

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-16383



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

**Delaware**  
(State or other jurisdiction of incorporation or organization)

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

**700 Milam Street, Suite 800**  
**Houston, Texas**  
(Address of principal executive offices)

**77002**  
(Zip code)

**(713) 375-5000**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  S  
Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of August 2, 2010, there were 57,626,649 shares of Cheniere Energy, Inc. Common Stock, \$0.003 par value, issued and outstanding.

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**CHENIERE ENERGY, INC.**  
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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

CHENIERE ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(in thousands, except share data)

	June 30, 2010 <u>(unaudited)</u>	December 31, 2009
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 73,940	\$ 88,372
Restricted cash and cash equivalents	76,164	138,309
LNG inventory	501	32,602
Accounts and interest receivable	21,565	9,899
Prepaid expenses and other	18,526	17,093
<b>TOTAL CURRENT ASSETS</b>	<b>190,696</b>	<b>286,275</b>
NON-CURRENT RESTRICTED CASH AND CASH EQUIVALENTS	82,892	82,892
PROPERTY, PLANT AND EQUIPMENT, NET	2,187,044	2,216,855
DEBT ISSUANCE COSTS, NET	41,347	47,043
GOODWILL	76,819	76,819
INTANGIBLE LNG ASSETS	6,067	6,088
OTHER	22,616	16,650
<b>TOTAL ASSETS</b>	<b>\$ 2,607,481</b>	<b>\$ 2,732,622</b>
<b>LIABILITIES AND DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 723	\$ 426
Accrued liabilities	28,233	38,425
Deferred revenue	26,453	26,456
Other	1,108	905
<b>TOTAL CURRENT LIABILITIES</b>	<b>56,517</b>	<b>66,212</b>
LONG-TERM DEBT, NET OF DISCOUNT	2,593,386	2,692,740
LONG-TERM DEBT—RELATED PARTIES, NET OF DISCOUNT	309,495	349,135
DEFERRED REVENUE	31,773	33,500
OTHER NON-CURRENT LIABILITIES	2,875	23,162
COMMITMENTS AND CONTINGENCIES	—	—
<b>DEFICIT</b>		
Stockholders' deficit		
Preferred stock, \$.0001 par value, 5,000,000 shares authorized, none issued	—	—
Common stock, \$.003 par value		
Authorized: 240,000,000 and 240,000,000 shares at June 30, 2010 and December 31, 2009, respectively		
Issued and outstanding: 57,627,000 and 56,651,000 shares at June 30, 2010 and December 31, 2009, respectively	173	170
Treasury stock: 924,000 and 697,000 shares at June 30, 2010 and December 31, 2009, respectively, at cost	(2,175)	(1,494)
Additional paid-in-capital	346,954	336,971
Accumulated deficit	(934,736)	(985,246)
Accumulated other comprehensive loss	(203)	(133)
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>(589,987)</b>	<b>(649,732)</b>
Non-controlling interest	203,422	217,605
<b>TOTAL DEFICIT</b>	<b>(386,565)</b>	<b>(432,127)</b>
<b>TOTAL LIABILITIES AND DEFICIT</b>	<b>\$ 2,607,481</b>	<b>\$ 2,732,622</b>

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

CHENIERE ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands, except per share data)  
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>REVENUES</b>				
LNG receiving terminal revenues	\$ 66,337	\$ 38,201	\$ 133,164	\$ 38,201
Oil and gas sales	884	839	1,421	1,573
Marketing and trading	1,029	(1,156)	13,170	(656)
Other	25	75	37	75
<b>TOTAL REVENUES</b>	<b>68,275</b>	<b>37,959</b>	<b>147,792</b>	<b>39,193</b>
<b>OPERATING COSTS AND EXPENSES</b>				
LNG receiving terminal and pipeline development expense	1,143	91	1,861	—
LNG receiving terminal and pipeline operating expense	9,807	9,251	22,619	18,029
Oil and gas production and exploration costs	113	77	211	164
Depreciation, depletion and amortization	15,612	12,795	31,236	24,857
General and administrative expense	16,910	15,422	36,128	33,219
<b>TOTAL OPERATING COSTS AND EXPENSES</b>	<b>43,585</b>	<b>37,636</b>	<b>92,055</b>	<b>76,269</b>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>24,690</b>	<b>323</b>	<b>55,737</b>	<b>(37,076)</b>
<b>OTHER INCOME (EXPENSE)</b>				
Gain on sale of equity method investment	128,329	—	128,329	—
Derivative gain (loss), net	(44)	762	461	3,324
Gain (loss) on early extinguishment of debt	(1,011)	45,363	(1,011)	45,363
Interest expense, net	(66,950)	(61,959)	(134,145)	(115,209)
Interest income	142	388	239	1,199
Other income (loss)	16	46	(87)	(17)
<b>TOTAL OTHER INCOME (EXPENSE)</b>	<b>60,482</b>	<b>(15,400)</b>	<b>(6,214)</b>	<b>(65,340)</b>
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>85,172</b>	<b>(15,077)</b>	<b>49,523</b>	<b>(102,416)</b>
<b>INCOME TAX PROVISION</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>NET INCOME (LOSS)</b>	<b>85,172</b>	<b>(15,077)</b>	<b>49,523</b>	<b>(102,416)</b>
<b>NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTEREST</b>	<b>505</b>	<b>2,026</b>	<b>987</b>	<b>6,624</b>
<b>NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS</b>	<b>\$ 85,677</b>	<b>\$ (13,051)</b>	<b>\$ 50,510</b>	<b>\$ (95,792)</b>
Net income (loss) per share attributable to common stockholders—basic	\$ 1.55	\$ (0.25)	\$ 0.92	\$ (1.91)
Net income (loss) per share attributable to common stockholders—diluted	\$ 0.86	\$ (0.25)	\$ 0.62	\$ (1.91)
Weighted average number of common shares outstanding—basic	55,317	51,576	55,161	50,121
Weighted average number of common shares outstanding—diluted	116,596	51,576	110,610	50,121

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

CHENIERE ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EQUITY (DEFICIT)  
(in thousands)  
(unaudited)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Non- controlling Interest	Total Equity (Deficit)
	Shares	Amount	Shares	Amount					
Balance—December 31, 2009	56,651	\$ 170	697	\$ (1,494)	\$ 336,971	\$ (985,246)	\$ (133)	\$ 217,605	\$ (432,127)
Issuances of restricted stock	1,203	3	—	—	(3)	—	—	—	—
Forfeitures of restricted stock	(23)	—	23	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	9,985	—	—	—	9,985
Treasury stock acquired	(204)	—	204	(681)	1	—	—	—	(680)
Comprehensive income: Foreign currency translation	—	—	—	—	—	—	(70)	—	(70)
Loss attributable to non-controlling interest	—	—	—	—	—	—	—	(987)	(987)
Distribution to non-controlling interest	—	—	—	—	—	—	—	(13,196)	(13,196)
Net income attributable to common stockholders	—	—	—	—	—	50,510	—	—	50,510
Balance— June 30, 2010	<u>57,627</u>	<u>\$ 173</u>	<u>924</u>	<u>\$ (2,175)</u>	<u>\$ 346,954</u>	<u>\$ (934,736)</u>	<u>\$ (203)</u>	<u>\$ 203,422</u>	<u>\$ (386,565)</u>

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

**CHENIERE ENERGY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)  
(unaudited)

	Six Months Ended June 30,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss) attributable to common stockholders	\$ 50,510	\$ (95,792)
Adjustments to reconcile net income (loss) attributable to common stockholders to net cash used in operating activities:		
Gain on sale of limited partnership investment	(128,329)	—
(Gain) loss on early extinguishment of debt	1,011	(45,363)
Depreciation, depletion and amortization	31,236	24,857
Amortization of debt issuance and debt discount	13,705	14,896
Non-cash compensation	9,945	8,645
Restricted interest income on restricted cash and cash equivalents	—	(2,774)
Use of restricted cash and cash equivalents	41,250	49,158
Non-cash derivative loss	164	223
Non-controlling interest	(987)	(6,624)
Non-cash interest expense	17,428	15,565
Use of cash for accrued interest	(60,899)	—
Other	(4,668)	(118)
Changes in operating assets and liabilities:		
Accounts payable and accrued liabilities	(3,539)	116
LNG inventory	32,100	(10,699)
Accounts and interest receivable	(16,190)	1,657
Deferred revenue	(2,086)	21,738
Prepaid expenses and other	(1,255)	(3,128)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(20,604)</b>	<b>(27,643)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of limited partnership investment	104,330	—
Use of restricted cash and cash equivalents	4,214	71,088
	(3,065)	(81,175)
LNG terminal and pipeline construction-in-process, net		
Distributions from limited partnership investment	3,900	6,600
Purchases of LNG commissioning, net of amounts transferred to LNG terminal construction-in-process	—	(14,184)
Purchases of intangibles and fixed assets, net of sales	326	(140)
Other	(106)	(2,844)
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>109,599</b>	<b>(20,655)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Use of restricted cash and cash equivalents	16,680	78,391
Distributions to non-controlling interest	(13,196)	(13,196)
Debt repurchases	(104,681)	(30,030)
Purchase of treasury shares	(681)	(80)
Other	(1,549)	(33)
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>(103,427)</b>	<b>35,052</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(14,432)</b>	<b>(13,246)</b>
<b>CASH AND CASH EQUIVALENTS—beginning of period</b>	<b>88,372</b>	<b>102,192</b>
<b>CASH AND CASH EQUIVALENTS—end of period</b>	<b>\$ 73,940</b>	<b>\$ 88,946</b>

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

**CHENIERE ENERGY, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

**NOTE 1—Basis of Presentation**

The accompanying unaudited consolidated financial statements of Cheniere Energy, Inc. have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In our opinion, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation, have been included. As used herein, the terms “Cheniere,” “the Company,” “we,” “our” and “us” refer to Cheniere Energy, Inc. and its wholly-owned or controlled subsidiaries, unless otherwise stated or indicated by context.

Results of operations for the three and six-month periods ended June 30, 2010 are not necessarily indicative of the results of operations that will be realized for the year ending December 31, 2010.

Certain reclassifications have been made to prior period information to conform to the current presentation. The reclassifications had no effect on our overall consolidated financial position, results of operations or cash flows.

For further information, refer to the consolidated financial statements and accompanying notes included in our annual report on Form 10-K for the year ended December 31, 2009.

*Liquidity*

As of June 30, 2010, we had unrestricted cash and cash equivalents of \$73.9 million and accounts receivable and other working capital from LNG and natural gas marketing activities of approximately \$28 million that will be available to Cheniere, which excludes cash and cash equivalents available to Cheniere Energy Partners, L.P. (“Cheniere Partners”), a publicly traded partnership in which we own a 90.6% interest, and Sabine Pass LNG, L.P. (“Sabine Pass LNG”), a wholly-owned subsidiary of Cheniere Partners. In addition, we had restricted cash and cash equivalents of \$159.1 million, which were designated for the following purposes: \$17.0 million for Sabine Pass LNG’s working capital; \$43.1 million for Cheniere Partners’ working capital; \$96.1 million for interest payments related to the Senior Notes described below; and \$2.9 million for other restricted purposes. Although results are consolidated for financial reporting, Cheniere, Sabine Pass LNG and Cheniere Partners operate with independent capital structures. We believe that we have sufficient cash, other working capital and cash generated from our operations to fund our operating expenses and other cash requirements until the earliest date when principal payments may be required. The lenders of the 2008 Convertible Loans can require prepayment of the loans between August 16, 2011 and September 14, 2011 (See Note 9—“Long-Term Debt and Long-Term Debt—Related Parties”). If the lenders of the 2008 Convertible Loans do not require the principal payment in 2011, the earliest date that principal payments will be required is May 31, 2012, which is the maturity date of the 2007 Term Loan. Before our first required principal payment, we will need to restructure our finances and improve our capital structure, which may be accomplished by entering into long-term TUAs or LNG purchase agreements, refinancing our existing indebtedness, issuing equity or other securities, selling assets or a combination of the foregoing.

Our ability to enhance near-term liquidity and improve our capital structure is dependent on numerous factors, including the availability of credit, the balance of worldwide and domestic supply and demand for natural gas and LNG, and the relative prices for natural gas in North America and international markets. We face numerous financial, market and operational risks in connection with improving our liquidity situation, many of which are beyond our control.

**NOTE 2—Restricted Cash and Cash Equivalents**

Restricted cash and cash equivalents consist of cash and cash equivalents that are contractually restricted as to usage or withdrawal, as follows:

*Senior Notes Debt Service Reserve*

Sabine Pass LNG consummated private offerings of an aggregate principal amount of \$2,215.5 million of Senior Notes (See Note 9—“Long-Term Debt and Long-Term Debt—Related Parties”). Under the indenture governing the Senior Notes (the “Sabine Pass Indenture”), except for permitted tax distributions, Sabine Pass LNG may not make distributions until certain conditions are satisfied: there must be on deposit in an interest payment account an amount equal to one-sixth of the semi-annual interest payment multiplied by the number of elapsed months since the last semi-annual interest payment, and there must be on deposit in a permanent

CHENIERE ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued  
(unaudited)

debt service reserve fund an amount equal to one semi-annual interest payment of approximately \$82.4 million. Distributions are permitted only after satisfying the foregoing funding requirements, a fixed charge coverage ratio test of 2:1 and other conditions specified in the Sabine Pass Indenture. As of June 30, 2010 and December 31, 2009, we classified the permanent debt service reserve fund of \$82.4 million as non-current restricted cash and cash equivalents. As of June 30, 2010 and December 31, 2009, we classified \$13.7 million as current restricted cash and cash equivalents for the payment of interest due within twelve months. These cash accounts are controlled by a collateral trustee, and therefore, are shown as restricted cash and cash equivalents on our Consolidated Balance Sheets.

*TUA Reserve*

Under the original terms and conditions of the 2008 Convertible Loans described below in Note 9—“Long-Term Debt and Long-Term Debt—Related Parties”, we were required to fund a reserve account (“TUA Reserve Account”) with \$135.0 million to pay obligations of Cheniere Marketing, LLC (“Cheniere Marketing”) under its Terminal Use Agreement (“TUA”) with Sabine Pass LNG and as additional collateral for the 2008 Convertible Loans. The cash account is controlled by a collateral trustee, and therefore, is shown as restricted cash and cash equivalents on our Consolidated Balance Sheet as of December 31, 2009.

In June 2010, we amended the 2008 Convertible Loans to permit all funds on deposit in the TUA Reserve Account to be applied to the prepayment of the accrued interest on the loans outstanding under the 2008 Convertible Loans, with any remainder to be applied to the prepayment of the principal balance of such 2008 Convertible Loans. As a result, \$63.6 million from the TUA Reserve Account was applied to such prepayment, leaving the balance of the TUA Reserve Account at zero at June 30, 2010.

*Other Restricted Cash and Cash Equivalents*

As of June 30, 2010 and December 31, 2009, \$60.1 million and \$124.4 million, respectively, of cash and cash equivalents was primarily related to cash and cash equivalents held by Sabine Pass LNG and Cheniere Partners that is considered restricted to Cheniere. As of June 30, 2010 and December 31, 2009, due to various other contractual restrictions, \$76.2 million and \$138.3 million had been classified as current restricted cash and cash equivalents, respectively, and \$0.5 million had been classified as non-current restricted cash and cash equivalents on our Consolidated Balance Sheets.

**NOTE 3—LNG Inventory**

LNG inventory is recorded at cost and is subject to the lower of cost or market (“LCM”) adjustments at the end of each period. Inventory cost is determined using the average cost method. Recoveries of losses resulting from interim period LCM adjustments are recorded when market price recoveries occur on the same inventory in the same fiscal year. These recoveries are recognized as gains in later interim periods with such gains not exceeding previously recognized losses. As of June 30, 2010 and December 31, 2009, we had 143,000 million British thermal units (“MMBtu”) of LNG inventory recorded at \$0.5 million and 7,778,000 MMBtu of LNG inventory recorded at \$32.6 million on our Consolidated Balance Sheets, respectively.

**NOTE 4—Variable Interest Entity**

In March 2010, Cheniere Marketing entered into various agreements (“LNGCo Agreements”) with JPMorgan LNG Co. (“LNGCo”), an indirect subsidiary of JPMorgan Chase & Co., effective April 1, 2010, providing Cheniere Marketing with financial support to source more cargos of LNG than it could source on a stand-alone basis. Under the LNGCo Agreements, Cheniere Marketing has agreed to develop and maintain commercial and trading opportunities in the LNG industry and present any such opportunities exclusively to LNGCo. In addition, Cheniere Marketing is responsible for providing operational and administrative services to LNGCo in exchange for a portion of the risk and return of certain assets and operating results of LNGCo. In return for the services to be provided by Cheniere Marketing, LNGCo pays a fixed fee to Cheniere Marketing, and may pay additional fees dependent upon the gross margins of each transaction, and the aggregate revenue earned during the term of the various agreements. In the event LNGCo incurs operating losses on its LNG cargo activities, Cheniere Marketing would be responsible for funding a portion of these operating losses. Cheniere Marketing holds no ownership interest in LNGCo and does not have the authority to contractually bind LNGCo under the LNGCo Agreements. LNGCo has various operational responsibilities and unilateral participating rights to direct the activities of LNGCo that most significantly impact LNGCo’s economic performance. The term of the LNGCo Agreements is two years; however, either party may terminate without penalty at the end of one year. We have determined that LNGCo is a variable interest entity (“VIE”), for which Cheniere Marketing is not the primary beneficiary because Cheniere Marketing has a portion of the risk and return of certain assets and operating results of LNGCo, but holds no equity in LNGCo and does not have substantive decision making ability. As a result, we have not consolidated LNGCo into Cheniere’s financial statements.

**CHENIERE ENERGY, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued**  
**(unaudited)**

In April 2010, Cheniere Marketing sold its remaining LNG inventory of 2,415,000 MMBtu to LNGCo.

During the three and six months ended June 30, 2010, we recognized \$3.1 million of marketing and trading revenues from LNGCo, which included \$0.9 million of revenue recognized on the sale of our inventory to LNGCo. As of June 30, 2010, Cheniere Marketing's maximum exposure to loss relating to LNGCo was \$3.0 million, related to margin deposits that have been paid to LNGCo and fixed fee and gross margin revenue receivables that have been earned as of June 30, 2010. A portion of this \$3.0 million represents our fixed fee receivable and is reported as Current Accounts and Interest Receivable, and the remaining portion is reported as Other Non-Current Assets and is to be paid to Cheniere Marketing upon the completion or termination of the LNGCo Agreements.

**NOTE 5—Property, Plant and Equipment**

Property, plant and equipment consist of LNG terminal and natural gas pipeline costs, LNG site and related costs, investments in oil and gas properties, and fixed assets, as follows (in thousands):

	<u>June 30, 2010</u>	<u>December 31, 2009</u>
<b>LNG TERMINAL COSTS</b>		
LNG receiving terminal	\$ 1,638,339	\$ 1,637,542
LNG receiving terminal construction-in-process	37,989	37,120
LNG site and related costs, net	2,992	2,994
Accumulated depreciation	<u>(61,164)</u>	<u>(40,200)</u>
Total LNG receiving terminal costs	1,618,156	1,637,456
<b>NATURAL GAS PIPELINE COSTS</b>		
Natural gas pipeline	563,683	564,213
Natural gas pipeline construction-in-process	2,419	1,995
Pipeline right-of-ways	18,455	18,455
Accumulated depreciation	<u>(30,451)</u>	<u>(23,004)</u>
Total natural gas pipeline costs	554,106	561,659
<b>OIL AND GAS PROPERTIES, successful efforts method</b>		
Proved	3,857	3,565
Accumulated depreciation, depletion and amortization	<u>(2,133)</u>	<u>(1,787)</u>
Total oil and gas properties, net	1,724	1,778
<b>FIXED ASSETS</b>		
Computers and office equipment	5,823	5,799
Furniture and fixtures	5,291	5,291
Computer software	12,325	12,284
Leasehold improvements	8,537	9,258
Other	1,442	1,488
Accumulated depreciation	<u>(20,360)</u>	<u>(18,158)</u>
Total fixed assets, net	13,058	15,962
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	<u>\$ 2,187,044</u>	<u>\$ 2,216,855</u>

*LNG Terminal Costs*

Depreciation expense related to the Sabine Pass LNG receiving terminal totaled \$10.5 million and \$7.0 million for the three-month periods ended June 30, 2010 and 2009, respectively; and totaled \$21.0 million and \$13.6 million for the six-month periods ended June 30, 2010 and 2009, respectively.

*Natural Gas Pipeline Costs*

Depreciation expense related to our Creole Trail pipeline totaled \$3.8 million and \$3.7 million for each of the three-month periods ended June 30, 2010 and 2009, and totaled \$7.5 million and \$7.4 million for each of the six-month periods ended June 30, 2010 and 2009.

**CHENIERE ENERGY, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued**  
**(unaudited)**

*Fixed Assets*

Our fixed assets are recorded at cost and are depreciated on a straight-line method based on estimated lives of the individual assets or groups of assets. Depreciation expense related to our fixed assets totaled \$1.1 million and \$1.6 million for the three-month periods ended June 30, 2010 and 2009, respectively; and totaled \$2.5 million and \$3.3 million for the six-month periods ended June 30, 2010 and 2009, respectively.

**NOTE 6—Non-controlling Interest**

We have consolidated our interest in Cheniere Partners because we have a controlling interest in the partnership. Therefore, Cheniere Partners' financial statements are consolidated in our consolidated financial statements and its other equity is recorded as a non-controlling interest. The following table sets forth the components of our non-controlling interest balance attributable to third-party investors' interest (in thousands):

Net proceeds from Cheniere Partners' issuance of common units (1)	\$ 98,442
Net proceeds from Holdings' sale of Cheniere Partners common units (2)	203,946
Distributions to Cheniere Partners' non-controlling interest	(79,611)
Non-controlling interest share of loss of Cheniere Partners	(19,355)
Non-controlling interest as of June 30, 2010	<u>\$ 203,422</u>

- (1) In March and April 2007, we and Cheniere Partners completed a public offering of 15,525,000 Cheniere Partners common units ("Cheniere Partners Offering"). Through the Cheniere Partners Offering, Cheniere Partners received \$98.4 million in net proceeds from the issuance of its common units to the public. Prior to January 1, 2009, a company was able to elect an accounting policy of recording a gain or loss on the sale of common equity of a subsidiary equal to the amount of proceeds received in excess of the carrying value of the parent's investment. Effective January 1, 2009, the sale of common equity of a subsidiary is accounted for as an equity transaction.
- (2) In conjunction with the Cheniere Partners Offering, Cheniere LNG Holdings LLC ("Holdings") sold a portion of the Cheniere Partners common units held by it to the public, realizing proceeds net of offering costs of \$203.9 million, which included \$39.4 million of net proceeds realized once the underwriters exercised their option to purchase an additional 2,025,000 common units from Holdings. Due to the subordinated distribution rights on our subordinated units, we have recorded those proceeds as a non-controlling interest.

**NOTE 7—Investment in Limited Partnership**

In May 2010, we sold our 30% interest in Freeport LNG Development, L.P. ("Freeport LNG") to institutional investors for net proceeds of \$104.3 million. We accounted for our investment in Freeport LNG using the equity method of accounting. Upon closing of the sale, we had unrecorded cumulative suspended losses related to our investment in Freeport LNG, as the basis in our investment had been reduced to zero. During our investment, we received \$24.0 million in distributions in excess of our share of income (losses); therefore, we presented the distributions as a long-term liability representing a negative equity investment on our Consolidated Balance Sheets. As a result of the sale, we recognized a net \$128.3 million gain. The gain was comprised of net proceeds received of \$104.3 million, and \$24.0 million in distributions in excess of income.

**NOTE 8—Accrued Liabilities**

As of June 30, 2010 and December 31, 2009, accrued liabilities consisted of the following (in thousands):

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
Accrued interest expense and related debt fees	\$ 16,152	\$ 16,179
Payroll	5,814	11,118
LNG terminal construction and operating costs	1,520	10,335
Other accrued liabilities	4,747	793
Total accrued liabilities	<u>\$ 28,233</u>	<u>\$ 38,425</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued**  
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**NOTE 9—Long-Term Debt and Long-Term Debt—Related Parties**

As of June 30, 2010 and December 31, 2009, our long-term debt consisted of the following (in thousands):

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
Long-term debt (including related parties):		
Senior Notes (including related parties)	\$ 2,215,500	\$ 2,215,500
2007 Term Loan	298,000	400,000
2008 Convertible Loans (including related parties)	247,563	293,714
Convertible Senior Unsecured Notes	204,630	204,630
Total long-term debt	<u>2,965,693</u>	<u>3,113,844</u>
Debt discount:		
Senior Notes (including related parties)	(30,124)	(32,471)
Convertible Senior Unsecured Notes	(32,688)	(39,498)
Total debt discount	<u>(62,812)</u>	<u>(71,969)</u>
Long-term debt (including related parties), net of discount	<u>\$ 2,902,881</u>	<u>\$ 3,041,875</u>

*Sabine Pass LNG Senior Notes*

In November 2006, Sabine Pass LNG issued an aggregate principal amount of \$2,032.0 million of Senior Notes, consisting of \$550.0 million of 7¼% Senior Secured Notes due 2013 (the “2013 Notes”) and \$1,482.0 million of 7½% Senior Secured Notes due 2016 (the “2016 Notes” and collectively with the 2013 Notes, the “Senior Notes”). In September 2008, Sabine Pass LNG issued an additional \$183.5 million, before discount, of 2016 Notes whose terms were identical to the previously outstanding 2016 Notes. The net proceeds received from the additional issuance of 2016 Notes were \$145.0 million. The additional issuance and the previously outstanding 2016 Notes are treated as a single series of notes under the Sabine Pass Indenture.

Interest on the Senior Notes is payable semi-annually in arrears on May 30 and November 30 of each year. The Senior Notes are secured on a first-priority basis by a security interest in all of Sabine Pass LNG’s equity interests and substantially all of its operating assets. Under the Sabine Pass Indenture, except for permitted tax distributions, Sabine Pass LNG may not make distributions until certain conditions are satisfied: there must be on deposit in an interest payment account an amount equal to one-sixth of the semi-annual interest payment multiplied by the number of elapsed months since the last semi-annual interest payment, and there must be on deposit in a permanent debt service reserve fund an amount equal to one semi-annual interest payment of \$82.4 million. Distributions are permitted only after satisfying the foregoing funding requirements, a fixed charge coverage ratio test of 2:1 and other conditions specified in the Sabine Pass Indenture. During the three and six-month periods ended June 30, 2010, Sabine Pass LNG made distributions of \$105.1 million and \$211.8 million, respectively, to Cheniere Partners after satisfying all of the applicable conditions in the Sabine Pass Indenture. During the three and six-month periods ended June 30, 2009, Sabine Pass LNG made distributions of \$73.0 million and \$149.3 million, respectively, to Cheniere Partners after satisfying all of the applicable conditions in the Sabine Pass Indenture.

As of June 30, 2010 and December 31, 2009, we classified \$74.1 million and \$72.9 million, respectively, as part of Long-Term Debt—Related Party on our Consolidated Balance Sheets because related parties held these portions of the Senior Notes.

*Convertible Senior Unsecured Notes*

In July 2005, we consummated a private offering of \$325.0 million aggregate principal amount of Convertible Senior Unsecured Notes to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The notes bear interest at a rate of 2¼% per year and mature in August 2012. The notes are convertible at any time into our common stock under certain circumstances at an initial conversion rate of 28.2326 shares per \$1,000 principal amount of the notes, which is equal to a conversion price of approximately \$35.42 per share. As of June 30, 2010, no holders had elected to convert their notes at the conversion rate.

