INC.

By:

Don A. Turkleson
Chief Financial Officer

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

_____
Lender

EXHIBIT 10.24

CHENIERE ENERGY, INC.
TWO ALLEN CENTER
1200 SMITH STREET, SUITE 1740
HOUSTON, TEXAS 77002-4312

September ___, 1998

Lender Name
Address

Re: (Form of) Third Amendment to Securities Purchase Agreement ("Third Amendment")

Dear Lender:

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.

The purpose of this amendment to the Agreement is to extend the maturity date from September ___, 1998 to December 15, 1998, subject to the right of the Borrower to extend such maturity date to January 15, 1999 in its sole discretion. In consideration therefor, the exercise price per share of the Warrants previously issued to Lender shall be reduced, and certain provisions of the Agreement shall be amended, all as described below.

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

1. Restate Prior Amendments. This Third Amendment restates the First Amendment dated as of December 18, 1997 and the Second Amendment dated April 3, 1998, and as such supercedes such amendments, which are hereby agreed to be null and void.

2. Amendment of Terms of Payment. Section 2 of the Agreement is hereby amended by replacing paragraph (c) in its entirety and adding a new paragraph (d), which together read as follows:

"(c) In addition to prepayments under clause (b) above, Borrower shall make prepayments of principal of the Term Loan equal to net cash proceeds received by Borrower from any private placement of Borrower's equity securities or from any sale by Borrower of seismic data or other assets as permitted by Section 6(d), less up to $5,000,000 which may be retained by Borrower; provided, however, that no more than an aggregate of $2,000,000 of proceeds received by Borrower from the sale by Borrower of seismic data or other assets as permitted by Section 6(d), in one or more transactions, shall be retained by Borrower;

(d) All payments on the Senior 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 Senior Notes."

3. Amendment Regarding Extension and Additional Lender Warrants. Section 3 of the Agreement is hereby amended by replacing such Section in its entirety with the following:

"As a result of having extended the maturity of the Term Loan through 180 days after the original maturity date, Borrower shall issue to Lender additional warrants ("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 _____ shares of Common Stock. The Additional Lender Warrants shall be issued within 10 days after September ___, 1998 and shall have an expiration date of September 15, 2002."

4. Amendment to Certain Negative Covenants. Section 6(d) of the Agreement is hereby amended by replacing such Section in its entirety with the following:

"(d) sell, lease or otherwise dispose of all or any substantial portion of its assets; provided that Borrower will be permitted to sell seismic data, interests in the seismic project and/or all prospects defined to date, working interests in individual prospects, overriding royalty interests, and other partnering arrangements involving total consideration paid to Borrower not to exceed $2,000,000;"

Section 6 of the Agreement is hereby amended by deleting the word "or" at the end of clause (e), replacing the period at the end of clause (f) with "; or" and adding to such Section a new clause (g), which reads as follows:

"(g) incur any indebtedness subsequent to September __, 1998 unless such indebtedness by its terms is expressly made subordinate to the Term Loan."

5. Amendment to Rights and Remedies. Section 11 of the Agreement is hereby amended by replacing the word "two-thirds of the aggregate principal amount then outstanding under" in the first sentence with the words "$750,000 in aggregate original principal amount of ".

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

"MATURITY DATE means the earlier of (a) subject to the extension provided for below, December 15, 1998 and (b) the date that the Senior Notes are declared immediately due and payable pursuant to SECTION 11 in the event of a Default; provided that Lender's rights continue until the Obligation has been paid and performed in full. If no Default or Potential Default exists, Borrower may extend the Maturity Date until January 15, 1999 by notifying Lender of such extension prior to the original Maturity Date."

7. Registration Procedures. By December 15, 1998, Borrower shall prepare and file or cause to be filed with the SEC a Registration Statement with respect to the Common Stock underlying the Additional Lender Warrants. All provisions of Section 9 of the Agreement with respect to registration shall apply to such additional registration statements.

8. Reduction of Exercise Price on Existing Warrants. As of the date hereof, the exercise price per share of the aggregate of _____ Lender Warrants and Additional Lender Warrants previously issued to Lender shall be reduced from $2.375 to $1.50, and the "Exercise Price" of such warrants is hereby agreed to be amended to reflect such reduction.

