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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 September 30, 1999

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.)

1200 SMITH STREET, SUITE 1740
HOUSTON, TEXAS
(Address or principal place of business)

77002-4312
(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 NO .

As of November 12, 1999, there were 29,198,351 shares of Cheniere Energy, Inc. Common Stock, \$.003 par value, issued and outstanding.

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CHENIERE ENERGY, INC.
INDEX TO FORM 10-Q

<TABLE>
<CAPTION>

	Page

<S>	<C>
PART I. FINANCIAL INFORMATION	
Item 1. Consolidated Financial Statements	
Consolidated Balance Sheet.....	3
Consolidated Statement of Operations.....	4
Consolidated Statement of Stockholders' Equity.....	5
Consolidated Statement of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	11
Item 3 Quantitative and Qualitative Disclosures About Market Risk.....	14
PART II. OTHER INFORMATION	
Item 2. Changes in Securities and Use of Proceeds.....	12

</TABLE>

2

CHENIERE ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(Unaudited)

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ASSETS	September 30, 1999	December 31, 1998
	-----	-----
-		
<S>	<C>	<C>
Cash	\$ 325,784	\$ 143,868
Accounts Receivable	449,731	97,837
Subscriptions Receivable	110,000	500,000
Prepaid Expenses and Other Current Assets	1,357,975	8,833
	-----	-----
Total current assets	2,243,490	750,538
OIL AND GAS PROPERTIES, full cost method, net	29,410,901	20,000,425
FIXED ASSETS, net	520,863	89,511
	-----	-----
Total Assets	\$32,175,254	\$20,840,474
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts Payable and Accrued Liabilities	\$ 3,523,985	\$ 523,144
Notes Payable	3,930,060	1,974,980
	-----	-----
Total current liabilities	7,454,045	2,498,124
	-----	-----

LONG-TERM NOTES PAYABLE

Related Party	-	2,000,000
Other	-	25,020
	-----	-----
Total long-term liabilities	-	2,025,020
	-----	-----

STOCKHOLDERS' EQUITY

Common Stock, \$.003 par value		
Authorized: 60,000,000 and 40,000,000 shares, respectively		
Issued and Outstanding: 29,198,351 shares at September 30, 1999;		
18,973,749 at December 31, 1998	87,595	56,922
Preferred Stock, \$.0001 par value		
Authorized: 5,000,000 shares		
Issued and Outstanding: none	-	-
Additional Paid-in-Capital	29,476,123	20,084,928
Deficit Accumulated During the Development Stage	(4,842,509)	(3,824,520)
	-----	-----
Total Stockholders' Equity	24,721,209	16,317,330
	-----	-----
Total Liabilities and Stockholders' Equity	\$32,175,254	\$20,840,474
	=====	=====

</TABLE>

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

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

<TABLE>

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	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	-----	-----	-----	-----
	1999	1998	1999	1998
	-----	-----	-----	-----
--				
--				
<S>	<C>	<C>	<C>	<C>

Oil and Gas Revenues	\$ 421,268	\$ -	\$ 421,268	\$ -
--	-----	-----	-----	-----
Production Costs	33,088	-	33,088	
-				
Depreciation, Depletion and Amortization	254,033	13,455	275,359	31,676
General and Administrative Expenses	481,669	518,817	1,154,525	1,132,423
--	-----	-----	-----	-----
Total Operating Costs and Expenses	768,790	532,272	1,462,972	1,164,099
--	-----	-----	-----	-----
Loss from Operations Before Interest Income and Income Taxes (1,164,099)	(347,522)	(532,272)	(1,041,704)	
Interest Income 16,670	13,523	4,157	23,715	
--	-----	-----	-----	-----
Loss From Operations Before Income Taxes (1,147,429)	(333,999)	(528,115)	(1,017,989)	
Provision for Income Taxes -	-	-	-	
--	-----	-----	-----	-----
Net Loss \$(1,147,429)	\$ (333,999)	\$ (528,115)	\$ (1,017,989)	
=====	=====	=====	=====	
Net Loss Per Share (basic and diluted) (0.07)	\$ (0.01)	\$ (0.03)	\$ (0.04)	\$
=====	=====	=====	=====	
Weighted Average Number of Shares Outstanding	28,105,458	16,507,625	23,728,372	15,436,103
=====	=====	=====	=====	

</TABLE>

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

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

<TABLE>
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Total	Common Stock		Additional	
	Shares	Amount	Paid-In Capital	Retained Deficit
Stockholders' Equity	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
<C>				
Issuances of Stock \$ 5,221,803	9,931,767	\$ 29,795	\$ 5,192,008	\$ -
Expenses Related to Offerings (686,251)	-	-	(686,251)	-
Issuance of Warrants 12,750	-	-	12,750	-
Net Loss (121,847)	-	-	-	(121,847)
-----	-----	-----	-----	-----
Balance - August 31, 1996 4,426,455	9,931,767	29,795	4,518,507	(121,847)
Issuances of Stock 11,140,425	4,124,099	12,373	11,128,052	-
Conversion of Notes Payable 210,000	105,000	315	209,685	-
Issuance of Warrants 6,450	-	-	6,450	-
Expenses Related to Offerings (1,153,441)	-	-	(1,153,441)	-
Net Loss (1,676,468)	-	-	-	(1,676,468)
-----	-----	-----	-----	-----

Balance - August 31, 1997 12,953,421	14,160,866	42,483	14,709,253	(1,798,315)
Issuances of Stock 828,500	297,000	891	827,609	-
Issuance of Warrants 101,000	-	-	101,000	-
Expenses Related to Offerings (74,532)	-	-	(74,532)	-
Net Loss (388,361)	-	-	-	(388,361)
Balance - December 31, 1997 13,420,028	14,457,866	43,374	15,563,330	(2,186,676)
Issuances of Stock 4,383,652	4,515,883	13,548	4,370,104	-
Issuance of Warrants 319,494	-	-	319,494	-
Expenses Related to Offerings (168,000)	-	-	(168,000)	-
Net Loss (1,637,844)	-	-	-	(1,637,844)
Balance - December 31, 1998 16,317,330	18,973,749	56,922	20,084,928	(3,824,520)
Issuances of Stock 7,172,211	6,683,465	20,051	7,152,160	-
Conversion of Notes Payable 2,183,567	2,956,662	8,869	2,174,698	-
Repricing of Warrants to Extend Bridge Notes 35,702	-	-	35,702	-
Conversion of Production Payment 400,000	584,475	1,753	398,247	-
Expenses Related to Offerings (369,612)	-	-	(369,612)	-
Net Loss (1,017,989)	-	-	-	(1,017,989)
Balance - September 30, 1999 \$24,721,209	29,198,351	\$ 87,595	\$ 29,476,123	\$ (4,842,509)

</TABLE>

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

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

<TABLE>
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	Nine Months Ended September 30,	
	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$(1,017,989)	
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities:		
Depreciation, Depletion and Amortization	275,359	31,676
Increase in Accounts Receivable	(351,894)	7,297
Decrease in Subscriptions Receivable	390,000	-
Increase in Prepaid Expenses and Other Current Assets	(195,052)	(24,880)
Increase in Accounts Payable and Accrued Liabilities	3,000,840	53,526
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	\$ 2,101,264	(1,079,810)

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of Fixed Assets	(498,219)	(81,810)
Oil and Gas Property Additions	(7,909,495)	(2,462,648)
-	-	-
NET CASH USED IN INVESTING ACTIVITIES	(8,407,714)	(2,544,458)
-	-	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Issuance of Notes with Detachable Warrants	-	180,000
Proceeds from Issuance of Notes Payable or Advances	3,100,000	592,000
Repayment of Notes Payable or Advances	(987,490)	(772,000)
Sale of Common Stock	4,745,468	3,050,152
Offering Costs	(369,612)	
(138,000)		
-	-	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	6,488,366	2,912,152
-	-	-
NET INCREASE (DECREASE) IN CASH	181,916	(712,116)
CASH - BEGINNING OF PERIOD	143,868	787,523
-	-	-
CASH - END OF PERIOD	\$ 325,784	\$ 75,407
	=====	=====

</TABLE>

The accompanying notes are an integral part of the 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 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, 1998. Interim results are not necessarily indicative of results to be expected for the full fiscal year ended December 31, 1999.

The Company intends to adopt Statement of Financial Accounting Standard ("SFAS") 133, "Accounting for Derivative Instruments and Hedging Activities," effective with its fiscal year beginning January 1, 2001 as required by the Statement, as amended by SFAS 137. Due to the Company's current and anticipated limited use of derivative instruments, management anticipates that adoption of SFAS 133 will not have any significant impact on the Company's financial position or results of operations.

NOTE 2 - NOTES PAYABLE

In December 1997, Cheniere completed the private placement of a \$4,000,000 bridge financing (the "December 1997 Bridge Financing"). The notes payable issued by Cheniere had an initial maturity date of March 15, 1998, which was extended to September 15, 1998 and further extended to January 15, 1999. In December 1998, Cheniere received commitments from certain noteholders to exchange notes payable for an aggregate of 2,812,528 shares of Cheniere common stock at a price of \$0.72 per share. Accordingly, the \$2,025,020 face amount of the exchanged notes was classified as a long-term obligation as of December 31, 1998. For those notes which were not exchanged for common stock, the maturity date was extended. The notes bear interest at a rate of LIBOR plus 4%. The securities purchase agreements which govern such bridge financing specify that, during the term of the notes, capital raised by the Company in excess of \$12,000,000 must be directed to repayment of the notes.

In connection with the December 1997 Bridge Financing, Cheniere issued 100,000 shares of common stock and four-year warrants to purchase 1,333,334 shares of common stock at \$2-3/8 per share. Additional warrants to purchase 1,600,000 shares of Cheniere common stock were issued on September 15, 1998 in consideration for the extension to that date. In connection with the extension

to January 15, 1999, the Company offered two alternatives of consideration. Holders of \$3,000,000 of the notes elected to reduce the exercise price of their warrants to \$1.50 per share. The holder of \$1,000,000 of the notes elected to reduce the exercise price of its warrants to \$2.00 per share, to extend the term of such warrants to five years from the latter of September 15, 1998 or the date of issue, to receive additional warrants to purchase 387,500 shares of common stock and to receive 50,000 shares of common stock. In January 1999, the maturity

7

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

date was extended to March 15, 1999. In March 1999, the maturity date was extended to April 15, 1999. As consideration for the extension to April 15, 1999, the Company reduced the exercise price by \$0.25 per share for all warrants issued in connection with the issuance or extensions of the notes. In April 1999, the maturity date was extended to July 15, 1999, at which time 50% of the outstanding balance was repaid, the maturity date for the remainder was extended to October 15, 1999 and the interest rate was increased by 2% to LIBOR plus 6%. In September 1999, certain noteholders exchanged notes payable and accrued interest totaling \$158,548 for units of common stock and warrants to purchase common stock at a price of \$1.10 per unit. In October 1999, the maturity date of the remaining notes was extended to December 15, 1999. (See Note 8 - Subsequent Events.)

On September 1, 1999, Cheniere established a \$3.1 million financing facility to fund a production platform and other exploration and development costs in the West Cameron Block 49 area. Borrowings under the facility are to be repaid from 75% of Cheniere's share of net cash flow from production through the West Cameron Block 49. The notes have a two-year term. Financing costs include interest at 12% per annum and a 5% net profit interest in the two wells currently producing through the platform.

NOTE 3 -COMMON STOCK ISSUANCES

In April 1999, the Company completed the private placement of 300,000 units, each unit representing one share of Cheniere common stock and a warrant to purchase one share of common stock at a share price equal to the lesser of \$1.00 or an amount calculated as 65% times the lowest trading price of Cheniere common stock during the 30-day period ending June 12, 1999. Net proceeds were \$270,000 after payment of \$30,000 in selling commissions. In July 1999, Cheniere issued an additional 150,000 units pursuant to the price adjustment provision of the original April 1999 private placement, reducing the average price to \$0.67 per unit. These issuances were made in reliance on the exemption from registration provided by Section 506 of Regulation D.

Also in April 1999, the Company issued 584,475 shares of common stock at \$0.68 per share in exchange for the cancellation of a production payment which it had sold in March 1999. The terms of the production payment and stock option agreement provided for the per share price of the exchange to be an amount equal to 75% times the average closing bid price for the five-day period preceding notice of the exchange. The balance of the production payment at the time of the exchange was \$400,000. These issuances were made in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

In May 1999, Cheniere issued 600,000 shares of common stock in exchange for \$900,000 of prepaid drilling services. In addition, the Company issued 41,225 shares as partial payment of drilling services previously provided at a cost of \$53,850. These issuances were made in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

In June 1999, the Company completed three private placements of common stock. On June 2, 1999, Cheniere issued 1,200,000 shares of common stock at a price of \$0.83 per share for proceeds of \$1,000,000. These issuances were made in reliance on the exemption from registration provided by Section 506 of Regulation D. On June 9, 1999, Cheniere issued 500,000 shares of common stock to acquire a license to use 3-D seismic data covering 8,700 square miles

8

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

in the shallow waters of the Gulf of Mexico. These issuances were made in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933. On June 30, 1999, Cheniere issued 2,296,000 shares of common stock at a price of \$1.00 per share, resulting in net proceeds of \$2,082,000 after payment of \$214,000 in selling commissions. These issuances were made in reliance on the exemption from registration provided by Section 506

of Regulation D.

