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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2001

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. 0-9092

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

DELAWARE
(State or other jurisdiction of incorporation or organization)

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

333 CLAY STREET, SUITE 3400
HOUSTON, TEXAS
(Address or principal place of business)

77002-4102
(Zip Code)

(713) 659-1361
(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 [X] NO [_].

As of August 14, 2001, there were 13,297,393 shares of Cheniere Energy, Inc. Common Stock, $.003 par value, issued and outstanding.

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INDEX TO FORM 10-Q

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CHENIERE ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

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ASSETS	June 30, 2001 (Unaudited)	December 31, 2000
<S>	<C>	<C>
CURRENT ASSETS		
Cash	$ 1,763	$ 1,888,562
Accounts Receivable	882,199	851,706
Prepaid Expenses	783,213	98,532
Total Current Assets	1,667,175	2,838,800
OIL AND GAS PROPERTIES, full cost method		
Proved Properties, net	5,261,459	6,727,613
Unproved Properties, not subject to amortization	18,810,374	18,253,731
Total Oil and Gas Properties	24,071,833	24,981,344
LNG SITE COSTS, net	720,896	-
FIXED ASSETS, net	460,919	206,204
INVESTMENT IN UNCONSOLIDATED AFFILIATE	5,631,839	6,639,270
Total Assets	$ 32,552,662	$34,665,618
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	$ 1,995,337	$ 1,472,293
Accrued Liabilities	456,264	132,117
Total Current Liabilities	2,451,601	1,604,410
STOCKHOLDERS' EQUITY		
Preferred Stock, $.0001 par value Authorized: 5,000,000 shares Issued and Outstanding: none	-	-
Common Stock, $.003 par value Authorized: 40,000,000 shares at June 30, 2001 and 120,000,000 shares at December 31, 2000 Issued and Outstanding: 13,297,393 shares at June 30, 2001 and 12,547,393 shares at December 31, 2000	39,892	37,642
Additional Paid-in-Capital	41,116,868	39,382,789
Accumulated Deficit	(11,055,699)	(6,359,223
Total Stockholders' Equity	30,101,061	33,061,208
Total Liabilities and Stockholders' Equity	$ 32,552,662	$34,665,618

</TABLE>

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

CHENIERE ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

<TABLE>
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	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
<S>	<C>	<C>	<C>	<C>
Revenues				

Oil and Gas Sales	$ 774,832	$ 1,731,078	$ 1,746,488	$ 2,904,683
Total Revenues	774,832	1,731,078	1,746,488	2,904,683
Operating Costs and Expenses				
Production Costs	86,553	114,008	207,063	195,733
Depreciation, Depletion and Amortization	432,734	1,070,390	760,632	1,996,347
Ceiling Test Write-down	2,159,645	-	2,159,645	-
General and Administrative Expenses	1,296,536	192,755	2,322,158	669,764
Total Operating Costs and Expenses	3,975,468	1,377,153	5,449,498	2,861,844
Income/(Loss) from Operations Before Interest and Income Taxes and Equity in Net Loss of Unconsolidated Affiliate	(3,200,636)	353,925	(3,703,010)	42,839
Interest Income	3,900	4,210	13,964	12,919
Provision for Income Taxes	-	-	-	-
Equity in Net Loss of Unconsolidated Affiliate	(588,889)	-	(1,007,430)	-
Net Income/(Loss)	$(3,785,625)	$ 358,135	$(4,696,476)	$ 55,758
Net Income/(Loss) Per Share - Basic	$(0.29)	$0.03	$(0.37)	$0.01
Net Income/(Loss) Per Share - Diluted	$(0.29)	$0.03	$(0.37)	$0.00
Weighted Average Number of Shares Outstanding - Basic	12,890,800	10,734,613	12,768,774	10,476,016
Weighted Average Number of Shares Outstanding - Diluted	12,890,800	13,556,949	12,768,774	13,183,977

</TABLE>

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

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

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	Common Stock		Additional Paid-In	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity
Balance - December 31, 1999	10,053,118	$30,159	$33,293,822	$ (5,578,243)	$ 27,745,738
Equity Issuances	694,275	2,083	2,104,417	-	2,106,500
Expenses Related to Offerings	-	-	(169,545)	-	(169,545)