9. Interest Payment Provisions. Commencing with October 15, 1998, interest on the Senior Notes shall be due and payable monthly on the 15th of each month, and the third paragraph of

the Senior Notes is hereby agreed to be amended to reflect that such payments shall be monthly rather than quarterly.

10. 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.

11. 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.

12. Loan Paper; Effect. This instrument is a Loan Paper and, therefore, is subject to the applicable provisions of Section 13 of the Agreement, all of which are incorporated herein by reference the same as if set forth herein verbatim. 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.

13. 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.

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

If the foregoing terms and conditions are acceptable to Lender, Lender should indicate its acceptance by signing in the space provided below and

returning an executed copy hereof to Borrower, whereupon this letter shall become an agreement binding upon and inuring to the benefit of Borrower and Lender and their respective successors and assigns.

Sincerely,

CHENIERE ENERGY, INC.

By:

Don A. Turkleson
Chief Financial Officer

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

- ---
Lender

EXHIBIT 10.25

CHENIERE ENERGY, INC.
TWO ALLEN CENTER
1200 SMITH STREET, SUITE 1740
HOUSTON, TEXAS 77002-4312

January 12, 1999
via Federal Express

Lender Name
Address

Re: (Form of) Fourth Amendment to Securities Purchase Agreement ("Fourth Amendment")

Dear Lender:

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

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

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

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

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

2. Representations and Warranties. Borrower represents and warrants that it possesses all requisite power and authority to execute, deliver and comply with the terms of this instrument, which has been duly authorized and approved by all necessary corporate action and for which no consent of any person is required.

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

4. Loan Paper; Effect. This instrument is a Loan Paper and, therefore, is subject to the applicable provisions of Section 13 of the Agreement, all of which are incorporated herein by reference the same as if set forth herein verbatim. In the event of any inconsistency between the terms of the Agreement as hereby modified (the "Amended Agreement") and any other Loan Papers, the terms of the Amended Agreement shall control and such other document shall be deemed to be amended hereby to conform to the terms of the Amended Agreement.

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

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

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

Sincerely,

CHENIERE ENERGY, INC.

By:

Don A. Turkleson
Chief Financial Officer

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

- ---
Lender

EXHIBIT 10.26

CHENIERE ENERGY, INC.
TWO ALLEN CENTER
1200 SMITH STREET, SUITE 1740
HOUSTON, TEXAS 77002-4312

March 15, 1999
via facsimile

Lender Name
Address

Re: (Form of) Fifth Amendment to Securities Purchase Agreement ("Fifth Amendment")

Dear Lender:

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

The purpose of this amendment to the Agreement is to extend the maturity date from March 15, 1999 to April 15, 1999. In consideration therefor, the exercise price per share of the Warrants previously issued to Lender shall be reduced as described below.

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

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

> "MATURITY DATE means the earlier of (a) April 15, 1999 and (b) the date that the Senior Notes are declared immediately due and payable pursuant to SECTION 11 in the event of a Default; provided that Lender's rights continue until the Obligation has been paid and performed in full. If no Default or Potential Default exists."

2. Reduction of Exercise Price on Existing Warrants. As of the date hereof, the exercise price per share of the Warrants previously issued to Lender shall be reduced from $1.50 to $1.25, and the "Exercise Price" of such warrants is hereby agreed to be amended to reflect such reduction.

3. Amendment to Call of Warrants. As of the date hereof, each of the agreements evidencing Warrants held by Lender shall be amended so that the first sentence of Section 7 shall read:

> "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 $3.00 for a period of 20 consecutive trading days (all as determined in good faith by the Company's Board of Directors) at the price equal to $.01 per share of Common Stock for which this Warrant shall be exercisable on the call Date (as defined below)."

4. Representations and Warranties. Borrower represents and warrants that it possesses all requisite power and authority to execute, deliver and comply with the terms of this instrument, which has been duly authorized and approved by all necessary corporate action and for which no consent of any person is required.

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

6. Loan Paper; Effect. This instrument is a Loan Paper and, therefore, is subject to the applicable provisions of Section 13 of the Agreement, all of which are incorporated herein by reference the same as if set forth herein verbatim. 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.

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

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

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

Sincerely,

CHENIERE ENERGY, INC.