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We may redeem some or all of the notes on or before August 1, 2012, for cash equal to 100% of the principal plus any accrued and unpaid interest if in the previous 10 trading days the volume-weighted average price of our common stock exceeds \$53.13, subject to adjustment, for at least five consecutive trading days. In the event of such redemption, we will make an additional payment equal to the present value of all remaining scheduled interest payments through August 1, 2012, discounted at the U.S. Treasury securities rate plus 50 basis points. The indenture governing the notes contains customary reporting requirements.

On January 1, 2009, we adopted an accounting standard that requires issuers of certain convertible debt instruments to separately account for the liability component and the equity component represented by the embedded conversion option in a manner that will reflect that entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The following table summarizes the liability component of the Convertible Senior Unsecured Notes (in thousands):

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
Principal amount	\$ 204,630	\$ 204,630
Unamortized discount	(32,688)	(39,498)
Net carrying amount	<u>\$ 171,942</u>	<u>\$ 165,132</u>

The unamortized discount is being amortized through the August 2012 maturity of the Convertible Senior Unsecured Notes. Interest expense for the Convertible Senior Unsecured Notes, including the debt discount amortization, for the six-month periods ended June 30, 2010 and 2009 was \$9.4 million and \$12.3 million, respectively. The effective interest rate as of June 30, 2010 was 10.9% for the Convertible Senior Unsecured Notes.

*2007 Term Loan*

In May 2007, Cheniere Subsidiary Holdings, LLC ("Cheniere Subsidiary"), a wholly-owned subsidiary of Cheniere, entered into a \$400.0 million credit agreement ("2007 Term Loan"). Borrowings under the 2007 Term Loan generally bear interest at a fixed rate of 9¾% per annum. Interest is calculated on the unpaid principal amount of the 2007 Term Loan outstanding and is payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year. The 2007 Term Loan will mature on May 31, 2012. The 2007 Term Loan is secured by a pledge of our 135,383,831 subordinated units in Cheniere Partners.

In May 2010, we sold our 30% interest in Freeport LNG, which was pledged as security of the 2007 Term Loan, to institutional investors for net proceeds of \$104.3 million. The net proceeds from the sale were used to prepay \$102.0 million of the 2007 Term Loan in May 2010 (see Note 7—"Investment in Limited Partnership" for additional information). As of June 30, 2010 and December 31, 2009, \$298.0 million and \$400.0 million, respectively, were outstanding under the 2007 Term Loan and were included in Long-term Debt on our Consolidated Balance Sheets.

*2008 Convertible Loans*

In August 2008, we entered into a credit agreement pursuant to which we obtained \$250.0 million in convertible term loans ("2008 Convertible Loans"). The 2008 Convertible Loans will mature in 2018, but the lenders can require prepayment of the loan for 30 days following August 15, 2011, 2013 and 2015, and upon a change of control. The 2008 Convertible Loans bear interest at a fixed rate of 12% per annum, except during the occurrence of an event of default during which time the rate of interest will be 14% per annum. Interest is due semi-annually on the last business day of January and July. At our option, until August 15, 2011, accrued interest may be added to the principal on each semi-annual interest date. The aggregate amount of all accrued interest to August 15, 2011 will be payable upon the maturity date. The 2008 Convertible Loans are secured by Cheniere's rights and fees payable under management services agreements with Sabine Pass LNG and Cheniere Partners, by Cheniere's 10.9 million common units in Cheniere Partners, by the equity and non-real property assets of Cheniere's pipeline entities, by the equity of various other subsidiaries and certain other assets and subsidiary guarantees. The original principal amount of \$250.0 million may be exchanged for newly-created Series B Convertible Preferred Stock, par value \$0.0001 per share ("Series B Preferred Stock"), with voting rights limited to the equivalent of 10,125,000 shares of common stock. The exchange ratio is one share of Series B Preferred Stock for each \$5,000 of outstanding borrowings, subject to adjustment. The aggregate preferred stock is exchangeable into 50 million shares of common stock at a price of \$5.00 per share pursuant to a broadly syndicated offering. No portion of any accrued interest is eligible for conversion into Series B Preferred Stock.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued**  
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As long as the 2008 Convertible Loans are exchangeable for shares of Series B Preferred Stock or shares of Series B Preferred Stock remain outstanding, the holders of a majority of the 2008 Convertible Loans and Series B Preferred Stock, acting together, have the right to nominate two individuals to the Company's Board of Directors, and together with the Board of Directors, a third nominee, who would be an independent director. In addition, one of the lenders is Scorpion Capital Partners LP, an affiliate of one of the Company's directors.

In June 2010, the 2008 Convertible Loans were amended to permit all funds on deposit in the TUA Reserve Account to be applied to the prepayment of the accrued interest on the loans outstanding under the 2008 Convertible Loans, with any remainder to be applied to the prepayment of the principal balance of such 2008 Convertible Loans. As a result, \$63.6 million from the TUA Reserve Account was used to prepay \$60.9 million of accrued interest and \$2.7 million of principal.

As of June 30, 2010 and December 31, 2009, \$235.4 million and \$276.2 million, respectively, were outstanding under the 2008 Convertible Loans and were included in Long-term Debt—Related Party on our Consolidated Balance Sheets.

**NOTE 10—Financial Instruments**

We entered into financial derivatives to hedge the exposure to variability in expected future cash flows and currency fluctuations attributable to the future sale of LNG inventory. Changes in the fair value of our derivatives are reported in earnings because they do not meet the criteria to be designated as a hedging instrument that is required to qualify for cash flow hedge accounting. In addition, we entered into financial derivatives in order to take market positions associated with LNG and natural gas.

The estimated fair value of financial instruments is the amount at which the instrument could be exchanged currently between willing parties. The fair value of our commodity futures contracts are based on inputs that are quoted prices in active markets for identical assets or liabilities, resulting in Level 1 categorization of such measurements. The following table sets forth, by level within the fair value hierarchy, the fair value of our financial assets and liabilities at June 30, 2010 (in thousands):

	<b>Quoted Prices in Active Markets for Identical Instruments (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total Carrying Value</b>
Derivatives asset	\$ 39	—	—	\$ 39
Derivatives liability	1,108	—	—	1,108

Derivatives asset reflects the fair value of forward foreign exchange contracts entered into to hedge the exposure to fluctuations in currency values.

Derivatives liability reflects the fair value of natural gas swaps associated with the marketing of LNG and natural gas.

The estimated fair value of financial instruments, including those financial instruments for which the fair value option was not elected are set forth in the table below. The carrying amounts reported on our Consolidated Balance Sheets for cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, interest receivable, and accounts payable approximate fair value due to their short-term nature.

Financial Instruments (in thousands):

	<b>June 30, 2010</b>		<b>December 31, 2009</b>	
	<b>Carrying Amount</b>	<b>Estimated Fair Value</b>	<b>Carrying Amount</b>	<b>Estimated Fair Value</b>
2013 Notes (1)	\$ 550,000	\$ 495,000	\$ 550,000	\$ 503,250
2016 Notes, net of discount (1)	1,635,376	1,365,539	1,633,029	1,371,744
Convertible Senior Unsecured Notes, net of discount (2)	171,942	102,305	165,132	95,777
2007 Term Loan (3)	298,000	287,992	400,000	384,640
2008 Convertible Loans (3)	247,563	249,569	293,714	299,001

(1) The fair value of the Senior Notes, net of discount, is based on quotations obtained from broker-dealers who made markets in these and similar instruments as of June 30, 2010 and December 31, 2009, as applicable.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued**  
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- (2) The fair value of our Convertible Senior Unsecured Notes was based on the closing trading prices on June 30, 2010 and December 31, 2009, as applicable.
- (3) The 2007 Term Loan and 2008 Convertible Loans are closely held by few holders and purchases and sales are infrequent and are conducted on a bilateral basis without price discovery by us. These loans are not rated and have unique covenants and collateral packages such that comparisons to other instruments would be imprecise. Moreover, the 2008 Convertible Loans are convertible into shares of Cheniere common stock. Nonetheless, we have provided an estimate of the fair value of these loans as of June 30, 2010 and December 31, 2009 based on an index of the yield to maturity of CCC rated debt of other companies in the energy sector.

**NOTE 11—Income Taxes**

We are not presently a taxpayer and have not recorded a net liability for international, federal or state income taxes in any of the periods included in the accompanying financial statements. Our Consolidated Statements of Operations for the three and six-month periods ended June 30, 2010 and 2009 include no income tax benefits.

During the fourth quarter of 2008, largely due to the increased level of trading activity in our shares, we experienced an ownership change within the provisions of Section 382 (“Section 382”) of the Internal Revenue Code of 1986, as amended, that will subject approximately \$600 million of our existing net operating loss (“NOL”) carryforwards to the annual NOL utilization limitations. The applicable Section 382 limitation may affect our ability to fully utilize our existing tax NOL carryforwards. Our ability to fully utilize our existing tax NOL carryforwards is dependent on increasing the recognition of built-in gains in the five-year period following the above-referenced ownership change.

**NOTE 12—Net Income (Loss) Per Share Attributable to Common Stockholders**

Basic net income (loss) per share attributable to common stockholders (“EPS”) excludes dilution and is computed by dividing net income (loss) attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS reflects potential dilution and is computed by dividing net income (loss) attributable to common stockholders 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.

The following table reconciles basic and diluted weighted average common shares outstanding for the three and six-month periods ended June 30, 2010 and 2009 (in thousands except for loss per share):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Weighted average common shares outstanding:				
Basic	55,317	51,576	55,161	50,121
Dilutive common stock options (1)	5,990	—	5,937	—
Dilutive Convertible Senior Unsecured Notes (2)	5,777	—	—	—
Dilutive 2008 Convertible Loans (3)	49,512	—	49,512	—
Diluted	<u>116,596</u>	<u>51,576</u>	<u>110,610</u>	<u>50,121</u>
Basic income (loss) per share attributable to common stockholders	\$ 1.55	\$ (0.25)	\$ 0.92	\$ (1.91)
Diluted income (loss) per share attributable to common stockholders	\$ 0.86	\$ (0.25)	\$ 0.62	\$ (1.91)

- (1) Stock options, phantom stock and unvested stock of 10.7 million shares representing securities that could potentially dilute basic EPS in the future, were not included in the diluted net loss per share computations for the three and six-month periods ended June 30, 2009, because they would have been anti-dilutive.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued**  
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- (2) Common shares of 5.8 million issuable upon conversion of the Convertible Senior Unsecured Notes for the three-month period ended June 30, 2009 were not included in the diluted computation because the computation of diluted net loss per share attributable to common stockholders utilizing the “if-converted” method would be anti-dilutive. Common shares of 5.8 million issuable upon conversion of the Convertible Senior Unsecured Notes for the six-month period ended June 30, 2009, were not included in the diluted computations because the computations of diluted net income (loss) per share attributable to common stockholders utilizing the “if-converted” method would be anti-dilutive.
- (3) Common shares of 50.0 million issuable upon conversion of the 2008 Convertible Loans were not included in the computations of diluted net loss per share for the three- and six-month periods ended June 30, 2009 because the computations of diluted net loss per share attributable to common stockholders utilizing the “if-converted” method would be anti-dilutive.

**NOTE 13—Comprehensive Loss**

The following table is a reconciliation of our net income (loss) attributable to common stockholders to our comprehensive income (loss) for the three and six-month periods ended June 30, 2010 and 2009 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income (loss) attributable to common stockholders	\$ 85,677	\$ (13,051)	\$ 50,510	\$ (95,792)
Other comprehensive income (loss) items:				
Foreign currency translation	(82)	104	(70)	42
Comprehensive income (loss) attributable to common stockholders	<u>\$ 85,595</u>	<u>\$ (12,947)</u>	<u>\$ 50,440</u>	<u>\$ (95,750)</u>

**NOTE 14—Supplemental Cash Flow Information and Disclosures of Non-Cash Transactions**

The following table provides supplemental disclosure of cash flow information (in thousands):

	Six Months Ended June 30,	
	2010	2009
Cash paid for interest, net of amounts capitalized	\$ 156,898	\$ 89,378
Construction-in-process and debt issuance additions funded with accrued liabilities	—	20,989

**NOTE 15—Business Segment Information**

We have three operating business segments: LNG receiving terminal business, natural gas pipeline business and LNG and natural gas marketing business. These operating segments reflect lines of business for which separate financial information is produced internally and are subject to evaluation by our chief operating decision makers in deciding how to allocate resources.

Our LNG receiving terminal business segment consists of the operational Sabine Pass LNG receiving terminal, approximately 90.6% owned (at June 30, 2010) in western Cameron Parish, Louisiana on the Sabine Pass Channel and two other LNG receiving terminals that are in various stages of development at the following locations: Corpus Christi LNG, 100% owned, near Corpus Christi, Texas; and Creole Trail LNG, 100% owned, at the mouth of the Calcasieu Channel in central Cameron Parish, Louisiana.

Our natural gas pipeline business segment consists of the Creole Trail Pipeline, consisting of 94 miles of natural gas pipeline connecting the Sabine Pass LNG receiving terminal to numerous interconnection points with existing interstate natural gas pipelines in southwest Louisiana, and other natural gas pipelines in various stages of development to provide access to North American natural gas markets.

Our LNG and natural gas marketing business segment is seeking to develop a portfolio of long-term, short-term, and spot LNG purchase agreements and focuses on entering into business relationships for the domestic marketing of natural gas that is imported by Cheniere Marketing as LNG to the Sabine Pass LNG receiving terminal.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued**  
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The following table summarizes revenues, net income (loss) from operations and total assets for each of our operating segments (in thousands):

	<b>Segments</b>				<b>Total Consolidation</b>
	<b>LNG Receiving Terminal</b>	<b>Natural Gas Pipeline</b>	<b>LNG &amp; Natural Gas Marketing</b>	<b>Corporate and Other (1)</b>	
<b>As of or for the Six Months Ended June 30, 2010</b>					
Revenues	\$ 133,164	\$ 37	\$ 13,170	\$ 1,421	\$ 147,792
Intersegment revenues (losses) (2) (3) (4) (5)	127,710	255	(126,736)	(1,229)	—
Depreciation, depletion and amortization	21,363	7,496	572	1,805	31,236
Non-cash compensation	844	254	3,601	5,286	9,985
Income (loss) from operations	200,533	(10,848)	(125,279)	(8,669)	55,737
Interest expense, net	(92,360)	(22,394)	—	(19,391)	(134,145)
Interest income	162	—	44	33	239
Goodwill	76,819	—	—	—	76,819
Total assets	1,920,528	561,737	94,771	30,445	2,607,481
Expenditures for additions to long-lived assets	1,937	(105)	(349)	(76)	1,407
<b>As of or for the Six Months Ended June 30, 2009</b>					
Revenues	\$ 38,201	\$ 75	\$ (656)	\$ 1,573	\$ 39,193
Intersegment revenues (losses) (2) (3) (4) (5)	126,614	431	(121,683)	(5,362)	—
Depreciation, depletion and amortization	14,017	7,436	731	2,673	24,857
Non-cash compensation	767	246	2,467	5,153	8,633
Income (loss) from operations	123,078	(10,886)	(131,546)	(17,722)	(37,076)
Interest expense, net	(70,946)	(22,287)	—	(21,976)	(115,209)
Interest income	937	—	181	81	1,199
Goodwill	76,844	—	—	—	76,844
Total assets	2,074,757	584,630	144,835	(18,437)	2,785,785
Expenditures for additions to long-lived assets	89,583	910	69	241	90,803
<b>For the Three Months Ended June 30, 2010</b>					
Revenues	\$ 66,337	\$ 26	\$ 1,028	\$ 884	\$ 68,275
Intersegment revenues (losses) (2) (3) (4) (5)	63,759	24	(63,058)	(725)	—
Depreciation, depletion and amortization	10,674	3,728	264	946	15,612
Non-cash compensation	376	121	1,040	2,098	3,635
Income (loss) from operations	101,850	(5,497)	(67,091)	(4,572)	24,690
Interest expense, net	(45,922)	(11,260)	—	(9,768)	(66,950)
Interest income	96	—	30	16	142
Expenditures for additions to long-lived assets	917	60	(349)	(12)	616
<b>For the Three Months Ended June 30, 2009</b>					
Revenues	\$ 38,201	\$ 75	\$ (1,156)	\$ 839	\$ 37,959
Intersegment revenues (losses) (2) (3) (4) (5)	64,065	161	(57,229)	(6,997)	—
Depreciation, depletion and amortization	7,262	3,768	362	1,403	12,795
Non-cash compensation	306	163	1,333	2,884	4,686
Income (loss) from operations	80,780	(4,728)	(63,125)	(12,605)	322
Interest expense, net	(35,971)	(11,288)	—	(14,700)	(61,959)
Interest income	305	—	69	14	388
Expenditures for additions to long-lived assets	35,471	841	69	203	36,584

(1) Includes corporate activities, oil and gas exploration, development and exploitation activities and certain intercompany eliminations. Our oil and gas exploration, development and exploitation operating activities have been included in the corporate and other column due to the lack of a material impact that these activities have on our consolidated financial statements.

(2) Intersegment revenues related to our LNG receiving terminal segment are primarily from TUA capacity reservation fee revenues of \$125.5 million and \$125.1 million and tug revenues that were received from our LNG and natural gas marketing segment for the six months ended June 30, 2010 and 2009, respectively. Intersegment revenues related to our LNG receiving terminal

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segment are primarily from TUA capacity reservation fee revenues of \$62.8 million and \$62.5 million and tug revenues that were received from our LNG and natural gas marketing segment for the three-month periods ended June 30, 2010 and 2009, respectively. These LNG receiving terminal segment intersegment revenues are eliminated with intersegment expenses in our Consolidated Statement of Operations.

- (3) Intersegment revenues related to our natural gas pipeline segment are primarily from transportation fees charged by our natural gas pipeline segment to our LNG receiving terminal and LNG and natural gas marketing segments to transport natural gas that was regasified at the Sabine Pass LNG receiving terminal. These natural gas pipeline segment intersegment revenues are eliminated with intersegment expenses in our Consolidated Statement of Operations.
- (4) Intersegment losses related to our LNG and natural gas marketing segment are primarily from TUA capacity reservation fee expenses of \$125.5 million and \$125.1 million and tug costs that were incurred from our LNG receiving terminal segment for the six-month periods ended June 30, 2010 and 2009, respectively. Intersegment losses related to our LNG and natural gas marketing segment are primarily from TUA capacity reservation fee expenses of \$62.8 million and \$62.5 million and tug costs that were incurred from our LNG receiving terminal segment for the three-month periods ended June 30, 2010 and 2009, respectively. The costs of the LNG and natural gas marketing segment TUA capacity reservation fee expenses are classified as marketing trading gains (losses) as they are considered capacity contracts related to our energy trading and risk management activities. These LNG and natural gas marketing segment intersegment revenues are eliminated with intersegment expenses in our Consolidated Statement of Operations.
- (5) Intersegment losses related to corporate and other are from various transactions between our LNG receiving terminal, natural gas pipeline and LNG and natural gas marketing segments in which revenue recorded by one operating segment is eliminated with a non-revenue line item (i.e. operating expense or is capitalized) by the other operating segment.

**NOTE 16—Share-Based Compensation**

We have granted options to purchase common stock to employees, consultants and outside directors under the Cheniere Energy, Inc. Amended and Restated 1997 Stock Option Plan (“1997 Plan”) and the Cheniere Energy, Inc. Amended and Restated 2003 Stock Incentive Plan (“2003 Plan”). We recognize our share-based payments to employees in the consolidated financial statements based on their fair values at the date of grant. The calculated fair value is recognized as expense (net of any capitalization) over the requisite service period, net of estimated forfeitures, using the straight-line method.

For the three and six months ended June 30, 2010, the total share-based compensation expense recognized in our net income attributable to common stockholders, net of capitalization was \$3.6 million and \$9.9 million, respectively. For the three and six months ended June 30, 2009, the total share-based compensation expense recognized in our net loss attributable to common stockholders, net of capitalization was \$4.7 million and \$8.6 million, respectively.

The total unrecognized compensation cost at June 30, 2010 relating to non-vested share-based compensation arrangements granted under the 1997 Plan and 2003 Plan, before any capitalization, was \$15.9 million. The total unrecognized compensation cost at June 30, 2010 is expected to be recognized over 3.25 years, with a weighted average period of 0.8 years.

We received no proceeds from the exercise of stock options in the three and six-month periods ended June 30, 2010 and 2009.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report contains certain statements that are, or may be deemed to be, "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements, other than statements of historical fact, included herein or incorporated herein by reference are "forward-looking statements." Included among "forward-looking statements" are, among other things:

- statements relating to the construction or operation of each of our proposed liquefied natural gas ("LNG") receiving terminals or our proposed pipelines or liquefaction facilities, or expansions or extensions thereof, including statements concerning the completion or expansion thereof by certain dates or at all, the costs related thereto and certain characteristics, including amounts of regasification and storage capacity, the number of storage tanks and docks, pipeline deliverability and the number of pipeline interconnections, if any;
- statements regarding future levels of domestic natural gas production, supply or consumption; future levels of LNG imports into North America; sales of natural gas in North America; exports of natural gas from North America; and the transportation, other infrastructure or prices related to natural gas, LNG or other energy sources or hydrocarbon products;
- statements regarding any financing transactions or arrangements, or ability to enter into such transactions or arrangements, whether on the part of Cheniere or at the project level;
- statements regarding any terminal use agreement ("TUA") or other commercial arrangements presently contracted, optioned or marketed, or potential arrangements, to be performed substantially in the future, including any cash distributions and revenues anticipated to be received and the anticipated timing thereof, and statements regarding the amounts of total LNG regasification or liquefaction capacity that are, or may become, subject to TUAs or other contracts;
- statements regarding counterparties to our TUAs, construction contracts and other contracts;
- statements regarding any business strategy, any business plans or any other plans, forecasts, projections or objectives, including potential revenues and capital expenditures, any or all of which are subject to change;
- statements regarding legislative, governmental, regulatory, administrative or other public body actions, requirements, permits, investigations, proceedings or decisions;
- statements regarding our anticipated LNG and natural gas marketing activities; and
- any other statements that relate to non-historical or future information.

These forward-looking statements are often identified by the use of terms such as "achieve," "anticipate," "believe," "estimate," "expect," "forecast," "intend," "plan," "potential," "project," "propose," "strategy" and similar terms. Although we believe that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this quarterly report.

As used herein, the terms "Cheniere," "the Company," "we," "our" and "us" refer to Cheniere Energy, Inc. and its wholly-owned or controlled subsidiaries.

Our actual results could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors, including those discussed under "Risk Factors" in our current report on Form 8-K dated as of the date of this quarterly report. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these risk factors. Other than as required under the securities laws, we assume no obligation to update or revise these forward-looking statements or provide reasons why actual results may differ.

## Introduction

The following discussion and analysis presents management's view of our business, financial condition and overall performance and should be read in conjunction with our consolidated financial statements and the accompanying notes in Item 1. "Consolidated Financial Statements." This information is intended to provide investors with an understanding of our past performance, current financial condition and outlook for the future.

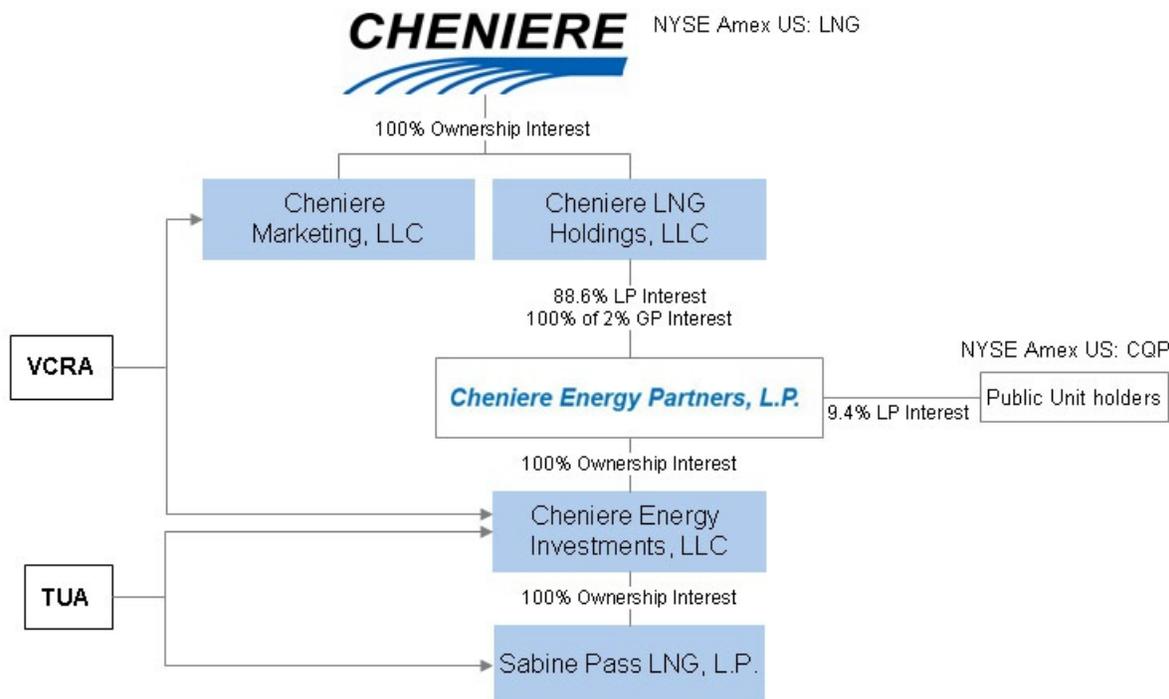
Our discussion and analysis includes the following subjects:

- Overview of Business
- Overview of Significant 2010 Events
- Liquidity and Capital Resources
- Results of Operations
- Off-Balance Sheet Arrangements
- Summary of Critical Accounting Policies and Estimates
- Recent Accounting Standards

## Overview of Business

We own and operate the Sabine Pass LNG receiving terminal in Louisiana through our 90.6% ownership interest in and management agreements with Cheniere Energy Partners, L.P. ("Cheniere Partners"), which is a publicly traded partnership we created in 2007. We also own and operate the Creole Trail Pipeline, which interconnects the Sabine Pass LNG receiving terminal with downstream markets. One of our subsidiaries, Cheniere Marketing, LLC ("Cheniere Marketing"), is marketing liquefied natural gas ("LNG") and natural gas and is developing a portfolio of contracts to monetize capacity at the Sabine Pass LNG receiving terminal and the Creole Trail Pipeline. We are also in various stages of developing other LNG receiving terminal and pipeline related projects, which, among other things, will require commercial justification before we make a final investment decision. In addition, we are engaged to a limited extent in oil and natural gas exploration and development activities in the Gulf of Mexico.

In June 2010, Cheniere Marketing assigned its TUA with Sabine Pass LNG, L.P. ("Sabine Pass") to Cheniere Energy Investments, LLC ("Investments"), a wholly-owned subsidiary of Cheniere Partners, and concurrently Cheniere Marketing entered into a Variable Capacity Rights Agreement ("VCRA") with Investments that allows Cheniere Marketing to continue to monetize the capacity at the Sabine Pass LNG receiving terminal on Investments' behalf. The impact of this TUA assignment and VCRA on us is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations. The following diagram depicts our abridged organizational structure after the TUA assignment:



## Overview of Significant 2010 Events

In the first six months of 2010, and through the date of this Form 10-Q, we continue to execute our strategy to operate and to monetize our capacity at the Sabine Pass LNG receiving terminal and the Creole Trail pipeline, as well as restructure our financial obligations, including the following:

- In March 2010, Cheniere Marketing entered into various agreements (“JPMorgan LNG Agreements”) with JPMorgan LNG Co. (“LNGCo”), an indirect subsidiary of JPMorgan Chase & Co., providing Cheniere Marketing with financial support to source more cargoes of LNG than it could source on a stand-alone basis;
- In June 2010, we used \$102.0 million of cash received from the sale of our 30% limited partner interest in Freeport LNG Development, L.P. (“Freeport LNG”) to prepay a portion of the 2007 Term Loan described below;
- In June 2010, we used \$63.6 million of cash and cash equivalents held in a TUA reserve account established in connection with the 2008 Convertible Loans described below to prepay \$60.9 million of accrued interest on, and \$2.7 million of principal of, the 2008 Convertible Loans as a result of the assignment of the Cheniere Marketing TUA; and
- In June 2010, Cheniere Partners initiated a project to add liquefaction services at the Sabine Pass LNG receiving terminal that would transform the terminal into a bi-directional facility capable of liquefying natural gas and exporting LNG in addition to importing and regasifying foreign-sourced LNG.