Net Income	-	-	-	55,758	55,758
Balance - June 30, 2000	10,747,393	$32,242	$35,228,694	$ (5,522,485)	$ 29,738,451
Balance - December 31, 2000	12,547,393	$37,642	$39,382,789	$ (6,359,223)	$ 33,061,208
Equity Issuances	750,000	2,250	1,647,750	-	1,650,000
Issuance of Warrants to Purchase Common Stock	-	-	93,000	-	93,000
Expenses Related to Offerings	-	-	(6,671)	-	(6,671)
Net Loss	-	-	-	(4,696,476)	(4,696,476)
Balance - June 30, 2001	13,297,393	$39,892	$41,116,868	$(11,055,699)	$ 30,101,061

</TABLE>

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

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

<TABLE>
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	Six Months Ended June 30,	
	2001	2000
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income/(Loss)	$(4,696,476)	$ 55,758
Adjustments to Reconcile Net Income/(Loss) to Net Cash Provided by (Used in) Operating Activities:		
Depreciation, Depletion and Amortization	760,632	1,996,347
Ceiling Test Write-down	2,159,645	-
Non-Cash Expense (Issuance of Warrants)	93,000	100,000
Equity in Net Loss of Unconsolidated Affiliate	1,007,430	-
	(675,769)	2,152,105
Changes in Operating Assets and Liabilities		
Accounts Receivable	(30,493)	(361,143)
Prepaid Expenses	(273,941)	(60,061)
Accounts Payable and Accrued Liabilities	847,191	729,103
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(133,012)	2,460,004
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Fixed Assets	(350,113)	(150,161)
Oil and Gas Property Additions	(2,750,200)	(3,340,221)
Sale of Oil and Gas Seismic Data	853,197	-
NET CASH USED IN INVESTING ACTIVITIES	(2,247,116)	(3,490,382)

CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Issuance of Notes Payable or Advances	-	1,705,000
Repayment of Notes Payable or Advances	-	(3,028,698)
Sale of Common Stock	500,000	2,056,500
Offering Costs	(6,671)	(169,545)
Debt Issuance Costs	-	68,223
NET CASH PROVIDED BY FINANCING ACTIVITIES	493,329	631,480
NET DECREASE IN CASH	(1,886,799)	(398,898)
CASH - BEGINNING OF PERIOD	1,888,562	1,175,950
CASH - END OF PERIOD	$ 1,763	$ 777,052

</TABLE>

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 unaudited consolidated financial statements of Cheniere Energy, Inc. ("Cheniere" or the "Company") have been prepared in accordance with generally accepted accounting principles 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 generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation, have been included.

For further information, refer to the financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000. Interim results are not necessarily indicative of results to be expected for the full fiscal year ended December 31, 2001. Certain reclassifications have been made to conform prior period amounts to the current period presentation. These reclassifications have no effect on net income/(loss) or stockholders' equity.

In early July, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." The standards revise accounting for business combinations by:

- prohibiting the "pooling of interest" method of accounting and requiring the purchase method of accounting to be used on all business combinations initiated after June 30, 2001;

- requiring that separately identifiable intangible assets, other than goodwill, be recorded as assets. These intangible assets must either be amortized over their useful lives or, if they have indefinite useful lives, not be amortized and periodically tested for impairment; and

- ceasing all amortization of goodwill, instead requiring it be tested at least annually for impairment. In addition, existing goodwill on business combinations completed before July 1, 2001 will no longer be amortized after December 31, 2001 and should be tested for impairment by January 1, 2002.

Cheniere will account for all future business combinations under SFAS No. 141. Effective January 1, 2002, Cheniere will adopt SFAS No. 142 as required. The impact of these standards will be evaluated in future periods, but it is not expected to be material.

The FASB also recently authorized for issuance SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement significantly changes the method of accruing for costs associated with the retirement of fixed assets (e.g. oil and gas production facilities) for which an entity is legally obligated to incur. We will be further evaluating the impact and timing of implementation of SFAS No. 143. Implementation of this standard is required no later than January 1, 2003, with earlier adoption encouraged.

NOTE 2 - OIL AND GAS PROPERTIES

The Company follows the full cost method of accounting for its oil and gas properties. Under this method, all productive and nonproductive exploration and development costs incurred

for the purpose of finding oil and gas reserves are capitalized.