By:

Don A. Turkleson
Chief Financial Officer

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

- ---
Lender

THE SHARES WHICH ARE THE SUBJECT OF THIS EXCHANGE AGREEMENT 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 SUCH STATE SECURITIES LAWS OR PURSUANT TO AN OPINION OF COUNSEL REASONABLY ACCEPTABLE TO THE COMPANY THAT THERE IS AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS.

EXCHANGE AGREEMENT
(Regulation "D" Offering)

THIS EXCHANGE AGREEMENT (this "Agreement"), dated as of the date of acceptance set forth on the signature page hereto, is by and between CHENIERE ENERGY, INC., a Delaware corporation, with offices located at 1200 Smith Street, Suite 1740, Houston, Texas 77002 (the "Company"), and the undersigned (the "Buyer").

WITNESSETH:

WHEREAS, the Buyer wishes to exchange its promissory note ("Note") issued pursuant to the Securities Purchase Agreement dated December 15, 1997 as amended by the Third Amendment to Securities Purchase Agreement dated September 14, 1998 for shares of Common Stock of the Company, par value $.003 per share (the "Common Stock"), upon the terms and subject to the conditions of this Agreement, subject to acceptance of this Agreement by the Company;

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

1. AGREEMENT TO EXCHANGE.

a). EXCHANGE. The undersigned, intending to be legally bound, hereby irrevocably agrees to exchange its Note in the face amount set forth on the signature page of this Agreement for the number of shares of Common Stock ("Shares") set forth on the signature page of this Agreement, the number of Shares being determined by dividing the face amount of the Note by $0.72. Interest will continue to accrue until January 15, 1999; any interest due and payable at the Closing Date will be paid to the Buyer in cash. This Agreement is submitted to you in accordance with and subject to the terms and conditions described in this Agreement.

b) ACCEPTANCE OF EXCHANGE; CLOSING DATE. The Company has the right to accept or reject this Agreement, in whole or in part, in the Company's sole discretion. The Company shall have thirty days from the date of this Agreement to accept the Agreement. The Closing Date shall be March 15, 1999 but may be accelerated by the Company if the remaining $2,000,000 in Notes (held by persons other than Buyer) shall be exchanged pursuant to similar exchange agreements or refinanced by the Company. The Shares shall be delivered to a place of your designation upon acceptance of this Agreement.

c) OTHER DOCUMENTS. The Buyer agrees that it will, upon request, execute and deliver any additional documents deemed by the Company to be necessary or desirable to complete the exchange of the Note.

2. BUYER REPRESENTATIONS, WARRANTIES, ETC.; ACCESS TO INFORMATION; INDEPENDENT INVESTIGATION.

The Buyer represents and warrants to, and covenants and agrees with, the Company as follows:

a) The Buyer is purchasing the Shares 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 of 1933, as amended (the "Securities Act"), and with no present intention of dividing or allowing others to participate in this investment.

b) If the Buyer is an individual, the Buyer 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 the Buyer is an individual (i) having an individual net worth, or a joint net worth with the Buyer'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 the Buyer'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 the Buyer is a corporation or other entity, the Buyer 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.

c) If the Buyer is a corporation or other entity, it was not organized for the specific purpose of acquiring the Shares.

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

e) The Buyer represents that its overall commitment to investments which are not readily marketable is not disproportionate to the Buyer's net worth, and the Buyer's investment in the Shares will not cause such overall commitment to become excessive.

f) If the Buyer is an individual, the Buyer has adequate means of providing for his current needs and personal and family contingencies and has no need for liquidity in his investment in the Shares.

g) All subsequent offers and sales of the Shares by the Buyer 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.

h) The Buyer understands that the Shares 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 the Company is relying upon the truth and accuracy of, and the Buyer's compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Buyer set forth herein in order to determine the availability of such exemptions and the eligibility of the Buyer to acquire the Shares. The Buyer 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 Shares is no longer accurate, it shall promptly notify the Company and consult with the Company in order to determine an appropriate course of action.

i) The Buyer has carefully read this Agreement and, to the extent that the Buyer believed necessary, has discussed the representations, warranties and agreements which the Buyer makes by signing this Agreement and the applicable limitations upon the Buyer's resale of the Shares with the Buyer's counsel.