On July 1, 1999, Cheniere issued 116,240 shares of common stock in exchange for \$174,360 of drilling services and equipment. In addition, on August 1, 1999, Cheniere issued 800,000 shares of common stock in exchange for \$1,200,000 of prepaid drilling services. These issuances were made in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

In September 1999, the Company sold 824,134 units to nine investors at a price of \$1.10 per unit pursuant to Section 506 of Regulation D adopted by the Securities and Exchange Commission. Each unit was comprised of one share of common stock and one half warrant to purchase one share of common stock, adding up to 824,134 shares of common stock and warrants to purchase 412,067 shares of common stock. Included among the participants in the private placement of units were holders of the Company's notes payable who exchanged notes and accrued interest totaling \$158,548. Net proceeds were \$1,364,148, including the effect of the exchange of notes and \$64,900 in selling commissions. These issuances were made in reliance on the exemption from registration provided by Section 506 of Regulation D.

NOTE 4 - STOCK OPTIONS

On March 18, 1999, the Company granted options to certain employees under the Cheniere Energy, Inc. 1997 Stock Option Plan. Options covering a total of 218,500 shares of common stock were granted to employees, exercisable at \$1.50 per share, which is above the quoted market price of the stock at the time of the grant. The options vest 25% at each of the first four anniversaries of the date of grant and expire on the fifth anniversary date of the grants.

Also on March 18, 1999, the Company's Board of Directors elected a new director. This director was granted options to purchase 35,000 shares of the Company's common stock at an exercise price of \$3.00 per share, which is above the quoted market price at the time of the grant. These options vest on 22,500 shares on March 18, 2000, and on 12,500 shares on March 18, 2001, and will expire on March 17, 2004.

Effective July 1, 1999, the Company issued an option to purchase 600,000 shares of common stock on or before May 31, 2004 at an exercise price of \$1.50 per share. Such option vests fully for 300,000 shares as of the date of grant and for 75,000 shares at each of the first four anniversaries of the grant date. On July 1, 1999, the Company issued additional options to purchase 425,000 shares of common stock on or before June 30, 2004 at an exercise price of \$1.50 per share. Such options vest annually in quarterly increments beginning on July 1, 2000.

On September 1, 1999 the Company issued to an employee an option to purchase 30,000 shares of common stock on or before August 31, 2004 at an exercise price of \$1.50 per share. Such options vest annually in quarterly increments beginning on September 1, 2000. Effective September 1, 1999 options to purchase 15,000 shares of common stock were terminated. In

9

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

addition, effective September 30, 1999, the term of all stock options issued and outstanding to employees was extended to September 30, 2004. On October 1, 1999 the Company issued to a consultant an option to purchase on or before September 30, 2004, 200,000 shares of common stock at an exercise price of \$1.50 per share, vesting on 50,000 shares one year after the date of grant, 50,000 shares two years after the date of grant and on 100,000 shares at the earlier of the date of employment or 3 years after the date of grant.

NOTE 5 - WARRANTS

In April 1999, Cheniere sold 300,000 units to three investors at a price of \$1.00 per share, resulting in net proceeds of \$270,000 after payment of \$30,000 in selling commissions. Each unit was comprised of one share of common stock and one warrant to purchase one share of common stock, adding up to 300,000 shares of common stock and warrants to purchase 300,000 shares of common stock. Warrants issued in connection with these sales of units are exercisable on or before the second anniversary date of the date the units were sold at an exercise price of \$1.00 per share. These issuances were made in reliance on the exemption from registration provided by Section 506 of Regulation D.

In June 1999, the Company issued 1,000,000 warrants to its president and chief executive officer and 200,000 warrants to another member of its board of directors, both of whom were instrumental in negotiating the Company's license of 8,700 square miles of 3-D seismic data in the Gulf of Mexico. Warrants issued in connection with this transaction are exercisable on or before the

fifth anniversary of the date the transaction closed at an exercise price of \$1.50 per share. These issuances were made in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

Effective in July 1999, the Company issued 50,000 warrants exercisable at \$1.50 per share on or before June 30, 2002 as consideration for assistance in the private placement of securities. Cheniere also issued 150,000 warrants exercisable at \$1.00 per share on or before July 5, 2004 in connection with a pricing adjustment to the number of units sold in April 1999.

In September 1999, the Company sold 824,134 units to nine investors at a price of \$1.10 per unit. Each unit was comprised of one share of common stock and one half warrant to purchase one share of common stock, adding up to 824,134 shares of common stock and warrants to purchase 412,067 shares of common stock. Warrants issued in connection with these sales of units are exercisable on or before the third anniversary date of the date the units were sold at an exercise price of \$1.50 per share. Also in September 1999, the Company issued to a consultant warrants to purchase 200,000 shares of common stock on or before September 27, 2004 at exercise prices per share of \$1.375 for 50,000 shares, \$1.875 for 50,000 shares, \$2.375 for 50,000 shares and \$2.875 for 50,000 shares. These issuances were made in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

NOTE 6 - RELATED PARTY TRANSACTIONS

In conjunction with certain of the Company's private placements of equity securities, placement fees have been paid to Investors Administration Services, Limited ("IAS"), a company

10

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

in which the brother of Cheniere's Chairman is a principal. Placement fees totaling \$288,900 were paid to IAS related to Cheniere's 1999 private placements of equity securities.

During May 1999, the Company received and repaid \$240,000 in short-term advances from a major stockholder, BSR Investments, Ltd., whose president is the mother of Cheniere's Chairman. Interest totaling \$584 was paid on the advances at a rate of LIBOR plus 4%, the same rate then payable on the Company's notes payable.

NOTE 7 - CONTINGENT LIABILITIES

On June 9, 1999 Cheniere entered into a master license agreement covering the license of approximately 8,700 square miles of 3-D seismic data in the Gulf of Mexico. In connection with the license agreement, the Company has made a commitment to reprocess certain of the seismic data and to pay a fee for such reprocessing as the reprocessed data is delivered. If reprocessed seismic data are delivered to Cheniere on the schedule specified in the agreement, Cheniere will be obligated to make processing payments of approximately \$200,000 per month from December 1999 through December 2001.

NOTE 8 - SUBSEQUENT EVENTS

In October 1999, the Company extended the maturity dates on its \$830,060 short-term notes payable from October 15, 1999 to December 15, 1999. As consideration for these extensions, the Company issued 69,167 shares of common stock, valued at \$1.20 per share, to the noteholders.

In October and November 1999, the Company privately placed 250,000 units at a price of \$1.10 per unit, each unit representing one share of common stock and one half warrant to purchase a share of common stock at an exercise price of \$1.50 per share. Net proceeds to the Company were \$247,500.

Subsequent to September 30, 1999, the Company reached total depth on the drilling of two wells, both of which were it determined to be nonproductive and has plugged and abandoned.

The Company is currently in breach of two financial covenants with respect to its \$3,100,000 financing facility: (1) it has not completed the "September 1999 Issuance" to raise \$2,000,000 through the sale of equity by September 30, 1999 as initially required nor by October 29, 1999 as previously amended (it has raised only \$1,181,548 toward that commitment) and (2) it has not repaid short-term notes payable of \$830,000 by their maturity date of October 15, 1999 (it has extended the maturity dates of the notes). Although the Company is in discussion with the lenders to obtain waivers, there can be no assurance such waivers will be received. If such waivers are not obtained, the lender could accelerate the maturity of the note and exercise its rights under the related

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 nine-month periods ended September 30, 1999 and 1998. 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, 1998 contain detailed information that should be referred to in conjunction with the following discussion.

RESULTS OF OPERATIONS

COMPARISON OF THREE-MONTH PERIODS ENDED SEPTEMBER 30, 1999 AND 1998 - The Company's operating results for the three months ended September 30, 1999 reflect a loss of \$333,999, or \$0.01 per share, compared to a loss of \$528,115 or \$0.03 per share a year earlier. The Company began producing oil and gas on September 9, 1999. Oil and gas revenues of \$421,268 and related operating expenses of \$33,088 represent the results of Cheniere's first partial month of production. Depreciation, depletion and amortization of oil and gas property costs commenced in September 1999 and totaled \$208,491.

General and administrative expenses of \$481,669 in the three months ended September 30, 1999 were lower than the \$518,817 reported for the comparable period a year earlier. The net decrease in expenses results principally from the inclusion in 1998 of legal expenses related to arbitration proceedings. Partially offsetting the decrease in legal expenses is an increase in personnel and office costs resulting from the Company's increased level of activity since commencing drilling operations in February 1999 and expanding the management and exploration teams beginning in June 1999.

COMPARISON OF NINE-MONTH PERIODS ENDED SEPTEMBER 30, 1999 AND 1998 -The Company's operating results for the nine months ended September 30, 1999 reflect a loss of \$1,017,989, or \$0.04 per share, compared to a loss of \$1,147,429 or \$0.07 per share a year earlier. The Company began producing oil and gas on September 9, 1999. Oil and gas revenues of \$421,268 and related operating expenses of \$33,088 represent the results of its first partial month of production. Depreciation, depletion and amortization of oil and gas property costs totaled \$208,491.

General and administrative expenses of \$1,154,525 in the nine months ended September 30, 1999 were about the same as the \$1,132,423 reported for the comparable period a year earlier.

LIQUIDITY AND CAPITAL RESOURCES

Since Cheniere's inception in February 1996, the business plan of the Company included a lengthy start-up period before revenues would begin. Throughout 1996 and 1997 the Company acquired and processed proprietary 3-D seismic data over a 228-square-mile area in the Louisiana Transition Zone. In 1998 and 1999, the Company interpreted the data, generated prospects and acquired leases. Beginning in February 1999, Cheniere commenced the drilling phase of its exploration program. Through September 1999, the Company had drilled four prospects and had made two discoveries. Subsequent to September 30, 1999 the Company has drilled two additional nonproductive wells. Beginning on September 9, 1999 Cheniere commenced producing oil and gas from its two discoveries at West Cameron Block 49. Revenues from the first three weeks of

production, though September 30, 1999, are estimated at \$421,268.

Prior to the commencement of revenues in September 1999, Cheniere funded all its activities through private placements of its equity securities and through the issuance of notes payable. The Company has raised these funds through a series of private placements of moderate amounts of its securities. The Company has consistently issued its common stock in amounts necessary to meet financial needs when required. It has not been the strategy of the Company to raise a significant amount of capital in excess of its current needs, but rather, to sell stock as funds are required.

The Company anticipates that future liquidity requirements, including repayment of \$830,000 in short-term notes payable maturing on December 15, 1999, payment of trade accounts payable of approximately \$3,360,000 as of September 30, 1999, obligations of approximately \$200,000 per month under the Company's seismic reprocessing agreement, other oil and gas exploration and development activities, and general corporate requirements will be met by a combination of: cash balances, the sale of equity, further borrowings, and/or the sale of portions of its interest in oil and gas prospects. At this time, no assurance can be given that such further sales of equity, future borrowings, or sales of portions of its interest in oil and gas prospects will be accomplished.

The Company is currently in breach of two financial covenants with respect to its \$3,100,000 financing facility: (1) it has not completed the "September 1999 Issuance" to raise \$2,000,000 through the sale of equity by September 30, 1999 as initially required nor by October 29, 1999 as previously amended (it has raised only \$1,181,548 toward that commitment) and (2) it has not repaid short-term notes payable of \$830,000 by their maturity date of October 15, 1999 (it has extended the maturity dates of the notes). Although the Company is in discussion with the lenders to obtain waivers, there can be no assurance such waivers will be received. If such waivers are not obtained, the lender could accelerate the maturity of the note and exercise its rights under the related mortgage instruments.

YEAR 2000

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

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

13

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

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: statements regarding the Company's business strategy, plans and objectives; statements expressing beliefs and expectations regarding the ability of the Company to successfully raise the additional capital necessary to meet its obligations under the Exploration Agreement, the ability of the Company to secure the leases necessary to facilitate anticipated drilling activities and the ability of the Company to attract additional working interest owners to participate in the exploration and development within the Survey AMI; and statements about non-historical Year 2000 information. 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 discover hydrocarbons in sufficient

quantities to be economically viable, and its ability to overcome the operating hazards that are inherent in the oil and gas industry.

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

14

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

The foregoing list of important factors is not exclusive.