The costs of the Company's oil and gas properties, including the estimated future costs to develop proved reserves, are depreciated using a composite units-of-production rate based on estimates of proved reserves. Investments in unproved properties and major development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized. Net capitalized costs are limited to a capitalization ceiling, calculated on a quarterly basis as the aggregate of the present value, discounted at 10%, of estimated future net revenues from proved reserves, based on current economic and operating conditions, plus the lower of cost or fair market value of unproved properties, less related income tax effects. The Company's allocation of seismic exploration costs to proved properties involves an estimate of the total reserves to be discovered in the project. It is reasonably possible, based on the results obtained from future events, that revisions of this estimate could occur which would affect the Company's capitalization ceiling. At June 30, 2001, the Company's capitalized costs exceeded its capitalization ceiling by $2,159,645, resulting in a ceiling test write-down.

NOTE 3 - COMMON STOCK AND WARRANTS

In February 2001, the Company issued to one investor 250,000 units at a price of $2.00 per unit, each unit representing one share of common stock and one-sixth warrant to purchase a share of common stock. Warrants issued in connection with this sale of units are exercisable at a price of $3.00 per share on or before December 31, 2003. This issuance was made in reliance on the exemption from registration provided by Section 506 of Regulation D. Net proceeds were $493,329.

In May 2001, the Company granted to a consultant warrants to purchase 50,000 shares of Cheniere common stock at a strike price of $3.00 per share, exercisable on or before April 30, 2005. The non-cash issuance of warrants was valued at $93,000 using the Black-Scholes method.

On June 14, 2001, the Company issued 500,000 shares of common stock to acquire a lease option on a potential site for a liquefied natural gas ("LNG") receiving terminal in Freeport, Texas. In connection with the transaction, Cheniere is obligated to issue an additional 750,000 shares of common stock when it completes the permitting process and an LNG site is ready for construction to commence. The 500,000 shares issued in June were valued at $1,150,000, or $2.30 per share, the closing market price on the date of the transaction. LNG site costs totaling $410,740 were classified as short-term and were included in prepaid expenses.

NOTE 4 - INVESTMENT IN UNCONSOLIDATED AFFILIATE

Cheniere accounts for its investment in Gryphon Exploration Company ("Gryphon") using the equity method of accounting. Cheniere does not participate in the day-to-day management of Gryphon, does not exercise control over Gryphon and cannot effect a change in the management of Gryphon. Cheniere presently owns 100% of the outstanding common stock of Gryphon. At such time as Gryphon's preferred shares are converted to common shares, Cheniere's equity share of Gryphon's earnings (losses) will be calculated using its percentage ownership of common shares on a converted basis, which percentage is 23.6% as of August 14, 2001. Gryphon was formed on October 11, 2000. Results of Gryphon's operations for the three months and six months ended June 30, 2001 are summarized as follows:

	Period Ended June 30, 2001	
	Three Months	Six Months
Net sales	$ 183,019	$ 394,408
Gross profit	138,552	334,398
Income from continuing operations	33,269	123,519
Net income	33,269	123,519
Accrued preferred dividends	(622,158)	(1,130,949)
Cheniere's equity in net loss of unconsolidated affiliate	(588,889)	(1,007,430)

During the first six months of 2001, Gryphon made cash calls totaling $20,000,000 against its capital commitment of $75,000,000. Cheniere declined to participate in such cash calls, and accordingly, its ownership interest in Gryphon, after the effect of converting preferred stock into common stock, was reduced from 36.8% at December 31, 2000 to 24.4% as of July 23, 2001. Cheniere's ownership interest was diluted further, to 23.6%, on July 27, 2001, when it transferred 6,740 shares of Gryphon common stock to Gryphon in connection with the sale of licenses to certain seismic data.

NOTE 5 - RELATED PARTY TRANSACTIONS

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

In June 2001, Cheniere sold to Gryphon for $3,500,000 one of its two licenses to certain 3D seismic data covering 3,800 square miles. Gryphon paid $853,197 in cash to Cheniere and assumed $2,646,803 of Cheniere's obligations related to the reprocessing of the data. Cheniere is responsible for the cost of reprocessing the remainder of the data ($1,061,692), which is expected to be completed in the fourth quarter of 2001. Cheniere retains one license to the seismic data.