j) The Buyer and its advisors have been afforded the opportunity to ask questions of the Company, and have received complete and satisfactory answers to any and all such inquiries and has had access to such financial and other information concerning the Company and the Shares as it has deemed necessary in connection with its decision as to whether to make its investment. Without limiting the generality of the foregoing, the Buyer has been furnished with and has read the Company's Private Placement Memorandum dated November 14, 1998 (the "Private Placement Memorandum") which contains, in addition to other information, a section captioned "Risk Factors" and "Description of Securities" and the following documents as filed by the Company with the United States Securities and Exchange Commission: (a) Transition Report on Form 10-K for the four months ended December 31, 1997; (b) Quarterly Reports on Form 10-Q for the periods ended June 30, 1998 and September 30, 1998; (c) Proxy Statement of the Company dated October 10, 1997. The Buyer specifically acknowledges that it does not require and has not requested to see any information with respect to the Company or this investment other than the information described in the Private Placement Memorandum.

k) The Buyer acknowledges that (i) none of the Company, any affiliate thereof or any person representing the Company or any affiliate thereof has made any representation to

it with respect to the Company or the offering or sale of the Shares, other than the information concerning the Company and the offering contained in the Private Placement Memorandum, (ii) in making its investment decision the Buyer is not relying upon any information given by the Company or any affiliate thereof or any person representing the Company or any affiliate thereof other than the information concerning the Company and the Offering contained in the Private Placement Memorandum and (iii) no representation has been made, and no information has been furnished, to the Buyer in connection with the offering or sale of the Shares that was in any way inconsistent with any other information with which the Buyer has been provided.

l) The Buyer 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 Shares.

m) The address shown under the Buyer's signature at the end of this Agreement is the principal residence of the Buyer, if the Buyer is an individual, or the principal business address of the Buyer, if the Buyer is a corporation or other entity.

n) The Buyer has full power and authority to enter into this Agreement and consummate the transactions contemplated by this Agreement, and the Buyer, if an individual, is at least 21 years of age. This Agreement has been duly and validly authorized, executed and delivered by or on behalf of the Buyer and is a valid and binding agreement of the Buyer enforceable in accordance with its terms, subject as to enforceability to general principles of equity and to bankruptcy or other laws affecting the enforcement of creditors' rights generally.

o) The Buyer understands that its investment in the Shares involves a high degree of risk including those risks described in the section of the Private Placement Memorandum captioned "Risk Factors," a copy of which has been provided to Buyer. The Buyer is relying solely upon its own knowledge and experience in business, tax and financial matters in making its decision to purchase the Shares.

3. COMPANY REPRESENTATIONS, ETC.

The Company represents and warrants to the Buyer that:

a) ORGANIZATION AND GOOD STANDING. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and is qualified to do business in the states in which such qualification is required based on the nature and scope of the Company's operations.

b) CONCERNING THE SHARES. The Shares of Common Stock, when issued, delivered and paid for in accordance with this Agreement, will be duly and validly authorized and issued, fully paid and nonassessable.

c) EXCHANGE AGREEMENT. The Company has full power and authority to enter into this Agreement and consummate the transactions contemplated by this Agreement. This Agreement, when accepted by the Company, shall have been duly and validly authorized, executed and delivered on behalf of the Company and shall be a valid and binding agreement of the Company enforceable in accordance with its terms, subject as to enforceability to general principles of equity and to bankruptcy or other laws affecting the enforcement of creditors' rights generally.

d) NON-CONTRAVENTION. The execution and delivery of this Agreement by the Company and the consummation by the Company of the issuance of the Shares and the other transactions contemplated by this Agreement do not and will not conflict with or result in a breach by the Company of any of the terms or provisions of, or constitute a default under, the certificate of incorporation or bylaws of the Company, or any indenture, mortgage, deed of trust or other material agreement or instrument to which the Company is a party or by which it or any of its properties or assets are bound, or any existing applicable law, rule or regulation or any applicable decree, judgment or order of any court, United States federal or state regulatory body, administrative agency or other governmental body having jurisdiction over the Company or any of its properties or assets.

e) APPROVALS. The Company is not aware of any authorization, approval or consent of any governmental body which is required to be obtained by the Company for the issuance and sale of the Shares to the Buyer as contemplated by this Agreement that has not been obtained.

f) ADVERTISING. The Shares are not being offered or sold by any form of general solicitation or general advertising.