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 2, 3, 4 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. ("Cheniere") (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))
10.30	Credit Agreement between Cheniere Energy, Inc. as Borrower and EnCap Energy Capital Fund III, L.P. as Lender for \$3,100,000 dated as of September 1, 1999
10.31	Conveyance of Net Profits Overriding Royalty Interest from and by Cheniere Energy, Inc. to and in favor of EnCap Energy Capital Fund III, L.P. dated as of September 1, 1999
10.32	Mortgage, Assignment, Security Agreement, Fixture Filing and Financing Statement from Cheniere Energy, Inc. to EnCap Energy Capital Fund III, L.P.
27.1	Financial Data Schedule

15

- (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: November 12, 1999

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CREDIT AGREEMENT

CHENIERE ENERGY, INC.,
as Borrower

and

ENCAP ENERGY CAPITAL FUND III, L.P.,
as Lender

\$3,100,000

September 1, 1999

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TABLE OF CONTENTS

<TABLE>
<CAPTION>

	Page
	<C>
CREDIT AGREEMENT.....	1
ARTICLE I - Definitions and References.....	1
Section 1.1. Defined Terms.....	1
Section 1.2. Exhibits and Schedules; Additional Definitions.....	11
Section 1.3. Amendment of Defined Instruments.....	11
Section 1.4. References and Titles.....	11
Section 1.5. Calculations and Determinations.....	11
ARTICLE II - Loan.....	11
Section 2.1. Loan.....	11
Section 2.2. Use of Proceeds.....	12
Section 2.3. Fees.....	12
Section 2.4. Optional Prepayments.....	12
Section 2.5. Minimum Principal Payments.....	12
Section 2.6. Additional Quarterly Principal Payments.....	12
Section 2.7. NPI Conveyance.....	13
Section 2.8. General Payment Procedures.....	13
ARTICLE III - Adjustments and Coverage Deficiencies.....	13
Section 3.1. Adjustments.....	13
Section 3.2. Coverage Deficiency.....	13
ARTICLE IV - Conditions Precedent to Lending.....	14
Section 4.1. Documents to be Delivered.....	14
Section 4.2. Additional Conditions Precedent.....	14
ARTICLE V - Representations and Warranties.....	15
Section 5.1. No Default.....	15
Section 5.2. Organization and Good Standing.....	15
Section 5.3. Authorization.....	15
Section 5.4. No Conflicts or Consents.....	15
Section 5.5. Enforceable Obligations.....	15
Section 5.6. Initial Financial Statements.....	16
Section 5.7. Other Obligations and Restrictions.....	16
Section 5.8. Full Disclosure.....	16
Section 5.9. Litigation.....	16

Section 5.10.	Names and Places of Business.....	16
Section 5.11.	Borrower's Subsidiaries.....	17
Section 5.12.	Title to Properties; Licenses.....	17
Section 5.13.	Government Regulation.....	17
Section 5.14.	Solvency.....	17

</TABLE>

i

<TABLE>

<S>		<C>
Section 5.15.	Year 2000 Compliance.....	17
Section 5.16.	ERISA Plans and Liabilities.....	18
Section 5.17.	Environmental Matters; Environmental Reviews.....	18
ARTICLE VI - Affirmative Covenants of Borrower.....		19
Section 6.1.	Payment and Performance.....	19
Section 6.2.	Books, Financial Statements and Reports.....	19
Section 6.3.	Other Information and Inspections.....	20
Section 6.4.	Notice of Material Events and Change of Address.....	20
Section 6.5.	Maintenance of Properties.....	21
Section 6.6.	Maintenance of Existence and Qualifications.....	21
Section 6.7.	Payment of Trade Liabilities, Taxes, etc.....	21
Section 6.8.	Insurance.....	21
Section 6.9.	Performance on Other Person's Behalf.....	21
Section 6.10.	Interest.....	22
Section 6.11.	Compliance with Agreements and Law.....	22
Section 6.12.	Evidence of Compliance.....	22
Section 6.13.	Guaranties of Borrower's Subsidiaries.....	22
Section 6.14.	Year 2000 Compliance.....	22
Section 6.15.	Perfection and Protection of Security Interests and Liens.....	22
Section 6.16.	Board Visitation Rights.....	22
ARTICLE VII - Negative Covenants of Borrower.....		23
Section 7.1.	Indebtedness.....	23
Section 7.2.	Limitation on Liens.....	23
Section 7.3.	Hedging Contracts.....	24
Section 7.4.	Limitation on Mergers, Issuances of Securities.....	24
Section 7.5.	Limitation on Sales of Property.....	24
Section 7.6.	Limitation on Distributions and Redemptions.....	24
Section 7.7.	Limitation on Investments and New Businesses.....	25
Section 7.8.	Limitation on Credit Extensions.....	25
Section 7.9.	Transactions with Affiliates.....	25
Section 7.10.	Certain Contracts; ERISA.....	25
Section 7.11.	Working Capital and Current Ratio.....	25
Section 7.12.	Fixed Charges.....	25
ARTICLE VIII - Events of Default and Remedies.....		26
Section 8.1.	Events of Default.....	26
Section 8.2.	Remedies.....	28
ARTICLE IX - Miscellaneous.....		28
Section 9.1.	Waivers and Amendments; Acknowledgments.....	28
Section 9.2.	Survival of Agreements; Cumulative Nature.....	29
Section 9.3.	Notices.....	30
Section 9.4.	Payment of Expenses; Indemnity.....	30

</TABLE>

ii

<TABLE>

<S>		<C>
Section 9.5.	Parties in Interest.....	31
Section 9.6.	Assignments and Participations.....	31
Section 9.7.	Governing Law; Submission to Process.....	31
Section 9.8.	Limitation on Interest.....	32
Section 9.9.	Termination; Limited Survival.....	33
Section 9.10.	Severability.....	33
Section 9.11.	Counterparts; Fax.....	33
Section 9.12.	Waiver of Punitive Damages, etc.....	33

</TABLE>

iii

Schedules and Exhibits

Schedule 1	-	Disclosure Schedule
Schedule 2	-	Insurance Schedule
Schedule 3	-	Document Schedule
Schedule 4	-	Method to Calculate 25% IRR
Schedule 5	-	Oil and Gas Interests Subject to Sale

Schedule 6	-	Certain Properties
Exhibit A	-	Note
Exhibit B	-	Certificate Accompanying Financial Statements
Exhibit C	-	Opinion of Counsel to Restricted Persons
Exhibit D	-	NPI Conveyance

CREDIT AGREEMENT

THIS CREDIT AGREEMENT is made as of September 1, 1999, by and among Cheniere Energy, Inc., a Delaware corporation ("Borrower"), and EnCap Energy Capital Fund III ("Lender"). In consideration of the mutual covenants and agreements contained herein the parties hereto agree as follows:

ARTICLE I - Definitions and References

Section 1.1. Defined Terms. As used in this Agreement, each of the following terms has the meaning given to such term in this Section 1.1 or in the sections and subsections referred to below:

"25% IRR" has the meaning given such term in Schedule 4 hereto. Schedule 4 hereto also defines when a 25% IRR has been "achieved."

"Affiliate" means, with respect to any Person: (a) any other Person directly or indirectly owning, controlling or holding with power to vote 25% or more of the outstanding voting securities of such Person, (b) any other Person 25% or more of whose outstanding voting securities are directly or indirectly owned, controlled or held with power to vote by such Person, and (c) any other Person directly or indirectly controlling, controlled by or under common control with such Person.

"Agreement" means this Credit Agreement.

"Base Rate" means the rate of twelve percent (12.00%) per annum. The Base Rate shall in no event, however, exceed the Highest Lawful Rate.

"Business Day" means a day, other than a Saturday or Sunday, on which commercial banks are open for commercial business with the public in Houston, Texas.

"Cash Equivalents" means investments in:

(a) marketable obligations, maturing within 12 months after acquisition thereof, issued or unconditionally guaranteed by the United States of America or an instrumentality or agency thereof and entitled to the full faith and credit of the United States of America;

(b) demand deposits, and time deposits (including certificates of deposit) maturing within 12 months from the date of deposit thereof, with a domestic office of any national or state bank or trust company which is organized under the Laws of the United States of America or any state therein, which has capital, surplus and undivided profits of at least \$500,000,000, and whose long term certificates of deposit have an investment grade rating;

(c) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clause (a) above entered into with any commercial bank meeting the specifications of clause (b) above;

(d) open market commercial paper, maturing within 270 days after acquisition thereof, which has an investment grade rating; and

(e) investments in money market or other mutual funds substantially all of whose assets comprise securities of the types described in clauses (a) through (d) above.

"Change of Control" means (a) the acquisition by any Person or group of Persons acting together, of a direct interest in more than forty percent (40%) of the voting power of the voting stock of Borrower, by way of merger or consolidation or otherwise (other than the September 1999 Issuance); or (b) either (i) Charif Souki ceases to be and act as the Chairman of the Board of Directors of Borrower or (ii) Michael Harvey ceases to be and act as the President and Chief Executive Officer of Borrower.

"Cheniere California" means Cheniere Energy California, Inc., a Delaware corporation.

"Cheniere Operating" means Cheniere Energy Operating Co., Inc., a Delaware corporation.

"Collateral" means all property of any kind which is subject to a Lien in favor of Lender or which, under the terms of any Security Document, is purported to be subject to such a Lien.

"Consolidated" refers to the consolidation of any Person, in accordance with GAAP, with its properly consolidated subsidiaries. References herein to a Person's Consolidated financial statements, financial position, financial condition, liabilities, etc. refer to the consolidated financial statements, financial position, financial condition, liabilities, etc. of such Person and its properly consolidated subsidiaries.

"Consolidated EBITDA" means, for any period, Consolidated Net Income for such period plus, to the extent deducted from revenues in determining Consolidated Net Income for such period, (i) Consolidated Interest Expense, (ii) expense for income taxes paid or accrued, and (iii) depreciation, depletion, amortization, and other non-cash charges, in each case calculated for Borrower and its Consolidated Subsidiaries without duplication.

"Consolidated Interest Expense" means, for any period, all interest paid or accrued during such period on Indebtedness (including the interest component of any deferred payment obligations and capital lease obligations) which was deducted in determining Consolidated Net Income during such period.

"Consolidated Net Income" means, for any period, Borrower's and its Consolidated Subsidiaries' gross revenues for such period, including any cash dividends or distributions actually received from any other Person during such period, minus Borrower's and its

2

Consolidated Subsidiaries' expenses and other proper charges against income (including taxes on income, to the extent imposed), determined on a Consolidated basis after eliminating earnings or losses attributable to outstanding minority interests and excluding the net earnings of any Person other than a Subsidiary of Borrower in which Borrower or any of its Subsidiaries has an ownership interest.

"Coverage Deficiency" means the existence of a Coverage Ratio less than 150%.

"Coverage Ratio" means, as of any time, the ratio obtained by dividing one hundred percent (100%) of the NPV at such time by the sum of all Obligations at such time, including past-due payments owed under the NPI Conveyance but excluding accrued interest not yet due and payable.

"Dedicated Leases" means the Redfish Prospect and the Stingray Prospect, provided, that (a) the Shark Prospect shall also be part of the Dedicated Leases (and not part of the Other Properties) from and after June 1, 2000, and (b) Borrower may at any time hereafter designate in writing additional leases that are Collateral as "Dedicated Leases", in which event the leases so designated shall thereafter be "Dedicated Leases" for all purposes hereunder.

"Dedication Percentage" means seventy-five percent (75%); provided that while any Coverage Deficiency or Event of Default exists the Dedication Percentage shall be one hundred percent (100%).

"Deductible Taxes" means any severance, ad valorem, or other direct taxes on any oil and gas properties owned by Borrower (or by NPI Assignee pursuant to the NPI Conveyance) or production therefrom or the proceeds of such production; provided that federal, state, or local income or franchise taxes shall not be considered to be Deductible Taxes.

"Default" means any Event of Default and any default, event or condition which would, with the giving of any requisite notices and the passage of any requisite periods of time, constitute an Event of Default.

"Default Rate" means the rate of fifteen percent (15.00%) per annum. The Default Rate shall in no event, however, exceed the Highest Lawful Rate.

"Disclosure Report" means either a notice given by Borrower under Section 6.4 or a certificate given by Borrower's chief financial officer under Section 6.2(b).

"Disclosure Schedule" means Schedule 1 hereto.

"Distribution" means (a) any dividend or other distribution made by Borrower or any of its Subsidiaries on or in respect of any of its stock or other equity interests (including any option or warrant to buy such an equity interest), or (b) any payment made by Borrower or any of its Subsidiaries to purchase, redeem, acquire or retire any such stock or other equity interests (including any such option or warrant).

3

"Document Schedule" means Schedule 3 hereto.

"EnCap Pricing" means those prices (a) for anticipated sales of Hydrocarbons that are hedged by a Hedging Contract with an investment grade

counter party, which Hedging Contract has been approved by Lender, equal to the fixed price or prices provided for in such Hedging Contract during the term thereof, and thereafter the prices provided for in clause (b) below; and (b) for anticipated sales of Hydrocarbons, if such sales are not hedged by a Hedging Contract that has been approved by Lender, the prices determined by Lender in its sole discretion to be appropriate for evaluating the NPV of the Property from which such Hydrocarbons are expected to be provided.