In July 2001, Cheniere sold to Gryphon for $3,500,000 one of its two licenses to certain 3D seismic data covering an additional 3,000 square miles. Gryphon assumed Cheniere's entire obligation ($4,174,021) related to the reprocessing of the data. In connection with the transaction, Cheniere transferred to Gryphon 6,740 shares of Gryphon common stock, valued at $674,021, or $100 per share, based on the estimated fair market value of the Gryphon common stock. Cheniere retains one license to the seismic data.

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

GENERAL

The Company's unaudited consolidated financial statements and notes thereto relate to the three-month and six-month periods ended June 30, 2001 and 2000. These statements, the notes thereto and the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001 contain detailed information that should be referred to in conjunction with the following discussion.

PRODUCTION AND PRODUCT PRICES

Information concerning the Company's production and average prices received for the three-month and six-month periods ended June 30, 2001 and 2000 is presented in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Production				
Oil (Bbls)	924	1,667	1,525	3,360
Gas (Mcf)	173,975	510,942	307,943	947,175
Gas equivalents (Mcfe)	179,519	520,944	317,093	967,335

Average sales prices				
Oil (per Bbl)	$ 27.28	$ 29.22	$ 29.56	$ 28.93
Gas (per Mcf)	$ 4.58	$ 3.49	$ 5.85	$ 3.14
Gas equivalents (per Mcfe)	$ 4.58	$ 3.52	$ 5.82	$ 3.18

</TABLE>

RESULTS OF OPERATIONS

COMPARISON OF THREE-MONTH PERIODS ENDED JUNE 30, 2001 AND 2000 - The Company's operating results for the three months ended June 30, 2001 reflect a loss of $3,785,625, or $0.29 per share (basic and fully diluted), compared to net income of $358,135, or $0.03 per share (basic) a year earlier. The most significant factor in Cheniere's loss for the current quarter is a ceiling test write-down of $2,159,645.

In the three months ended June 30, 2001, Cheniere recorded oil and gas revenues of $774,832 compared to $1,731,078 a year earlier. The decrease in revenues results principally from a decline in the production rates ($1,201,816 negative variance) offset partially by an increase in product prices ($190,884 positive variance). The decrease in production reflects depletion of the zones currently producing in the Company's two wells. Production costs totaled $86,533 for the 2001 quarter and $114,008 for the 2000 quarter, with the decrease relating primarily to the effect of lower production rates on severance taxes.

Depreciation, depletion and amortization decreased to $432,734 for the 2001 quarter compared to $1,070,390 for the 2000 quarter. Depreciation, depletion and amortization of oil and gas property costs decreased to $366,216 for the 2001 quarter compared to $958,541 for the 2000 quarter, principally due to lower levels of production in 2001. Depreciation of fixed assets decreased to $48,154 in the 2001 quarter, compared to $111,849 a year earlier, as a result of Cheniere's transfer of assets to Gryphon in October 2000. Additionally, the 2001 quarter includes

$18,364 in amortization of costs related to a site for an LNG facility for which a three-year lease option was acquired in June 2001.

At June 30, 2001, the Company's capitalized costs exceeded its capitalization ceiling by $2,159,645, resulting in a ceiling test write-down. The write-down was a result of a decline in oil and gas prices to $28.00 per barrel and $3.68 per mcf as of June 30, 2001 (compared to $29.72 per barrel and $10.71 per mcf as of December 31, 2000).

General and administrative ("G&A") expenses, net of recoveries and amounts capitalized, were $1,296,536 and $192,755 in the second quarters of 2001 and 2000, respectively. Total G&A expenses increased by $507,448 to $1,510,536 in the second quarter of 2001 from the total of $1,003,088 a year earlier. Legal and professional fees increased by $316,084 to $409,600 principally related to the Company's project to develop an LNG receiving terminal business and the acquisition of sites for such terminals in 2001. Consulting expenses increased by $276,336 to $346,736, also related to the LNG project. Salaries and benefits decreased by $204,206 to $373,804 in 2001 because Cheniere has fewer employees as a result of the formation of, and transfer of certain employees to, Gryphon in October 2000. Also included in the 2001 quarter were $93,000 in non-cash expenses related to the issuance of warrants to a consultant who assisted in listing Cheniere's stock on The American Stock Exchange. Cheniere capitalized $214,000 of G&A expenses to oil and gas property costs in the second quarter of 2001 compared to $437,000 a year earlier, the change being a direct result of the reduced number of Cheniere's exploration staff following the formation of Gryphon in October 2000.