4. CERTAIN COVENANTS AND ACKNOWLEDGMENTS.

a) TRANSFER RESTRICTIONS. The Buyer acknowledges that (i) the Shares to be issued to it hereunder have not been and are not being registered under the provisions of the Securities Act or any applicable state securities laws (except as provided in the Registration Procedures set forth in Section 5 of this Agreement), and may not be offered, sold, pledged or otherwise transferred unless (A) the Shares are subsequently registered under the

Securities Act and all applicable state securities laws or (B) the Buyer shall have delivered to the Company an opinion of counsel, reasonably satisfactory in form, scope and substance to the Company, to the effect that the Shares, may be sold or transferred pursuant to a valid exemption from such registration requirements; (ii) the Shares are and will be "restricted securities" (as defined in Rule 144 promulgated under the Securities Act); (iii) any sale of the Shares, 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 Shares, 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 the Company nor any other person is under any obligation to register the Shares (other than pursuant to the Registration Procedures set forth in Section 5 of this Agreement) under the Securities Act or any state securities laws or to comply with the terms and conditions of any exemption thereunder.

b) Restrictive Legend. The Buyer acknowledges and agrees that "stop transfer" instructions shall be placed against the Shares on the transfer books of the Company, and that the certificate(s) evidencing the Shares 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."

c) FORM D. The Company agrees to file a Form D with respect to the Shares if and as required under Regulation D of the Securities Act.

5. REGISTRATION PROCEDURES.

a) Within 90 days after the issuance of the Shares, the Company shall prepare and file or cause to be filed with the SEC a registration statement (the "Registration Statement") with respect to the Shares. The Company shall thereafter use diligence in attempting to cause the Registration Statement to be declared effective by the SEC and shall thereafter use diligence 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 Shares have been sold by the Buyer or (iii) the date on which the Shares can be resold pursuant to SEC Rule 144.

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

c) The Company shall use diligent efforts to (i) register or otherwise qualify the Common Stock covered by the Registration Statement for sale under the securities laws of such jurisdictions as the Buyer 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 Shares for sale in such jurisdictions; provided, however, that the Company 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 5(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 the Company or (V) make any change in its certificate of incorporation or bylaws, which in each case the Board of Directors of the Company determines to be contrary to the best interests of the Company and its stockholders.

d) The Company shall, following effectiveness of the Registration Statement,

as promptly as practicable after becoming aware of any such event, notify the Buyer of the happening of any event of which the Company 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 its best 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 the Buyer or as the Buyer may reasonably request. The Company may voluntarily suspend the effectiveness of such Registration Statement for a limited time, which in no event shall be longer than 90 days, if the Company 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 the Company or its subsidiaries, in which event the one year period referred to in clause (i) of Section 5(a) shall be extended for an additional period of time beyond such one year period equal to the number of days the effectiveness thereof has been suspended pursuant to this sentence.

e) Following effectiveness of the Registration Statement, the Company, as promptly as practicable after becoming aware of any such event, will notify the Buyer 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, the Company will use diligence either to (i) cause all the Common Stock covered by the Registration Statement to be listed on each national securities exchange on which similar securities issued by the Company are then listed, if any, if the listing of such Common Stock is then permitted under the rules of such exchange, or (ii) secure the quotation of all the Common Stock covered by the Registration Statement on The Nasdaq SmallCap Market, if the listing of such Common Stock is then permitted under the rules of such The Nasdaq SmallCap Market, or (iii) if, despite the Company's best efforts to satisfy the preceding clause (i) or (ii), the Company is unsuccessful in satisfying the preceding clause (i) or (ii) and without limiting the generality of the foregoing, to use its best 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 Common Stock not later than the effective date of the Registration Statement.

h) It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Section 5 that the Buyer shall furnish to the Company such information regarding itself as the Company may reasonably request to effect the registration of the Common Stock and shall execute such documents in connection with such registration as the Company may reasonably request.