"Engineering Report" means any engineering report covering Collateral which Borrower delivers to Lender.

"Environmental Laws" means any and all Laws relating to the environment or to emissions, discharges, releases or threatened releases of pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or wastes into the environment including ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution use, treatment, storage, disposal, transport, or handling of pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or wastes.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, together with all rules and regulations promulgated with respect thereto.

"ERISA Affiliate" means Borrower and all members of a controlled group of business organizations and all trades or businesses (whether or not incorporated) under common control that, together with Borrower, are treated as a single employer under Section 414 of the Internal Revenue Code of 1986, as amended.

"ERISA Plan" means any employee pension benefit plan subject to Title IV of ERISA maintained by any ERISA Affiliate with respect to which any Restricted Person has a fixed or contingent liability.

"Event of Default" has the meaning given to such term in Section 8.1.

"Fairfield Agreement" means that certain Master License Agreement dated the 9th of June, 1999, between Fairfield Industries Incorporated, a Delaware corporation, and Borrower.

"Fiscal Quarter" means a three-month period ending on March 31, June 30, September 30 or December 31 of any year.

"Fiscal Year" means a twelve-month period ending on December 31 of any year.

"GAAP" means those generally accepted accounting principles and practices which are recognized as such by the Financial Accounting Standards Board (or any generally recognized

4

successor) and which, in the case of Borrower and its Consolidated Subsidiaries, are applied for all periods after the date hereof in a manner consistent with the manner in which such principles and practices were applied to the audited Initial Financial Statements. If any change in any accounting principle or practice is required by the Financial Accounting Standards Board (or any such successor) in order for such principle or practice to continue as a generally accepted accounting principle or practice, all reports and financial statements required hereunder with respect to Borrower or with respect to Borrower and its Consolidated Subsidiaries may be prepared in accordance with such change.

"Guarantor" means Cheniere Operating and any other Person who has guaranteed some or all of the Obligations and who has been accepted by Lender as a Guarantor.

"Hazardous Materials" means any substances regulated under any Environmental Law, whether as pollutants, contaminants, or chemicals, or as industrial, toxic or hazardous substances or wastes, or otherwise.

"Hedging Contract" means (a) any agreement providing for options, swaps, floors, caps, collars, forward sales or forward purchases involving interest rates, commodities or commodity prices, equities, currencies, bonds, or indexes based on any of the foregoing, (b) any option, futures or forward contract traded on an exchange, and (c) any other derivative agreement or other similar agreement or arrangement.

"Highest Lawful Rate" means, on any date, the maximum nonusurious rate of interest that Lender is permitted under applicable Law to contract for, take, charge, collect, reserve, or receive with respect to the Loan and the other Obligations.

"Hydrocarbons" means crude oil, natural gas, and other liquid and gaseous hydrocarbons.

"Indebtedness" of any Person means Liabilities in any of the following

categories: (a) Liabilities for borrowed money; (b) Liabilities constituting an obligation to pay the deferred purchase price of property or services; (c) Liabilities evidenced by a bond, debenture, note or similar instrument; (d) Liabilities which (i) would under GAAP be shown on such Person's balance sheet as a liability, and (ii) are payable more than one year from the date of creation thereof (other than reserves for taxes and reserves for contingent obligations); (e) Liabilities arising under Hedging Contracts; (f) Liabilities constituting principal under leases capitalized in accordance with GAAP; (g) Liabilities arising under conditional sales or other title retention agreements; (h) Liabilities owing under direct or indirect guaranties of Indebtedness of any other Person or otherwise constituting obligations to purchase or acquire or to otherwise protect or insure a creditor against loss in respect of Indebtedness of any other Person (such as obligations under working capital maintenance agreements, agreements to keep-well, or agreements to purchase Indebtedness, assets, goods, securities or services), but excluding endorsements in the ordinary course of business of negotiable instruments in the course of collection; (i) Liabilities (for example, repurchase agreements and sale/leaseback agreements) consisting of an obligation to purchase or lease securities or other property, if such Liabilities arises out of or in connection with the sale of the same or similar securities or property; (j) Liabilities with respect to letters of

5

credit or applications or reimbursement agreements therefor; (k) Liabilities with respect to payments received in consideration of oil, gas, or other minerals yet to be acquired or produced at the time of payment (including obligations under "take-or-pay" contracts to deliver gas in return for payments already received and the undischarged balance of any production payment created by such Person or for the creation of which such Person directly or indirectly received payment); or (l) Liabilities with respect to other obligations to deliver goods or services in consideration of advance payments therefor; provided, however, that the "Indebtedness" of any Person shall not include Liabilities that were incurred by such Person on ordinary trade terms to vendors, suppliers, or other Persons providing goods and services for use by such Person in the ordinary course of its business, unless and until such Liabilities are outstanding more than 90 days past the original invoice or billing date therefor.

"Initial Engineering Report" means the engineering report concerning oil and gas properties of Restricted Persons dated August 12, 1999 prepared by Ryder Scott & Company as of September 1, 1999.

"Initial Financial Statements" means the audited annual financial statements of Borrower dated as of December 31, 1998 and the unaudited quarterly financial statements of Borrower dated as of June 30, 1999.

"Insurance Schedule" means Schedule 2 attached hereto.

"Interest Coverage Ratio" means, at any time, the ratio of (a) Consolidated EBITDA for the Fiscal Quarter ending on, or most recently ended prior to, such time, to (b) Consolidated Interest Expense for such Fiscal Quarter.

"Investment" means any investment made, directly or indirectly, in any Person, whether by acquisition of shares of capital stock, indebtedness or other obligations or securities or by loan, advance, capital contribution, delivery of property, or otherwise.

"Law" means any constitution, statute, ordinance, regulation, rule, ruling, order, restriction, writ, judgement, decree, injunction, or other requirement or official act of or by any governmental authority of any kind.

"Liabilities" means, as to any Person, all indebtedness, liabilities and obligations of such Person, whether matured or unmatured, liquidated or unliquidated, primary or secondary, direct or indirect, absolute, fixed or contingent, and whether or not required to be considered pursuant to GAAP.

"Lien" means, with respect to any property or assets, any lien, mortgage, security interest, pledge, deposit, production payment, rights of a vendor under any title retention or conditional sale agreement or lease substantially equivalent thereto, tax lien, mechanic's or materialman's lien, or any other charge or encumbrance for security purposes, whether arising by Law or agreement or otherwise, but excluding any right of offset which arises without agreement in the ordinary course of business.

6

"Loan" has the meaning given to such term in Section 2.1.

"Loan Documents" means this Agreement, the Note, the Security Documents, the NPI Conveyance, other requested documents and all other agreements, certificates, documents, instruments and writings at any time delivered in connection herewith or therewith (exclusive of term sheets and commitment letters).

"Material Adverse Change" means a material and adverse change, from the state of affairs presented in the Initial Financial Statements or as represented or warranted in any Loan Document, to (a) Borrower's Consolidated financial condition, (b) Borrower's Consolidated operations, properties, prospects, or reserves considered as a whole, (c) Borrower's ability to timely pay the Obligations, or (d) the enforceability of the material terms of any Loan Documents.

"Maturity Date" means August 31, 2001, or if earlier, the day on which the Note first becomes due and payable in full.

"Monthly Payment Date" means the last Business Day of each month.

"Monthly Principal Payment" has the meaning given such term in Section 2.5.

"NPI" means the overriding royalty interest and other rights and interests granted pursuant to the NPI Conveyance.

"NPI Assignee" means EnCap Energy Capital Fund III, L.P.

"NPI Conveyance" has the meaning given such term in Section 2.7.

"NPV" means, with respect to any Proved Developed Reserves attributable to the Properties owned by Borrower that are subject to valid and enforceable Liens under Security Documents (subject only to Permitted Liens), the net present value, discounted at 10% per annum and risk weighted by Lender in its sole and absolute discretion, of the future net revenues expected to accrue to Borrower's interests in such reserves (excluding the revenues expected to accrue to NPI Assignee under the NPI Conveyance) during the remaining expected economic lives of such reserves. Each calculation of such expected future net revenues shall be made in accordance with the then existing standards of the Society of Petroleum Engineers, provided that in any event (i) appropriate deductions shall be made for Deductible Taxes, operating, gathering, transportation and marketing costs, for capital expenditures required for the development, production, and sale of such reserves, and for the abandonment of non-producing wells and (ii) the pricing assumptions and escalations (if any) used in determining NPV for any particular reserves shall be the EnCap Pricing. NPV shall be calculated hereunder in connection with each Engineering Report, either by Borrower, Lender or the engineering firm who prepares such Engineering Report; in the event of any conflict, Lender's calculation shall be conclusive and final.

7

"Net Revenue" means, with respect to any Property, the remainder of:

(i) the sum of all revenues and receipts of Borrower from such Property (excluding only funds belonging to third parties, such as payments on the NPI belonging to NPI Assignee, which are received by Borrower for transfer to such third parties, but including funds received by Borrower for its own account under the terms of any applicable operating agreement for such Property) accounted for under GAAP during any calendar month beginning with the calendar month which starts September 1, 1999, minus

(ii) the sum of all payments actually made in cash during such month, other than pre-payments not made in the ordinary course of business, for the following:

(a) Deductible Taxes on such Property; and

(b) Net Revenue LOE for such Property.

"Net Revenue LOE" means leasehold operating expenses and other field level or lease level charges for operations on any Property, other than capital expenditures.

"Note" has the meaning given to such term in Section 2.1.

"Obligations" means all Liabilities from time to time owing by Borrower or any other Restricted Person to Lender under or pursuant to any of the Loan Documents. "Obligation" means any part of the Obligations.

"Other Properties" means, collectively, those undivided interests in oil and gas properties and interests other than the Dedicated Leases which are, at the time in question, owned by Borrower.

"Permitted Lien" has the meaning given to such term in Section 7.2.

"Person" means an individual, corporation, partnership, limited liability company, association, joint stock company, trust or trustee thereof, estate or executor thereof, unincorporated organization or joint venture, Tribunal, or any other legally recognizable entity.

"Platform Leases Costs and Expenses" means the expenses and costs related to the acquisition and installation of a production platform and gathering system for the Redfish Prospect, the Shark Prospect, and the Stingray Prospect.

"Production Threshold" means \$400,000 for any period of three consecutive calendar months, with the first month of the first such period beginning on November 1, 1999, provided that if Borrower ever elects to designate additional leases as "Dedicated Leases" pursuant to clause (b) of the definition of such term, the Production Threshold shall increase from \$400,000

8

to \$500,000 for each such three month period including, or occurring after, the date on which Borrower makes such designation.

"Property" means either:

(a) those undivided interests in the Dedicated Leases which are owned by Borrower, or

(b) collectively, all undivided interests in Other Properties which are owned by Borrower.

"Proved Developed Producing Reserves" means oil and gas reserves that are "Proved Reserves", "Developed Reserves", and "Producing Reserves" as defined in the Definitions for Oil and Gas Reserves promulgated by the Society of Petroleum Engineers (or any generally recognized successor) as in effect at the time in question.

"Proved Developed Reserves" means oil and gas reserves that are both "Proved Reserves" and "Developed Reserves" as defined in the Definitions for Oil and Gas Reserves promulgated by the Society of Petroleum Engineers (or any generally recognized successor) as in effect at the time in question.

"Proved Reserves" means oil and gas reserves that are "Proved Reserves" as defined in the Definitions for Oil and Gas Reserves promulgated by the Society of Petroleum Engineers (or any generally recognized successor) as in effect at the time in question.

"Quarterly Payment Amount" has the meaning given such term in Section 2.6.

"Quarterly Payment Date" means the last Business Day of each January, April, July, and October, beginning on January 31, 2000.

"Recalculation Date" means 7:00 a.m., Louisiana time, on the first day of the first calendar month following the 180th day after which a 25% IRR (as provided in Schedule 4 hereto) has been achieved.

"Redfish Prospect" means the properties and interests described as the "Redfish Prospect" on Exhibit "A" attached to the NPI Conveyance which is Exhibit D to this Agreement.

"Restricted Person" means Borrower, and each Subsidiary of Borrower and each Guarantor.

"Security Documents" means the guaranties, mortgages, deeds of trust, security agreements and financing statements listed in the Document Schedule and all other security agreements, deeds of trust, mortgages, chattel mortgages, pledges, guaranties, financing statements, continuation statements, extension agreements, and other agreements or instruments now, heretofore, or hereafter delivered by Borrower or any other Restricted Person to Lender in

9

connection with this Agreement or any transaction contemplated hereby to secure or guarantee the payment of any part of the Obligations or the performance of Borrower's or any other Restricted Person's other duties and obligations under the Loan Documents.

"September 1999 Issuance" means the issuance to private investors of common stock of Borrower on or before September 30, 1999 for a minimum sales price (net of costs of sale) received by Borrower of \$2,000,000.

"Shark Prospect" means the properties and interests described as the "Shark Prospect" on Exhibit "A" attached to the NPI Conveyance which is Exhibit D to this Agreement.