## Liquidity and Capital Resources

Although results are consolidated for financial reporting, Cheniere, Sabine Pass LNG and Cheniere Partners operate with independent capital structures. Since the inception of both Sabine Pass LNG and Cheniere Partners, the cash needs of each entity have been met with a combination of borrowings, issuance of units and operating cash flows. We expect the cash needs for Sabine Pass LNG and Cheniere Partners over the next 12 months will be met through operating cash flows and existing unrestricted cash. With respect to Cheniere, we have historically satisfied cash needs by utilizing existing unrestricted cash, management fees from Sabine Pass LNG and Cheniere Partners, distributions from our investment in Cheniere Partners, distributions from our 30% investment in Freeport LNG and operating cash flows from our pipeline and LNG and natural gas marketing businesses. Below is a table (in thousands) that presents unrestricted and restricted cash for each portion of our capital structure as of June 30, 2010:

	Sabine Pass LNG, L.P.	Cheniere Energy Partners, L.P.	Other Cheniere Energy, Inc.	Consolidated Cheniere Energy, Inc.
Cash and cash equivalents	\$ —	\$ —	\$ 73,940	\$ 73,940
Restricted cash and cash equivalents	113,087	43,117	2,852	159,056
Total	<u>\$ 113,087</u>	<u>\$ 43,117</u>	<u>\$ 76,792</u>	<u>\$ 232,996</u>

As of June 30, 2010, we had unrestricted cash and cash equivalents of \$73.9 million and accounts receivable and other working capital from LNG and natural gas marketing activities of approximately \$28 million that will be available to Cheniere, which excludes cash and cash equivalents available to Cheniere Energy Partners, L.P. (“Cheniere Partners”), a publicly traded partnership in which we own a 90.6% interest, and Sabine Pass LNG, L.P. (“Sabine Pass LNG”), a wholly-owned subsidiary of Cheniere Partners. In addition, we had restricted cash and cash equivalents of \$159.1 million, which were designated for the following purposes: \$17.0 million for Sabine Pass LNG’s working capital; \$43.1 million for Cheniere Partners’ working capital; \$96.1 million for interest payments related to the Senior Notes described below; and \$2.9 million for other restricted purposes. We believe that we have sufficient cash, other working capital and cash generated from our operations to fund our operating expenses and other cash requirements until the earliest date when principal payments may be required on our outstanding indebtedness. The lenders of the 2008 Convertible Loans can require prepayment of the loans between August 16, 2011 and September 14, 2011. If the lenders of the 2008 Convertible Loans do not require the principal prepayment in 2011, the earliest date that principal payments will be required is May 31, 2012, which is the maturity date of the 2007 Term Loan. Before our first required principal payment, we will need to restructure our finances and improve our capital structure, which may be accomplished by entering into long-term TUAs or LNG purchase agreements, refinancing our existing indebtedness, issuing equity or other securities, selling assets or a combination of the foregoing.

In the first six months of 2010, we have accomplished the following items that we believe improve our liquidity and strengthen our capital structure:

- In March 2010, our liquidity position was improved by entering into the JPMorgan LNG Agreements, which monetized our then-existing LNG inventory of 2,415,000 MMBtu, may reduce our working capital requirements to operate our marketing business by allowing us to source more cargoes of LNG than we could source on a stand-alone basis, and

may provide additional financial support to commercialize our capacity at the Sabine Pass LNG receiving terminal and Creole Trail Pipeline;

- In May 2010, our capital structure was improved by the pre-payment of \$102.0 million of principal of the 2007 Term Loan as a result of the sale of our 30% interest in Freeport LNG. The principal pre-payment also reduced the amount of annual interest payable under the 2007 Term Loan by \$10.1 million, offsetting or potentially exceeding any distributions we may have received from our 30% interest in Freeport LNG as a source of liquidity; and
- In June 2010, our liquidity and capital structure were improved by assigning Cheniere Marketing's TUA to a subsidiary of Cheniere Partners and entering into related transactions. We used the restricted cash that was previously reserved to fund Cheniere Marketing's TUA payment obligation to prepay \$60.9 million in accrued interest and \$2.7 million of principal on the 2008 Convertible Loans. As a result of the TUA assignment and related transactions, we improved our annual cash flow by \$5 million to \$16 million on a net basis:
  - o the assignment of the TUA eliminated the need for us to use distributions we receive from Cheniere Partners to fund Cheniere Marketing's TUA payment obligation and therefore the distributions we receive will be available to us as unrestricted cash;
  - o the elimination of Cheniere Marketing's TUA payments reduces the cash available to Cheniere Partners to make distributions on the subordinated units that we own; and
  - o we amended our management services agreement with Cheniere Partners to change our fixed management fee to a variable fee dependent on cash available to Cheniere Partners after distributions to its common unitholders and general partner and therefore the cash we receive for managing Cheniere Partners may be less than it was prior to June 30, 2010.

Our ability to continue enhancing near-term liquidity and improving our capital structure is dependent on numerous factors, including the availability of credit, changes in worldwide and domestic supply and demand for natural gas and LNG, and the relative prices for natural gas in North America and international markets. We face numerous financial, market and operational risks in connection with improving our liquidity situation, many of which are beyond our control.

### ***LNG Receiving Terminal Business***

#### *Cheniere Partners*

Our ownership interest in the Sabine Pass LNG receiving terminal is held through Cheniere Partners. In 2007, Cheniere Partners completed a public offering. As a result of this public offering, our combined general partner and limited partner ownership interests in Cheniere Partners was reduced to approximately 90.6% (we hold 135,383,831 subordinated units, 10,891,357 common units and 3,302,045 general partner units of Cheniere Partners). Cheniere Partners owns a 100% interest in Sabine Pass LNG, which is operating the Sabine Pass LNG receiving terminal.

We receive quarterly distributions from Cheniere Partners for our ownership interests. For the six month period ended June 30, 2010, we received \$9.3 million in distributions from our common units, \$115.1 million from our subordinated units and \$2.8 million from our general partner interests. Cheniere Partners relies on the receipt of operating revenues from Sabine Pass LNG's TUAs to fund quarterly cash distributions to us and other unitholders. Sabine Pass LNG is not permitted under the indenture governing the Senior Notes (the "Sabine Pass Indenture") to make cash distributions to Cheniere Partners if it does not satisfy a fixed charge coverage ratio test of 2:1, calculated as required in the Sabine Pass Indenture, as well as other conditions. If the coverage test is not met, we may not receive distributions.

In June 2010 Cheniere Marketing assigned its existing TUA with Sabine Pass LNG to Investments, including all of its rights, titles, interests, obligations and liabilities in and under the TUA and will therefore no longer be obligated to make the approximately \$250 million per year of payments to Sabine Pass LNG; however, Cheniere Marketing has agreed to pay for certain taxes and regulatory costs during the term of the VCRA. In connection with the assignment, Cheniere's guarantee of Cheniere Marketing's obligations under the TUA was terminated and Cheniere Partners provided a guarantee of Investments' obligations under the TUA. Investments is required to make capacity payments aggregating approximately \$250 million per year through at least September 30, 2028. As a result of the assignment of the TUA, Cheniere Partners will have adequate available cash to make distributions on our subordinated units only to the extent it generates additional cash flow.

Concurrent with the TUA assignment, Investments entered into the variable capacity rights agreement ("VCRA") with Cheniere Marketing. The VCRA will continue until the earliest of (a) the termination of Investments' TUA, (b) the expiration of the

initial term of the TUA, (c) the termination of the VCRA by either party after two years, and (d) the termination of the VCRA as a result of default. Under the terms of the VCRA, Cheniere Marketing will continue to be responsible for monetizing the capacity at the Sabine Pass LNG receiving terminal and will have the right to utilize all of the services and other rights at the Sabine Pass LNG receiving terminal available under the TUA assigned to Investments. In consideration of these rights, Cheniere Marketing is obligated to pay Investments 80% of the expected gross margin of each cargo of LNG it arranges for delivery to the Sabine Pass LNG receiving terminal. To the extent payments from Cheniere Marketing to Investments under the VCRA increase Cheniere Partners' available cash in excess of the common unit and general partner distributions and certain reserves, the cash would be distributed to us in the form of distributions on our subordinated units. During the term of the VCRA, Cheniere Marketing is responsible for the payment of taxes and new regulatory costs under the TUA. We have guaranteed all of Cheniere Marketing's payment obligations under the VCRA.

We also receive payments from Sabine Pass LNG and Cheniere Partners for management services that we provide. We received \$9.3 million of management and service fees from Sabine Pass LNG and Cheniere Partners pursuant to existing agreements for the six-month period ended June 30, 2010. In June 2010, we and Cheniere Partners amended, effective as of July 1, 2010, the fee structure for the various general and administrative services provided by us for Cheniere Partners' benefit and changed it from a fixed fee to a variable fee. The amended and restated services agreement provides that fees will be paid quarterly from Cheniere Partners' unrestricted cash and cash equivalents remaining after making distributions to the common unitholders and the general partner in respect of each quarter and retaining certain reserves. Our ability to receive management fees from Cheniere Partners is dependent on our ability to, among other things, manage Cheniere Partners' and Sabine Pass LNG's operating and administrative expenses, monetize the 2.0 billion cubic feet per day ("Bcf/d") regasification capacity held by Investments (as discussed below) and develop new projects through either internal development or acquisition to increase cash flow.

#### *Sabine Pass LNG Receiving Terminal*

The entire approximately 4.0 Bcf/d of regasification capacity at the Sabine Pass LNG receiving terminal has been fully reserved under three 20-year, firm commitment TUAs. 2.0 Bcf/d is contracted with unaffiliated third parties and 2.0 Bcf/d is contracted with Investments. Each of the three customers at the Sabine Pass LNG receiving terminal must make the full contracted amount of capacity reservation fee payments under its TUA whether or not it uses any of its reserved capacity. Capacity reservation fee TUA payments are made by Sabine Pass LNG's third-party customers as follows:

- Total Gas and Power North America, Inc. (formerly known as Total LNG USA, Inc.) ("Total") has reserved approximately 1.0 Bcf/d of regasification capacity and has agreed to make monthly capacity payments to Sabine Pass LNG aggregating approximately \$125 million per year for 20 years that commenced April 1, 2009. Total, S.A. has guaranteed Total's obligations under its TUA up to \$2.5 billion, subject to certain exceptions; and
- Chevron U.S.A., Inc. ("Chevron") has reserved approximately 1.0 Bcf/d of regasification capacity and has agreed to make monthly capacity payments to Sabine Pass LNG aggregating approximately \$125 million per year for 20 years that commenced on July 1, 2009. Chevron Corporation has guaranteed Chevron's obligations under its TUA up to 80% of the fees payable by Chevron.

In June 2010, Sabine Pass LNG entered into amendments of the TUAs with Total and Chevron for the purpose of clarifying various operational rights and obligations of the parties. In connection with these amendments, Total and Chevron have agreed to minimum pro rata inventory obligations as necessary to ensure cryogenic readiness of the Sabine Pass LNG receiving terminal and to mitigate the effects of inventory weathering. In addition, Total and Chevron have each agreed to daily boil-off gas re-delivery obligations, service fees related to the compression services associated with minimization of their respective daily boil-off gas re-delivery obligations and pro-rata obligations for the incremental fuel associated with these compression services. Additional items clarified in these amendments include the recognition of inventory transfers between parties and procedural obligations related to daily and monthly informational postings, gas re-delivery and vessel nominations and delivery point flexibility.

Each of Total and Chevron previously paid Sabine Pass LNG \$20.0 million in nonrefundable advance capacity reservation fees, which are being amortized over a 10-year period as a reduction of each customer's regasification capacity reservation fees payable under its respective TUA.

In November 2006, Cheniere Marketing reserved approximately 2.0 Bcf/d of regasification capacity under a TUA and was required to make capacity payments aggregating approximately \$250 million per year for the period from January 1, 2009, through at least September 30, 2028. Cheniere guaranteed Cheniere Marketing's obligations under its TUA.

In June 2010, Cheniere Marketing assigned its TUA with Sabine Pass LNG to Investments, including all of its rights, titles, interests, obligations and liabilities in and under the TUA and will therefore no longer be obligated to make the approximately \$250 million per year of payments to Sabine Pass LNG. In connection with the assignment, Cheniere's guarantee of Cheniere Marketing's obligations under the TUA was terminated and Cheniere Partners provided a guarantee of Investments' obligations under the TUA.

Investments is required to make capacity payments aggregating approximately \$250 million per year through at least September 30, 2028; however, the revenue earned by Sabine Pass LNG and the capacity payments under the TUA will be eliminated upon consolidation of our financial statements.

Under each of these TUAs, Sabine Pass LNG is entitled to retain 2% of the LNG delivered for the customer's account, which Sabine Pass LNG will use primarily as fuel for revaporization and self-generated power at the Sabine Pass LNG receiving terminal.

#### *Other LNG Receiving Terminals*

As discussed above, in May 2010, we sold our 30% limited partnership interest in Freeport LNG. However, prior to the sale, Freeport LNG made aggregate distributions to us of \$24.0 million since inception.

We will contemplate making final investment decisions to construct our Corpus Christi and Creole Trail LNG receiving terminal projects upon, among other things, entering into acceptable commercial and financing arrangements for the applicable project. We do not expect to spend significant funds on these projects in the near-term.

#### *Liquefaction Project*

As mentioned above, in June 2010, Cheniere Partners initiated a project to add liquefaction services at the Sabine Pass LNG receiving terminal that would transform the terminal into a bi-directional facility capable of liquefying natural gas and exporting LNG in addition to importing and regasifying foreign-sourced LNG. As currently contemplated, the liquefaction project would be designed and permitted for up to four modular LNG trains, each with a peak processing capacity of up to approximately 0.7 Bcf/d of natural gas and an average liquefaction capacity of approximately 3.5 million tons per annum ("mtpa"). The initial project phase is anticipated to include two modular trains and the capacity to process on average approximately 1.2 Bcf/d of pipeline quality natural gas. Cheniere Partners believes that the time and cost required to develop its proposed liquefaction project would be materially lessened by Sabine Pass LNG's existing large acreage and infrastructure (docks, LNG storage tanks, power generation assets and pipeline connections). Development costs incurred during the assessment of this project will be funded by Cheniere Partners using its existing funds. Cheniere Partners will contemplate making a final investment decision to commence construction of the liquefaction facility upon, among other things, achieving regulatory approval and entering into acceptable commercial and financing arrangements. We anticipate LNG export could commence as early as 2015.

#### *Natural Gas Pipeline Business*

Phase 1 of the Creole Trail Pipeline, consisting of 94 miles of natural gas pipeline, had been constructed and is currently in-service and operating .

We will contemplate making a final investment decision to construct Phase 2 of the Creole Trail Pipeline, the Corpus Christi Pipeline, the Cheniere Southern Trail Pipeline and the Burgos Hub Project upon, among other things, receiving all required authorizations to construct and operate the applicable pipeline (and storage facility in the case of Burgos Hub), to the extent not already obtained, and entering into acceptable commercial and financing arrangements for the applicable project. We do not expect to spend significant funds on these projects in the near-term.

As discussed above, we believe that we have sufficient cash, other working capital and cash generated from our operations to operate Phase 1 of our Creole Trail Pipeline until the earliest date when principal payments on our outstanding indebtedness may be required. The lenders of the 2008 Convertible Loans can require prepayment of the loans between August 16, 2011 and September 14, 2011. If the lenders of the 2008 Convertible Loans do not require the principal payment in 2011, the earliest date that principal payments will be required is May 31, 2012, which is the maturity date of the 2007 Term Loan.

#### *LNG and Natural Gas Marketing Business*

In June 2010, as discussed above, Cheniere Marketing assigned its TUA to Investments and concurrently entered into a VCRA with Investments in order for Investments to monetize its capacity at the Sabine Pass LNG receiving terminal. On a consolidated basis, the LNG and natural gas marketing earnings under the VCRA will be included on our Consolidated Statement of Operations under Marketing and trading revenue.

The accounting treatment for LNG inventory differs from the treatment for derivative positions such that the economics of Cheniere Marketing's activities are not transparent in the consolidated financial statements until all LNG inventory is sold and all derivative positions are settled. Our LNG inventory is recorded as an asset at cost and is subject to lower of cost or market ("LCM") adjustments at the end of each reporting period. The LCM adjustment market price is based on period-end natural gas spot prices, and any gain or loss from a LCM adjustment is recorded in our earnings at the end of each period. Revenue and cost of goods sold are not

recognized in our earnings until the regasified LNG is sold. Our unrealized derivatives positions at the end of each period extend into the future to hedge the cash flow from future sales of our LNG inventory or to take market positions and hedge exposure associated with LNG and natural gas. These positions are measured at fair value, and we record the gains and losses from the change in their fair value currently in earnings. Thus, earnings from changes in the fair value of our derivatives may not be offset by losses from LCM adjustments to our LNG inventory because the LCM adjustments that may be made to LNG inventory are based on period-end spot prices that are different from the time periods of the prices used to fair value our derivatives. Any losses from changes in the fair value of our derivatives will not be offset by gains until the regasified LNG is actually sold.

Management evaluates the performance of its LNG and natural gas marketing business activities differently than the measure calculated and presented in accordance with GAAP in our Consolidated Statements of Operations. Management calculates an Adjusted LNG and natural gas revenue non-GAAP measure to assess the performance of the LNG and natural gas marketing business activities during each period. As our LNG and natural gas marketing business has entered into natural gas swaps that hedge the cash flows from the future sale of LNG inventory and to take market positions and hedge exposure associated with LNG and natural gas, management believes that the presentation of the Adjusted LNG and natural gas revenue non-GAAP measure provides a meaningful indicator of the performance of our LNG and natural gas marketing business activities during the stated period.

The table below shows the differences between the components of both the LNG and natural gas marketing revenue GAAP measure (presented in our Consolidated Statement of Operations) and the Adjusted LNG and natural gas revenue non-GAAP measure (in thousands):

	<b>For the Six Months Ended June 30, 2010</b>		
	<b>LNG and natural gas marketing revenue (GAAP measure)</b>	<b>Adjusted LNG and natural gas marketing revenue (Non-GAAP measure)</b>	<b>Difference</b>
Physical natural gas sales	\$ 36,485	\$ 36,485	\$ —
Cost of LNG	(29,762)	(41,261)	11,499 (a)
Realized natural gas derivative gain	4,298	4,298	—
Unrealized gas derivative gain	(41)	(41)	—
Other energy trading activities and adjustments	2,190	1,661	529
LNG and natural gas revenue	<u>\$ 13,170</u>	<u>\$ 1,142</u>	<u>\$ 12,028</u>

(a) The Cost of LNG GAAP measure takes into consideration only the cost of LNG that was regasified and sold during the six-month period ended June 30, 2010, using the weighted average cost method for LNG inventory. The Cost of LNG non-GAAP measure represents the marketing revenue, net of historical cost of LNG, expected from future LNG inventory sales based on published forward natural gas price curve prices corresponding to the future months when the regasified LNG is planned to be sold.

Under GAAP measurement, our LNG and natural gas marketing revenue was \$13.2 million for the six-month period ended June 30, 2010, but only \$1.1 million was generated by marketing activities during the period. We believe that the adjusted LNG and natural gas marketing revenue non-GAAP measure is a meaningful indicator of performance of our LNG and natural gas marketing business activities during a stated period.

#### *JPMorgan LNG Agreements*

In March 2010, Cheniere Marketing entered into the JPMorgan LNG Agreements with LNGCo under which Cheniere Marketing has agreed to develop and maintain commercial and trading opportunities in the LNG industry and present any such opportunities exclusively to LNGCo. Cheniere Marketing also agreed to provide, or arrange for the provision of, all of the operations and administrative services required by LNGCo in connection with any LNG cargoes purchased by LNGCo, including negotiating agreements and transporting, receiving, storing, hedging and regasifying LNG cargoes. Cheniere Marketing does not have the authority to contractually bind LNGCo under the JPMorgan LNG Agreements. In the event LNGCo declines to purchase an LNG cargo presented to it by Cheniere Marketing under the JPMorgan LNG Agreements, Cheniere Marketing may pursue the opportunity on its own behalf or present it to third parties. The term of the JPMorgan LNG Agreements is two years; however, either party may terminate without penalty at the end of one year. In return for the services to be provided by Cheniere Marketing, LNGCo will pay a fixed fee to Cheniere Marketing and may pay additional fees dependent upon the gross margins of each transaction and the aggregate revenue earned during the term of the JPMorgan LNG Agreements.

During the three and six months ended June 30, 2010, we recognized \$3.1 million of marketing and trading revenues from LNGCo, which included \$0.9 million of revenue recognized on the sale of our inventory to LNGCo. As of June 30, 2010, Cheniere Marketing's maximum exposure to loss relating to LNGCo was \$3.0 million, related to margin deposits that have been paid to LNGCo and fixed fee and gross margin revenue receivables that have been earned as of June 30, 2010. A portion of this \$3.0 million

represents our fixed fee receivable and is reported as Current Accounts and Interest Receivable, and the remaining portion is reported as Other Non-Current Assets and is to be paid to Cheniere Marketing upon the completion or termination of the LNGCo Agreements.

As discussed above, we believe that we have sufficient cash, other working capital and cash generated from our operations to fund our LNG and natural gas marketing business until the earliest date when principal payments on our outstanding indebtedness may be required. The lenders of the 2008 Convertible Loans can require prepayment of the loans between August 16, 2011 and September 14, 2011. If the lenders of the 2008 Convertible Loans do not require the principal payment in 2011, the earliest date that principal payments will be required is May 31, 2012, which is the maturity date of the 2007 Term Loan.

#### **Corporate and Other Activities**

We are required to maintain corporate general and administrative functions to serve our business activities described above. As discussed above, we believe that we have sufficient cash, other working capital and cash generated from our operations to fund our operating expenses and other cash requirements until the earliest date when principal payments on our outstanding indebtedness may be required. The lenders of the 2008 Convertible Loans can require prepayment of the loans between August 16, 2011 and September 14, 2011. If the lenders of the 2008 Convertible Loans do not require the principal payment in 2011, the earliest date that principal payments will be required is May 31, 2012, which is the maturity date of the 2007 Term Loan.

Although our focus is primarily on the development of LNG-related businesses, we continue to be involved to a limited extent in oil and gas exploration, development and exploration activities in the shallow waters of the Gulf of Mexico. We do not anticipate significant cash expenditures related to these activities and expect our cash inflows from oil and natural gas production to decrease as reserves are produced.

#### **Sources and Uses of Cash**

The following table summarizes the sources and uses of our cash and cash equivalents for the six-month periods ended June 30, 2010 and 2009 (in thousands). The table presents capital expenditures on a cash basis; therefore, these amounts differ from the amounts of capital expenditures, including accruals, that are referred to elsewhere in this report. Additional discussion of these items follows the table.

	<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Sources of cash and cash equivalents</b>		
Proceeds from sale of limited partnership investment	\$ 104,330	\$ —
Use of restricted cash and cash equivalents	20,894	149,479
Distribution from limited partnership investment in Freeport LNG	3,900	6,600
Other	326	4,286
<b>Total sources of cash and cash equivalents</b>	<b>129,450</b>	<b>160,365</b>
<b>Uses of cash and cash equivalents</b>		
Debt repurchases	(104,681)	(30,030)
Operating cash flow	(20,604)	(27,643)
Distributions to non-controlling interest	(13,196)	(13,196)
LNG receiving terminal and pipeline construction-in-process, net	(3,065)	(81,175)
Purchases of LNG for commissioning, net of amounts transferred to LNG receiving terminal construction-in-process	—	(14,184)
Other	(2,336)	(7,383)
<b>Total uses of cash and cash equivalents</b>	<b>(143,882)</b>	<b>(173,611)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(14,432)</b>	<b>(13,246)</b>
<b>Cash and cash equivalents—beginning of period</b>	<b>88,372</b>	<b>102,192</b>
<b>Cash and cash equivalents—end of period</b>	<b>\$ 73,940</b>	<b>\$ 88,946</b>

#### *Proceeds from sale of limited partnership investment*

In May 2010, we sold our 30% interest in Freeport LNG to institutional investors for net proceeds of \$104.3 million.

#### *Use of restricted cash and cash equivalents*

In the six-month period ended June 30, 2010, the \$20.9 million of restricted cash and cash equivalents were used primarily to make distributions of \$13.2 million to non-controlling interests, repurchase debt of \$2.7 million, pay for construction activities at the Sabine Pass LNG receiving terminal of \$1.5 million and other items of \$3.5 million.

In the six-month period ended June 30, 2009, the \$149.5 million of restricted cash and cash equivalents were used primarily to pay for scheduled interest payments and construction activities at the Sabine Pass LNG receiving terminal. Under the Sabine Pass Indenture, a portion of the proceeds from the Senior Notes was initially required to be used for scheduled interest payments through May 2009 and to fund the cost to complete construction of the Sabine Pass LNG receiving terminal. Due to these restrictions imposed by the Sabine Pass Indenture, the proceeds from the Senior Notes are not presented as cash and cash equivalents. When proceeds from the Senior Notes that have been designated as restricted cash and cash equivalents are used, they are presented as a source of cash and cash equivalents. The decreased use of restricted cash and cash equivalents in the six-month period ended June 30, 2010, primarily resulted from substantially completing construction of the Sabine Pass LNG receiving terminal during the third quarter of 2009.

#### *Distribution from limited partnership investment in Freeport LNG*

In the six-month periods ended June 30, 2010 and 2009, we received \$3.9 million and \$6.6 million of distributions from our Freeport LNG. In June 2010, we sold our investment in Freeport LNG and therefore do not expect to receive distributions in the future.

#### *Debt Repurchases*

In the six-month periods ended June 30, 2010 and 2009, we used \$104.7 million and \$30.0 million of cash and cash equivalents to repurchase a portion of our long-term debt.

In the second quarter of 2010, we used \$102.0 million of the net proceeds from the sale of our limited partner interest in Freeport LNG to partially prepay the 2007 Term Loan. In addition, as a result of the assignment of the Cheniere Marketing TUA in the second quarter of 2010, we used \$2.7 million to partially prepay the 2008 Convertible Loans.

In the second quarter of 2009, we used a combination of \$30.0 million cash and cash equivalents and 4.0 million common shares to prepay \$120.4 million aggregate principal amount of our Convertible Senior Unsecured Notes.

#### *Operating cash flow*

In the six-month periods ended June 30, 2010 and 2009, we used \$20.6 million and \$27.6 million, respectively, of cash and cash equivalents for operating activities. Net cash used in operations related primarily to the general administrative overhead costs, pipeline operations costs, LNG and natural gas marketing overhead; offset by earnings from our LNG and natural gas marketing business.

#### *Distributions to non-controlling interest*

In the six-month periods ended June 30, 2010 and 2009, Cheniere Partners distributed \$13.2 million to its non-affiliated common unitholders.