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

j) The Buyer agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in Section 5(d) or 5(e), the Buyer will immediately discontinue disposition of Shares pursuant to the Registration Statement until the Buyer's receipt of notice from the Company that sales may resume and copies of the supplemented or amended prospectus and, if so directed by the Company, shall deliver to the Company (at the expense of the Company) or destroy (and deliver to the Company a certificate of destruction) all copies in the Buyer's possession of the prospectus covering such Common Stock 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 5, including, without limitation, all registration, listing and qualification fees, printers and accounting fees and the fees and disbursements of counsel to the Company, shall be borne by the Company.

l) To the extent permitted by law, the Company will indemnify and hold harmless the Buyer, the directors, if any, of the Buyer, the officers, if any, of the Buyer, each person, if any, who controls the Buyer within the

meaning of the Securities Act or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), any underwriter (as defined in the Securities Act) for the Buyer, 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 the Company 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 the Company 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 5(n) with respect to the number of legal counsel, the Company shall reimburse the Buyer 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 5(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 the Company 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 Shares 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 the Company; and (III) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of the Company, 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 Shares by the Buyer.

m) The Buyer agrees to indemnify and hold harmless, to the same extent and in the same manner set forth in Section 5(l), the Company, each of its directors, each of its officers who signs the Registration Statement, each person, if any, who controls the Company 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 the Buyer, 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 the Company by the Buyer 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 the Buyer of the Shares or the securities underlying the Shares; and the Buyer 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 5(m) shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of the Buyer, which consent shall not be unreasonably withheld; provided, further, that the Buyer shall be liable under this Section 5(m) for only that amount of a Claim as does not exceed the net proceeds to the Buyer 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 Shares (or underlying securities) by the Buyer. Notwithstanding anything to the contrary contained herein the indemnity contained in this Section 5(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 5(l) or 5(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 5, 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 differing interests 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, the Company 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 5, except to the extent that the indemnifying party is prejudiced in its ability to defend such action. The indemnity required by this Section 5 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) PIGGYBACK REGISTRATION. After the registration under Section 5(a) hereof, and for a period ending three years from the date hereof, if the Company at any time proposes to register any of its securities under the Securities Act (other than a registration effected solely to implement an employee benefit plan, a transaction to which Rule 145 of the SEC is applicable or any other form or type of registration in which the Buyer's Shares cannot be included pursuant to SEC rule or practice), it will give written notice to the Buyer of its intention to do so. If such registration is proposed to be of Common Stock on a form which permits inclusion of the Shares, upon the written request (stating the intended method of disposition of such securities) of the Buyer given within thirty (30) days after transmittal by the Company to the Buyer of such notice, the Company will, subject to the limits contained in this Agreement, use its best efforts to cause all such Shares of the Buyer to be registered under the Securities Act and qualified for sale under any state securities law, all to the extent requisite to permit such sale or other disposition by the Buyer, except that if the Company receives a written opinion of a managing underwriter that the inclusion of any or all of such Shares would adversely affect the marketing of the securities to be sold pursuant to such registration statement the Company shall not be required to register any or all of such Shares. Sections 5(b) through 5(n) hereof shall apply to any registration in which the Buyer participates, and in such event, the term "Registration Statement" shall mean the registration statement filed in connection with such registration.

6. TRANSFER AGENT INSTRUCTIONS.

Promptly following the delivery by the Buyer of the Note and the Company's acceptance of this Agreement, the Company's transfer agent will be instructed by the Company to issue one or more certificates representing the Shares purchased, bearing the restrictive legend specified in Section 4(b) of this Agreement, registered in the name of the Buyer or its nominee and in such denominations as shall be specified by the Buyer prior to the Closing Date. The Company warrants that no instruction other than such instructions referred to in this Section 6 and stop transfer instructions to give effect to Section 4(a) and (b) hereof will be given by the Company to the transfer agent and that the Shares shall otherwise be freely transferable on the books and

records of the Company as and to the extent provided in this Agreement. Nothing in this Section shall affect in any way the Buyer's obligations and agreement to

comply with all applicable federal and state securities laws upon resale of the Shares. If the Buyer provides the Company with an opinion of counsel reasonably satisfactory in form, scope and substance to the Company that registration of a resale by the Buyer of any of the Shares in accordance with Section 4(a) is not required under the Securities Act or applicable state securities laws, the Company shall permit the transfer agent to issue one or more share certificates in such name and in such denominations as specified by the Buyer.