"Stingray Costs and Expenses" means Restricted Persons' expenses and costs related to the drilling and recompletion of State Lease 16017 Well No. 1, including the recoupment of costs heretofore incurred by Restricted Persons.

"Stingray Prospect" means the properties and interests described as the "Stingray Prospect" on Exhibit "A" attached to the NPI Conveyance which is Exhibit D to this Agreement.

"Subordinated Creditors" means, collectively, BSR Investments, Ltd., MM & B Holdings, LLC, Joe Sam Robinson, Jr., M.D., Ralph O. Hellmold, Hugh F. Smisson III, M.D., John S. Neel, Jr., Richard N. Borenstein, Albin Salton, Gail Daily

Forster, Robert I. Israel, Joseph F. Culman III, Douglas W. Kessler, P.C., and Michael J. Wagstaff.

"Subordinated Debt" means all Indebtedness outstanding under promissory notes (other than the Note) issued by Borrower and outstanding on the date hereof, including certain promissory notes issued by Borrower to the Subordinated Creditors in December 1997 in the aggregate original amount of \$4,000,000.

"Subsidiary" means, with respect to any Person, any corporation, association, limited liability company, partnership, joint venture, or other business or corporate entity, enterprise or organization which is directly or indirectly (through one or more intermediaries) controlled by or owned fifty percent or more by such Person, provided that associations, joint ventures or other relationships (a) which are established pursuant to a standard form operating agreement or similar agreement or which are partnerships for purposes of federal income taxation only, (b) which are not corporations or partnerships (or subject to the Uniform Partnership Act) under applicable state Law, and (c) whose businesses are limited to the exploration, development and operation of oil, gas or mineral properties and interests owned directly by the parties in such associations, joint ventures or relationships, shall not be deemed to be "Subsidiaries" of such Person.

"Termination Event" means (a) the occurrence with respect to any ERISA Plan of (i) a reportable event described in Sections 4043(b)(5) or (6) of ERISA or (ii) any other reportable event described in Section 4043(b) of ERISA other than a reportable event not subject to the provision for 30-day notice to the Pension Benefit Guaranty Corporation pursuant to a waiver by such corporation under Section 4043(a) of ERISA, or (b) the withdrawal of any ERISA Affiliate

10

from an ERISA Plan during a plan year in which it was a "substantial employer" as defined in Section 4001(a)(2) of ERISA, or (c) the filing of a notice of intent to terminate any ERISA Plan or the treatment of any ERISA Plan amendment as a termination under Section 4041 of ERISA, or (d) the institution of proceedings to terminate any ERISA Plan by the Pension Benefit Guaranty Corporation under Section 4042 of ERISA, or (d) any other event or condition which might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any ERISA Plan.

"Tribunal" means any government, any arbitration panel, any court or any governmental department, commission, board, bureau, agency or instrumentality of the United States of America or any state, province, commonwealth, nation, territory, possession, county, parish, town, township, village or municipality, whether now or hereafter constituted and/or existing.

Section 1.2. Exhibits and Schedules; Additional Definitions . All Exhibits and Schedules attached to this Agreement are a part hereof for all purposes. Reference is hereby made to the Document Schedule for the meaning of certain terms defined therein and used but not defined herein, which definitions are incorporated herein by reference.

Section 1.3. Amendment of Defined Instruments. Unless the context otherwise requires or unless otherwise provided herein the terms defined in this Agreement which refer to a particular agreement, instrument or document also refer to and include all renewals, extensions, modifications, amendments and restatements of such agreement, instrument or document, provided that nothing contained in this section shall be construed to authorize any such renewal, extension, modification, amendment or restatement.

Section 1.4. References and Titles. All references in this Agreement to Exhibits, Schedules, articles, sections, subsections and other subdivisions refer to the Exhibits, Schedules, articles, sections, subsections and other subdivisions of this Agreement unless expressly provided otherwise. Titles appearing at the beginning of any subdivisions are for convenience only and do not constitute any part of such subdivisions and shall be disregarded in construing the language contained in such subdivisions. The words "this Agreement", "this instrument", "herein", "hereof", "hereby", "hereunder" and words of similar import refer to this Agreement as a whole and not to any particular subdivision unless expressly so limited. The phrases "this section" and "this subsection" and similar phrases refer only to the sections or subsections hereof in which such phrases occur. The word "or" is not exclusive, and the word "including" (in its various forms) means "including without limitation". Pronouns in masculine, feminine and neuter genders shall be construed to include any other gender, and words in the singular form shall be construed to include the plural and vice versa, unless the context otherwise requires.

Section 1.5. Calculations and Determinations. All calculations under the Loan Documents of interest shall be made on the basis of actual days elapsed (including the first day but excluding the last) and a year of 360 days. Unless otherwise expressly provided herein or unless Lender otherwise consents, all financial statements and reports furnished to Lender hereunder shall be prepared and all financial computations and determinations pursuant hereto shall be made

ARTICLE II - Loan

Section 2.1. Loan. Subject to the terms and conditions hereof, Lender agrees to make a single advance to Borrower (herein called the "Loan") on the date hereof in the amount of \$3,100,000. The obligation of Borrower to repay to Lender the Loan, together with interest accruing in connection therewith, shall be evidenced by a single promissory note (herein called the "Note") made by Borrower payable to the order of Lender in the form of Exhibit A with appropriate insertions. The amount of principal owing on the Note at any given time shall be the aggregate amount of the Loan minus all payments of principal theretofore received by Lender on the Note. Interest on the Note shall accrue and be due and payable as provided herein and therein. The Note shall be due and payable as provided herein and therein, and shall be due and payable in full on the Maturity Date.

Section 2.2. Use of Proceeds. Borrower shall use all funds from the Loan to pay (i) the Platform Costs and Expenses, (ii) the Stingray Costs and Expenses, and (iii) Borrower's costs in closing the transactions contemplated hereby. In no event shall the funds from the Loan be used directly or indirectly by any Person for personal, family, household or agricultural purposes or for the purpose, whether immediate, incidental or ultimate, of purchasing, acquiring or carrying any "margin stock" or any "margin securities" (as such terms are defined in Regulation U promulgated by the Board of Governors of the Federal Reserve System) or to extend credit to others directly or indirectly for the purpose of purchasing or carrying any such margin stock or margin securities. Borrower represents and warrants that Borrower is not engaged principally, or as one of Borrower's important activities, in the business of extending credit to others for the purpose of purchasing or carrying such margin stock or margin securities.

Section 2.3. Fees. In consideration of Lender's commitment to make the Loan, Borrower will pay to Lender a fee in the aggregate amount of \$62,000, due and payable on the date hereof.

Section 2.4. Optional Prepayments. Borrower may, from time to time and without premium or penalty, prepay the Note, in whole or in part, so long as the aggregate amounts of all partial prepayments of principal on the Note equal \$50,000 or any higher integral multiple of \$50,000. Each prepayment of principal under this section shall be accompanied by all interest then accrued and unpaid on the principal so prepaid and shall be applied to the scheduled payments of principal due under the Note in the inverse order of maturity; provided, however, that no such prepayment shall reduce the amount of any Monthly Principal Payment due under Section 2.5. Any principal or interest prepaid pursuant to this section shall be in addition to, and not in lieu of, all payments otherwise required to be paid under the Loan Documents at the time of such prepayment.

Section 2.5. Minimum Monthly Principal Payments. Subject to adjustment as provided in Section 2.6, on each Monthly Payment Date, beginning on November 30, 1999 and continuing until the Loan is paid in full, Borrower will make a fixed mandatory payment on the Loan, in addition to payment of the interest then due and any payments required under the NPI

Conveyance, in an amount equal to the remainder of (a) the Dedication Percentage of the Net Revenue from the Dedicated Leases for the calendar month preceding the month in which such Monthly Payment Date occurs minus (b) all interest due on the Loan on such Monthly Payment Date (each such principal payment is herein referred to as a "Monthly Principal Payment").

Section 2.6. Additional Quarterly Payments. If, on any Quarterly Payment Date, the sum of (i) the Monthly Principal Payment made on such date plus (ii) the amount of the two (2) previous Monthly Principal Payments most recently made as of such date (such sum is herein referred to as the "Quarterly Payment Amount") is less than \$387,500, then:

- (a) Borrower shall make a principal payment on the Loan, in addition to the Monthly Principal Payment made on such date, in an amount equal to \$387,500 minus the Quarterly Payment Amount; and
- (b) thereafter (until such time as seventy-five percent (75%) of the Net Revenue from the Dedicated Leases for a current Fiscal Quarter equals or exceeds \$387,500 and no Event of Default otherwise exists), the Monthly Principal Payment to be made with respect to each calendar month pursuant to Section 2.5 shall be equal to the greater of (i) \$129,167 and (ii) the sum of (A) one hundred percent (100%) of the Net Revenue from the Dedicated Leases for such calendar month plus (B) seventy-five percent (75%) of the Net Revenue from the Other Properties for such calendar month.

Section 2.7. NPI Conveyance. As consideration for Lender's commitment to make the Loan hereunder, Borrower is executing and delivering to NPI Assignee the Net Profit Interest Conveyance attached hereto as Exhibit D (the "NPI Conveyance").

Section 2.8. General Payment Procedures. Borrower will make each payment which it owes under the Loan Documents not later than 11:00 a.m., Houston, Texas time, on the date such payment becomes due and payable, in lawful money of the United States of America, without set-off, deduction or counterclaim, and in immediately available funds. Any payment received by Lender after such time will be deemed to have been made on the next following Business Day. Should any such payment become due and payable on a day other than a Business Day, the maturity of such payment shall be extended to the next succeeding Business Day, and, in the case of a payment of principal or past due interest, interest shall accrue and be payable thereon for the period of such extension as provided in the Loan Document under which such payment is due. Each payment under a Loan Document shall be due and payable at the place provided therein and, if no specific place of payment is provided, shall be due and payable at the place of payment of the Note. Amounts collected or received by Lender shall be applied as follows:

(a) first, for the payment of all Obligations which are then due (and if such money is insufficient to pay all such Obligations, first to any reimbursements due Lender under Section 6.8 or 9.4 and then to the partial payment of all other Obligations then due in proportion to the amounts thereof, or as Lender shall otherwise determine);

13

(b) then, for the prepayment of any amounts owing under the Loan Documents specified by Borrower, together with accrued and unpaid interest on any principal so prepaid; and

(c) last, for the payment or prepayment of any other Obligations.

ARTICLE III -

Adjustments, Purchase Right, Coverage Deficiencies, Right of First Refusal, and Registration Rights

Section 3.1. Adjustments and Purchase Right.

(a) Effective as of the Recalculation Date, the percentage interest owned by NPI Assignee in the "Net Profits" (as defined in the NPI Conveyance) shall be reduced from five percent (5%) to two and one-half percent (2.5%). If the Recalculation Date ever occurs, the NPI Assignee will execute, within thirty (30) days after Borrower and NPI Assignee mutually determine that the Recalculation Date has been reached, an instrument in recordable form that properly evidences that, effective as of the Recalculation Date, the NPI has been so reduced.

(b) At any time on or before the earlier of (i) September 1, 2002 or (ii) the Recalculation Date, Lender may at its option purchase from Borrower 200,000 shares of common stock of Borrower (the "Option Shares") by surrendering the NPI to Borrower as payment for such common stock, such surrender to be effective as of the date, if any, upon which Lender exercises such option.

(c) Borrower and Lender agree that the delivery of (i) the Option Shares to Lender from Borrower and (ii) the instrument evidencing the reconveyance of the NPI to Borrower from Lender shall take place concurrently within thirty days after Lender exercises the purchase option described in the immediately preceding subsection (b).

Section 3.2. Coverage Deficiency. If any Coverage Deficiency ever exists, then Borrower must within 30 days after obtaining knowledge thereof cure such Coverage Deficiency, either by furnishing and mortgaging additional engineered producing oil and gas properties satisfactory to Lender in order to increase the NPV or by making payments in order to reduce the Obligations.

Section 3.3. Right of First Refusal. Borrower will offer to sell to El Paso Energy Marketing Company ("EPEM") all natural gas produced from the four-pile production platform to be installed on the Redfish Prospect by Restricted Persons prior to contracting with any third party for the sale of such gas, provided that Borrower may allow other operators of the Dedicated Leases to sell Restricted Persons' share of production produced during September and October of 1999. As soon as a reasonable assessment can be made as to the volume of natural gas which will be available for market by Restricted Persons (and prior to any sale to a potential third party purchaser), Borrower shall provide to EPEM in writing (i) all information regarding such volumes requested by EPEM including expected daily sales volumes, mainline pipeline delivery

14

or receipt points, and initial delivery dates and (ii) at Borrower's option, the terms of a bona fide offer to purchase such natural gas made by any third party

purchaser. Upon receipt of the foregoing information, EPEM shall have five (5) Business Days to provide Borrower with a written offer to purchase Restricted Persons' natural gas with price, volumes, and duration terms the same or better as the terms of such bona fide offer. If EPEM does not provide Borrower with such written offer to purchase before the end of such five (5) Business Day period, Borrower shall have no further obligation to EPEM. If EPEM does provide Borrower with such a written offer, the Restricted Persons will accept such offer from EPEM and will not thereafter sell such natural gas to such third party.