#### *LNG receiving terminal and pipeline construction-in-process, net*

In the six-month periods ended June 30, 2010 and 2009, capital expenditures for our LNG receiving terminals and pipeline projects were \$3.1 million and \$81.2 million, respectively. Our capital expenditures decreased in the six-month period ended June 30, 2010 as a result of the achievement of full operability of the Sabine Pass LNG receiving terminal.

#### *Purchases of LNG for commissioning, net of amounts transferred to LNG receiving terminal construction-in-process*

During the six-month periods ended June 30, 2010 and 2009, we purchased zero and \$14.2 million, respectively, for LNG commissioning cargoes, net of amounts transferred to LNG receiving terminal construction-in-process. As a result of achieving full operability of the Sabine Pass LNG receiving terminal in the third quarter of 2009, the purchases of LNG for commissioning, net decreased in the first six months of 2010.

## Debt Agreements

The following table (in thousands) and the explanatory paragraphs following the table summarize our debt agreements as of June 30, 2010.

	<u>Sabine Pass LNG, L.P.</u>	<u>Cheniere Energy Partners, L.P.</u>	<u>Other Cheniere Energy, Inc.</u>	<u>Consolidated Cheniere Energy, Inc.</u>
<b>Long-term debt (including related parties)</b>				
Senior Notes (including related parties)	\$ 2,215,500	\$ —	\$ —	\$ 2,215,500
2007 Term Loan	—	—	298,000	298,000
2008 Convertible Loans (including related parties)	—	—	247,563	247,563
Convertible Senior Unsecured Notes	—	—	204,630	204,630
Total long-term debt	<u>2,215,500</u>	<u>—</u>	<u>750,193</u>	<u>2,965,693</u>
<b>Debt discount (including related parties)</b>				
Senior Notes (including related parties) (1)	(30,124)	—	—	(30,124)
Convertible Senior Unsecured Notes (2)	—	—	(32,688)	(32,688)
Total debt discount	<u>(30,124)</u>	<u>—</u>	<u>(32,688)</u>	<u>(62,812)</u>
<b>Long-term debt (including related parties), net of discount</b>	<u>\$ 2,185,376</u>	<u>\$ —</u>	<u>\$ 717,505</u>	<u>\$ 2,902,881</u>

- (1) In September 2008, Sabine Pass LNG issued an additional \$183.5 million, par value, of 2016 Notes. The net proceeds from the additional issuance of the 2016 Notes were \$145.0 million. The difference between the par value and the net proceeds is the debt discount, which will be amortized through the maturity of the 2016 Notes.
- (2) Effective as of January 1, 2009, we are required to record a debt discount on our Convertible Senior Unsecured Notes. The unamortized discount will be amortized through the maturity of the Convertible Senior Unsecured Notes.

### Convertible Senior Unsecured Notes

In July 2005, we consummated a private offering of \$325.0 million aggregate principal amount of Convertible Senior Unsecured Notes to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The notes bear interest at a rate of 2¼% per year. Interest on the notes is payable semi-annually in arrears on February 1 and August 1 of each year. The notes are convertible at any time into our common stock under certain circumstances at an initial conversion rate of 28.2326 per \$1,000 principal amount of the notes, which is equal to a conversion price of approximately \$35.42 per share. As of June 30, 2010, no holders had elected to convert their notes. We may redeem some or all of the notes on or before August 1, 2012, for cash equal to 100% of the principal plus any accrued and unpaid interest if in the previous 10 trading days the volume-weighted average price of our common stock exceeds \$53.13, subject to adjustment, for at least five consecutive trading days. In the event of such redemption, we will make an additional payment equal to the present value of all remaining scheduled interest payments through August 1, 2012, discounted at the U.S. Treasury securities rate plus 50 basis points. The indenture governing the notes contains customary reporting requirements.

As discussed in Note 9—“Long-Term Debt and Long-Term Debt—Related Parties” of our Notes to Consolidated Financial Statements, we adopted on January 1, 2009 an accounting standard that requires issuers of certain convertible debt instruments to separately account for the liability component and the equity component represented by the embedded conversion option in a manner that will reflect that entity’s nonconvertible debt borrowing rate when interest costs are recognized in subsequent periods. The fair value of the embedded conversion option at the date of issuance of the Convertible Senior Unsecured Notes was determined to be \$134.0 million and has been recorded as a debt discount to the Convertible Senior Unsecured Notes, with a corresponding adjustment to Additional Paid-in Capital. At June 30, 2010, the unamortized debt discount to the Convertible Senior Unsecured Notes was \$32.7 million.

### *Sabine Pass LNG Senior Notes*

Sabine Pass LNG has issued an aggregate principal amount of \$2,215.5 million of Senior Notes consisting of \$550.0 million of 7¼% Senior Secured Notes due 2013 and \$1,665.5 million of 7½% Senior Secured Notes due 2016. Interest on the Senior Notes is payable semi-annually in arrears on May 30 and November 30 of each year. The Senior Notes are secured on a first-priority basis by a security interest in all of Sabine Pass LNG's equity interests and substantially all of its operating assets. Under the Sabine Pass Indenture governing the Senior Notes, except for permitted tax distributions, Sabine Pass LNG may not make distributions until certain conditions are satisfied: there must be on deposit in an interest payment account an amount equal to one-sixth of the semi-annual interest payment multiplied by the number of elapsed months since the last semi-annual interest payment, and there must be on deposit in a permanent debt service reserve fund an amount equal to one semi-annual interest payment of \$82.4 million. Distributions are permitted only after satisfying the foregoing funding requirements, a fixed charge coverage ratio test of 2:1 and other conditions specified in the Sabine Pass Indenture.

As of June 30, 2010 and December 31, 2009, we classified \$74.1 million and \$72.9 million, respectively, as part of Long-Term Debt—Related Party on our Consolidated Balance Sheets because related parties held these portions of the Senior Notes.

### *2007 Term Loan*

In May 2007, Cheniere Subsidiary Holdings, LLC, a wholly-owned subsidiary of Cheniere, entered into a \$400.0 million credit agreement ("2007 Term Loan"). Borrowings under the 2007 Term Loan generally bear interest at a fixed rate of 9¼% per annum. Interest is calculated on the unpaid principal amount of the 2007 Term Loan outstanding and is payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year. The 2007 Term Loan will mature on May 31, 2012. The 2007 Term Loan is secured by a pledge of our 135,383,831 subordinated units in Cheniere Partners.

In May 2010, we sold our 30% interest in Freeport LNG to institutional investors for net proceeds of \$104.3 million. The net proceeds from the sale were used to prepay \$102.0 million of the 2007 Term Loan in May 2010 (see Note 7—"Investment in Limited Partnership" for additional information). As of June 30, 2010 and December 31, 2009, \$298.0 million and \$400.0 million, respectively, were outstanding under the 2007 Term Loan and were included in Long-term Debt on our Consolidated Balance Sheets.

### *2008 Convertible Loans*

In August 2008, we entered into a credit agreement pursuant to which we obtained \$250.0 million in convertible term loans ("2008 Convertible Loans"). The 2008 Convertible Loans will mature in 2018, but the lenders can require prepayment of the loans for thirty days following August 15, 2011, 2013 and 2015, and upon a change of control. The 2008 Convertible Loans bear interest at a fixed rate of 12% per annum, except during the occurrence of an event of default during which time the rate of interest will be 14% per annum. Interest is due semi-annually on the last business day of January and July. At our option, until August 15, 2011, accrued interest may be added to the principal on each semi-annual interest date. The aggregate amount of all accrued interest to August 15, 2011 will be payable on the maturity date. The 2008 Convertible Loans are secured by Cheniere's rights and fees payable under management services agreements with Sabine Pass LNG and Cheniere Partners, by Cheniere's 10.9 million common units in Cheniere Partners, by the equity and non-real property assets of Cheniere's pipeline entities, by the equity of various other subsidiaries and certain other assets and subsidiary guarantees. The principal amount of \$250.0 million may be exchanged for newly-created Series B Convertible Preferred Stock, par value \$0.0001 per share ("Series B Preferred Stock"), with voting rights limited to the equivalent of 10,125,000 shares of common stock. The exchange ratio is one share of Series B Preferred Stock for each \$5,000 of outstanding borrowings, subject to adjustment. The exchange ratio will be adjusted in the event we make certain distributions of cash, shares or property on our shares of common stock. The aggregate Series B Preferred Stock is exchangeable into 50 million shares of common stock at a price of \$5.00 per share pursuant to a broadly syndicated offering. We are required to file a registration statement to register the Series B Preferred Stock upon demand by the majority of the holders of the Series B Preferred Stock. Such holders also have the right to demand registration of the shares of common stock into which the Series B Preferred Stock is convertible. No portion of any accrued interest is eligible for conversion into Series B Preferred Stock.

As long as the 2008 Convertible Loans are exchangeable for shares of Series B Preferred Stock or shares of Series B Preferred Stock remain outstanding, the holders of a majority of the 2008 Convertible Loans and Series B Preferred Stock, acting together, have the right to nominate two individuals to the Company's Board of Directors, and together with the Board of Directors, a third nominee, who would be an independent director. In addition, one of the lenders is Scorpion Capital Partners LP ("Scorpion"), an affiliate of one of the Company's directors.

In June 2010, we amended the 2008 Convertible Loans permit all funds on deposit in a TUA reserve account to be applied to the prepayment of the accrued interest outstanding under the 2008 Convertible Loans, with any remainder to be applied to the prepayment of the principal balance of the 2008 Convertible Loans. As a result, \$63.6 million from the TUA Reserve Account was used to prepay \$60.9 million of accrued interest and \$2.7 million of principal.

As of June 30, 2010 and December 31, 2009, \$235.4 million and \$276.2 million, respectively, were outstanding under the 2008 Convertible Loans and were included in Long-term Debt—Related Party on our Consolidated Balance Sheets.

### *Issuances of Common Stock*

In the six-month periods ended June 30, 2010 and 2009, no shares of our common stock were issued pursuant to the exercise of stock options. In the six-month periods ended June 30, 2010 and 2009, we issued 382,000 shares and 314,000 shares, respectively, of non-vested restricted stock to new and existing employees. In the six month period ended June 30, 2009, we issued 4.0 million shares of our common stock as part of the consideration used to repurchase a portion of the Convertible Senior Unsecured Notes.

### **Results of Operations**

#### *Three-Month Period Ended June 30, 2010 vs. Three-Month Period Ended June 30, 2009*

##### *Overall Operations*

Our consolidated net income (loss) attributable to common stockholders increased \$98.8 million, from a net loss of (\$13.1) million, or (\$0.25) per share (basic and diluted), in the three-month period ended June 30, 2009 to a net income of \$85.7 million, or \$1.55 per share basic and \$0.86 per share diluted, in the three-month period ended June 30, 2010. This increase was primarily due to a gain on the sale of our 30% interest in Freeport LNG and increased LNG receiving terminal revenues as a result of the Sabine Pass LNG receiving terminal starting commercial operations during 2009, which were partially offset by increased LNG receiving terminal and pipeline operating expenses, increased depreciation, depletion and amortization expense (“DD&A”), increased general and administrative expenses and increased interest expense, net.

##### *Gain on Sale of Equity Method Investment*

In May 2010, we sold our 30% interest in Freeport LNG and recognized a net \$128.3 million gain. The gain was comprised of net proceeds received of \$104.3 million, and \$24.0 million of distributions in excess of income.

##### *LNG Receiving Terminal Revenue*

Revenues increased \$27.8 million, from \$38.2 million in the three-month period ended June 30, 2009 to \$66.0 million in the three-month period ended June 30, 2010. This increase primarily resulted from the commencement of services under the Chevron TUA beginning on July 1, 2009.

##### *LNG and Natural Gas Marketing Revenue*

Operating results from marketing and trading activities are presented on a net basis on our Consolidated Statements of Operations. Marketing and trading revenues represent the margin earned on the purchase and transportation costs of LNG and subsequent sales of natural gas to third parties. Our marketing and trading revenues also include pretax derivative gains/losses and inventory lower-of-cost-or-market adjustments, if any. See table below (in thousands) for itemized comparison of each major type of energy trading and risk management activity:

	<b>Three Month Period Ended</b>	
	<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>
Physical natural gas sales, net of costs and inventory write-down	\$ 929	\$ (1,061)
Loss from derivatives	(2,104)	(219)
Other energy trading activities	2,204	124
Total LNG and natural gas marketing gain (loss)	<u>\$ 1,029</u>	<u>\$ (1,156)</u>

Marketing and trading revenues increased \$2.2 million, from a (\$1.2) million loss in the three-month period ended June 30, 2009 to a gain of \$1.0 million in the three-month period ended June 30, 2010. The \$1.0 million gain in the three-month period ended June 30, 2010 primarily resulted from \$3.1 million other energy trading activities partially offset by (\$2.1) million in derivative loss. The increase in natural gas marketing and trading revenue is primarily a result of the different marketing and trading activities we were engaged in during the three-month period ended June 30, 2010 including our agreements with LNGCo that became effective April 1, 2010, compared to the same period of 2009 during which we began purchasing, transporting and unloading commercial LNG cargoes into the Sabine Pass LNG receiving terminal and used certain hedging strategies to maximize margins on these cargoes. The (\$1.2) million loss in the three-month period ended June 30, 2009 primarily resulted from lower of cost or market write-downs to our inventory.

#### *LNG Receiving Terminal and Pipeline Operating Expense*

Our LNG receiving terminal and pipeline operating expenses include costs incurred to operate the Sabine Pass LNG receiving terminal and the Creole Trail Pipeline.

Operating and maintenance expense increased \$0.5 million, from \$9.3 million in the three-month period ended June 30, 2009, to \$9.8 million in the three-month period ended June 30, 2010. This increase primarily resulted from the achievement of full operability of the Sabine Pass LNG receiving terminal with approximately 4.0 Bcf/d of total sendout capacity and five LNG storage tanks with approximately 16.9 Bcf of aggregate storage capacity in the third quarter of 2009.

#### *DD&A*

DD&A increased \$2.8 million, from \$12.8 million in the three-month period ended June 30, 2009, to \$15.6 million in the three-month period ended June 30, 2010. This increase resulted from beginning to depreciate the costs associated with achieving full operability of the Sabine Pass LNG receiving terminal in the third quarter of 2009.

#### *Interest Expense, net*

Interest expense, net of amounts capitalized, increased \$5.0 million, from \$62.0 million in the three-month period ended June 30, 2009 to \$67.0 million in the three-month period ended June 30, 2010. This increase in interest expense resulted from the achievement of full operability of the Sabine Pass LNG receiving terminal in the third quarter of 2009, which reduced the amount of interest expense that could be capitalized.

### ***Six-Month Period Ended June 30, 2010 vs. Six-Month Period Ended June 30, 2009***

#### *Overall Operations*

Our consolidated net income (loss) attributable to common stockholders increased \$146.3 million, from a net loss of (\$95.8) million, or (\$1.91) per share (basic and diluted), in the six-month period ended June 30, 2009 to net income of \$50.5 million, or \$0.92 per share basic and \$0.62 per share diluted, in the six-month period ended June 30, 2010. This increase was primarily due to a gain on the sale of our 30% interest in Freeport LNG and increased LNG receiving terminal revenues as a result of the Sabine Pass LNG receiving terminal starting commercial operations during 2009 which was partially offset by increased LNG receiving terminal and pipeline operating expenses, increased depreciation, depletion and amortization expense ("DD&A"), increased general and administrative expenses and increased interest expense, net.

#### *Gain on Sale of Equity Method Investment*

In May 2010, we sold our 30% interest in Freeport LNG and recognized a net \$128.3 million gain. The gain was comprised of net proceeds received of \$104.3 million, and \$24.0 million of distributions in excess of income.

#### *LNG Receiving Terminal Revenue*

Revenues increased \$95.0 million, from \$38.2 in the six-month period ended June 30, 2009 to \$133.2 million in the six-month period ended June 30, 2010. This increase primarily resulted from the commencement of services under the Total TUA beginning on April 1, 2009 and the Chevron TUA beginning on July 1, 2009.

#### *LNG and Natural Gas Marketing Revenue*

Operating results from marketing and trading activities are presented on a net basis on our Consolidated Statements of Operations. Marketing and trading revenues represent the margin earned on the purchase and transportation costs of LNG and

subsequent sales of natural gas to third parties. Our marketing and trading revenues also include pretax derivative gains/losses and inventory lower-of-cost-or-market adjustments, if any. See table below (in thousands) for itemized comparison of each major type of energy trading and risk management activity:

	<b>Six-Month Period Ended</b>	
	<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>
Physical natural gas sales, net of costs	\$ 6,724	\$ (1,062)
Gain (loss) from derivatives	4,256	(219)
Other energy trading activities	2,190	625
Total LNG and natural gas marketing gain (loss)	<u>\$ 13,170</u>	<u>\$ (656)</u>

Marketing and trading revenues increased \$13.9 million, from (\$0.7) million in the six-month period ended June 30, 2009 to \$13.2 million in the six-month period ended June 30, 2010. The \$13.9 million increase in the six-month period ended June 30, 2010 primarily resulted from \$6.7 million of net revenue from physical sales of LNG, \$4.3 million in derivative gains and \$2.2 million of other energy trading activities. The increase in natural gas marketing and trading revenue is primarily a result of the different marketing and trading activities we were engaged in during the six-month period ended June 30, 2010 including our agreements with LNGCo that became effective April 1, 2010, compared to the same period of 2009 during which we began purchasing, transporting and unloading commercial LNG cargoes into the Sabine Pass LNG receiving terminal and used certain hedging strategies to maximize margins on these cargoes. The \$(0.7) million loss in the six-month period ended June 30, 2009 primarily resulted from lower of cost or market write-downs to our inventory.

#### *LNG Receiving Terminal and Pipeline Operating Expense*

Our LNG receiving terminal and pipeline operating expenses include costs incurred to operate the Sabine Pass LNG receiving terminal and the Creole Trail Pipeline.

Operating and maintenance expense increased \$4.6 million, from \$18.0 million in the six-month period ended June 30, 2009, to \$22.6 million in the six-month period ended June 30, 2010. This increase primarily resulted from the achievement of full operability of the Sabine Pass LNG receiving terminal with approximately 4.0 Bcf/d of total sendout capacity and five LNG storage tanks with approximately 16.9 Bcf of aggregate storage capacity in the third quarter of 2009.

#### *DD&A*

DD&A increased \$6.3 million, from \$24.9 million in the six-month period ended June 30, 2009, to \$31.2 million in the six-month period ended June 30, 2010. This increase resulted from beginning to depreciate the costs associated with achieving full operability of the Sabine Pass LNG receiving terminal in the third quarter of 2009.

#### *Interest Expense, net*

Interest expense, net of amounts capitalized, increased \$18.9 million, from \$115.2 million in the six-month period ended June 30, 2009 to \$134.1 million in the six-month period ended June 30, 2010. This increase in interest expense resulted from the achievement of full operability of the Sabine Pass LNG receiving terminal, which reduced the amount of interest expense that was capitalized.

#### **Off-Balance Sheet Arrangements**

We entered into agreements with LNGCo to provide Cheniere Marketing with financial support to source more cargoes of LNG than it could source on a stand-alone basis. See Note 4—“Variable Interest Entity” and “Management’s Discussion and Analysis – Liquidity and Capital Resources— LNG and Natural Gas Marketing Business” for further information related to our variable interest in LNGCo. As of June 30, 2010, Cheniere Marketing’s maximum exposure to loss relating to LNGCo was \$3.0 million, related to margin deposits that have been paid to LNGCo and fixed fee and gross margin revenue receivables that have been earned as of June 30, 2010. A portion of this \$3.0 million represents our fixed fee receivable and is reported as Current Accounts and Interest Receivable, and the remaining portion is reported as Other Non-Current Assets and is to be paid to Cheniere Marketing upon the completion or termination of the LNGCo Agreements.

## Summary of Critical Accounting Policies and Estimates

The selection and application of accounting policies is an important process that has developed as our business activities have evolved and as the accounting rules have developed. Accounting rules generally do not involve a selection among alternatives but involve an implementation and interpretation of existing rules, and the use of judgment, to apply the accounting rules to the specific set of circumstances existing in our business. In preparing our consolidated financial statements in conformity with GAAP, we endeavor to comply properly with all applicable rules on or before their adoption, and we believe that the proper implementation and consistent application of the accounting rules are critical. However, not all situations are specifically addressed in the accounting literature. In these cases, we must use our best judgment to adopt a policy for accounting for these situations. We accomplish this by analogizing to similar situations and the accounting guidance governing them.

### *Accounting for LNG Activities*

Generally, we begin capitalizing the costs of our LNG receiving terminals and related pipelines once the individual project meets the following criteria: (i) regulatory approval has been received, (ii) financing for the project is available and (iii) management has committed to commence construction. Prior to meeting these criteria, most of the costs associated with a project are expensed as incurred. These costs primarily include professional fees associated with front-end engineering and design work, costs of securing necessary regulatory approvals, and other preliminary investigation and development activities related to our LNG receiving terminals and related pipelines.

Generally, costs that are capitalized prior to a project meeting the criteria otherwise necessary for capitalization include: land and lease option costs that are capitalized as property, plant and equipment and certain permits that are capitalized as intangible LNG assets. The costs of lease options are amortized over the life of the lease once obtained. If no lease is obtained, the costs are expensed.

We capitalize interest and other related debt costs during the construction period of our LNG receiving terminal. Upon commencement of operations, capitalized interest, as a component of the total cost, will be amortized over the estimated useful life of the asset.

### *Revenue Recognition*

LNG regasification capacity reservation fees are recognized as revenue over the term of the respective TUAs. Advance capacity reservation fees are initially deferred and amortized over a 10-year period as a reduction of a customer's regasification capacity reservation fees payable under its TUA. The retained 2% of LNG delivered for each customer's account at the Sabine Pass LNG receiving terminal is recognized as revenues as Sabine Pass LNG performs the services set forth in each customer's TUA.

### *Use of Estimates*

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

Estimates used in the assessment of impairment of our long-lived assets, including goodwill, are the most significant of our estimates. There are numerous uncertainties inherent in estimating future cash flows of assets or business segments. The accuracy of any cash flow estimate is a function of judgment used in determining the amount of cash flows generated. As a result, cash flows may be different from the cash flows that we use to assess impairment of our assets. Management reviews its estimates of cash flows on an ongoing basis using historical experience and other factors, including the current economic and commodity price environment. Significant negative industry or economic trends, including a significant decline in the market price of our common stock, reduced estimates of future cash flows for our business segments or disruptions to our business could lead to an impairment charge of our long-lived assets, including goodwill and other intangible assets. Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely heavily on projections of future operating performance. Projections of future operating results and cash flows may vary significantly from results. In addition, if our analysis results in an impairment of our long-lived assets, including goodwill, we may be required to record a charge to earnings in our consolidated financial statements during a period in which such impairment is determined to exist, which may negatively impact our results of operations.

Other items subject to estimates and assumptions include asset retirement obligations, valuation allowances for net deferred tax assets, valuations of derivative instruments, valuations of noncash compensation and collectability of accounts receivable and other assets.

As future events and their effects cannot be determined accurately, actual results could differ significantly from our estimates.

## ***LNG and Natural Gas Marketing***

We have determined that our LNG and natural gas marketing business activities are energy trading and risk management activities for trading purposes and have elected to present these activities on a net basis on our Consolidated Statements of Operations. Marketing and trading revenues represent the margin earned on the purchase and transportation of LNG purchases and subsequent sales of natural gas to third parties. These energy trading and risk management activities include, but are not limited to: purchase of LNG and natural gas, transportation contracts, and derivatives. Below is a brief description of our accounting treatment of each type of energy trading and risk management activity and how we account for it:

### *Purchase of LNG and natural gas*

The purchase value of LNG or natural gas inventory is recorded as an asset on our Consolidated Balance Sheets at the cost to acquire the product. Our inventory is subject to lower of cost or market adjustment each quarter. Recoveries of losses resulting from interim period lower of cost or market adjustments are made due to market price recoveries on the same inventory in the same fiscal year and are recognized as gains in later interim periods with such gains not exceeding previously recognized losses. Any adjustment to our inventory is recorded on a net basis as LNG and natural gas marketing revenue on our Consolidated Statements of Operations.

### *Transportation contracts*

We enter into transportation contracts with respect to the transport of LNG or natural gas to a specific location for storage or sale. Transportation costs that are incurred during the purchase of LNG or natural gas are capitalized as part of the acquisition costs of the product. Transportation costs incurred to sell LNG or natural gas are recorded on a net basis as LNG and natural gas marketing revenue on our Consolidated Statements of Operations.

### *Derivatives*

We use derivative instruments from time to time to hedge the cash flow variability of our commodity trading activities. We have disclosed certain information regarding these derivative positions, including the fair value of our derivative positions, in Note 10—"Financial Instruments" of our Notes to Consolidated Financial Statements. We record changes in the fair value of our derivative positions in our LNG and natural gas marketing revenue on our Consolidated Statements of Operations based on the value for which the derivative instrument could be exchanged between willing parties. To date, all of our derivative positions fair value determinations have been made by management using quoted prices in active markets for identical instruments. The ultimate fair value of our derivative instruments is uncertain, and we believe that it is possible that a change in the estimated fair value will occur in the near future as commodity prices change.

## ***Regulated Natural Gas Pipelines***

Our natural gas pipeline business is subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC") in accordance with the Natural Gas Act of 1938 and the Natural Gas Policy Act of 1978. The economic effects of regulation can result in a regulated company recording as assets those costs that have been or are expected to be approved for recovery from customers, or recording as liabilities those amounts that are expected to be required to be returned to customers, in a rate-setting process in a period different from the period in which the amounts would be recorded by an unregulated enterprise. Accordingly, we record assets and liabilities that result from the regulated rate-making process that may not be recorded under GAAP for non-regulated entities. We continually assess whether regulatory assets are probable of future recovery by considering factors such as applicable regulatory changes and recent rate orders applicable to other regulated entities. Based on this continual assessment, we believe the existing regulatory assets are probable of recovery. These regulatory assets and liabilities are primarily classified in the Consolidated Balance Sheets as Other Assets and Other Liabilities. We periodically evaluate their applicability under GAAP, and consider factors such as regulatory changes and the effect of competition. If cost-based regulation ends or competition increases, we may have to reduce our asset balances to reflect a market basis less than cost and write-off the associated regulatory assets and liabilities.

Items that may influence our assessment are:

- inability to recover cost increases due to rate caps and rate case moratoriums;
- inability to recover capitalized costs, including an adequate return on those costs through the rate-making process and the FERC proceedings;
- excess capacity;
- increased competition and discounting in the markets we serve; and

- impacts of ongoing regulatory initiatives in the natural gas industry.

Natural gas pipeline costs include amounts capitalized as an Allowance for Funds Used During Construction (“AFUDC”). The rates used in the calculation of AFUDC are determined in accordance with guidelines established by the FERC. AFUDC represents the cost of debt and equity funds used to finance our natural gas pipeline additions during construction. AFUDC is capitalized as a part of the cost of our natural gas pipelines. Under regulatory rate practices, we generally are permitted to recover AFUDC, and a fair return thereon, through our rate base after our natural gas pipelines are placed in service.

### ***Goodwill***

Goodwill represents the excess of cost over fair value of the assets of businesses acquired. It is evaluated annually for impairment by first comparing our management’s estimate of the fair value of a reporting unit with its carrying value, including goodwill. If the carrying value of the reporting unit exceeds its fair value, a computation of the implied fair value of the goodwill is compared with its related carrying value. If the carrying value of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in the amount of the excess. We had goodwill of \$76.8 million at June 30, 2010 and December 31, 2009, attributable to our LNG receiving terminal segment.