Cheniere accounts for its investment in Gryphon using the equity method of accounting. Cheniere does not participate in the day-to-day management of Gryphon, does not exercise control over Gryphon and cannot effect a change in the management of Gryphon. Cheniere's equity share of Gryphon's operating results for the three months ended June 30, 2001 was a loss of $588,889, calculated by applying Cheniere's 100% common stock ownership interest to Gryphon's net income of $33,269 and reducing such result for Gryphon's preferred dividends earned but undeclared for the quarter of $622,158. At such time as Gryphon's preferred shares are converted to common shares, Cheniere's equity share of Gryphon's earnings (losses) will be calculated using its percentage ownership of common shares on an as-converted basis, which percentage is 23.6% as of August 14, 2001. Gryphon commenced operations on October 11, 2000.

COMPARISON OF SIX-MONTH PERIODS ENDED JUNE 30, 2001 AND 2000 - The Company's operating results for the six months ended June 30, 2001 reflect a net loss of $4,696,476, or $0.37 per share (basic and fully diluted) compared to net income of $55,758, or $0.01 per share (basic), a year earlier. The most significant factor in Cheniere's loss for the current period is a ceiling test write-down of $2,159,645.

In the first six months of 2001, Cheniere recorded revenues of $1,746,488 compared to $2,904,683 in the comparable period of 2000. The decrease in revenues results principally from a decline in the production rates ($2,067,770 negative variance) offset partially by an increase in product prices ($838,302 positive variance). The decrease in production reflects depletion of the zones currently producing in the Company's two wells.

Depreciation, depletion and amortization decreased to $760,632 for the first six months of 2001 compared to $1,996,347 in the first six months of 2000. Depreciation, depletion and amortization of oil and gas property costs decreased to $646,869 for the 2001 period compared to $1,778,074 for the 2000 period, principally due to lower levels of production in 2001. Depreciation of fixed assets decreased to $95,399 in the 2001 quarter, compared to $218,273 a year earlier, as a result of Cheniere's transfer of assets to Gryphon in October 2000. Additionally, the 2001 period includes $18,364 in amortization of costs related to a site for an LNG facility for which a three-year lease option was acquired in June 2001.

At June 30, 2001, the Company's capitalized costs exceeded its capitalization ceiling by $2,159,645, resulting in a ceiling test write-down as of June 30, 2001. The write-down was a result of a decline in oil and gas prices to $28.00 per barrel and $3.68 per mcf as of June 30, 2001 (compared to $29.72 per barrel and $10.71 per mcf as of December 31, 2000.)

G&A expenses, net of recoveries and amounts capitalized, were $2,322,158 and $669,764 in the first six months of 2001 and 2000, respectively. Total G&A expenses increased by $667,062 to $2,743,158 in the 2001 period from the total of $2,076,096 a year earlier. Legal and professional fees increased by $593,736 to $772,175 principally related to the Company's project to develop an LNG receiving terminal business and the acquisition of sites for such terminals in 2001. Consulting expenses increased by $418,082 to $557,820, also related to the LNG project. Salaries and benefits decreased by $337,127 to $749,116 in 2001 because Cheniere has fewer employees as a result of the formation of, and transfer of certain employees to, Gryphon in October 2000. Also included in the 2001 period were $93,000 in non-cash expenses related to the issuance of warrants to a consultant who assisted in listing Cheniere's stock on The American Stock Exchange. Cheniere capitalized $421,000 of G&A expenses to oil and gas property costs in the first half of 2001 compared to $803,000 a year earlier, the change being a direct result of the reduced number of Cheniere's exploration staff following the formation of Gryphon in October 2000.