Section 3.4. Registration Rights. Borrower and Lender agree that if, at any time after the date hereof Borrower proposes to file a registration statement (a "Registration Statement") under the Securities Act of 1933, as amended (the "Securities Act") with the Securities and Exchange Commission with respect to any offering of Borrower's common stock, it will give notice in writing to such effect to Lender at least sixty (60) days prior to such filing, and, at the written request of Lender made within thirty (30) days after the receipt of such notice, will include therein at Borrower's cost and expense the Option Shares (except for underwriting discounts, commissions, and filing fees attributable to the Option Shares); provided, however, that if the offering being registered by Borrower is underwritten and the underwriter determines that marketing factors require a limitation on the number of shares to be underwritten, the shares of any other holder having incidental registration rights, the Option Shares, and the shares of Borrower that may be included in the Registration Statement shall be allocated among Borrower, Lender, and the holders of such other shares having incidental registration rights in proportion, as nearly as practicable, to the respective amounts of the shares which Borrower, Lender, and such holders may request to be included in such registration at the time of filing the Registration Statement. Borrower, at its own expense, will cause the prospectus included in such Registration Statement to satisfy the requirements of the Securities Act (as then in effect or any similar statute then in effect) for a period of at least ninety (90) days after the effective date of such Registration Statement. The rights of Lender under this Section 3.4 shall apply to an unlimited number of offerings by Borrower. Borrower shall promptly notify Lender of the occurrence of any event as a result of which any prospectus included in a Registration Statement filed pursuant to this Section 3.4 includes any misstatement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing. Borrower's obligations under this Section 3.4 with respect to Lender are expressly conditioned upon Lender's furnishing to Borrower in writing such information concerning Lender as Borrower shall reasonably request for inclusion in the Registration Statement.

ARTICLE IV - Conditions Precedent to Lending

Section 4.1. Documents to be Delivered . Lender has no obligation to make the Loan unless Lender shall have received all of the following at Lender's office in Houston, Texas: (a) each Loan Document listed in the Document Schedule duly executed and delivered by each party thereto and in form, substance and date satisfactory to Lender, (b) a favorable opinion from

15

Mayor, Day, Caldwell, and Keeton, L.L.P., in the form attached hereto as Exhibit C, (c) a favorable opinion as to the Mortgage and the NPI Conveyance from Ottinger, Hebert, & Sikes, L.L.P., in form satisfactory to Lender in Lender's sole and absolute discretion, (d) the Initial Engineering Report, and (e) a certificate of Borrower as to the satisfaction of all conditions precedent to the making of the Loan contained herein. In addition, Borrower must then pay all fees and reimbursements (including fees and disbursement of Lender's attorneys) payable pursuant to any Loan Document.

Section 4.2. Additional Conditions Precedent. Lender has no obligation to make the Loan, unless the following conditions precedent have been satisfied:

(a) All representations and warranties made by each of Borrower and any other Restricted Person in any Loan Document shall be true on and as of the date of such Loan (except to the extent that the facts upon which such representations are based have been changed by the extension of credit hereunder) as if such representations and warranties had been made as of the date of such Loan.

(b) No Default shall exist at the date of such Loan.

(c) No Material Adverse Change shall have occurred, and no event or circumstance shall have occurred that could reasonably be expected to cause a Material Adverse Change, since June 30, 1999.

(d) Each of Borrower and any other Restricted Persons shall have performed and complied with all agreements and conditions required in the Loan Documents to be performed or complied with by it on or prior to the date of such Loan.

(e) The making of such Loan shall not be prohibited by any Law and shall

not subject Lender to any penalty or other onerous condition under or pursuant to any such Law.

(f) Lender shall have received all documents and instruments which Lender has then requested, in addition to those described in Section 4.1 (including corporate documents and records; documents evidencing governmental authorizations, consents, approvals, licenses and exemptions; and certificates of public officials and of officers and representatives of Borrower and other Persons), as to (i) the accuracy and validity of or compliance with all representations, warranties and covenants made by each of Borrower and any other Restricted Person in this Agreement and the other Loan Documents, (ii) the satisfaction of all conditions contained herein or therein, and (iii) all other matters pertaining hereto and thereto. All such additional documents and instruments shall be satisfactory to Lender in form, substance and date.

16

ARTICLE V - Representations and Warranties

To confirm Lender's understanding concerning Borrower and Borrower's businesses, properties and obligations, and to induce Lender to enter into this Agreement and to extend credit hereunder, Borrower represents and warrants to Lender that:

Section 5.1. No Default. No Restricted Person is in default in the performance of any of the covenants and agreements contained in any Loan Document. No event has occurred and is continuing which constitutes a Default.

Section 5.2. Organization and Good Standing. Each Restricted Person is duly organized, validly existing and in good standing under the Laws of its jurisdiction of organization, having all powers required to carry on its business and enter into and carry out the transactions contemplated hereby. Each Restricted Person is duly qualified, in good standing, and authorized to do business in all other jurisdictions wherein the character of the properties owned or held by it or the nature of the business transacted by it makes such qualification necessary.

Section 5.3. Authorization. Each Restricted Person has duly taken all action necessary to authorize the execution and delivery by it of the Loan Documents to which it is a party and to authorize the consummation of the transactions contemplated thereby and the performance of its obligations thereunder. Borrower is duly authorized to borrow funds hereunder.

Section 5.4. No Conflicts or Consents. The execution and delivery by each Restricted Person of the Loan Documents to which it is a party, the performance by each of its obligations under such Loan Documents, and the consummation of the transactions contemplated by the various Loan Documents, do not and will not (a) conflict with any provision of (i) any Law, (ii) the organizational documents of such Person, or (iii) any agreement, judgment, license, order or permit applicable to or binding upon such Person, (b) result in the acceleration of any Indebtedness owed by such Person, or (c) result in or require the creation of any Lien upon any assets or properties of such Person except as expressly contemplated in the Loan Documents. Except as expressly contemplated in the Loan Documents (other than the governmental consents routinely obtained in the ordinary course of business and the consents that have been obtained by Borrower that are described on the Disclosure Schedule) no consent, approval, authorization or order of, and no notice to or filing with, any Tribunal or third party is required in connection with the execution, delivery or performance by each Restricted Person of any Loan Document or to consummate any transactions contemplated by the Loan Documents.

Section 5.5. Enforceable Obligations. The Loan Documents when duly executed and delivered will be, legal, valid and binding obligations of each Restricted Person, to the extent that each is a party thereto, enforceable in accordance with their terms except as such enforcement may be limited by bankruptcy, insolvency or similar Laws of general application relating to the enforcement of creditors' rights.

Section 5.6. Initial Financial Statements. Borrower has heretofore delivered to Lender true, correct and complete copies of the Initial Financial Statements. The Initial Financial Statements fairly present Borrower's Consolidated financial position at the respective dates

17

thereof and the results of Borrower's Consolidated operations and Borrower's Consolidated cash flows for the period thereof. Since the date of the Initial Financial Statements no Material Adverse Change has occurred, except as reflected in the Disclosure Schedule. All Initial Financial Statements were prepared in accordance with GAAP.

Section 5.7. Other Obligations and Restrictions. Other than the Subordinated Debt, no Restricted Person has any outstanding Liabilities of any kind (including contingent obligations, tax assessments, and unusual forward or

long-term commitments) which are, in the aggregate, material to it or material with respect to it and its Consolidated Subsidiaries and not shown in the Initial Financial Statements or disclosed in the Disclosure Schedule or a Disclosure Report.

Section 5.8. Full Disclosure. No certificate, statement or other information delivered herewith or heretofore by any Restricted Person to Lender in connection with the negotiation of this Agreement or in connection with any transaction contemplated hereby contains any untrue statement of a material fact or omits to state any material fact known to any Restricted Person (other than industry-wide risks normally associated with the types of businesses conducted by such Persons) necessary to make the statements contained herein or therein not misleading as of the date made or deemed made. There is no fact known to Borrower (other than industry-wide risks normally associated with the types of businesses conducted by any Restricted Person) that has not been disclosed to Lender in writing which could cause a Material Adverse Change. There are no statements or conclusions in any Engineering Report which are based upon or include misleading information or fail to take into account material information regarding the matters reported therein, it being understood that each Engineering Report is necessarily based upon professional opinions, estimates and projections and that Borrower does not warrant that such opinions, estimates and projections will ultimately prove to have been accurate.

Section 5.9. Litigation. Except as disclosed in the Initial Financial Statements or in the Disclosure Schedule, (a) there are no actions, suits or legal, equitable, arbitrative or administrative proceedings pending, or to the knowledge of Borrower, threatened, against any Restricted Person before any Tribunal which could reasonably be expected to cause a Material Adverse Change, and (b) there are no outstanding judgments, injunctions, writs, rulings or orders by any such Tribunal against any Restricted Person or their stockholders, partners, directors or officers which could reasonably be expected to cause a Material Adverse Change.

Section 5.10. Names and Places of Business. No Restricted Person has, during the preceding five years, been known by, or used any other trade or fictitious name, except as disclosed in the Disclosure Schedule. Except as otherwise indicated in the Disclosure Schedule or a Disclosure Report, the chief executive office and principal place of business of Borrower is (and for the preceding five years has been) located at the address of Borrower set out on the signature page hereto. Except as indicated in the Disclosure Schedule or a Disclosure Report, Borrower has no other office or place of business.

Section 5.11. Borrower's Subsidiaries. Borrower does not presently have any Subsidiary or own any stock in any other corporation or association except Cheniere Operating and Cheniere California. No Restricted Person is a member of any general or limited partnership, limited

18

liability company, joint venture or association of any type whatsoever except those listed in the Disclosure Schedule or a Disclosure Report. Borrower will not create or acquire any Subsidiary after the date hereof without the written consent of Lender. The business of Cheniere Operating is oil and gas exploration and development. Cheniere California is inactive and has total assets of less than \$10,000.

Section 5.12. Title to Properties; Licenses. Each Restricted Person has good and defensible title to all of its material properties and assets, free and clear of all Liens, other than Permitted Liens, and of all encumbrances materially and adversely affecting the use of such properties and assets in such Person's business, except that no representation or warranty is made with respect to any oil, gas or mineral property or interest to which no Proved Reserves are properly attributed. The ownership of such properties shall not in the aggregate in any material respect obligate any Restricted Person to bear the costs and expenses relating to the maintenance, development and operations of such properties in any amount materially in excess of the working interest of such properties set forth in the Initial Engineering Reports. Upon delivery of each Engineering Report furnished to Lender pursuant to Article VI, the statements made in the preceding sentences to this section shall be true with respect to such Engineering Report. All information contained in the Engineering Reports is true and correct in all material respects as of the date thereof. Each Restricted Person has paid all royalties payable under the oil and gas leases to which it is operator, except those contested in accordance with the terms of the applicable joint operating agreement or otherwise contested in good faith by appropriate proceedings. Each Restricted Person possesses all licenses, permits, franchises, patents, copyrights, trademarks and trade names, and other intellectual property (or otherwise possesses the right to use such intellectual property without violation of the rights of any other Person) which are necessary to carry out its business as presently conducted and as presently proposed to be conducted hereafter.

Section 5.13. Government Regulation. No Restricted Person is subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act, the Investment Company Act of 1940 (as any of the preceding acts have been amended) or any other Law which regulates the incurring by such Person of

Indebtedness, including Laws relating to common contract carriers or the sale of electricity, gas, steam, water or other public utility services.

Section 5.14. Solvency. Upon giving effect to the issuance of the Note and the conveyance of the NPI, the execution of the Loan Documents by Borrower and the consummation of the transactions contemplated hereby, Borrower will be solvent (as such term is used in applicable bankruptcy, liquidation, receivership, insolvency or similar Laws).

Section 5.15. Year 2000 Compliance. Borrower has (i) initiated a review and assessment of all areas within Restricted Persons' business and operations (including those affected by suppliers and vendors) that could be adversely affected by the "Year 2000 Problem" (that is, the risk that computer applications used by Restricted Persons may be unable to recognize and perform properly date-sensitive functions involving certain dates prior to and any date after December 31, 1999), (ii) developed a plan and time line for addressing the Year 2000 Problem on a timely basis, and (iii) to date, implemented that plan in accordance with that timetable. Borrower reasonably believes that all computer applications (including those of

19

Restricted Persons' suppliers and vendors) that are material to any of Restricted Persons' business and operations will on a timely basis be able to perform properly date-sensitive functions for all dates before and after January 1, 2000 (that is, be "Year 2000 compliant"), except to the extent that a failure to do so could not reasonably be expected to materially and adversely affect Restricted Persons on a Consolidated basis.