We perform an annual goodwill impairment review in the fourth quarter of each year, although we may perform a goodwill impairment review more frequently whenever events or circumstances indicate that the carrying value may not be recoverable. As discussed above regarding our use of estimates, our judgments and assumptions are inherent in our management’s estimate of future cash flows used to determine the estimate of the reporting unit’s fair value. The use of alternate judgments and/or assumptions could result in the recognition of different levels of impairment charges in the consolidated financial statements.

### ***Share-Based Compensation Expense***

We recognize compensation expense for all share-based payments granted after January 1, 2006 and prior to, but not yet vested as of, January 1, 2006, using the Black-Scholes-Merton option valuation model. We recognize share-based compensation net of an estimated forfeiture rate and only recognize compensation cost for those shares expected to vest on a straight-line basis over the requisite service period of the award.

Determining the appropriate fair value model and calculating the fair value of share-based payment awards requires the use of highly subjective assumptions, including the expected life of the share-based payment awards and stock price volatility. We believe that implied volatility, calculated based on traded options of our common stock, combined with historical volatility is an appropriate indicator of expected volatility and future stock price trends. Therefore, the expected volatility for the year ended December 31, 2009 used in our fair value model was based on a combination of implied and historical volatilities. The assumptions used in calculating the fair value of share-based payment awards represent our best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our share-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, future share-based compensation expense could be significantly different from what we have recorded in the current period (See Note 16—“Share-Based Compensation” of our Notes to Consolidated Financial Statements).

### ***Recent Accounting Standards***

In June 2009, the Financial Accounting Standards Board (“FASB”) issued an amendment to the accounting and disclosure requirements for the consolidation of variable interest entities. This guidance affects the overall consolidation analysis and requires enhanced disclosures on involvement with variable interest entities. The guidance is effective as of the first annual reporting period beginning after November 15, 2009, for interim periods within the first annual reporting period and thereafter. Our adoption of this authoritative guidance had no impact on our financial position, results of operations or cash flow.

In January 2010, the FASB issued authoritative guidance which requires additional disclosures and clarifies certain existing disclosure requirements regarding fair value measurements. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009. We adopted this guidance effective January 1, 2010. However, none of the specific additional disclosure requirements were applicable to us at the time of filing this report. See Note 10—“Financial Instruments” for our fair value measurement disclosures.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

**Cash Investments**

We have cash investments that we manage based on internal investment guidelines that emphasize liquidity and preservation of capital. Such cash investments are stated at historical cost, which approximates fair market value on our Consolidated Balance Sheets.

**Marketing and Trading Commodity Price Risk**

Through Cheniere Marketing, from time to time we will enter into natural gas and foreign currency derivatives to hedge the exposure of future cash flows associated with the LNG that we hold. We use value at risk (“VaR”) and other methodologies for market risk measurement and control purposes. The VaR is calculated using the Monte Carlo simulation method. At June 30, 2010 and December 31, 2009, the one-day VaR with a 95% confidence interval on our derivative positions were \$0.4 million and less than \$0.1 million, respectively.

Our derivative positions as of June 30, 2010 primarily consisted of financial derivatives to take market positions associated with LNG and natural gas. As of June 30, 2010, we had entered into a total equivalent of 1,012,500 million British thermal units (“MMBtu”) of natural gas swaps through January 2011 for which we will receive fixed prices of \$4.324 to \$7.151 per MMBtu. At June 30, 2010, the value of the natural gas swaps was a liability of \$1.1 million.

Our derivative positions as of June 30, 2010 also consisted of forward foreign exchange contracts entered into to hedge exposure associated with our LNG and natural gas market positions. As of June 30, 2010, we had entered into forward contracts through August 2010 to exchange a total of 3,250,000 GBP for which we would receive fixed exchange rates of 1.455 to 1.546 USD/GBP

**Item 4. Disclosure Controls and Procedures**

We maintain a set of disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports filed by us under the Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. As of the end of the period covered by this report, we evaluated, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective.

During the most recent fiscal quarter, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

We may in the future be involved as a party to various legal proceedings, which are incidental to the ordinary course of business. We regularly analyze current information and, as necessary, provide accruals for probable liabilities on the eventual disposition of these matters. In the opinion of management, as of June 30, 2010, there were no known threatened or pending legal matters that could reasonably be expected to have a material adverse impact on our consolidated results of operations, financial position or cash flows.

### Item 1A. Risk Factors

We have updated our Risk Factors in a Current Report on Form 8-K dated as of the date of this quarterly report, which are incorporated herein by reference.

### Item 6. Exhibits

- 10.1\* Termination Agreement, dated June 24, 2010, by and among Sabine Pass LNG, L.P., Cheniere Marketing, LLC and JPMorgan LNG Co.
- 10.2\* Amendment of LNG Terminal Use Agreement, dated June 15, 2010, by and between Total Gas & Power North America, Inc. and Sabine Pass LNG, L.P.
- 10.3\* Amendment of LNG Terminal Use Agreement, dated June 16, 2010, by and between Chevron U.S.A. Inc. and Sabine Pass LNG, L.P.
- 31.1\* Certification by Chief Executive Officer required by Rule 13a-14(a) and 15d-14(a) under the Exchange Act
- 31.2\* Certification by Chief Financial Officer required by Rule 13a-14(a) and 15d-14(a) under the Exchange Act
- 32.1\*\* Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2\*\* Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\* Filed herewith.

\*\* Furnished herewith.

**SIGNATURES**

Pursuant to the requirements of the Securities and 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.

/s/ JERRY D. SMITH

**Jerry D. Smith**

**Vice President and Chief Accounting Officer  
(on behalf of the registrant and  
as principal accounting officer)**

Date: August 5, 2010

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**TERMINATION AGREEMENT**

THIS TERMINATION AGREEMENT (this "Agreement"), dated June 24, 2010 and effective as of July 1, 2010 (the "Effective Date"), is by and among Cheniere Marketing, LLC, a Delaware limited liability company ("CMI"), JPMorgan LNG Co., a Delaware company ("LNGCo") and Sabine Pass LNG, L.P., a Delaware limited partnership ("Sabine"). CMI, LNGCo and Sabine are sometimes referred to herein collectively as the "Parties."

**Recitals:**

- A. CMI, LNGCo and Sabine are parties to that certain Tri-Party Agreement dated as of March 26, 2010 and effective as April 1, 2010 (the "Tri-Party Agreement").
- B. CMI, LNGCo and Sabine desire to terminate the Tri-Party Agreement in its entirety as provided herein.

NOW, THEREFORE, in consideration of the premises, the agreements made herein and for other good and valuable consideration, CMI, LNGCo and Sabine hereby agree as follows:

**Agreements:**

1. Termination of Tri-Party Agreement. The Parties agree that as of the Effective Date the Tri-Party Agreement is cancelled and terminated and shall no longer be of any force or effect and all rights, powers, privileges and obligations thereunder are hereby terminated.
2. Effect of Termination. Each of the Parties is completely and forever discharged and released from all of their respective duties and obligations under or in respect of the Tri-Party Agreement and relating to periods of time from and after the Effective Date.
3. Governing Law. This Agreement and all rights and obligations of the Parties hereunder shall be construed, interpreted and governed by and in accordance with the laws of the State of New York.
4. Further Assurances. Each of the parties agrees to perform all such acts (including but not limited to, executing and delivering such instruments and documents) as reasonably may be necessary to fully effectuate each and all of the purposes and intents of this Agreement.
5. Counterparts. This Agreement may be executed in counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed an original and all of which taken together shall constitute but one and the same agreement.

[END OF TEXT]

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IN WITNESS WHEREOF, the Parties have executed this Agreement and agreed to be bound hereby.

**CHENIERE MARKETING, LLC**

By: /s/ Graham McArthur  
Name: Graham McArthur  
Title: Treasurer

**SABINE PASS LNG, L.P.**

By: **Sabine Pass LNG-GP, Inc.**  
**its general partner**

By: /s/ Meg Gentle  
Name: Meg Gentle  
Title: Chief Financial Officer

**JPMORGAN LNG CO.**

By: /s/ Patrick Strange  
Name: Patrick Strange  
Title: Managing Director

Signature Page to Termination Agreement

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## AMENDMENT OF LNG TERMINAL USE AGREEMENT

This AMENDMENT OF LNG TERMINAL USE AGREEMENT (“**Amendment**”), dated and effective as of this 15<sup>th</sup> day of June, 2010 (“**Amendment Effective Date**”), is made by and between **TOTAL GAS & POWER NORTH AMERICA, INC.**, a Delaware corporation with a place of business at 1201 Louisiana, Suite 1600, Houston, Texas 77002, U.S.A. (“**Customer**”); and **SABINE PASS LNG, L.P.**, a Delaware limited partnership with a place of business at 700 Milam Street, Suite 800, Houston, Texas, U.S.A. 77002 (“**SABINE**”). Customer and SABINE may be referred to individually as a “Party” and collectively as the “Parties”.

## RECITALS

**WHEREAS**, SABINE and Customer are parties to that certain LNG TERMINAL USE AGREEMENT dated as of the 2<sup>nd</sup> day of September 2004, as amended, (“**Agreement**”), under which SABINE provides LNG terminalling services to Customer at the Sabine Pass Facility; and

**WHEREAS**, SABINE has entered into an interconnect agreement with Kinder Morgan Louisiana Pipeline, LLC (“**KMLP**”) and Customer has separately entered into an agreement for firm transportation services on the KMLP pipeline system; and

**WHEREAS**, SABINE and Customer desire to amend the Agreement to clarify the rights and obligations of the Parties under the Agreement as set forth herein.

**NOW, THEREFORE**, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the Parties, SABINE and Customer agree as follows:

## I

Capitalized terms used in this Amendment and not otherwise defined herein have the meanings given to them in the Agreement.

## II

Section 1.17 of the Agreement is hereby deleted in its entirety, and the following Section 1.17 is inserted in lieu thereof:

**1.17 “Customer”** means TOTAL GAS & POWER NORTH AMERICA, INC. unless and until substituted by an assignee in accordance with Article 17, whereupon such assignee shall become Customer to the extent of such assignment.

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### III

Section 1.20 of the Agreement is hereby deleted in its entirety, and the following Section 1.20 is inserted in lieu thereof:

**1.20 “Customer’s Inventory”** means, at any given time, the quantity in MMBTUs that represents LNG and Gas held by SABINE for Customer’s account. For the avoidance of doubt, Customer’s Inventory shall be determined after deduction of Retainage in accordance with Section 4.2 and reduction of PLC Fuel in accordance with Section 3.3(c)(iii) and (iv).

### IV

Section 1.22 of the Agreement is hereby deleted in its entirety, and the following Section 1.22 is inserted in lieu thereof:

**1.22 “Delivery Point” or “Delivery Points”** means any current and future physical points of interconnection at the Sabine Pass Facility connecting the Sabine Pass Facility and a Downstream Pipeline as nominated by Customer for redelivery of its Gas. The Delivery Points as of the Amendment Effective Date are: (a) the KMLP Leg 1 Interconnect; (b) the KMLP Leg 2 Interconnect; and (c) the Creole Trail Interconnect.

### V

Section 1.24 of the Agreement is hereby deleted in its entirety, and the following Section 1.24 is inserted in lieu thereof:

**1.24 “Downstream Pipeline”** means all current and future Gas pipelines with a physical connection at the Delivery Point that transport Gas from the Sabine Pass Facility and excludes other pipelines connected to the Downstream Pipeline at locations other than at the Sabine Pass Facility.

### VI

Article 1 of the Agreement is further amended by the addition of the following new definitions:

**1.95 “Amended Services”** shall have the meaning set forth in Section 25.19.

**1.96 “Amendment”** shall mean the amendment to the Agreement dated the 15<sup>th</sup> of June of 2010.

**1.97 “Amendment Effective Date”** shall mean the 15<sup>th</sup> of June of 2010 date on which the Amendment to the Agreement has become effective.

- 1.98 “**Aggregate Minimum Inventory**” shall mean a quantity of LNG equivalent to one million one hundred thousand (1,100,000) MMBTUs.
- 1.99 “**Aggregate Storage Capacity**” shall mean the existing maximum LNG storage capacity available to Customer and Other Customers (excluding Heel and Retainage) in the Sabine Pass Facility, expressed in billion Standard Cubic Feet. As of the Amendment Effective Date, the Aggregate Storage Capacity of the Sabine Pass Facility is equal to sixteen and nine-tenths (16.9) billion Standard Cubic Feet.
- 1.100 “**Creole Trail Interconnect**” means the interconnection between the Cheniere Creole Trail pipeline system and the Sabine Pass Facility.
- 1.101 “**Customer Minimum Inventory**” shall have the meaning set forth in Section 10.5(a).
- 1.102 “**Customer’s Projected Inventory**” shall have the meaning set forth in Section 5.2(b)(i).
- 1.103 “**Customer’s Storage Capacity**” shall be equal to six (6) billion Standard Cubic Feet.
- 1.104 “**Daily Records**” shall have the meaning set forth in Section 5.2(b).
- 1.105 “**Excess GHV**” shall have the meaning set forth in Section 9.8(c).
- 1.106 “**Excess N2**” shall have the meaning set forth in Section 5.2(d)(ii)d.
- 1.107 “**Excused PLC Facilities Unavailability Day**” shall have the meaning set forth in Section 3.3(c)(v).
- 1.108 “**Gas Day**” means a period of twenty-four (24) consecutive hours beginning at 9:00 A.M. Central Time.
- 1.109 “**Heel**” shall mean a quantity of LNG required to be maintained by SABINE in the Sabine Pass Facility to allow the provision of Services to Customer and Other Customers. For the purpose of those calculations set forth in Section 3.3(c)(iii) and 5.2(d)(ii), the aggregate amount of Heel and Retainage shall be limited to one million one hundred thousand (1,100,000) MMBTUs.
- 1.110 “**Heel BOG Selling Price**” shall mean the weighted average price of SABINE sales of boil-off Gas quantity from the Heel or Retainage required pursuant to Section 10.5(e), net of transportation costs and SABINE’s actual administrative and other costs incurred by it in connection with the selling of such boil-off Gas quantity.

- 1.111 “**HGHV Nonconforming Gas**” shall have the meaning set forth in Section 9.8(a).
- 1.112 “**Implementation Period**” shall have the meaning set forth in Section 25.19.
- 1.113 “**Incremental GRR Quantity**” shall have the meaning set forth in Section 3.3(c)(v).
- 1.114 “**KMLP**” means Kinder Morgan Louisiana Pipeline LLC.
- 1.115 “**KMLP-GHV**” shall have the meaning set forth in Section 9.7.
- 1.116 “**KMLP Leg 1 Interconnect**” means the interconnection between the Kinder Morgan Louisiana Pipeline and the Sabine Pass Facility (KMLP PIN 44399).
- 1.117 “**KMLP Leg 2 Interconnect**” means the interconnection between the Kinder Morgan Louisiana Pipeline and the Sabine Pass Facility (KMLP PIN 44385).
- 1.118 “**Minimum GRR**” shall have the meaning set forth in Section 5.2(d)(ii).
- 1.119 “**Minimum GRR Fee**” shall have the meaning set forth in Section 3.3(c)(i).
- 1.120 “**Minimum Inventory Cargo Costs**” shall mean the costs and expenses incurred by SABINE in purchasing a Cargo in accordance with Section 10.5(d) to restore the Aggregate Minimum Inventory, including the purchase price or other costs of the Cargo, transportation costs, and SABINE’s actual administrative and other costs incurred by it in connection with the purchase of such Cargo.
- 1.121 “**Minimum Inventory Default Quantity**” shall have the meaning set forth in Section 10.5(b).
- 1.122 “**Minimum Vaporization Nomination Deficit**” shall have the meaning set forth in Section 3.3(c)(iii).
- 1.123 “**Monthly Records**” shall have the meaning set forth in Section 5.2(c).
- 1.124 “**PLC Facilities**” shall have the meaning set forth in Section 3.3(c).
- 1.125 “**PLC Fuel**” shall have the meaning set forth in Section 3.3(c)(iii).
- 1.126 “**PLC Fuel Retainage**” shall have the meaning set forth in Section 3.3(c)(iii).

- 1.127 “PLC Facilities Unavailability Day” shall have the meaning set forth in Section 3.3(c)(v).
- 1.128 “Preliminary Nomination Notice” shall have the meaning set forth in Section 5.2(d)(i).
- 1.129 “Primary Right” shall have the meaning set forth in Section 10.1(a)(iv).
- 1.130 “Transfer Fee” shall have the meaning set forth in Section 3.1(b)(iii)C.
- 1.131 “Transferor” and “Transferee” shall have the meanings set forth in Section 3.1(b)(iii) A and B as applicable.

## VII

Section 2.1 of the Agreement is hereby deleted in its entirety, and the following Section 2.1 is inserted in lieu thereof:

### 2.1 Services to be provided by SABINE

During the Term and subject to the provisions of this Agreement, SABINE shall, acting as a Reasonable and Prudent Operator, make available the following services to Customer (such available services being herein referred to as the “Services”) in the manner set forth herein:

- (a) access to a berth for LNG Vessels at the Sabine Pass Facility;
- (b) the unloading and receipt of LNG from LNG Vessels at the Receipt Point;
- (c) the Storage of Customer’s Inventory;
- (d) the regasifying of LNG held in Storage;
- (e) the transportation and delivery of such Regasified LNG to the Delivery Point (it being acknowledged that SABINE may, at its option, cause Gas to be redelivered to Customer at the Delivery Point from sources other than Regasified LNG);
- (f) recognize, maintain and administer the record of all LNG and inventory transfers pursuant to Section 3.1(b)(iii);
- (g) the minimization of Minimum GRR pursuant to Section 3.3(c) and Section 5.2(d)(ii); and
- (h) other activities directly related to performance by SABINE of the foregoing, including, metering, custody transfer and reporting.

## VIII

A new Section 3.1(b)(ii) and a new Section 3.1(b)(iii) are inserted and Section 3.1(b)(iii) becomes Section 3.1(b)(iv) Redelivery of Gas at Delivery Point:

(ii) Storage of Customer's Inventory. SABINE shall cause Customer's Inventory, net of Retainage, to be held temporarily in Storage until redelivered in accordance with Section 3.1(b)(iv) below;

(iii) Inventory and LNG Reception Transfers.

- A. Inventory Transfers. Customer has the right to transfer to one or more Other Customers all or a portion of Customer's Inventory held in storage and to have one or more Other Customers transfer all or a portion of their inventory held in storage to Customer. For purposes of this Section 3.1(b)(iii)A., the Person who is transferring inventory to another Person shall be referred to as the "**Transferor**" and the Person to whom inventory is being transferred shall be referred to as the "**Transferee**". The maximum quantity of any such transfer shall be limited such that the Transferee's inventory does not exceed the Transferee's storage capacity as a result of such transfer. Each inventory transfer must be initiated by the Transferor sending notice of the transfer to SABINE via the Sabine Pass Website and must be confirmed by the Transferee sending notice to SABINE via the Sabine Pass Website. SABINE will recognize each such inventory transfer for purposes of computing Customer's Inventory and the inventory of the Other Customer participating in the inventory transfer, effective no later than the scheduling deadline of the NAESB cycle following the Transferee's confirmation of the Transferor's transfer notice via the Sabine Pass Website.
- B. LNG Reception Transfers. Customer has the right to transfer to one or more Other Customers all or a portion of Customer's LNG at the Receipt Point and to have one or more Other Customers transfer all or a portion of their LNG at the Receipt Point to Customer. For purposes of this Section 3.1(b)(iii)B., the Person who is transferring LNG to another Person shall be referred to as the "Transferor" and the Person to whom LNG is being transferred shall be referred to as the "Transferee". The maximum quantity of any such transfer shall be limited such that the Transferee's inventory does not exceed the Transferee's storage capacity as a result of such transfer. Each LNG transfer must be initiated by the Transferor sending notice of the transfer to SABINE via the Sabine Pass Website and must be confirmed by the Transferee sending notice to SABINE via the Sabine Pass Website. During the Implementation Period and for the purposes of Services Quantity administration, inventory transfers at the Receipt Point will be administered as in Section 3.1(b)(iii)A. following the completion of the LNG unloading for the Transferor. Following the Implementation Period and for the purposes of Services Quantity administration, SABINE will recognize each such LNG transfer for

for purposes of computing Customer's Inventory and the inventory of the Other Customer participating in the LNG transfer, effective as of the time that the quantities of LNG unloaded at the Receipt Point (net of the quantities transferred) would have been credited to the Transferor's account. As a consequence of the transfer: (x) the total quantity of LNG transferred at the Receipt Point to the Transferee shall be credited toward the Transferor's Maximum LNG Reception Quantity (or similar maximum contractual entitlement to receive LNG berthing, unloading and receipt services); (y) Retainage associated with the quantity of LNG transferred shall be deducted from the Transferor's account, and (z) the increase in Minimum GRR as provided in Section 5.2(d)(i)c. shall be for the Transferor's account.

- C. Transfer Fee. Except as provided in Section 10.5, as consideration to SABINE for the recording of each inventory and LNG reception transfer pursuant to this Section 3.1(b)(iii), the Transferor shall pay SABINE a fee ("**Transfer Fee**") equal to two cents (\$0.02) per MMBTU transferred with a minimum Transfer Fee of ten thousand dollars (\$10,000).
- D. Terminal Transfers. SABINE and Customer may also enter into inventory and/or LNG reception transfers, via the Sabine Pass Website, subject to the same terms and conditions as otherwise stated in this Section 3.1(b)(iii) except that no Transfer Fee shall be assessed; and

**IX**

Section 3.3 of the Agreement is hereby deleted in its entirety, and the following Section 3.3 is inserted in lieu thereof:

**3.3 Gas Redelivery**

- (a) No Pre-Delivery Right. Except as provided in Section 5.2(d)(iii) on any given day during a Contract Year, Customer shall not be entitled to receive quantities of Gas in excess of Customer's Inventory.
- (b) Gas Redelivery Rate. For purposes of this Agreement, the term "**Gas Redelivery Rate**" means, subject to the proviso of this Section 3.3(b) and Section 5.2(d), 1,050,000 MMBTU per day or such lesser rate nominated by Customer; provided, however, that at no time shall Customer's Inventory exceed Customer's Storage Capacity.

(c) Minimization of Minimum GRR:

SABINE shall maintain, operate and use all available facilities at the Sabine Pass Facility in an effort to minimize the Minimum GRR for Customer, including all currently available and future acquired pipeline compression facilities as indicated below in (i) and (ii) (“**PLC Facilities**”). Customer shall pay SABINE fees for the use of the PLC Facilities consisting of the fixed and variable components as indicated below.

- (i) As part of the PLC Facilities, SABINE has installed a pipeline compressor that enables compression and send-out through the Delivery Point of the Sabine Pass Facility’s boil-off Gas quantity up to a rate of approximately twenty-five thousand (25,000) MMBTU per day. Commencing on the Amendment Effective Date, Customer shall pay SABINE a monthly fixed fee for the delivery of its Minimum GRR utilizing the existing PLC Facility in an annual amount equal to three hundred seventy five thousand dollars (\$375,000) (“**Minimum GRR Fee**”) for the remainder of the Initial Term and pro rata thereof for any partial Contract Year.
- (ii) As soon as practicable, SABINE shall procure, install, maintain and operate a second, permanent pipeline compressor with materially similar specifications as the original pipeline compressor described in (i) above to supplement and become part of the PLC Facilities. When operated in conjunction with the pipeline compressor described in Section 3.3(c)(i), the combined capacity will have the capability of managing the incremental boil-off Gas generated as a result of the unloading of a Cargo under normal operating conditions from an LNG Vessel in accordance with Section 5.2(d)(ii)c. without use of the Sabine Pass Facility’s recondenser and vaporizer facilities. From the date when the second pipeline compressor is installed and is ready to commence operations, the Minimum GRR Fee payable by Customer to SABINE for the delivery of its Minimum GRR utilizing the PLC Facilities shall increase to the annual amount of seven hundred fifty thousand dollars (\$750,000) for the remainder of the Initial Term and pro rata thereof for any partial Contract Year.
- (iii) In addition to the annual fixed fee component described in Sections 3.3(c)(i) or (ii) above, Customer shall pay SABINE a variable component fee equal to Customer’s pro rata share of the fuel expense incurred by SABINE to operate the PLC

Facilities each day (“**PLC Fuel**”). Such pro-rata share of the fuel expense incurred by SABINE to operate the PLC Facilities shall be based on the amount by which Customer’s and Other Customers’ allocated Gas redelivery quantities are less than their respective pro rata shares of the aggregate Gas redelivery nominations required to manage the boil-off Gas without running the PLC Facilities, that rate being 250,000 MMBTU (“**Minimum Vaporization Nomination Deficit**”), such pro-rata share to be based on the ratio of Customer’s Minimum Vaporization Nomination Deficit to the aggregate of Customer’s and the Other Customers’ Minimum Vaporization Nomination Deficit. Customer’s and Other Customers’ respective pro rata shares of the aggregate Gas redelivery nominations required to manage the boil-off Gas without running the PLC Facilities shall be based on the ratio of each of their respective inventories to the aggregate inventory in the Sabine Pass Facility (excluding Heel and Retainage) on such day. The PLC Fuel shall be assessed as a reduction in Customer’s Inventory (“**PLC Fuel Retainage**”) recorded, after the Implementation Period, daily, for each day that Customer’s Minimum Vaporization Nomination Deficit is greater than zero (0). During the Implementation Period, the PLC Fuel Retainage will be recorded at least monthly and administered as an inventory transfer between Customer and SABINE as per Section 3.1(b)(iii). During the Implementation Period and as soon as practicable, SABINE shall install, maintain and operate meters capable of measuring the quantity of electricity consumed by the PLC Facilities. SABINE shall then determine the PLC Fuel for each Gas Day as the product of: (a) the ratio of the quantity of electricity consumed by the PLC Facilities to the total quantity of electricity being generated by the Sabine Pass Facility Gas turbine generators and; (b) the total quantity of Gas consumed by the Sabine Pass Facility Gas turbine generators. Whenever the PLC Facilities meters are not available for any reason, SABINE shall perform an estimate of the PLC Fuel based on the mechanical energy considering:

- a. a reasonable estimation of the pipeline compressor thermal and mechanical efficiency;
- b. the ambient air temperature;
- c. the measurements of the discharge and suction pressures of the pipeline compressor at least on a hourly basis; and
- d. a reasonable estimation of the average heat rate of the Sabine Pass Facility gas turbine generators.

- (iv) Notwithstanding the foregoing, if in any month SABINE receives at least seven million five hundred thousand (7,500,000) MMBTU of Customer's LNG, the PLC Fuel attributable to Customer shall be reduced to zero (0) for the first ten (10) days in the following month on which PLC Fuel would otherwise have been attributable to Customer. For each one million (1,000,000) MMBTU that SABINE receives above seven million five hundred thousand (7,500,000) MMBTU of Customer's LNG the PLC Fuel attributable to Customer shall be reduced to zero (0) for an additional two (2) days in the following month.
  