Cheniere accounts for its investment in Gryphon using the equity method of accounting. Cheniere does not participate in the day-to-day management of Gryphon, does not exercise control over Gryphon and cannot effect a change in the management of Gryphon. Cheniere's equity share of Gryphon's operating results for the six-months ended June 30, 2001 was $1,007,430, calculated by applying Cheniere's 100% common stock ownership interest to Gryphon's net income of $123,519 and reducing such result for Gryphon's preferred dividends earned but undeclared for the period of $1,130,949. At such time as Gryphon's preferred shares are converted to common shares, Cheniere's equity share of Gryphon's earnings (losses) will be calculated using its percentage ownership of common shares on an as-converted basis, which percentage is 23.6% as of August 14, 2001. Gryphon commenced operations on October 11, 2000.

LIQUIDITY AND CAPITAL RESOURCES

Cash balances and cash flows from current operations will not be adequate to meet the future liquidity requirements of the Company. The Company expects that future liquidity requirements will be met by one or more of the following: the divestiture of producing oil and gas properties, sales of portions of its working interest in the prospects within its exploration program, sale to an industry partner of a participation in the Company's exploration program, sale of proprietary 3D seismic data or licenses thereto, sale of a participation interest in the Company's LNG project, and/or additional offerings of the Company's equity securities. Management expects to meet all of its liquidity requirements through December 31, 2001 through such sources. In the event that the Company is unable to obtain additional capital from one or more of these sources, its operations could be adversely affected.

Subsequent to June 30, 2001, the Company has received offers for the sale of its producing oil and gas properties, for the sale of an interest in certain prospects, for the sale of a portion of its 3D seismic data, and for the sale of a participation interest in its LNG project. The Company is in the process of evaluating these offers.

Cash Flow from Operating Activities

Due to declines in the production rates of its two wells and expenses related to the development of an LNG receiving terminal business, the Company reported a $675,769 net use of cash in its operations (before changes in operating assets and liabilities) for the six months ended June 30, 2001. It is anticipated that the Company will sell its producing oil and gas properties in the third quarter of 2001. These properties, however, presently represent the

Company's sole source of operating cash flow. At June 30, 2001, the Company had a working capital deficit of $784,426.

Private Placements of Equity

In February 2001, the Company issued to one investor 250,000 units at a price of $2.00 per unit, each unit representing one share of common stock and one-sixth warrant to purchase a share of common stock. Warrants issued in connection with this sale of units are exercisable at a price of $3.00 per share on or before December 31, 2003. These issuances were made in reliance on the exemption from registration provided by Section 506 of Regulation D. Net proceeds were $493,329.

Exploration Funding

On October 11, 2000, Cheniere completed a transaction with Warburg, Pincus Equity Partners L.P. ("Warburg") to fund its exploration program on approximately 8,800 square miles of seismic data in the Gulf of Mexico through a newly formed affiliated company, Gryphon. Cheniere contributed selected assets and liabilities in exchange for 100% of the common stock of Gryphon (36.8% effective interest after conversion of preferred stock) and $2,000,000 in cash. Warburg contributed $25,000,000 and received preferred stock, with an 8% cumulative preferred dividend, convertible into 63.2% of Gryphon's common stock. Cheniere and Warburg also agreed, under certain circumstances, to contribute an additional $75,000,000 to Gryphon, proportionate to their respective ownership interests.

During the first six months of 2001, Gryphon made cash calls totaling $20,000,000. Cheniere declined to participate in such cash calls, and accordingly, its ownership interest in Gryphon, after the effect of converting preferred stock into common stock, was reduced from 36.8% at December 31, 2000 to 24.4% as of July 23, 2001. Cheniere's ownership interest was diluted further, to 23.6%, on July 27, 2001, when it transferred 6,740 shares of Gryphon common stock back to Gryphon in connection with the sale of licenses to certain seismic data.

Seismic Reprocessing

Between June 2000 and October 2000, Cheniere acquired licenses to approximately 6,800 miles of seismic data primarily in the shallow waters offshore Texas and also in the West Cameron area in the Gulf of Mexico (the "Offshore Texas Project Area") in separate transactions with Seitel Data Ltd., a division of Seitel Inc., and JEBCO Seismic, L.P. Cheniere has committed to reprocess all of the data from the Offshore Texas Project Area at a cost of approximately $8,500,000, payable in installments beginning in October 2000 and continuing through the final delivery of reprocessed data, which is expected to occur in the fourth quarter of 2001. Deliveries of reprocessed data began in May 2001. After the assumption of liabilities by Gryphon related to its purchase of one license to the data (see discussion below), Cheniere's remaining liability for reprocessing is $1,061,692.