Section 5.16. ERISA Plans and Liabilities. All currently existing ERISA Plans are listed in the Disclosure Schedule or a Disclosure Report. Except as disclosed in the Initial Financial Statements or in the Disclosure Schedule or a Disclosure Report, no Termination Event has occurred with respect to any ERISA Plan and all ERISA Affiliates are in compliance with ERISA in all material respects. No ERISA Affiliate is required to contribute to, or has any other absolute or contingent liability in respect of, any "multiemployer plan" as defined in Section 4001 of ERISA. Except as set forth in the Disclosure Schedule or a Disclosure Report: (a) no "accumulated funding deficiency" (as defined in Section 412(a) of the Internal Revenue Code of 1986, as amended) exists with respect to any ERISA Plan, whether or not waived by the Secretary of the Treasury or his delegate, and (b) the current value of each ERISA Plan's benefits does not exceed the current value of such ERISA Plan's assets available for the payment of such benefits by more than \$500,000.

Section 5.17. Environmental Matters; Environmental Reviews.

(a) Each Restricted Person will comply in all material respects with all Environmental Laws now or hereafter applicable to it and shall obtain, at or prior to the time required by applicable Environmental Laws, all environmental, health and safety permits, licenses and other authorizations necessary for its operations and will maintain such authorizations in full force and effect.

(b) Borrower will promptly furnish to Lender all written notices of violation, orders, claims, citations, complaints, penalty assessments, suits or other proceedings received by any Restricted Person, or of which it has notice, pending or threatened against any Restricted Person, by any governmental authority with respect to any alleged violation of or non-compliance with any Environmental Laws or any permits, licenses or authorizations in connection with its ownership or use of its properties or the operation of its business.

(c) Borrower will promptly furnish to Lender all requests for information, notices of claim, demand letters, and other notifications, received by any Restricted Person in connection with its ownership or use of its properties or the conduct of its business, relating to potential responsibility with respect to any investigation or clean-up of Hazardous Material at any location.

20

ARTICLE VI - Affirmative Covenants of Borrower

To conform with the terms and conditions under which Lender is willing to have credit outstanding to Borrower, and to induce Lender to enter into this Agreement and extend credit hereunder, Borrower warrants, covenants and agrees that until the full and final payment of the Obligations and the termination of this Agreement, unless Lender has previously agreed otherwise:

Section 6.1. Payment and Performance. Borrower will pay all amounts due under the Loan Documents in accordance with the terms thereof and will observe, perform and comply with every covenant, term and condition expressed or implied in the Loan Documents.

Section 6.2. Books, Financial Statements and Reports. Borrower will at

all times maintain full and accurate books of account and records. Borrower will maintain and will cause its Subsidiaries to maintain a standard system of accounting, will maintain its Fiscal Year, and will furnish the following statements and reports to Lender at Borrower's expense:

(a) As soon as available, and in any event within ninety (90) days after the end of each Fiscal Year, complete Consolidated and consolidating financial statements of Borrower together with all notes thereto, prepared in reasonable detail in accordance with GAAP, together with an unqualified opinion, based on an audit using generally accepted auditing standards, by independent certified public accountants selected by Borrower and acceptable to Lender, stating that such Consolidated financial statements have been so prepared. These financial statements shall contain a Consolidated and consolidating balance sheet as of the end of such Fiscal Year and Consolidated and consolidating statements of earnings, of cash flows, and of changes in owners' equity for such Fiscal Year, each setting forth in comparative form the corresponding figures for the preceding Fiscal Year. In addition, within ninety (90) days after the end of each Fiscal Year Borrower will furnish a report signed by such accountants (i) stating that they have read this Agreement, (ii) containing calculations showing compliance (or non-compliance) at the end of such Fiscal Year with the requirements of Sections 7.11 and 7.12, and (iii) further stating that in making their examination and reporting on the Consolidated financial statements described above they did not conclude that any Default existed at the end of such Fiscal Year or at the time of their report, or, if they did conclude that a Default existed, specifying its nature and period of existence.

(b) As soon as available, and in any event within forty-five (45) days after the end of each Fiscal Quarter, Borrower's Consolidated and consolidating balance sheet as of the end of such Fiscal Quarter and Consolidated and consolidating statements of Borrower's earnings and cash flows for the period from the beginning of the then current Fiscal Year to the end of such Fiscal Quarter, all in reasonable detail and prepared in accordance with GAAP, subject to changes resulting from normal year-end adjustments. In addition Borrower will, together with each such set of financial statements and each set of financial statements furnished under subsection (a) of this section, furnish a certificate in the form of Exhibit B signed by the chief financial officer of Borrower stating that such financial statements are accurate and complete (subject to normal year-end adjustments), stating that he has reviewed the Loan Documents, containing calculations showing compliance (or non-compliance) at the end of such Fiscal Quarter with the requirements of Sections 7.11 and 7.12 and stating that no Default exists at the

21

end of such Fiscal Quarter or at the time of such certificate or specifying the nature and period of existence of any such Default.

(c) By March 31 of each year, an Engineering Report prepared as of the preceding December 31 by independent petroleum engineers chosen by Borrower and acceptable to Lender, concerning all oil and gas properties and interests owned by either (i) Borrower and any other grantor under the Security Documents or (ii) NPI Assignee under the NPI Conveyance and which have attributable to them proved oil or gas reserves. This report shall be satisfactory to Lender, shall take into account any "over-produced" status under gas balancing arrangements and shall contain information and analysis comparable in scope to that contained in the Initial Engineering Report. This report shall distinguish (or shall be delivered together with a certificate from an appropriate officer of Borrower which distinguishes) those properties treated in the report which are Collateral from those properties treated in the report which are not Collateral.

(d) By July 31 and October 31 of each year, an Engineering Report prepared as of the preceding June 30 and September 30, respectively, by petroleum engineers who are employees of Borrower, together with an accompanying report on property sales, property purchases and changes in categories, both in the same form and scope as the reports in (c) above.

(e) As soon as available, and in any event within forty-five (45) days after the end of each month, a report describing by lease or unit the gross volume of production and sales attributable to production during such month from Restricted Persons' oil and gas properties and describing on a cash basis the related collections, NPI payments, severance taxes, other taxes, leasehold operating expenses and capital costs attributable thereto and incurred during such month.

(f) As soon as available, and in any event within forty-five (45) days after the end of each Fiscal Quarter, a list of any new acreage acquired by any Restricted Person and a list, by name and address, of those Persons who have purchased production during such Fiscal Quarter from Restricted Persons' oil and gas properties, giving each such purchaser's owner number for Borrower and each such purchaser's property number for each such property.

Section 6.3. Other Information and Inspections. Borrower will furnish to Lender any information which Lender may from time to time request in writing concerning any covenant, provision or condition of the Loan Documents or any matter in connection with the businesses and operations of each Restricted

Person. Borrower will permit representatives appointed by Lender (including independent accountants, auditors, agents, attorneys, appraisers and any other Persons) to visit and inspect during normal business hours any Restricted Person's property, including its books of account, other books and records, and any facilities or other business assets, and to make extra copies therefrom and photocopies and photographs thereof, and to write down and record any information such representatives obtain, and will permit Lender or its representatives to investigate and verify the accuracy of the information furnished to Lender or Lender in connection with the Loan Documents and to discuss all such matters with its officers, employees and representatives.

22

Section 6.4. Notice of Material Events and Change of Address. Borrower will promptly notify Lender in writing, stating that such notice is being given pursuant to this Agreement, of:

- (a) the occurrence of any Material Adverse Change;
- (b) the occurrence of any Default;

(c) any claim of \$100,000 or more, any notice of potential liability under any Environmental Laws which might exceed such amount, or any other material adverse claim asserted against Borrower with respect to any Restricted Person or any Collateral; and

(d) the filing of any suit or proceeding against any Restricted Person in which an adverse decision could cause a Material Adverse Change.

Borrower will also notify Lender and Lender's counsel in writing at least thirty days prior to the date that Borrower or any other Restricted Person changes its name or the location of its place of business or the place where it keeps its books and records concerning the Collateral, furnishing with such notice any necessary financing statement amendments or requesting Lender and its counsel to prepare the same.

Section 6.5. Maintenance of Properties. Each Restricted Person will maintain, preserve, protect, and keep all Collateral and all other property used or useful in the conduct of its business in good condition and in compliance with all applicable Laws, and will from time to time make all repairs, renewals and replacements needed to enable the business and operations carried on in connection therewith to be promptly and advantageously conducted at all times.

Section 6.6. Maintenance of Existence and Qualifications. Each Restricted Person will maintain and preserve its existence and its rights and franchises in full force and effect and will qualify to do business in all states or jurisdictions where required by applicable Law, except where the failure so to qualify will not cause a Material Adverse Change.

Section 6.7. Payment of Trade Liabilities, Taxes, etc. Borrower will (a) timely file all required tax returns; (b) timely pay all taxes, assessments, and other governmental charges or levies imposed upon it or upon its income, profits or property; (c) within ninety (90) days after the same becomes due pay all Liabilities owed by it on ordinary trade terms to vendors, suppliers and other Persons providing goods and services used by it in the ordinary course of its business; (d) pay and discharge when due all other Liabilities now or hereafter owed by it; and (e) maintain appropriate accruals and reserves for all of the foregoing in accordance with GAAP. Borrower or any other Restricted Person may, however, delay paying or discharging any of the foregoing so long as it is in good faith contesting the validity thereof by appropriate proceedings and has set aside on its books adequate reserves therefor.

Section 6.8. Insurance. Each Restricted Person will keep or cause to be kept insured by financially sound and reputable insurers its property in accordance with the Insurance Schedule. Each Restricted Person shall at all times maintain insurance against its liability for injury to

23

persons or property in accordance with the Insurance Schedule, which insurance shall be by financially sound and reputable insurers.

Section 6.9. Performance on Other Person's Behalf. If any Restricted Person fails to pay any taxes, insurance premiums, expenses, attorneys' fees or other amounts it is required to pay under any Loan Document, Lender may pay the same. Borrower shall immediately reimburse Lender for any such payments and each amount paid by Lender shall constitute an Obligation owed hereunder which is due and payable on the date such amount is paid by Lender.

Section 6.10. Interest. Borrower hereby promises to Lender to pay interest at the Default Rate on all Obligations (including Obligations to pay fees or to reimburse or indemnify Lender) which Borrower has in this Agreement promised to pay to Lender and which are not paid when due. Such interest shall accrue from the date such Obligations become due until they are paid.

Section 6.11. Compliance with Agreements and Law. Each Restricted Person will perform all material obligations it is required to perform under the terms of each indenture, mortgage, deed of trust, security agreement, lease, franchise, agreement, contract or other instrument or obligation to which it is a party or by which it or any of its properties is bound, will conduct its business and affairs in compliance with all Laws applicable thereto and will maintain its good standing all licenses required by any governmental authority that may be necessary to carry on its general business objects and purposes.

Section 6.12. Evidence of Compliance. Borrower will furnish to Lender at Borrower's expense all evidence which Lender from time to time reasonably requests in writing as to the accuracy and validity of or compliance with all representations, warranties and covenants made by Borrower or any other Restricted Person in the Loan Documents, the satisfaction of all conditions contained therein, and all other matters pertaining thereto.

Section 6.13. Guaranties of Borrower's Subsidiaries. Other than Cheniere California, each Subsidiary of Borrower now existing or created, acquired or coming into existence after the date hereof shall, promptly upon request by Lender, execute and deliver to Lender an absolute and unconditional guaranty of the timely repayment of the Obligations and the due and punctual performance of the obligations of Borrower hereunder, which guaranty shall be satisfactory to Lender in form and substance. Each such Subsidiary of Borrower existing on the date hereof shall duly execute and deliver such a guaranty prior to the making of any Loan hereunder. Borrower will cause each of such Subsidiaries to deliver to Lender, simultaneously with its delivery of such a guaranty, written evidence satisfactory to Lender and its counsel that such Subsidiary has taken all corporate, limited liability company, or partnership action necessary to duly approve and authorize its execution, delivery and performance of such guaranty and any other documents which it is required to execute. Notwithstanding anything to the contrary herein, if at any time Cheniere California owns assets in excess of \$10,000, Cheniere California shall, promptly upon request by Lender, execute and deliver to Lender an absolute and unconditional guaranty of the timely repayment of the Obligations and the due and punctual

24

performance of the obligations of Borrower hereunder, which guaranty shall be satisfactory to Lender in form and substance.

Section 6.14. Year 2000 Compliance. Borrower will promptly notify Agent in the event Borrower discovers or determines that any computer application (including those of its suppliers and vendors) that is material to any of Restricted Persons' business and operations will not be Year 2000 compliant (as defined in Section 5.15) on a timely basis, except to the extent that such failure would not present a material probability of causing a Material Adverse Change.

Section 6.15. Perfection and Protection of Security Interests and Liens. Borrower will from time to time deliver, and will cause any other Restricted Person to deliver to Lender any financing statements, continuation statements, extension agreements and other documents, properly completed and executed (and acknowledged when required) by the Restricted Persons in form and substance satisfactory to Lender, which Lender requests for the purpose of perfecting, confirming, or protecting any Liens or other rights in Collateral securing any Obligations.