- (v) A PLC Facilities Unavailability Day ("**PLC Facilities Unavailability Day**") shall consist of any day during which: (w) all pipeline compressors comprising the PLC Facilities are unavailable for whatever reason other than events of Force Majeure (except that for purposes of this Section 3.3(c)(v) the definition of Force Majeure shall exclude mechanical breakdown of the PLC Facilities not caused by actions or events external to the PLC Facilities); and (x) as a consequence, Customer's redelivery nomination has to be increased pursuant to Section 5.2(d)(ii)b. For each PLC Facilities Unavailability Day in a Contract Year beyond a threshold number of such days in that Contract Year determined pursuant to Section 3.3(c)(vi) below ("**Excused PLC Facilities Unavailability Days**"), SABINE shall calculate a credit that shall be applied in the immediately succeeding monthly payments as a reduction in Customer's Minimum GRR Fee. Until the permanent second (2nd) pipeline compressor is in operation pursuant to Section 3.3(c)(ii), such credit shall be equal to the product of one cent (\$0.01) multiplied by the Incremental GRR Quantity, thereafter the credit shall be equal to the product of two cents (\$0.02) multiplied by the Incremental GRR Quantity. The Incremental GRR Quantity shall be: (y) for the first PLC Facilities Unavailability Day, the positive difference between Customer's Minimum GRR for such day calculated by SABINE pursuant to Section 5.2(d)(ii)b. minus Customer's original redelivery nomination for such day and (z) for each subsequent consecutive PLC Facilities Unavailability Day, if any, the positive difference between Customer's Minimum GRR for such day calculated by SABINE pursuant to Section 5.2(d)(ii)b. minus the higher of Customer's redelivery nomination for such day and what would have been Customer's Minimum GRR for such day calculated pursuant to Section 5.2(d)(ii), had the PLC Facilities been available on

such day. In no event shall the credits to Customer in any Contract Year exceed the Minimum GRR Fee.

- (vi) Until the permanent second pipeline compressor is in operation pursuant to Section 3.3(c)(ii), the number of Excused PLC Facilities Unavailability Days shall be eight (8) in each Contract Year or pro rata thereof. Thereafter, the number of Excused PLC Facilities Unavailability Days shall be four (4) in each Contract Year or pro rata thereof.
- (vii) Notwithstanding the foregoing, whenever Customer is not entitled to receive any credit pursuant to Section 3.3(c)(v) above, and any of the pipeline compressors comprising the PLC Facilities becomes unavailable for any reason (including Force Majeure) for more than one hundred and eighty (180) consecutive days (provided however that in the event such unavailability of the PLC Facilities is due to a PLC motor failure, such duration shall be extended by a reasonable amount of time to allow for the replacement or repair of the PLC motor based on reasonable industry timelines then in effect for such part), the Minimum GRR Fee shall be: (x) reduced by half (if only one (1) pipeline compressor is unavailable); or (y) suspended (if both pipeline compressors are unavailable), as applicable, on a day-by-day basis until full availability of the pipeline compressor(s). For purposes of this Section 3.3(c)(vii), the Minimum GRR Fee shall be equal to the annual Minimum GRR Fee divided by the number of days in the year. In no event shall the credits to Customer in any Contract Year exceed the Minimum GRR Fee.

#### X

Section 4.2 of the Agreement is hereby deleted in its entirety, and the following Section 4.2 is inserted in lieu thereof:

#### 4.2 Retainage

For purposes of this Agreement “**Retainage**” means a quantity of LNG equal to two percent (2%) of LNG received for Customer’s account at the Receipt Point.

#### XI

Sections 5.2(b) and 5.2(c) of the Agreement are hereby deleted in their entirety, and the following Sections 5.2(b), 5.2(c) and 5.2(d) are inserted in lieu thereof.

#### 5.2 Gas Delivery Procedure

- (b) Daily Records. Following the Implementation Period, SABINE shall, on each day by 7:00 a.m. Central Time post on the Sabine Pass Website for access by Customer certain records (“**Daily Records**”), including the following:
- (i) a projection of Customer’s Inventory as of 9:00 a.m. Central Time on the day of the posting of the Daily Records and as of the commencement of the next succeeding Gas Day based on Customer’s Inventory, scheduled redelivery nominations and PLC Fuel usage (“**Customer’s Projected Inventory**”);
  - (ii) the expected total capacity of the Sabine Pass Facility to vaporize and deliver Gas, as of 9:00 a.m. Central Time on the day following the posting of the Daily Records, determined by SABINE as a Reasonable and Prudent Operator (“**Total Vaporization Capacity**”);
  - (iii) the sum of all Other Customers maximum Gas redelivery rates (or similar maximum daily contractual entitlement to receive Gas at the Delivery Point);
  - (iv) Customer’s Minimum GRR determined in accordance with Section 5.2(d)(ii);
  - (v) the estimated boil-off Gas quantity for the Gas Day preceding the day of the posting of the Daily Records; and
  - (vi) an estimate of the highest Gross Heating Value SABINE anticipates delivering to Customer at any Delivery Point during the next two (2) week period, up to and including the maximum Gross Heating Value specified in Section 10.3(a) as well as SABINE’s estimate of the highest Gross Heating Value of any LNG then in storage. This Gas redelivery heating value forecast will be based on SABINE’s reasonable estimate of the current heating value of the LNG in storage, Customer’s and Other Customers aggregate redelivery nominations received by SABINE for the next two (2) week period, Customer’s and Other Customers aggregate Cargo receipts for which SABINE has received nominations, and the assumption of redelivering Gas from the LNG in storage with the highest Gross Heating Value on a priority basis.
- (c) Monthly Records. Following the Implementation Period, SABINE shall, by the 10th day of each month, post on the Sabine Pass Website for access by Customer certain records (“**Monthly Records**”), including the following:

- (i) the sum of Customer and all Other Customers closing inventory for each day of the previous month;
  - (ii) the sum of SABINE's Retainage and Heel for each day of the previous month;
  - (iii) the sum of Customer and all Other Customers allocated Gas redeliveries for each Gas day of the previous month; and
  - (iv) SABINE's estimate of the boil-off Gas quantity for each Gas Day of the previous month.
- (d) Gas Redelivery Nominations
- (i) Preliminary Gas Nomination. Commencing on the day before the Commercial Start Date, the Scheduling Representative shall, by 7:30 a.m. each Day, notify to SABINE a preliminary nomination ("**Preliminary Nomination Notice**") of the quantities of Gas (including any desired share of Excess Gas) that Customer desires to be delivered to it at the Delivery Point commencing at 9:00 a.m. on the subsequent day.
  - (ii) Minimum Gas Redelivery Rate. Each Gas Day Customer shall be required, and SABINE shall require each Other Customer, to nominate at least a minimum quantity of Gas for redelivery at the Delivery Point ("**Minimum GRR**"). On any given day Customer's Minimum GRR shall be:
    - a. Customer's pro rata share of SABINE's reasonable estimate of the quantity of boil-off Gas generated at the Sabine Pass Facility on such Gas Day (excluding boil off Gas associated with the loading or unloading of any LNG vessel other than Customer's LNG Vessel), such pro rata share to be based on the ratio of Customer's Inventory to the aggregate inventory in the Sabine Pass Facility on such day (excluding Heel and Retainage). Each Other Customers pro rata share of the Sabine Pass Facility boil-off Gas quantity shall also be based on the ratio of such Other Customers inventory to the aggregate inventory in the Sabine Pass Facility (excluding Heel and Retainage). If, on any given day, Customer's Inventory is less than zero (0), Customer's Inventory shall be deemed to be zero (0) for the purpose of determining Customer's Minimum GRR.
    - b. In the event that PLC Facilities become unavailable for any reason, SABINE shall as soon as practicable

notify Customer's Scheduling Representative by email and shall make reasonable endeavors to contact Customer's Scheduling Representative by telephone to inform Customer that the PLC Facilities are unavailable and that its Minimum GRR shall become its pro rata share of the quantity required to manage the boil-off Gas quantity using the Sabine Pass Facility's vaporization facilities (excluding boil-off Gas associated with the loading or unloading of any LNG vessel other than Customer's LNG Vessel) until such time that the PLC Facilities are returned to service. In this event, Customer's pro rata share shall be based on the ratio of Customer's Inventory to the aggregate LNG inventory in the Sabine Pass Facility (excluding Heel and Retainage). SABINE shall cooperate with Customer to adjust Customer's nomination and to facilitate redelivery and Customer's receipt of the Minimum GRR. SABINE shall also notify Customer of the estimated period during which the PLC Facilities will be unavailable and shall update this estimate to Customer on a daily basis. SABINE shall promptly notify Customer when the PLC Facilities resume service.

- c. In the event that an LNG Vessel is planned to be or has been unloaded on behalf of Customer, Customer's Minimum GRR shall be the rate set forth in Sections 5.2(d)(ii)a. or 5.2(d)(ii)b. above plus SABINE's reasonable estimate of the additional Gas redelivery rate sufficient to manage the incremental boil-off Gas quantity generated as a result of unloading the LNG Vessel on behalf of Customer during and after unloading of such LNG.
  
- d. If, in SABINE's determination, LNG delivered by Customer to SABINE will, for reasons not attributable to SABINE, result in Gas to be delivered to Customer or Other Customers at the Delivery Point to not conform to the nitrogen content limitation (expressed as a percentage) specified in Section 10.3(b), Customer's Minimum GRR shall be the rate set forth in Sections 5.2(d)(ii)a. or 5.2(d)(ii)b. above plus SABINE's reasonable estimate of Customer's pro rata share of the additional Gas redelivery rate required to ensure that the Gas to be delivered to Customer or Other Customers at the Delivery Point will conform to the nitrogen content limitation specified in Section 10.3(b). Customer's pro rata share of the additional

Gas redelivery rate shall be calculated based on the ratio of: (w) the product of Customer's Excess N2 and Customer's Inventory to; (x) the sum of the product of Customer's Excess N2 and Customer's Inventory and the product of each Other Customers Excess N2 and each Other Customers inventory. Excess N2 for Customer and each Other Customer shall be determined as the positive difference between: (y) the volumetrically weighted average of SABINE's estimation of the nitrogen percentage of each of Customer's and Other Customers individual quantities of LNG received or transferred and remaining in Customer's and Other Customers inventories; and (z) sixteen hundredths percent (0.16%) ("**Excess N2**").

SABINE shall determine a value representing the nitrogen percentage for each of Customer's and Other Customers individual quantities of LNG received or transferred and remaining in Customer's and Other Customers Inventories considering:

- (i) the actual nitrogen percentage of each individual remaining quantity of LNG received on the day received at the Receipt Point;
- (ii) the nitrogen percentage of each remaining quantity of LNG transferred pursuant to Section 3.1(b)(iii) on the day of the transfer, calculated as the volumetrically weighted average of the nitrogen percentage of the Transferor's remaining quantities of LNG received or transferred prior to the transfer date and being transferred;
- (iii) the dates of each remaining quantity of LNG transferred pursuant to Section 3.1(b)(iii), determined as the volumetrically weighted average of the nitrogen percentage of the Transferor's remaining quantities of LNG received or transferred prior to the transfer date and being transferred;
- (iv) the duration in number of days between the dates each remaining quantity of LNG has been received or the dates as determined pursuant to Section 3.1(b)(iii) above each remaining quantity of LNG has been transferred;

(v) the estimated actual average nitrogen percentage of the LNG in Sabine Pass Facility;

(vi) the determination of a nitrogen percentage daily decrease factor that will enable the volumetrically weighted average of the nitrogen percentage for each of the remaining quantities of LNG received or transferred for the Customer and Other Customers to be equal to the estimated actual average nitrogen percentage of all of the LNG in the Sabine Pass Facility.

For purposes of the calculations and determinations provided above, the LNG shall be deemed to have been redelivered or transferred on a 'first-in, first-out' basis.

e. On any given day Customer's Minimum GRR shall be reduced to a minimum of zero (0) to the extent that the aggregate of the Other Customers redelivery nominations are in excess of the aggregate of the Other Customers minimum gas redelivery rates, such excess to be allocated to Customer for reduction of Customer's Minimum GRR based on the ratio of Customer's Inventory to the aggregate LNG inventory of Customer and all Other Customers whose redelivery nominations are not in excess of their Minimum GRRs.

f. SABINE will use reasonable endeavors to minimize Customer's Minimum GRR.

g. Customer's Minimum GRR shall be based solely on the quantity of boil-off Gas generated by the Sabine Pass Facility in connection with the provision by SABINE of Services available to Customer.

(iii) Confirmation of Gas Redelivery Nominations during Cargo Unloading. For any days when an LNG Vessel unloading is anticipated on behalf of Customer, SABINE shall use reasonable efforts to accept a Gas redelivery nomination in excess of Customer's Projected Inventory up to Customer's Gas Redelivery Rate if: (x) SABINE anticipates that such excess quantity will be in SABINE's possession and control (but not yet considered received and credited to Customer's Inventory in accordance with Annex I) by the flowing time of the Gas redelivery nomination for such excess quantity; and (y) the Downstream Pipeline will permit SABINE to redeliver

less than Customer's confirmed Gas redelivery nomination if such excess quantity is not in SABINE's possession and control by the flowing time of the Gas redelivery nomination. If such excess quantity is not in SABINE's possession and control by the flowing time of the Gas redelivery nomination, SABINE shall, in its sole discretion, determine the actual quantity of Gas to be redelivered to Customer but such quantity shall not be less than the quantity of Customer's LNG actually received at the Sabine Pass Facility. If the Downstream Pipeline will not permit SABINE to redeliver less than Customer's confirmed Gas redelivery nomination, SABINE shall use reasonable efforts to accept a Gas redelivery nomination in excess of Customer's Projected Inventory up to Customer's Gas Redelivery Rate if such excess quantity is in SABINE's possession and control on or prior to confirmation of Customer's nomination for such excess quantity on the relevant Downstream Pipeline.

- (iv) Nominations of Excess Gas may only be requested if the Scheduling Representative has stated, in the Preliminary Nomination Notice, a GRR of 1,050,000 MMBTUs per day.
- (v) In the event that on a day SABINE does not receive a Preliminary Nomination Notice on a timely basis, the Scheduling Representative shall be deemed to have nominated a Gas Redelivery Rate equal to the Customer's Minimum GRR and Section 3.4 shall apply.

## XII

Section 8.4(b) of the Agreement is hereby deleted in its entirety, and the following Section 8.4(b) is inserted in lieu thereof:

- (b) LNG Vessel Nomination. As soon as practicable but no later than the day of departure of the LNG Vessel from the Loading Port (unless the LNG Vessel contains a Cargo acquired or redirected after loading, in which case the deadline shall be as soon as practicable after such acquisition or redirection), Customer shall notify SABINE of the information specified below:
  - (i) name of LNG Vessel and, in reasonable detail, the dimensions, specifications, operator, and owner of such LNG Vessel;
  - (ii) name of Loading Port;
  - (iii) expected departure date of LNG Vessel from Loading Port;
  - (iv) estimated arrival date at the Sabine Pass Facility; and

- (v) any changes in the Expected Receipt Quantity since Customer's prior notice.

### XIII

Section 8.5(a) of the Agreement is hereby deleted in its entirety, and the following Section 8.5(a) is inserted in lieu thereof:

- (a) Issuance. Subject to any applicable restrictions, including any nighttime transit restrictions imposed by Governmental Authorities or Pilots or any other reasonable timing restrictions imposed by SABINE under Section 7.1(b)(iii), the Master of an LNG Vessel or its agent may give to SABINE its notice of readiness ("**NOR**") to unload (berth or no berth) upon arrival of such LNG Vessel at the specific location off the Sabine Pass Facility at which Pilots customarily board the LNG Vessel (such location referred to as the "**Pilot Boarding Station**").

### XIV

New Section 9.7 and Section 9.8 are added to the Agreement as follows:

#### 9.7 LNG GHV at Receipt Point and Gas GHV at KMLP Delivery Point

If Customer delivers a Cargo to the Sabine Pass Facility that has an average Gross Heating Value that conforms to the then-effective Gross Heating Value specifications of KMLP ("**KMLP-GHV**"), SABINE shall exercise reasonable efforts to deliver Gas to Customer at the Delivery Point with a Gross Heating Value that conforms to the KMLP-GHV provided that: (i) as determined at SABINE's sole discretion, such efforts would not result in the adverse impact or reduction of Services to Other Customers; and (ii) SABINE shall have no obligation to redeliver Gas that conforms to the KMLP-GHV if the in-tank retention time of LNG unloaded by Customer is reasonably estimated by SABINE to be sufficient to cause the Customer delivered LNG Gross Heating Value to exceed the KMLP-GHV.

#### 9.8 Weathered Inventory Gross Heating Value

- (a) Expected Nonconforming Gas due to High Gross Heating Value Notwithstanding the provisions in Section 9.4 and Section 9.5, if at any time and for reasons not attributable to SABINE, SABINE expects, after taking into account the expected Gas redelivery nominations and the expected dates of unloading of LNG Vessels for Customer and Other Customers, that due to boil-off, within the next forty (40), days a portion or all of the LNG held in storage in the Sabine Pass Facility will, when vaporized, produce Nonconforming Gas but only due to its high Gross Heating Value ("**HGHV Nonconforming Gas**"), then SABINE shall as soon as

reasonably practicable provide notice to Customer and Other Customers, such notice to include the quantity and current Gross Heating Value of the LNG expected to produce GHV Nonconforming Gas.

- (b) SABINE's Right to Cure. If at the end of the thirty (30) day period following the date of SABINE's notice pursuant to Section 9.8(a) above, Customer and/or Other Customers have failed to arrange to cure the expected GHV Nonconforming Gas, SABINE shall have the right to make arrangements to cure the expected GHV Nonconforming Gas by any and all means including arranging for the procurement of a Cargo at commercially reasonable prices. Customer shall indemnify and reimburse SABINE from and against Customer's pro-rata share of the costs (other than capital costs) associated with the expected GHV Nonconforming Gas cure arranged by SABINE.
- (c) Allocation. Customer's pro-rata share of the cost of the Nonconforming Gas cure shall be calculated based on the ratio of: (w) the product of Customer's Excess GHV and Customer's Inventory to; (x) the sum of the product of Customer's Excess GHV and Customer's Inventory and the product of each Other Customers' GHV and each Other Customers' inventory. Customer's Inventory and Other Customers inventories shall be determined as of the thirty-first (31st) day following the date of SABINE's notice sent pursuant to Section 9.8(a). Excess GHV for Customer and for each Other Customer shall be determined as the positive difference between: (y) the volumetrically weighted average of SABINE's estimation of the Gross Heating Value calculated as of the seventy first (71st) day following the date of SABINE's notice sent pursuant to Section 9.8(a) of each of Customer's and Other Customers quantities of LNG received or transferred and remaining in Customer's and each Other Customers inventories; and (z) one thousand one hundred and sixty five (1165) BTU per Standard Cubic Foot ("**Excess GHV**").
- (d) Excess GHV Determination. SABINE shall determine a value representing the Gross Heating Value on the seventy-first (71st) day following the date of SABINE's notice sent pursuant to Section 9.8(a) for each of Customer's and Other Customers individual quantities of LNG received or transferred and remaining in Customer's and Other Customers inventories considering:
- (i) the actual Gross Heating Value of each individual remaining quantity of LNG received, on the day received at the Receipt Point;
  - (ii) the Gross Heating Value of each remaining quantity of LNG transferred pursuant to Section 3.1(b)(iii), calculated as the

volumetrically weighted average of the Gross Heating Value of the Transferor's remaining quantities of LNG received or transferred prior to the transfer date and contributing to the LNG transfer;

- (iii) the date of each remaining quantity of LNG transferred pursuant to Section 3.1(b)(iii), determined as the volumetrically weighted average of the dates of the Transferor's remaining quantities of LNG received or transferred prior to the transfer date and contributing to the LNG transfer;
- (iv) the duration in number of days between the dates each remaining quantity of LNG has been received or the dates as determined pursuant to Section 9.8(d)(iii) above for any remaining quantity of LNG transferred and the seventy-first (71st) day following the date of SABINE's notice sent pursuant to Section 9.8(a);
- (v) the expected average Gross Heating Value of all LNG in Sabine Pass Facility on the seventy-first (71st) day following the date of SABINE's notice sent pursuant to Section 9.8(a); and
- (vi) the determination of a Gross Heating Value daily increase factor that will result in the volumetrically weighted average of the Gross Heating Value estimated on the seventy-first (71st) day following the date of SABINE's notice sent pursuant to Section 9.8(a) of the remaining quantities of LNG received or transferred for the Customer and Other Customers to be equal to the expected average Gross Heating Value of all LNG in Sabine Pass Facility as determined in the preceding Section.

For purposes of the calculations and determinations provided above, the LNG shall be deemed to have been redelivered or transferred on a 'first-in, first-out' basis.

#### XV

Section 10.1(a) of the Agreement is hereby deleted in its entirety, and the following Section 10.1(a) is inserted in lieu thereof:

(a) Delivery Point

- (i) Subject to Section 3.3, the quantity of Gas nominated by Customer for any day pursuant to Section 5.2 shall be delivered at the Delivery Point nominated by Customer. Customer may nominate quantities of Gas from Customer's Inventory for delivery at one or more Delivery Points on a given day; provided, however, that the aggregate of such

nominations by Customer shall not exceed the Gas Redelivery Rate (plus any Excess Gas and/or any Make-Up Quantity). Except as provided below, the KMLP Leg 1 Interconnect and the KMLP Leg 2 Interconnect shall be operated at one common variable pressure and as a single Delivery Point.

- (ii) If on any given day the total Gas redelivery nominations of Customer and Other Customers require SABINE to deliver Gas to both the KMLP Leg 1 Interconnect and the KMLP Leg 2 Interconnect at different pressures, SABINE shall deliver the nominated quantities so long as: (a) such operations, in SABINE's sole discretion, will not impede SABINE's ability to fulfill its contractual obligations to Other Customers; and (b) Customer and SABINE agree to the quantity of LNG to be reimbursed to SABINE by Customer pursuant to the following sentence prior to delivery of the nominated quantities. Customer shall reimburse SABINE for any additional fuel expense incurred by SABINE in delivering such nominated quantities in the form of a no-fee transfer, as per Section 3.1(b)(iii)D, of LNG from Customer's Inventory to SABINE in the quantity agreed to as provided in the foregoing sentence.
- (iii) SABINE shall deliver the quantities of Gas nominated by Customer at each Delivery Point, subject to confirmation by the Downstream Pipelines of Customer's nomination and scheduling of Gas in accordance with Section 10.2(a).
- (iv) Customer has an equal primary right of nomination and scheduling with Chevron U.S.A. Inc. ("**Primary Right**") at the KMLP Leg 1 Interconnect and at the KMLP Leg 2 Interconnect.

## XVI

A new Section 10.5 is added to the Agreement as follows:

### 10.5 Minimum Inventory

- (a) Customer Minimum Inventory. Subject to further provisions of this Section 10.5, Customer shall maintain Customer's Inventory of not less than a quantity calculated as the Aggregate Minimum Inventory multiplied by the ratio of the Customer's Storage Capacity over the Aggregate Storage Capacity ("**Customer Minimum Inventory**"). SABINE shall require that each Other Customer maintain its pro rata share of Aggregate Minimum Inventory on the

same terms and conditions that are applicable to Customer under this Section 10.5.

- (b) Minimum Inventory Default Quantity. Whenever Customer's Inventory falls below the Customer Minimum Inventory, SABINE shall provide timely notice to Customer. Whenever Customer's Inventory remains below Customer Minimum Inventory for more than forty (40) consecutive days, SABINE shall start accounting and keeping record of the cumulative amount of the daily difference between the Customer Minimum Inventory and Customer's Inventory ("**Minimum Inventory Default Quantity**"). If, on any given day, Customer's Inventory is less than zero (0), Customer's Inventory shall be deemed to be zero (0) for the purpose of determining Customer's Minimum Inventory Default Quantity. At any time Customer's Inventory is less than three (3) times Customer's Minimum Inventory, Customer shall have the right to receive up to one million five hundred thousand (1,500,000) MMBTUs of additional inventory via an inventory or LNG reception transfer from an Other Customer at no Transfer Fee. Customer shall be entitled to two (2) such no-fee transfers in any one (1) calendar year. SABINE shall report to Customer on a monthly basis the Minimum Inventory Default Quantity of Customer and each Other Customer.
  
- (c) Aggregate Minimum Inventory Default. Notwithstanding Section 10.5(b) above, whenever the sum of Customer's Inventory and Other Customers' Inventories falls below the Aggregate Minimum Inventory and in the reasonable opinion of SABINE there is a material risk, after taking into account the expected dates of unloading of LNG Vessels, and the risk of delay or interruption to any such unloading, that the total quantity of LNG in the Sabine Pass Facility to be held in Customer's Inventory and Other Customers' Inventories will be lower than the Aggregate Minimum Inventory during the succeeding forty (40) days, SABINE shall provide timely notice to Customer and all Other Customers.
  
- (d) Cargo Procurement. If at the end of the thirty (30) day period following the receipt of SABINE's notice pursuant to Section 10.5(c) above, Customer and/or Other Customers have failed to arrange for delivery of a Cargo to the Sabine Pass Facility in the coming ten (10) days to ensure that there will be LNG at least equal to the Aggregate Minimum Inventory, SABINE shall have the right to procure a Cargo using good faith efforts to obtain commercially reasonable prices, in order to restore the Aggregate Minimum Inventory. Customer shall indemnify and reimburse SABINE from and against Customer's pro rata share of the Minimum Inventory Cargo Costs associated with the acquisition of such Cargo. Customer's pro rata share of the Minimum Inventory Cargo Costs

shall be calculated as the ratio of Customer's Minimum Inventory Default Quantity to the sum of Customer's and Other Customers' Minimum Inventory Default Quantities as of the date of delivery of such Cargo. If, at such time and for any reason, the Minimum Inventory Default Quantities of Customer and all of the Other Customers is zero (0), Customer's pro rata share of the Minimum Inventory Cargo Costs shall be calculated at the ratio of Customer's Storage Capacity to the Aggregate Storage Capacity. Upon payment by Customer of all amounts for which it is liable under this Section 10.5(d), Customer shall be entitled to have its share of the Cargo acquired by SABINE (using the same allocation methodology as for the Minimum Inventory Cargo Costs) credited without charge to Customer's Inventory, net of Retainage. Upon Customer's payment to SABINE of its pro rata share of the Minimum Inventory Cargo Costs, the Customer Minimum Inventory Default Quantity, if any, shall be reset at zero (0). The liability of Customer and Other Customers towards SABINE under this Section 10.5(d) shall be several and not joint and shall be limited in the manner set forth in this Section 10.5. In the event that SABINE acquires a Cargo pursuant to this Section 10.5(d) and on the date of delivery of such Cargo Customer's Minimum Default Quantity is zero (0), Customer shall nonetheless have the option to acquire and have credited to Customer's Inventory up to twenty-five percent (25%) of such Cargo upon payment to SABINE of a percentage of the Minimum Inventory Cargo Costs equivalent to the percentage of the Cargo Customer elects to acquire. In the event that Customer exercises such right, the Other Customers share of such Cargo and associated Minimum Inventory Cargo Costs shall be reduced pro rata (using the same allocation methodology as for the Minimum Inventory Cargo Costs) to reflect the portion of the Cargo acquired by Customer and the portion of the Minimum Inventory Cargo Costs borne by Customer.

- (e) Sale of BOG from Heel or Retainage. At any time during which and for as long as Customer's and Other Customers' Inventories are jointly zero (0), SABINE shall nominate and sell the boil-off Gas quantity from the Heel or Retainage. If, pursuant to the preceding sentence, SABINE sells any Heel or Retainage, Customer shall have the obligation on the day following the credit of any LNG to Customer's Inventory to sell at the Heel BOG Selling Price ("**Heel BOG Selling Price**") and transfer to SABINE a quantity of LNG equal to the Customer's pro rata share of Heel or Retainage sold by SABINE. Customer's pro rata share of Heel or Retainage sold shall be calculated as the ratio of Customer's Minimum Inventory Default Quantity to the sum of Customer's and Other Customers' Minimum Inventory Default Quantities as of the day immediately prior to the delivery of the Cargo pursuant to Section 10.5(d) above.

- (g) Successors and Assignees. Any successor or assignee of Customer or any Other Customer shall remain liable for any Minimum Inventory Default Quantity as accounted for by SABINE.