7. CONDITIONS TO THE COMPANY'S OBLIGATION TO SELL.

The Buyer understands that the Company's obligation to sell the Shares to the Buyer pursuant to this Agreement is conditioned upon:

a) The receipt and acceptance by the Company in its sole and absolute discretion of this Agreement, as evidenced solely by delivery by the Company to the Buyer of this Agreement duly executed by the Company;

b) The receipt by the Company of a completed Form W-8 or W-9, if necessary, attached to this Agreement, for the Buyer;

c) Delivery by the Buyer to the Company of the Note; and

d) The accuracy on the Closing Date of the representations and warranties of the Buyer contained in this Agreement and the performance by the Buyer on or before the Closing Date of all covenants and agreements of the Buyer required to be performed on or before such Closing Date.

8. CONDITIONS TO THE BUYER'S OBLIGATION TO PURCHASE.

The Company understands that the Buyer's obligation to exchange the Note for the Shares is conditioned upon:

a) Delivery by the Company to the Buyer of this Agreement duly executed by the Company in acceptance thereof and delivery of the Shares to the Buyer and the cash for any interest due and payable on the Note; and

b) The accuracy on the Closing Date of the representations and warranties of the Company contained in this Agreement and the performance by the Company on or before the Closing Date of all covenants and agreements of the Company required to be performed on or before such Closing Date.

9. NO OFFER TO SELL.

This Agreement shall not be construed or interpreted as any offer by the Company to sell the Shares. The Company shall have no obligation to accept this Agreement if offered by the Buyer and may in the Company's sole discretion elect to reject this Agreement. The Company shall have no obligation or liability to the Buyer or to any other party if the Company in its sole and absolute discretion determines not to accept this Agreement.

10. GOVERNING LAW; JURISDICTION.

This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware (without giving effect to principles of conflicts of law). The Buyer hereby consents to and agrees to submit to the jurisdiction in the United States of America 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 or by reason of this Agreement or relating to the sale of the Shares and to the venue of such action or proceeding in such courts.

11. TRIAL BY JURY.

The Buyer hereby waives trial by jury in any action or proceeding involving, directly or indirectly, any matter (whether sounding in tort, contract, fraud or otherwise) in any way arising out of or in connection with this Agreement, or the Shares issued hereunder.

12. MISCELLANEOUS.

A facsimile transmission of this signed agreement shall be legal and binding on all parties hereto. This Agreement and the rights and obligations hereunder are not transferable or assignable by the Buyer. The headings of this Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Agreement. If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement or the validity or enforceability of this Agreement in any other jurisdiction. Any notices required or permitted to be given under the terms of this Agreement shall be sent by mail or delivered personally or by courier and shall be effective five (5) days after being placed in the mail, if

mailed, or upon receipt, if delivered personally or by courier, in each case addressed to a party at such party's address shown in the introductory paragraph or on the signature page of this Agreement or such other address as may be provided by a party in accordance with this Section 12.

13. ENTIRE UNDERSTANDING.

This Agreement (including any attachments hereto) constitutes the entire understanding of the parties hereto with respect to the subject matter hereof and supersedes any and all prior agreements, whether written or oral. This Agreement may be amended only in a written document duly executed by both parties hereto.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

IN WITNESS WHEREOF, this Agreement has been duly executed by the Buyer or one of its officers thereunto duly authorized as of December 16, 1998.

Name of Buyer: BSR Investments, Ltd.

Signature: By: /s/ NICOLE SOUKI

Name: Nicole Souki
Title: President

Address: 97 Avenue Henri Martin
75016 Paris, France

Address for Delivery
Of Shares _____
(if different): _____
_____

IRS Taxpayer No:_____

Number of Shares: 2,777,778

Face Value of Note
Being Delivered: US $2,000,000.00

This Agreement has been accepted by the Company as of January 15, 1999.

CHENIERE ENERGY, INC.

By:/s/ DON A. TURKLESON

Name: Don A. Turkleson
Title: Chief Financial Officer

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectuses constituting part of the Registration Statements on Form S-3 (Nos. 333-57533 and 333-49847) and in the Registration Statement on Form S-8 (No. 333-52479) of Cheniere Energy, Inc. of our report dated March 15, 1999 appearing on page 19 of Cheniere Energy, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998.

PRICEWATERHOUSECOOPERS LLP

Houston, Texas
March 26, 1999

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