Sale of Licenses to Seismic Data

In June and July 2001, Cheniere sold licenses to 6,800 square miles of seismic data to Gryphon for $7,000,000. Cash proceeds to Cheniere were $853,197. Gryphon also assumed $6,820,824 of Cheniere's obligation to fund the reprocessing of the seismic data. In connection with the transaction, Cheniere also transferred 6,740 shares of Gryphon common stock to Gryphon. Cheniere retains one license to all of the data in the Offshore Texas Project Area.

RECENTLY ISSUED STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS

In early July, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." The standards revise accounting for business combinations by:

- prohibiting the "pooling of interest" method of accounting and requiring the purchase method of accounting to be used on all business combinations initiated after June 30, 2001;

- requiring that separately identifiable intangible assets, other than goodwill, be recorded as assets. These intangible assets must either be amortized over their useful lives or, if they have indefinite useful lives, not be amortized and periodically tested for impairment; and

- ceasing all amortization of goodwill, instead requiring it be tested at least annually for impairment. In addition, existing goodwill on business combinations completed before July 1, 2001 will no longer be amortized after December 31, 2001 and should be tested for impairment by January 1, 2002.

Cheniere will account for all future business combinations under SFAS No. 141. Effective January 1, 2002, Cheniere will adopt SFAS No. 142 as required. The impact of these standards will be evaluated in future periods, but it is not expected to be material.

The FASB also recently authorized for issuance SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement significantly changes the method of accruing for costs associated with the retirement of fixed assets (e.g. oil and gas production facilities) for which an entity is legally obligated to incur. We will be further evaluating the impact and timing of implementation of SFAS No. 143. Implementation of this standard is required no later than January 1, 2003, with earlier adoption encouraged.

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 (the "Act") provides a safe harbor for forward-looking statements made by or on behalf of the Company. The Company and its representatives may from time to time make written or verbal forward-looking statements, including statements contained in this report and other filings with the Securities and Exchange Commission and in reports to its stockholders.

All statements, other than statements of historical facts so included in this report that address activities, events or developments that the Company intends, expects, projects, believes, or anticipates will or may occur in the future are forward-looking statements within the meaning of the Act, including, without limitation; (i) statements regarding the Company's business strategy, plans and objectives and (ii) statements expressing beliefs and expectations regarding the ability of the Company to successfully raise the additional capital necessary to meet the obligations under its 3-D seismic master license agreement, the ability of the Company to secure the leases necessary to facilitate anticipated drilling activities and the ability of the Company to attract additional working interest owners to participate in its exploration and development activities. These forward-looking statements are, and will be, based on management's then current views and assumptions regarding future events.

FACTORS THAT MAY IMPACT FORWARD-LOOKING STATEMENTS OR FINANCIAL PERFORMANCE

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

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

-- The Company's ability to obtain additional financing from lenders, through debt or equity offerings, or through sales of a portion of its interest in prospects.

-- The Company's ability to encounter hydrocarbons in sufficient quantities to be economically viable, and its ability to overcome the operating hazards which are inherent in the oil and gas industry and which are intensified by the Company's concentration of its producing oil and gas assets in few properties.

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

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

The foregoing list of important factors is not exclusive.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None.

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

The information contained in Notes 3 and 5 to the Consolidated Financial Statements is incorporated herein by reference.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Each of the following exhibits is incorporated by reference or filed herewith:

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of Cheniere Energy, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 1999)
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Cheniere Energy, Inc. (incorporated by reference to Exhibit 3.2 of the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 1999)
3.3	By-laws of Cheniere as amended through April 7, 1997 (incorporated by reference to Exhibit 3.1 of the Company's Annual Report on Form 10-K filed on March 29, 1999 (File No. 0-9092))

(b) Current Reports on Form 8-K: None.

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/ Don A. Turkleson

Don A. Turkleson
Chief Financial Officer (on behalf of the registrant and as principal accounting officer)

Date: August 14, 2001