## XVII

Section 11.1 is hereby deleted in its entirety, and the following Section 11.1 is inserted in lieu thereof:

### 11.1 Monthly Statements

Between the first (1<sup>st</sup>) day of each month and the tenth (10<sup>th</sup>) day of each month, SABINE shall deliver to Customer a statement setting forth the following:

- (a) the Fixed Component for the following month;
- (b) the FOC Component for the following month;
- (c) the monthly portion of the Minimum GRR Fee net of any applicable credits for the following month;
- (d) the Incremental Costs, if any, for the prior month;
- (e) any charges under Section 3.1(b)(iii)C. for the prior month;
- (f) any charges under Section 4.3 for the prior month; and
- (g) any charges under Section 10.5(d) for the prior month.

In addition, the first sentence in Section 11.3(b) is hereby deleted in its entirety and the following sentences are inserted in lieu thereof:

Audit. Upon thirty (30) days written notice issued within six (6) months of the conclusion of any Contract Year, Customer shall have the right to cause an internationally recognized firm of accountants, appointed by Customer at Customer's sole expense, to audit the books, records and accounts of SABINE that are directly relevant to the determination of SABINE Taxes and New Regulatory Costs, LNG receipts and Gas deliveries for such prior Contract Year, as provided in statements issued to Customer pursuant to this Article 11. Customer shall have the right to have its technical experts, at Customer's sole expense, to audit the books, records and accounts of SABINE that are directly relevant to the determination of PLC Fuel Retainage, any amounts claimed by SABINE under Section 9.8(b) or Section 10.5 for such prior Contract Year, as provided in statements issued to Customer pursuant to this Article 11.

## XVII

A new Section 25.19 is added to the Agreement as follows:

### 25.19 Implementation Period

During the period beginning with the Amendment Effective Date and ending when all modification to the Sabine Pass Website and other Sabine Pass Facility processes and equipment necessary to facilitate the generation, gathering, and transfer of information between Customer and SABINE regarding the information, rights and obligations associated with the Amendment, the (“**Amended Services**”) have been fully implemented, (“**Implementation Period**”) SABINE will generate and gather the necessary information regarding the Amended Services in a prudent and practical manner and Customer and SABINE will exchange information regarding the Amended Services on an as needed basis by email and other means to facilitate the Amended Services.

**XVIII**

Annex I, Annex II and Exhibit C are hereby deleted in entirety, and a new Annex I, Annex II and Exhibit C are attached hereto in lieu thereof.

All provisions of the Agreement not specifically amended hereby shall remain in full force and effect.

Signatures on next page

IN WITNESS WHEREOF, each of the Parties has caused this Amendment to be duly executed and signed by its duly authorized officer as of the Amendment Effective Date.

**SABINE PASS LNG, L.P.**

**By: Sabine Pass LNG-GP, Inc.  
its general partner**

By:/s/ R. Keith Teague  
Name:R. Keith Teague  
Title:President

**TOTAL GAS & POWER NORTH AMERICA,  
INC.**

By:/s/ Bruce E. Henderson  
Name:Bruce E. Henderson  
Title:President & General Manager



## AMENDMENT OF LNG TERMINAL USE AGREEMENT

This AMENDMENT OF LNG TERMINAL USE AGREEMENT (“**Amendment**”), dated and effective as of this 16<sup>th</sup> day of June 2010 (“**Amendment Effective Date**”), is made by and between **CHEVRON U.S.A. INC.**, a Pennsylvania corporation with a place of business at 1500 Louisiana Street, Houston, Texas 77002, U.S.A. (“**Customer**”); and **SABINE PASS LNG, L.P.**, a Delaware limited partnership with a place of business at 700 Milam Street, Suite 800, Houston, Texas, 77002, U.S.A. (“**SABINE**”). Customer and SABINE may be referred to individually as a “Party” and collectively as the “Parties”.

## RECITALS

**WHEREAS**, SABINE and Customer are parties to that certain LNG TERMINAL USE AGREEMENT dated as of the 8<sup>th</sup> day of November 2004, as amended as of the 1<sup>st</sup> day of December, 2005 (“**Agreement**”), under which SABINE provides LNG terminalling services to Customer at the Sabine Pass Facility; and

**WHEREAS**, SABINE has entered into an interconnect agreement with Kinder Morgan Louisiana Pipeline, LLC (“**KMLP**”) and Customer has separately entered into an agreement for firm transportation services on the KMLP pipeline system; and

**WHEREAS**, SABINE and Customer desire to amend the Agreement to clarify the rights and obligations of the Parties under the Agreement as set forth herein.

**NOW, THEREFORE**, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the Parties, SABINE and Customer agree as follows:

## I

Capitalized terms used in this Amendment and not otherwise defined herein have the meanings given to them in the Agreement.

## II

Section 1.18 of the Agreement is hereby deleted in its entirety, and the following Section 1.18 is inserted in lieu thereof:

**1.18 “Customer’s Inventory”** means, at any given time, the quantity in MMBTUs that represents LNG and Gas held by SABINE for Customer’s account. For the avoidance of doubt, Customer’s Inventory shall be determined after deduction of Retainage in accordance with Clause C.3 and reduction of PLC Fuel in accordance with Section 5.3(e).

Section 1.20 of the Agreement is hereby deleted in its entirety, and the following Section 1.20 is inserted in lieu thereof:

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**1.20** “**Delivery Point**” or “**Delivery Points**” means any current and future physical points of interconnection at the Sabine Pass Facility connecting the Sabine Pass Facility and a Downstream Pipeline as nominated by Customer for redelivery of its Gas. The Delivery Points as of the Amendment Effective Date are: (a) the KMLP Leg 1 Interconnect; (b) the KMLP Leg 2 Interconnect; and (c) the Creole Trail Interconnect.

Section 1.22 of the Agreement is hereby deleted in its entirety, and the following Section 1.22 is inserted in lieu thereof:

**1.22** “**Downstream Pipeline**” means all current and future Gas pipelines with a physical connection at the Delivery Point that transport Gas from the Sabine Pass Facility and excludes other pipelines connected to the Downstream Pipeline at locations other than at the Sabine Pass Facility.

### III

Article 1 of the Agreement is further amended by the addition of the following new definitions:

**1.79** “**Amended Services**” shall have the meaning set forth in Section 25.18.

**1.80** “**Amendment**” shall mean this amendment dated and effective as of June 16<sup>th</sup>, 2010.

**1.81** “**Amendment Effective Date**” shall be June 16<sup>th</sup>, 2010.

**1.82** “**Aggregate Minimum Inventory**” shall mean a quantity of LNG equivalent to one million one hundred thousand (1,100,000) MMBTUs.

**1.83** “**Aggregate Storage Capacity**” shall mean the existing maximum LNG storage capacity available to Customer and Other Customers (excluding Heel and Retainage) in the Sabine Pass Facility, expressed in billion Standard Cubic Feet. As of the Amendment Effective Date, the Aggregate Storage Capacity of the Sabine Pass Facility is equal to sixteen and nine-tenths (16.9) billion Standard Cubic Feet.

**1.84** “**Creole Trail Interconnect**” means the interconnection between the Cheniere Creole Trail pipeline system and the Sabine Pass Facility.

**1.85** “**Customer Minimum Inventory**” shall have the meaning set forth in Section 10.5(a).

**1.86** “**Customer’s Projected Inventory**” shall have the meaning set forth in Section 5.3(f)(i).

**1.87** “**Customer’s Storage Capacity**” shall be equal to four (4) billion Standard Cubic Feet.

- 1.88 “**Daily Records**” shall have the meaning set forth in Section 5.3(f).
- 1.89 “**Excess Services**” shall have the meaning set forth in Section 3.1(d).
- 1.90 “**Excess GHV**” shall have the meaning set forth in Section 9.7(c).
- 1.91 “**Excess N2**” shall have the meaning set forth in Section 5.3(h)(i)(d).
- 1.92 “**Excused PLC Facilities Unavailability Day**” shall have the meaning set forth in Section 5.3(e)(v).
- 1.93 “**Gas Day**” means a period of twenty-four (24) consecutive hours beginning at 9:00 A.M. Central Time.
- 1.94 “**Heel**” shall mean a quantity of LNG required to be maintained by SABINE in the Sabine Pass Facility to allow the provision of Services to Customer and Other Customers. For the purpose of those calculations set forth in Section 5.3(e)(iii) and 5.3(h)(i)a., the aggregate amount of Heel and Retainage shall be limited to one million one hundred thousand (1,100,000) MMBTUs.
- 1.95 “**Heel BOG Selling Price**” shall mean the weighted average price of SABINE sales of boil-off Gas quantity from the Heel or Retainage required pursuant to Section 10.5(e), net of transportation costs and SABINE’s actual administrative and other costs incurred by it in connection with the selling of such boil-off Gas quantity.
- 1.96 “**HGHV Nonconforming Gas**” shall have the meaning set forth in Section 9.7(a).
- 1.97 “**Implementation Period**” shall have the meaning set forth in Section 25.18.
- 1.98 “**Incremental GRR Quantity**” shall have the meaning set forth in Section 5.3(e)(v).
- 1.99 “**KMLP**” means Kinder Morgan Louisiana Pipeline LLC.
- 1.100 “**KMLP - GHV**” shall have the meaning set forth in Section 9.6.
- 1.101 “**KMLP Leg 1 Interconnect**” means the interconnection between the Kinder Morgan Louisiana Pipeline and the Sabine Pass Facility (KMLP PIN 44399).
- 1.102 “**KMLP Leg 2 Interconnect**” means the interconnection between the Kinder Morgan Louisiana Pipeline and the Sabine Pass Facility (KMLP PIN 44385).

- 1.103 “**Large LNG Vessel**” shall mean an LNG Vessel with a capacity in excess of four (4) billion Standard Cubic Feet.
- 1.104 “**Minimum GRR**” shall have the meaning set forth in Section 5.3(h)(i).
- 1.105 “**Minimum GRR Fee**” shall have the meaning set forth in Section 5.3(e)(i).
- 1.106 “**Minimum Inventory Cargo Costs**” shall mean the costs and expenses incurred by SABINE in purchasing a Cargo in accordance with Section 10.5(d) to restore the Aggregate Minimum Inventory, including the purchase price or other costs of the Cargo, transportation costs, and SABINE’s actual administrative and other costs incurred by it in connection with the purchase of such Cargo.
- 1.107 “**Minimum Inventory Default Quantity**” shall have the meaning set forth in Section 10.5(b).
- 1.108 “**Minimum Vaporization Nomination Deficit**” shall have the meaning set forth in Section 5.3(e)(iii).
- 1.109 “**Monthly Records**” shall have the meaning set forth in Section 5.3(g).
- 1.110 “**PLC Facilities**” shall have the meaning set forth in Section 5.3(e).
- 1.111 “**PLC Fuel**” shall have the meaning set forth in Section 5.3(e)(iii).
- 1.112 “**PLC Fuel Retainage**” shall have the meaning set forth in Section 5.3(e)(iii).
- 1.113 “**PLC Facilities Unavailability Day**” shall have the meaning set forth in Section 5.3(e)(v).
- 1.114 “**Primary Right**” shall have the meaning set forth in Section 10.1(a)(iv).
- 1.115 “**Transfer Fee**” shall have the meaning set forth in Section 3.1(c)(iii).
- 1.116 “**Transferor**” and “**Transferee**” shall have the meanings set forth in Section 3.1(c)(i) and (ii) as applicable.

#### IV

Section 2.1 of the Agreement is hereby deleted in its entirety, and the following Section 2.1 is inserted in lieu thereof:

#### 2.1 Services to be provided by SABINE

During the Term and subject to the provisions of this Agreement, SABINE shall, acting as a Reasonable and Prudent Operator, make available the following services to Customer and any permitted assignee of Customer

(such available services being herein referred to as the “**Services**”) in the manner set forth herein:

- (a) access to a berth for LNG Vessels at the Sabine Pass Facility;
- (b) the unloading and receipt of LNG from LNG Vessels at the Receipt Point;
- (c) the Storage of Customer’s Inventory;
- (d) the regasifying of LNG held in Storage;
- (e) the transportation and delivery of such Regasified LNG to the Delivery Point nominated by Customer (it being acknowledged that SABINE may, at its option, cause Gas to be redelivered to Customer at the Delivery Point from sources other than Regasified LNG);
- (f) recognize, maintain and administer the record of all LNG and inventory transfers pursuant to Section 3.1(c);
- (g) the minimization of Minimum GRR pursuant to Section 5.3(e) and Section 5.3(h); and
- (h) other activities directly related to performance by SABINE of the foregoing, including, without limitation, metering, custody transfer and reporting.

**V**

Section 3.1(b)(iii) of the Agreement is hereby deleted in its entirety and the following Section 3.1(b)(iii) is inserted in lieu thereof:

- (iii) Storage of Customer’s Inventory. Subject to Section 3.1(e), Customer is entitled to receive LNG storage capacity up to a maximum storage quantity of four (4) billion Standard Cubic Feet.

**VI**

Section 3.1(c) of the Agreement is hereby deleted in its entirety and the following Section 3.1(c), Section 3.1(d) and Section 3.1(e) are inserted in lieu thereof:

- (c) Inventory and LNG Reception Transfers.
  - (i) Inventory Transfers. Customer has the right to transfer to one or more Other Customers all or a portion of Customer’s Inventory held in storage and to have one or more Other Customers transfer all or a portion of their inventory held in storage to Customer. For

purposes of this Section 3.1(c)(i), the Person who is transferring inventory to another Person shall be referred to as the **“Transferor”** and the Person to whom inventory is being transferred shall be referred to as the **“Transferee”**. The maximum quantity of any such transfer shall be limited such that the Transferee’s inventory does not exceed the Transferee’s storage capacity as a result of such transfer. Each inventory transfer must be initiated by the Transferor sending notice of the transfer to SABINE via the Sabine Pass Website and must be confirmed by the Transferee sending notice to SABINE via the Sabine Pass Website. SABINE will recognize each such inventory transfer for purposes of computing Customer’s Inventory and the inventory of the Other Customer participating in the inventory transfer, effective no later than the scheduling deadline of the NAESB cycle following the Transferee’s confirmation of the Transferor’s transfer notice via the Sabine Pass Website.

- (ii) LNG Reception Transfers. Customer has the right to transfer to one or more Other Customers all or a portion of Customer’s LNG at the Receipt Point and to have one or more Other Customers transfer all or a portion of their LNG at the Receipt Point to Customer. For purposes of this Section 3.1(c)(ii), the Person who is transferring LNG to another Person shall be referred to as the **“Transferor”** and the Person to whom LNG is being transferred shall be referred to as the **“Transferee”**. The maximum quantity of any such transfer shall be limited such that the Transferee’s inventory does not exceed the Transferee’s storage capacity as a result of such transfer. Each LNG transfer must be initiated by the Transferor sending notice of the transfer to SABINE via the Sabine Pass Website and must be confirmed by the Transferee sending notice to SABINE via the Sabine Pass Website. During the Implementation Period, inventory transfers at the Receipt Point will be administered as in Section 3.1(c)(i) following the completion of the LNG unloading for the Transferor. Following the Implementation Period, SABINE will recognize each such LNG transfer for purposes of computing Customer’s Inventory and the inventory of the Other Customer participating in the LNG transfer, effective as of the time that the quantities of LNG unloaded at the Receipt Point (net of the quantities transferred) would have been credited to the Transferor’s account. As a consequence of the transfer: (x) the total quantity of LNG transferred at the Receipt Point to the Transferee shall be credited toward the Transferor’s Maximum LNG Reception Quantity (or similar maximum contractual entitlement to receive LNG berthing, unloading and receipt services); (y) Retainage associated with the quantity of LNG transferred shall be deducted from the Transferor’s account; and (z)

the increase in Minimum GRR as provided in Section 5.3(h)(i)c shall be for the Transferor's account.

- (iii) Transfer Fee. Except as provided in Section 10.5, as consideration to SABINE for the recording of each inventory and LNG reception transfer pursuant to this Section 3.1(c), the Transferor shall pay SABINE a fee ("Transfer Fee") equal to two cents (\$0.02) per MMBTU transferred with a minimum Transfer Fee of ten thousand dollars (\$10,000).
- (iv) Terminal Transfers. SABINE and Customer may also enter into inventory and/or LNG reception transfers, via the Sabine Pass Website, subject to the same terms and conditions as otherwise stated in this Section 3.1(c) except that no Transfer Fee shall be assessed.
- (d) Excess Services. Separate and apart from the provisions of Section 3.1(b), SABINE may, in its sole discretion, allow berthing, unloading and receipt of quantities in excess of the Maximum LNG Reception Quantity or redelivery of Gas in excess of the Gas Redelivery Rate in response to a request from Customer for such Excess Services; provided, however, that if such Excess Services are provided, such Excess Services shall be based on the order of the receipt of a written request from Customer or Other Customers. The fees applicable to such Excess Services shall be as negotiated by the Parties in connection with such Services.
- (e) Excess Storage. SABINE agrees to provide Customer with temporary storage in excess of Customer's Storage Capacity in order to unload a Large LNG Vessel, provided that: (i) such additional storage capacity is available at the Sabine Pass Facility; (ii) making available such temporary storage shall not, in the sole discretion of SABINE, adversely affect the rights of any Other Customer; and (iii) SABINE and Customer agree on a send-out plan for Gas to be redelivered for Customer's account at the Delivery Point prior to, during and following completion of unloading. In the event that SABINE and Customer do not reach agreement on a send-out plan, the send-out plan shall be prescribed by SABINE and shall consist of: (x) prior to the arrival of such Large LNG Vessel, send-out nominations of up to the Gas Redelivery Rate to reduce Customer's Inventory to accommodate the incoming Cargo; and (y) on any day on which Customer's Inventory exceeds Customer's Storage Capacity, send-out nominations of not less than the Gas Redelivery Rate to reduce Customer's Inventory to not more than Customer's Storage Capacity.

## VII

Article 5 of the Agreement is amended by the addition of the following new Sections 5.3(e), 5.3(f), 5.3(g) and 5.3(h):

(e) Minimization of Minimum GRR:

SABINE shall maintain, operate and use all available facilities at the Sabine Pass Facility in an effort to minimize the Minimum GRR for Customer, including all currently available and future acquired pipeline compression facilities as indicated below in (i) and (ii) (“**PLC Facilities**”). Customer shall pay SABINE fees for the use of the PLC Facilities consisting of the fixed and variable components as indicated below.

- (i) As part of the PLC Facilities, SABINE has installed a pipeline compressor that enables compression and send-out through the Delivery Point of the Sabine Pass Facility’s boil-off Gas quantity up to a rate of approximately twenty-five thousand (25,000) MMBTU per day. Commencing on the Amendment Effective Date, Customer shall pay SABINE a monthly fixed fee for the delivery of its Minimum GRR utilizing the existing PLC Facility in an annual amount equal to two hundred fifty thousand dollars (\$250,000) (“**Minimum GRR Fee**”) for the remainder of the Initial Term and pro rata thereof for any partial Contract Year.
- (ii) As soon as practicable, SABINE shall procure, install, maintain and operate a second, permanent pipeline compressor with materially similar specifications as the original pipeline compressor described in (i) above to supplement and become part of the PLC Facilities. When operated in conjunction with the pipeline compressor described in Section 5.3(e)(i), the combined capacity will have the capability of managing the incremental boil-off Gas generated as a result of the unloading of a Cargo under normal operating conditions from an LNG Vessel in accordance with Section 5.3(h)(i)c. without use of the Sabine Pass Facility’s recondenser and vaporizer facilities. From the date when the second pipeline compressor is installed and is ready to commence operations, the Minimum GRR Fee payable by Customer to SABINE for the delivery of its Minimum GRR utilizing the PLC Facilities shall increase to the annual amount of five hundred thousand dollars (\$500,000), payable on a monthly basis, for the remainder of the Initial Term and pro rata thereof for any partial Contract Year.
- (iii) In addition to the annual fixed fee component described in Sections 5.3(e)(i) or (ii) above, Customer shall pay SABINE a variable component fee equal to Customer’s pro rata share of the fuel expense incurred by SABINE to operate the PLC Facilities each day (“**PLC Fuel**”). Such pro rata share of the fuel expense incurred by SABINE to operate the PLC Facilities shall be based on the amount by which Customer’s and Other Customers’ allocated Gas redelivery quantities are less than their respective pro rata shares of the aggregate Gas redelivery nominations required to manage the

boil-off Gas without running the PLC Facilities, that rate being two hundred fifty thousand (250,000) MMBTU (**Minimum Vaporization Nomination Deficit**”), such pro rata share to be based on the ratio of Customer’s Minimum Vaporization Nomination Deficit to the aggregate of Customer’s and the Other Customers’ Minimum Vaporization Nomination Deficit. Customer’s and Other Customers’ respective pro rata shares of the aggregate Gas redelivery nominations required to manage the boil-off Gas without running the PLC Facilities shall be based on the ratio of each of their respective inventories to the aggregate inventory in the Sabine Pass Facility (excluding Heel and Retainage) on such day. The PLC Fuel shall be assessed as a reduction in Customer’s Inventory (“**PLC Fuel Retainage**”) recorded, after the Implementation Period, daily, for each day that Customer’s Minimum Vaporization Nomination Deficit is greater than zero (0). During the Implementation Period the PLC Fuel Retainage will be recorded at least monthly and administered as an inventory transfer between Customer and SABINE as per Section 3.1(c)(iv). During the Implementation Period and as soon as practicable, SABINE shall install, maintain and operate meters capable of measuring the quantity of electricity consumed by the PLC Facilities. SABINE shall then determine the PLC Fuel for each Gas Day as the product of: (a) the ratio of the quantity of electricity consumed by the PLC Facilities to the total quantity of electricity being generated by the Sabine Pass Facility Gas turbine generators and; (b) the total quantity of Gas consumed by the Sabine Pass Facility Gas turbine generators. Whenever the PLC Facilities meters are not available for any reason, SABINE shall perform an estimate of the PLC Fuel based on the mechanical energy considering:

- a. a reasonable estimation of the pipeline compressor thermal and mechanical efficiency;
  - b. the ambient air temperature;
  - c. the measurements of the discharge and suction pressures of the pipeline compressor at least on a hourly basis; and
  - d. a reasonable estimation of the average heat rate of the Sabine Pass Facility gas turbine generators.
- (iv) Notwithstanding the foregoing, if in any month SABINE receives at least seven million five hundred thousand (7,500,000) MMBTU of Customer’s LNG, the PLC Fuel attributable to Customer shall be reduced to zero (0) for the first ten (10) days in the following month on which PLC Fuel would otherwise have been attributable to Customer. For each one million (1,000,000) MMBTU that SABINE receives above seven million five hundred thousand (7,500,000)

MMBTU of Customer's LNG the PLC Fuel attributable to Customer shall be reduced to zero (0) for an additional two (2) days in the following month.

- (v) A PLC Facilities Unavailability Day ("**PLC Facilities Unavailability Day**") shall consist of any day during which: (w) all pipeline compressors comprising the PLC Facilities are unavailable for whatever reason other than events of Force Majeure (except that for purposes of this Section 5.3(e) (v) the definition of Force Majeure shall exclude mechanical breakdown of the PLC Facilities not caused by actions or events external to the PLC Facilities); and (x) as a consequence, Customer's redelivery nomination has to be increased pursuant to Section 5.3(h)(i)b. For each PLC Facilities Unavailability Day in a Contract Year beyond a threshold number of such days in that Contract Year determined pursuant to Section 5.3(e)(vi) below ("**Excused PLC Facilities Unavailability Days**"), SABINE shall calculate a credit that shall be applied in the immediately succeeding monthly payments as a reduction in Customer's Minimum GRR Fee. Until the permanent second (2nd) pipeline compressor is in operation pursuant to Section 5.3(e)(ii), such credit shall be equal to the product of one cent (\$0.01) multiplied by the Incremental GRR Quantity, thereafter the credit shall be equal to the product of two cents (\$0.02) multiplied by the Incremental GRR Quantity. The Incremental GRR Quantity shall be: (y) for the first PLC Facilities Unavailability Day, the positive difference between Customer's Minimum GRR for such day calculated by SABINE pursuant to Section 5.3(h)(i)b minus Customer's original redelivery nomination for such day; and (z) for each subsequent consecutive PLC Facilities Unavailability Day, if any, the positive difference between Customer's Minimum GRR for such day calculated by SABINE pursuant to Section 5.3(h)(i)b minus the higher of Customer's redelivery nomination for such day and what would have been Customer's Minimum GRR for such day calculated pursuant to Section 5.3(h)(i)a, c or d, had the PLC Facilities been available on such day. In no event shall the credits to Customer in any Contract Year exceed the Minimum GRR Fee.
- (vi) Until the permanent second pipeline compressor is in operation pursuant to Section 5.3(e)(ii), the number of Excused PLC Facilities Unavailability Days shall be eight (8) in each Contract Year or pro rata thereof. Thereafter, the number of Excused PLC Facilities Unavailability Days shall be four (4) in each Contract Year or pro rata thereof.
- (vii) Notwithstanding the foregoing, whenever Customer is not entitled to receive any credit pursuant to Section 5.3(e)(v) and any of the pipeline compressors comprising the PLC Facilities becomes

unavailable for any reason (including Force Majeure) for more than one hundred eighty (180) consecutive days (provided however that in the event such unavailability of the PLC Facilities is due to a PLC motor failure, such duration shall be extended by a reasonable amount of time to allow for the replacement or repair of the PLC motor based on reasonable industry timelines then in effect for such part) the Minimum GRR Fee shall be: (x) reduced by half (if only one (1) pipeline compressor is unavailable); or (y) suspended (if both pipeline compressors are unavailable), as applicable, on a day-by-day basis until availability of the pipeline compressor(s). For purposes of this Section 5.3(e)(vii), the Minimum GRR Fee shall be equal to the annual Minimum GRR Fee divided by the number of days in the year. In no event shall the credits to Customer in any Contract Year exceed the Minimum GRR Fee.

- (f) Daily Records. Following the Implementation Period, SABINE shall, on each day by 7:00 a.m. Central Time post on the Sabine Pass Website for access by Customer certain records (“**Daily Records**”), including the following:
- (i) a projection of Customer’s Inventory as of 9:00 a.m. Central Time on the day of the posting of the Daily Records and as of the commencement of the next succeeding Gas Day based on Customer’s Inventory, scheduled redelivery nominations and PLC Fuel usage (“**Customer’s Projected Inventory**”);
  - (ii) the expected total capacity of the Sabine Pass Facility to vaporize and deliver Gas, as of 9:00 a.m. Central Time on the day following the posting of the Daily Records, determined by SABINE as a Reasonable and Prudent Operator;
  - (iii) the sum of all Other Customers maximum Gas redelivery rates (or similar maximum daily contractual entitlement to receive Gas at the Delivery Point);
  - (iv) Customer’s Minimum GRR determined in accordance with Section 5.3(h)(i);
  - (v) the estimated boil-off Gas quantity for the Gas Day preceding the day of the posting of the Daily Records; and
  - (vi) an estimate of the highest Gross Heating Value SABINE anticipates delivering to Customer at any Delivery Point during the next two (2) week period, up to and including the maximum Gross Heating Value specified in Section 10.3(a) as well as SABINE’s estimate of the highest Gross Heating Value of any LNG then in storage. This Gas redelivery heating value forecast will be based on SABINE’s

reasonable estimate of the current heating value of the LNG in storage, Customer's and Other Customers aggregate redelivery nominations received by SABINE for the next two (2) week period, Customer's and Other Customers aggregate Cargo receipts for which SABINE has received nominations, and the assumption of redelivering Gas from the LNG in storage with the highest Gross Heating Value on a priority basis.

(g) Monthly Records.

Following the Implementation Period, SABINE shall, by the 10<sup>th</sup> day of each month, post on the Sabine Pass Website for access by Customer certain records ("**Monthly Records**"), including the following:

- (i) the sum of Customer and all Other Customers closing inventory for each day of the previous month;
- (ii) the sum of SABINE's Retainage and Heel for each day of the previous month;
- (iii) the sum of Customer and all Other Customers allocated Gas redeliveries for each Gas day of the previous month; and
- (iv) SABINE's estimate of the boil-off Gas quantity for each Gas Day of the previous month.

(h) Gas Redelivery Nominations.

- (i) Minimum Gas Redelivery Rate. Each Gas Day Customer shall be required, and SABINE shall require each Other Customer, to nominate at least a minimum quantity of Gas for redelivery at the Delivery Point ("**Minimum GRR**"). On any given day Customer's Minimum GRR shall be:
  - a. Customer's pro rata share of SABINE's reasonable estimate of the quantity of boil-off Gas generated at the Sabine Pass Facility on such Gas Day (excluding boil off Gas associated with the loading or unloading of any LNG vessel other than Customer's LNG Vessel), such pro rata share to be based on the ratio of Customer's Inventory to the aggregate inventory in the Sabine Pass Facility on such day (excluding Heel and Retainage). Each Other Customers pro rata share of the Sabine Pass Facility boil-off Gas quantity shall also be based on the ratio of such Other Customers inventory to the aggregate inventory in the Sabine Pass Facility (excluding Heel and Retainage). If, on any given day, Customer's Inventory is less than zero (0), Customer's Inventory shall be deemed to be zero (0) for the purpose of determining Customer's Minimum GRR.

- b. In the event that PLC Facilities become unavailable for any reason, SABINE shall as soon as practicable notify Customer's Scheduling Representative by email and shall make reasonable endeavors to contact Customer's Scheduling Representative by telephone to inform Customer that the PLC Facilities are unavailable and that its Minimum GRR shall become its pro rata share of the quantity required to manage the boil-off Gas quantity using the Sabine Pass Facility's vaporization facilities (excluding boil-off Gas associated with the loading or unloading of any LNG vessel other than Customer's LNG Vessel) until such time that the PLC Facilities are returned to service. In this event, Customer's pro rata share shall be based on the ratio of Customer's Inventory to the aggregate LNG inventory in the Sabine Pass Facility (excluding Heel and Retainage). SABINE shall cooperate with Customer to adjust Customer's nomination and to facilitate redelivery and Customer's receipt of the Minimum GRR. SABINE shall also notify Customer of the estimated period during which the PLC Facilities will be unavailable and shall update this estimate to Customer on a daily basis. SABINE shall promptly notify Customer when the PLC Facilities resume service.
- c. In the event that an LNG Vessel is planned to be or has been unloaded on behalf of Customer, Customer's Minimum GRR shall be the rate set forth in Sections 5.3(h)(i)a or 5.3(h)(i)b above plus SABINE's reasonable estimate of the additional Gas redelivery rate sufficient to manage the incremental boil-off Gas quantity generated as a result of unloading the LNG Vessel on behalf of Customer during and after unloading of such LNG.
- d. If, in SABINE's determination, LNG delivered by Customer to SABINE will, for reasons not attributable to SABINE, result in Gas to be delivered to Customer or Other Customers at the Delivery Point to not conform to the nitrogen content limitation (expressed as a percentage) specified in Section 10.3(b), Customer's Minimum GRR shall be the rate set forth in Sections 5.3(h)(i)a or 5.3(h)(i)b above plus SABINE's reasonable estimate of Customer's pro rata share of the additional Gas redelivery rate required to ensure that the Gas to be delivered to Customer or Other Customers at the Delivery Point will conform to the nitrogen content limitation specified in Section 10.3(b). Customer's pro rata share of the additional Gas redelivery rate shall be calculated based on the ratio of: (w) the product of Customer's Excess N2 and Customer's Inventory to; (x) the sum of the product of

Customer's Excess N2 and Customer's Inventory and the product of each Other Customers Excess N2 and each Other Customers inventory. Excess N2 for Customer and each Other Customer shall be determined as the positive difference between: (y) the volumetrically weighted average of SABINE's estimation of the nitrogen percentage of each of Customer's and Other Customers individual quantities of LNG received or transferred and remaining in Customer's and Other Customers inventories; and (z) sixteen hundredths percent (0.16%) ("Excess N2").

SABINE shall determine a value representing the nitrogen percentage for each of Customer's and Other Customers individual quantities of LNG received or transferred and remaining in Customer's and Other Customers Inventories considering:

- (i) the actual nitrogen percentage of each individual remaining quantity of LNG received on the day received at the Receipt Point;
- (ii) the nitrogen percentage of each remaining quantity of LNG transferred pursuant to Section 3.1(c)(ii) on the day of the transfer, calculated as the volumetrically weighted average of the nitrogen percentage of the Transferor's remaining quantities of LNG received or transferred prior to the transfer date and being transferred;
- (iii) the dates of each remaining quantity of LNG transferred pursuant to Section 3.1(c)(ii), determined as the volumetrically weighted average of the nitrogen percentage of the Transferor's remaining quantities of LNG received or transferred prior to the transfer date and being transferred;
- (iv) the duration in number of days between the dates each remaining quantity of LNG has been received or the dates as determined pursuant to Section 5.3(h)(i)d(iii) above each remaining quantity of LNG has been transferred;
- (v) the estimated actual average nitrogen percentage of the LNG in Sabine Pass Facility;
- (vi) the determination of a nitrogen percentage daily decrease factor that will enable the volumetrically weighted average of the nitrogen percentage for each of the remaining quantities of LNG received or

transferred for the Customer and Other Customers to be equal to the estimated actual average nitrogen percentage of all of the LNG in the Sabine Pass Facility.

For purposes of the calculations and determinations provided above, the LNG shall be deemed to have been redelivered or transferred on a 'first-in, first-out' basis.

- e. On any given day Customer's Minimum GRR shall be reduced to a minimum of zero (0) to the extent that the aggregate of the Other Customers redelivery nominations are in excess of the aggregate of the Other Customers minimum gas redelivery rates, such excess to be allocated to Customer for reduction of Customer's Minimum GRR based on the ratio of Customer's Inventory to the aggregate LNG inventory of Customer and all Other Customers whose redelivery nominations are not in excess of their Minimum GRRs.
- f. SABINE will use reasonable endeavors to minimize Customer's Minimum GRR.
- g. Customer's Minimum GRR shall be based solely on the quantity of boil-off Gas generated by the Sabine Pass Facility in connection with the provision by SABINE of Services available to Customer.
- h. On any Gas Day on which Customer fails to nominate its Minimum GRR and such failure is for reasons other than an event of Force Majeure or the inability of a Downstream Pipeline to take delivery of Customer's Gas, such inability being not unreasonably within the control of Customer, Customer shall be deemed to have transferred to SABINE and SABINE shall take title to a quantity of Gas equal to the difference between Customer's Minimum GRR and the quantity of Gas nominated by Customer for redelivery on such day, free and clear of all Claims. SABINE shall sell or otherwise dispose of such Gas using commercially good faith efforts to obtain reasonable prices and to minimize costs. Customer shall indemnify, defend and hold harmless SABINE, its Affiliates, and their respective directors, officers, members and employees, for the actual and reasonable costs incurred by SABINE as a result of such sale or other disposition of same by SABINE. SABINE shall credit to Customer's account the net proceeds from the sale or other disposition of Customer's Inventory to which it takes title

hereunder, minus transportation costs, third party charges, and an administrative fee of five cents (\$0.05) per MMBTU; provided, however, that if the amount of the credit exceeds the amount due SABINE under the next monthly statement, SABINE agrees to pay any such excess amount to Customer within five (5) Business Days after delivery of such monthly statement.

- (ii) Confirmation of Gas Redelivery Nominations during Cargo Unloading. For any days when an LNG Vessel unloading is anticipated on behalf of Customer, SABINE shall use reasonable efforts to accept a Gas redelivery nomination in excess of Customer's Projected Inventory up to Customer's Gas Redelivery Rate if: (x) SABINE anticipates that such excess quantity will be in SABINE's possession and control (but not yet considered received and credited to Customer's Inventory in accordance with Annex I) by the flowing time of the Gas redelivery nomination for such excess quantity; and (y) the Downstream Pipeline will permit SABINE to redeliver less than Customer's confirmed Gas redelivery nomination if such excess quantity is not in SABINE's possession and control by the flowing time of the Gas redelivery nomination. If such excess quantity is not in SABINE's possession and control by the flowing time of the Gas redelivery nomination, SABINE shall, in its sole discretion, determine the actual quantity of Gas to be redelivered to Customer but such quantity shall not be less than the quantity of Customer's LNG actually received at the Sabine Pass Facility. If the Downstream Pipeline will not permit SABINE to redeliver less than Customer's confirmed Gas redelivery nomination, SABINE shall use reasonable efforts to accept a Gas redelivery nomination in excess of Customer's Projected Inventory up to Customer's Gas Redelivery Rate if such excess quantity is in SABINE's possession and control on or prior to confirmation of Customer's nomination for such excess quantity on the relevant Downstream Pipeline.

### VIII

Section 8.4(b) of the Agreement is hereby deleted in its entirety, and the following Section 8.4(b) is inserted in lieu thereof:

- (b) LNG Vessel Nomination. As soon as practicable but no later than the day of departure of the LNG Vessel from the Loading Port (unless the LNG Vessel contains a Cargo acquired or redirected after loading, in which case the deadline shall be as soon as practicable after such acquisition or redirection), Customer shall notify SABINE of the information specified below:

- (i) name of LNG Vessel and, in reasonable detail, the dimensions, specifications, operator, and owner of such LNG Vessel;
- (ii) name of Loading Port;
- (iii) expected departure date of LNG Vessel from Loading Port;
- (iv) estimated arrival date at the Sabine Pass Facility; and
- (v) any changes in the Expected Receipt Quantity since Customer's prior notice.

**IX**

Section 8.5(a) of the Agreement is hereby deleted in its entirety, and the following Section 8.5(a) is inserted in lieu thereof:

- (a) **Issuance.** Subject to any applicable restrictions, including any nighttime transit restrictions imposed by Governmental Authorities or Pilots or any other reasonable timing restrictions imposed by SABINE (in light of SABINE's obligation to have the capability to provide Services twenty-four (24) hours a day, seven (7) days a week), the Master of an LNG Vessel or its agent may give to SABINE its notice of readiness ("**NOR**") to unload (berth or no berth) upon arrival of such LNG Vessel at the specific location off the Sabine Pass Facility at which Pilots customarily board the LNG Vessel (such location referred to as the "**Pilot Boarding Station**").

**X**

A New Section 9.6 and Section 9.7 are added to the Agreement as follows:

**9.6 LNG GHV at Receipt Point and Gas GHV at KMLP Delivery Point**

If Customer delivers a Cargo to the Sabine Pass Facility that has an average Gross Heating Value that conforms to the then-effective Gross Heating Value specifications of KMLP ("**KMLP-GHV**"), SABINE shall exercise reasonable efforts to deliver Gas to Customer at the Delivery Point with a Gross Heating Value that conforms to the KMLP-GHV provided that: (i) as determined at SABINE's sole discretion, such efforts would not result in the adverse impact or reduction of Services to Other Customers; and (ii) SABINE shall have no obligation to redeliver Gas that conforms to the KMLP-GHV if the in-tank retention time of LNG unloaded by Customer is reasonably estimated by SABINE to be sufficient to cause the Customer delivered LNG Gross Heating Value to exceed the KMLP-GHV.

9.7 **Weathered Inventory Gross Heating Value**

- (a) Expected Nonconforming Gas due to High Gross Heating Value. Notwithstanding the provisions in Section 9.4 and Section 9.5, if at any time and for reasons not attributable to SABINE, SABINE expects, after taking into account the expected Gas redelivery nominations and the expected dates of unloading of LNG Vessels for Customer and Other Customers, that due to boil-off, within the next forty (40), days a portion or all of the LNG held in storage in the Sabine Pass Facility will, when vaporized, produce Nonconforming Gas but only due to its high Gross Heating Value (“**HGHV Nonconforming Gas**”), then SABINE shall as soon as reasonably practicable provide notice to Customer and Other Customers, such notice to include the quantity and current Gross Heating Value of the LNG expected to produce HGHV Nonconforming Gas.
- (b) SABINE’s Right to Cure. If at the end of the thirty (30) day period following the date of SABINE’s notice pursuant to Section 9.7(a) above, Customer and/or Other Customers have failed to arrange to cure the expected HGHV Nonconforming Gas, SABINE shall have the right to make arrangements to cure the expected HGHV Nonconforming Gas by any and all means including, but not limited to, arranging for the procurement of a Cargo at commercially reasonable prices. Customer shall indemnify and reimburse SABINE from and against Customer’s pro rata share of the costs (other than capital costs) associated with the expected HGHV Nonconforming Gas cure arranged by SABINE.
- (c) Allocation. Customer’s pro rata share of the cost of the Nonconforming Gas cure shall be calculated based on the ratio of: (w) the product of Customer’s Excess GHV and Customer’s Inventory to; (x) the sum of the product of Customer’s Excess GHV and Customer’s Inventory and the product of each Other Customers GHV and each Other Customers inventory. Customer’s Inventory and Other Customers inventories shall be determined as of the thirty-first (31st) day following the date of SABINE’s notice sent pursuant to Section 9.7(a). Excess GHV for Customer and for each Other Customer shall be determined as the positive difference between: (y) the volumetrically weighted average of SABINE’s estimation of the Gross Heating Value calculated as of the seventy first (71st) day following the date of SABINE’s notice sent pursuant to Section 9.7(a) of each of Customer’s and Other Customers quantities of LNG received or transferred and remaining in Customer’s and each Other Customers inventories; and (z) one thousand one hundred sixty five (1165) BTU per Standard Cubic Foot (“**Excess GHV**”).

- (d) Excess GHV Determination. SABINE shall determine a value representing the Gross Heating Value on the seventy-first (71<sup>st</sup>) day following the date of SABINE's notice sent pursuant to Section 9.7(a) for each of Customer's and Other Customers individual quantities of LNG received or transferred and remaining in Customer's and Other Customers inventories considering:
- (i) the actual Gross Heating Value of each individual remaining quantity of LNG received, on the day received at the Receipt Point;
  - (ii) the Gross Heating Value of each remaining quantity of LNG transferred pursuant to Section 3.1(c)(iii), calculated as the volumetrically weighted average of the Gross Heating Value of the Transferor's remaining quantities of LNG received or transferred prior to the transfer date and contributing to the LNG transfer;
  - (iii) the date of each remaining quantity of LNG transferred pursuant to Section 3.1(c)(iii), determined as the volumetrically weighted average of the dates of the Transferor's remaining quantities of LNG received or transferred prior to the transfer date and contributing to the LNG transfer;
  - (iv) the duration in number of days between the dates each remaining quantity of LNG has been received or the dates as determined pursuant to Section 9.7(d)(iii) above for any remaining quantity of LNG transferred and the seventy-first (71<sup>st</sup>) day following the date of SABINE's notice sent pursuant to Section 9.7(a);
  - (v) the expected average Gross Heating Value of all LNG in Sabine Pass Facility on the seventy-first (71<sup>st</sup>) day following the date of SABINE's notice sent pursuant to Section 9.7(a); and
  - (vi) the determination of a Gross Heating Value daily increase factor that will result in the volumetrically weighted average of the Gross Heating Value estimated on the seventy-first (71<sup>st</sup>) day following the date of SABINE's notice sent pursuant to Section 9.7(a) of the remaining quantities of LNG received or transferred for the Customer and Other Customers to be equal to the expected average Gross Heating Value of all LNG in Sabine Pass Facility as determined in the preceding Section.

For purposes of the calculations and determinations provided above, the LNG shall be deemed to have been redelivered or transferred on a 'first-in, first-out' basis.

## XI

Section 10.1(a) of the Agreement is hereby deleted in its entirety, and the following Section 10.1(a) is inserted in lieu thereof:

(a) Delivery Point

- (i) Subject to Section 3.3, the quantity of Gas nominated by Customer for any day pursuant to Section 5.3 shall be delivered at the Delivery Point nominated by Customer. Customer may nominate quantities of Gas from Customer's Inventory for delivery at one or more Delivery Points on a given day; provided, however, that the aggregate of such nominations by Customer shall not exceed the Gas Redelivery Rate (plus any Make-Up Quantity or Excess Service quantity). Except as provided below, the KMLP Leg 1 Interconnect and the KMLP Leg 2 Interconnect shall be operated at one common variable pressure and as a single Delivery Point.
- (ii) If on any given day the total Gas redelivery nominations of Customer and Other Customers require SABINE to deliver Gas to both the KMLP Leg 1 Interconnect and the KMLP Leg 2 Interconnect at different pressures, SABINE shall deliver the nominated quantities so long as: (a) such operations, in SABINE's sole discretion, will not impede SABINE's ability to fulfill its contractual obligations to Other Customers; and (b) Customer and SABINE agree to the quantity of LNG to be reimbursed to SABINE by Customer pursuant to the following sentence prior to delivery of the nominated quantities. Customer shall reimburse SABINE for any additional fuel expense incurred by SABINE in delivering such nominated quantities in the form of a no-fee transfer, as per Section 3.1(c)(iv) of LNG from Customer's Inventory to SABINE in the quantity agreed to as provided in the foregoing sentence.
- (iii) SABINE shall deliver the quantities of Gas nominated by Customer at each Delivery Point, subject to confirmation by the Downstream Pipelines of Customer's nomination and scheduling of Gas in accordance with Section 10.2(a).
- (iv) Customer has an equal, primary right of nomination and scheduling with Total Gas & Power North America, Inc. (and any successor or assignee) ("**Primary Right**") at the KMLP Leg 1 Interconnect and at the KMLP Leg 2 Interconnect.

Section 10.3(c) of the Agreement is hereby deleted in its entirety, and the following Section 10.3(c) is inserted in lieu thereof:

- (c) Gas Delivery Pressure. Gas when delivered by SABINE to Customer shall be at a temperature of not less than 40.0 degrees Fahrenheit and shall meet the pressure requirements of the Downstream Pipeline; provided, however, that such pressure shall be at least 1000 psig but shall not be required to exceed a maximum pressure of 1440 psig.

## XII

A new Section 10.5 is added to the Agreement as follows:

### 10.5 **Minimum Inventory**

- (a) Customer Minimum Inventory. Subject to further provisions of this Section 10.5, Customer shall maintain Customer's Inventory of not less than a quantity calculated as the Aggregate Minimum Inventory multiplied by the ratio of the Customer's Storage Capacity over the Aggregate Storage Capacity ("**Customer Minimum Inventory**"). SABINE shall require that each Other Customer maintain its pro rata share of Aggregate Minimum Inventory on the same terms and conditions that are applicable to Customer under this Section 10.5.
- (b) Minimum Inventory Default Quantity. Whenever Customer's Inventory falls below the Customer Minimum Inventory, SABINE shall provide timely notice to Customer. Whenever Customer's Inventory remains below Customer Minimum Inventory for more than forty (40) consecutive days, SABINE shall start accounting and keeping record of the cumulative amount of the daily difference between the Customer Minimum Inventory and Customer's Inventory ("**Minimum Inventory Default Quantity**"). If, on any given day, Customer's Inventory is less than zero (0), Customer's Inventory shall be deemed to be zero (0) for the purpose of determining Customer's Minimum Inventory Default Quantity. At any time Customer's Inventory is less than three (3) times Customer's Minimum Inventory, Customer shall have the right to receive up to one million five hundred thousand (1,500,000) MMBTUs of additional inventory via an inventory or LNG reception transfer from an Other Customer at no Transfer Fee. Customer shall be entitled to two (2) such no-fee transfers in any one (1) calendar year. SABINE shall report to Customer on a monthly basis the Minimum Inventory Default Quantity of Customer and each Other Customer.

- (c) Aggregate Minimum Inventory Default. Notwithstanding Section 10.5(b) above, whenever the sum of Customer's Inventory and Other Customers Inventories falls below the Aggregate Minimum Inventory and in the reasonable opinion of SABINE there is a material risk, after taking into account the expected dates of unloading of LNG Vessels, and the risk of delay or interruption to any such unloading, that the total quantity of LNG in the Sabine Pass Facility to be held in Customer's Inventory and Other Customers Inventories will be lower than the Aggregate Minimum Inventory during the succeeding forty (40) days, SABINE shall provide timely notice to Customer and all Other Customers.
- (d) Cargo Procurement. If at the end of the thirty (30) day period following the receipt of SABINE's notice pursuant to Section 10.5(c) above, Customer and/or Other Customers have failed to arrange for delivery of a Cargo to the Sabine Pass Facility in the coming ten (10) days to ensure that there will be LNG at least equal to the Aggregate Minimum Inventory, SABINE shall have the right to procure a Cargo using good faith efforts to obtain commercially reasonable prices, in order to restore the Aggregate Minimum Inventory. Customer shall indemnify and reimburse SABINE from and against Customer's pro rata share of the Minimum Inventory Cargo Costs associated with the acquisition of such Cargo. Customer's pro rata share of the Minimum Inventory Cargo Costs shall be calculated as the ratio of Customer's Minimum Inventory Default Quantity to the sum of Customer's and Other Customers Minimum Inventory Default Quantities as of the date of delivery of such Cargo. If, at such time and for any reason, the Minimum Inventory Default Quantities of Customer and all of the Other Customers is zero (0), Customer's pro rata share of the Minimum Inventory Cargo Costs shall be calculated at the ratio of Customer's Storage Capacity to the Aggregate Storage Capacity. Upon payment by Customer of all amounts for which it is liable under this Section 10.5(d), Customer shall be entitled to have its share of the Cargo acquired by SABINE (using the same allocation methodology as for the Minimum Inventory Cargo Costs) credited without charge to Customer's Inventory, net of Retainage. Upon Customer's payment to SABINE of its pro rata share of the Minimum Inventory Cargo Costs, the Customer Minimum Inventory Default Quantity, if any, shall be reset at zero (0). The liability of Customer and Other Customers towards SABINE under this Section 10.5(d) shall be several and not joint and shall be limited in the manner set forth in this Section 10.5. In the event that SABINE acquires a Cargo pursuant to this Section 10.5(d) and on the date of delivery of such Cargo Customer's Minimum Default Quantity is zero (0), Customer shall nonetheless have the option to acquire and have credited to Customer's Inventory up to twenty-five percent

(25%) of such Cargo upon payment to SABINE of a percentage of the Minimum Inventory Cargo Costs equivalent to the percentage of the Cargo Customer elects to acquire. In the event that Customer exercises such right, the Other Customers share of such Cargo and associated Minimum Inventory Cargo Costs shall be reduced pro rata (using the same allocation methodology as for the Minimum Inventory Cargo Costs) to reflect the portion of the Cargo acquired by Customer and the portion of the Minimum Inventory Cargo Costs borne by Customer.

- (e) Sale of BOG from Heel or Retainage. At any time during which and for as long as Customer's and Other Customers Inventories are jointly zero (0), SABINE shall nominate and sell the boil-off Gas quantity from the Heel or Retainage. If, pursuant to the preceding sentence, SABINE sells any Heel or Retainage, Customer shall have the obligation on the day following the credit of any LNG to Customer's Inventory to sell at the Heel BOG Selling Price ("**Heel BOG Selling Price**") and transfer to SABINE a quantity of LNG equal to the Customer's pro rata share of Heel or Retainage sold by SABINE. Customer's pro rata share of Heel or Retainage sold shall be calculated as the ratio of Customer's Minimum Inventory Default Quantity to the sum of Customer's and Other Customers Minimum Inventory Default Quantities as of the day immediately prior to the delivery of the Cargo pursuant to Section 10.5(d) above.
- (g) Successors and Assignees. Any successor or assignee of Customer or any Other Customer shall remain liable for any Minimum Inventory Default Quantity as accounted for by SABINE.

### XIII

Section 11.1 is hereby deleted in its entirety, and the following Section 11.1 is inserted in lieu thereof:

#### **11.1 Monthly Statements**

Between the first (1<sup>st</sup>) day of each month and the tenth (10<sup>th</sup>) day of each month, SABINE shall deliver to Customer a statement setting forth the following:

- (a) the Reservation Fee for the following month;
- (b) the Operating Fee for the following month;
- (c) the monthly portion of the Minimum GRR Fee net of any applicable credits for the following month;

- (d) any charges under Section 4.2 and/or Section 8.9 for the prior month;
- (e) any charges under Section 3.1(c)(iii) for the prior month;
- (f) any charges under Section 10.5(d) for the prior month.

In addition, the first sentence in Section 11.3(b) is hereby deleted in its entirety and the following sentences are inserted in lieu thereof:

Audit. Upon thirty (30) days written notice issued within six (6) months of the conclusion of any Contract Year, Customer shall have the right to cause an internationally recognized firm of accountants, appointed by Customer at Customer's sole expense, to audit the books, records and accounts of SABINE that are directly relevant to the determination of SABINE Taxes and New Regulatory Costs, LNG receipts and Gas deliveries for such prior Contract Year, as provided in statements issued to Customer pursuant to this Article 11. Customer shall have the right to have its technical experts, at Customer's sole expense, to audit the books, records and accounts of SABINE that are directly relevant to the determination of PLC Fuel Retainage, any amounts claimed by SABINE under Section 9.7(b) or Section 10.5 for such prior Contract Year, as provided in statements issued to Customer pursuant to this Article 11.

#### XIV

A new Section 25.18 is added to the Agreement as follows:

25.18 Implementation Period

During the period beginning with the Amendment Effective Date and ending when all modification to the Sabine Pass Website and other Sabine Pass Facility processes and equipment necessary to facilitate the generation, gathering, and transfer of information between Customer and SABINE regarding the information, rights and obligations associated with the Amendment, the ("**Amended Services**") have been fully implemented ("**Implementation Period**"), SABINE will generate and gather the necessary information regarding the Amended Services in a prudent and practical manner and Customer and SABINE will exchange information regarding the Amended Services on an as needed basis by email and other means to facilitate the Amended Services.

#### XV

Annex I, Annex II and Exhibit B are hereby deleted in entirety, and a new Annex I, Annex II and Exhibit B are attached hereto in lieu thereof.

All provisions of the Agreement not specifically amended hereby shall remain in full force and effect.

IN WITNESS WHEREOF, each of the Parties has caused this Amendment to be duly executed and signed by its duly authorized officer as of the Amendment Effective Date.

**SABINE PASS LNG, L.P.**

**By: Sabine Pass LNG-GP, Inc.**

**its general partner**

By: /s/ R. Keith Teague

Name: R. Keith Teague

Title: President

**CHEVRON U.S.A. INC.**

By: /s/ Patrick J. Blough

Name: Patrick J. Blough

Title: Vice President



**CERTIFICATION BY CHIEF EXECUTIVE OFFICER PURSUANT TO  
RULE 13a-14(a) AND 15d-14(a) UNDER THE EXCHANGE ACT**

I, Charif Souki, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cheniere Energy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ CHARIF SOUKI

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**Charif Souki**  
**Chief Executive Officer, President & Chairman of**  
**the Board**

Date: August 5, 2010

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**CERTIFICATION BY CHIEF FINANCIAL OFFICER  
PURSUANT TO RULE 13a-14(a) AND 15d-14(a) UNDER THE EXCHANGE ACT**

I, Meg A. Gentle, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cheniere Energy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ MEG A. GENTLE

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**Meg A. Gentle**  
**Senior Vice President & Chief Financial Officer**

Date: August 5, 2010

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

In connection with the quarterly report of Cheniere Energy, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charif Souki, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ CHARIF SOUKI

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**Charif Souki**  
**Chief Executive Officer, President & Chairman of**  
**the Board**

Date: August 5, 2010

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

In connection with the quarterly report of Cheniere Energy, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Meg A. Gentle, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

*/s/* MEG A. GENTLE

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**Meg A. Gentle**  
**Senior Vice President & Chief Financial Officer**

Date: August 5, 2010

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