Section 6.16. Board Visitation Rights. Lender shall have the right to appoint one (1) representative, and such representative shall: (i) receive all notice of all meetings (both regular and special) of the board of directors of Borrower and copies of all unanimous consents and other proposals presented to the directors or such board; (ii) be entitled to attend (or, in the case of telephone meetings, be included in) all such meetings; and (iii) receive as soon as available copies of the minutes of all such meetings. If such board proposes to take any action by written consent in lieu of a meeting, Borrower will give written notice to such representative, which notice shall describe in reasonable detail the nature and substance of such proposed action. Borrower will furnish such representative with a copy of each such written consent not later than five (5) days after execution. Such representative shall not be a member of such board and shall not be entitled to vote on any matters presented at such meetings of such board or to consent to any matters as to which the consent of such board has been requested.

Section 6.17. September 1999 Issuance. The September 1999 Issuance shall occur on or before September 30, 1999.

Section 6.18. Agreement to Deliver Security Documents. Borrower agrees to deliver and to cause each other Restricted Person to deliver, to further secure the Obligations whenever requested by Lender in its sole and absolute discretion, deeds of trust, mortgages, chattel mortgages, security agreements, financing statements and other Security Documents in form and substance satisfactory to Lender for the purpose of granting, confirming, and perfecting first and prior liens or security interests in any oil and gas properties and interests, together with all associated equipment, production, production

proceeds and other real or personal property, hereafter owned or acquired by any Restricted Person (provided that Borrower shall not be obligated to grant any Lien on any lease subject to Borrower's April 4, 1996 Exploration Agreement with Zydeco Exploration, Inc. prior to the spudding of a well on that lease). Borrower also agrees to deliver, whenever requested by Lender in its sole and absolute discretion, favorable title opinions from legal counsel acceptable to Lender with respect to any Restricted

25

Person's properties and interests designated by Lender, based upon abstract or record examinations to dates acceptable to Lender and (a) stating that such Restricted Person has good and defensible title to such properties and interests, free and clear of all Liens other than Permitted Liens, (b) confirming that such properties and interests are subject to Security Documents securing the Obligations that constitute and create legal, valid and duly perfected first deed of trust or mortgage liens in such properties and interests and first priority assignments of and security interests in the oil and gas attributable to such properties and interests and the proceeds thereof, and (c) covering such other matters as Lender may request.

ARTICLE VII - Negative Covenants of Borrower

To conform with the terms and conditions under which Lender is willing to have credit outstanding to Borrower, and to induce Lender to enter into this Agreement and make the Loans, Borrower warrants, covenants and agrees that until the full and final payment of the Obligations and the termination of this Agreement, unless Lender has previously agreed otherwise:

Section 7.1. Indebtedness. No Restricted Person will in any manner owe or be liable for Indebtedness except:

(a) the Obligations;

(b) Indebtedness outstanding under the instruments and agreements described as the Disclosure Schedule, including any future advances which Borrower is presently entitled to receive through but excluding any renewals or extensions of such liability;

(c) Indebtedness arising under any Hedging Contract permitted under Section 7.3; and

(d) the Subordinated Debt;

(e) Liabilities arising under the Fairfield Agreement;

(f) Liabilities with respect to letters of credit or applications or reimbursement agreements therefor to the extent that such Liabilities support the plugging and abandonment of wells in which a Restricted Person has a working interest; provided, that the amount of Liability relating to each such letter of credit, application, or reimbursement agreement may not exceed the product of (i) such Restricted Person's working interest in such well multiplied by (ii) \$200,000; and

(g) intercompany loans between Borrower and any of its Subsidiaries that has become a Guarantor in compliance with Section 6.13, and intercompany loans between any such Subsidiary Guarantors.

Section 7.2. Limitation on Liens. No Restricted Person will create, assume or permit to exist any Lien upon any of the properties or assets which it now owns or hereafter acquires,

26

except, to the extent not otherwise forbidden by the Security Documents the following ("Permitted Liens"):

(a) Liens which secure Obligations only;

(b) Liens for taxes, Liens securing lessors' royalties arising by statute or under the terms of a lease, and mechanics', materialmen's, operators' and other similar Liens incurred in the ordinary course of business, provided such Liens do not secure Indebtedness and secure only obligations which are not delinquent or which are being contested as provided in Section 6.7;

(c) Liens on cash and cash equivalents securing Permitted Indebtedness described in Section 7.1(f).

Notwithstanding anything to the contrary herein, Borrower shall not grant a Lien encumbering any of Restricted Persons' interests in the properties described on Schedule 6 attached hereto, except for Liens described in Section 7.2(b) or Liens in favor of Lender.

Section 7.3. Hedging Contracts. No Restricted Person will be a party to or in any manner be liable on any Hedging Contract, except contracts entered

into with the purpose and effect of fixing prices on no more than 70% of the oil or gas expected to be produced by such Restricted Person during the term of such Hedging Contract, provided that at all times: (a) no such contract requires any Restricted Person to put up money, assets, letters of credit or other security against the event of its nonperformance prior to actual default by such Person in performing its obligations thereunder, and (b) each such contract is with a counterparty or has a guarantor of the obligation of the counterparty who at the time the contract is made has long-term obligations which have an investment grade rating. By December 31, 1999, Borrower will enter into Hedging Contracts with investment-grade counterparties that have the effect of fixing a price per MMBTU to be mutually agreed to by Borrower and Lender for at least 40% (but no more than 70%) of Borrower's anticipated gas production from Proved Developed Producing Reserves attributable to the Platform Leases during the period until the Maturity Date.

Section 7.4. Limitation on Mergers, Issuances of Securities, Subsidiary Assets. Except as expressly provided in this section no Restricted Person will merge or consolidate with or into any other Person without the prior consent of Lender. No Subsidiary of Borrower which is a partnership will allow any diminution of Borrower's interest (direct or indirect) therein. Other than common stock of Borrower or options, warrants, or other rights to acquire common stock of Borrower, no Restricted Person will issue any equity interests in it or other securities or any options, warrants, or other rights to acquire such interest. Borrower shall not use the proceeds of the September 1999 Issuance for any purpose other than payment of the Subordinated Debt until the Subordinated Debt and all accrued interest thereon is paid in full. Borrower shall not permit Cheniere California to have assets greater than \$10,000 at any time.

Section 7.5. Limitation on Sales of Property. No Restricted Person will sell, transfer, lease, exchange, alienate or dispose of any of its material assets or properties or any material interest therein except:

27

(a) equipment which is worthless or obsolete or which is replaced by equipment of equal suitability and value;

(b) inventory (including oil and gas sold as produced and seismic data) which is sold in the ordinary course of business on ordinary trade terms;

(c) interests in oil and gas leases, or portions thereof (if released or abandoned but not otherwise sold or transferred), so long as no well situated on the property transferred or located on any unit containing all or any part thereof, is capable (or is subject to being made capable through commercially feasible operations) of producing oil, gas or other hydrocarbons or minerals in commercial quantities;

(d) interests in oil and gas leases described on Schedule 5 subject to the limits set out on such Schedule;

(e) assignments of overriding royalty interests, not exceeding 1.0%, proportionately reduced, for the benefit of employees of any Restricted Person; and

(f) assignments or conveyances of interests in oil and gas leases (other than those constituting Collateral) (including overriding royalty interests, net profits interests, production payments, and working interests) acquired by any Restricted Person after the date hereof pursuant to (i) areas of mutual interest provisions of joint operating agreements, exploration agreements, development agreements, participation agreements or other agreements; (ii) contractual obligations of Restricted Persons existing on the date hereof; (iii) agreements, existing as of the date of such Restricted Person's acquisition of such oil and gas leases for assignment of interests therein, including reservations by, or consideration to, the farmers, assignors, or grantors of such oil and gas leases; and (iv) agreements for the sale to one or more parties of, in the aggregate, no more than an undivided 75% of the interest acquired by such Restricted Person in such oil and gas leases; provided in each case that no well has been spudded on any such lease since Borrower's acquisition thereof and that no Proved Reserves are attributable thereto.

No Restricted Person will discount, sell, pledge or assign any notes payable to it, accounts receivable or future income except to the extent expressly permitted under the Loan Documents.

Section 7.6. Limitation on Distributions and Redemptions. No Restricted Person will make any Distribution. No Restricted Person will directly or indirectly make any capital contribution to or purchase, redeem, acquire or retire any shares of the capital stock of or other equity interest in any Restricted Person (whether such stock or interests are now or hereafter issued, outstanding, or created), or cause or permit any reduction or retirement of the capital stock of any Restricted Person.

Section 7.7. Limitation on Investments and New Businesses. No Restricted Person will (a) make any expenditure or commitment or incur any

obligation or enter into or engage in any transaction except in the ordinary course of business, (b) engage directly or indirectly in any business or conduct any operations except in connection with or incidental to its present businesses and

28

operations, (c) make any acquisitions of or capital contributions to or other investments in any Person, other than Permitted Investments, or (d) make any significant acquisitions or investments in any properties other than oil and gas properties or assets used in the exploration or development of oil and gas. As used in this section and the following Section 7.8, "Permitted Investments" means Cash Equivalents, loans to Borrower or any Guarantor that is a Subsidiary of Borrower, and capital contributions or other equity investments in any Guarantor that is a Subsidiary of Borrower.

Section 7.8. Limitation on Credit Extensions. Except for Permitted Investments, no Restricted Person will extend credit, make advances or make loans other than normal and prudent extensions of credit to customers buying goods and services in the ordinary course of business, which extensions shall not be for longer periods than those extended by similar businesses operated in a normal and prudent manner.

Section 7.9. Transactions with Affiliates. No Restricted Person will engage in any material transaction with any of its Affiliates on terms which are less favorable to it than those which would have been obtainable at the time in arm's-length dealing with Persons other than such Affiliates, provided that such restriction shall not apply to transactions among Borrower and its Subsidiaries.

Section 7.10. Certain Contracts; ERISA. No Restricted Person will enter into any "take-or-pay" contract or other contract or arrangement for the purchase of goods or services which obligates it to pay for such goods or service regardless of whether they are delivered or furnished to it. No Restricted Person will amend or permit any amendment to any contract or lease which releases, qualifies, limits, makes contingent or otherwise detrimentally affects the rights and benefits of Lender or Lender under or acquired pursuant to any Security Documents. No Restricted Person has any ERISA Plan or is obligated to contribute to any ERISA Plan including any "multiemployer plan" as defined in Section 4001 of ERISA.

Section 7.11. Working Capital and Current Ratio. Beginning on March 31, 2000, the ratio of Borrower's Consolidated current assets to Borrower's Consolidated current liabilities will never be less than 0.75 to 1.0. As used in this Section 7.11, "Borrower's Consolidated current liabilities" shall not include the Subordinated Debt.

Section 7.12. Interest Coverage Ratio. Beginning on March 31, 2000, Borrower will not at any time permit the Interest Coverage Ratio to be less than 1.75 to 1.0.

ARTICLE VIII - Events of Default and Remedies

Section 8.1. Events of Default. Each of the following events constitutes an Event of Default under this Agreement:

(a) Any Restricted Person fails to pay any Obligation within one Business Day after such Obligation becomes due and payable, whether at a date for the payment of a fixed installment or as a contingent or other payment becomes due and payable or as a result of acceleration or otherwise.

29

(b) Any "default" or "event of default" occurs under any Loan Document which defines either such term, and the same is not remedied within the applicable period of grace (if any) provided in such Loan Document.

(c) Any Restricted Person fails to duly observe, perform or comply with any covenant, agreement or provision of Section 3.2, Section 6.4, or Article VII.

(d) Any Restricted Person fails (other than as referred to in subsections (a), (b) or (c) above) to duly observe, perform or comply with any covenant, agreement, condition or provision of any Loan Document, and such failure remains unremedied for a period of thirty (30) days after notice of such failure is given by Lender to Borrower.

(e) Any representation or warranty previously, presently or hereafter made in writing by or on behalf of any Restricted Person in connection with any Loan Document shall prove to have been false or incorrect in any material respect on any date on or as of which made, or any Loan Document at any time ceases to be valid, binding and enforceable as warranted in Section 5.5 for any reason other than its release or subordination by Lender.

(f) Any Restricted Person fails to duly observe, perform or comply with

any agreement with any Person or any term or condition of any instrument, if such agreement or instrument is materially significant to Borrower or to Borrower and its Subsidiaries on a Consolidated basis or materially significant to any Guarantor, and such failure is not remedied within the applicable period of grace (if any) provided in such agreement or instrument.

(g) Any Restricted Person (i) fails to pay any portion, when such portion is due, of any of its Indebtedness in excess of \$25,000 (other than Indebtedness, the enforceability of which is being contested in good faith by appropriate proceedings), or (ii) materially breaches or materially defaults in the performance of any agreement or instrument by which any such Indebtedness is issued, evidenced, governed, or secured, and any such failure, breach or default continues beyond any applicable period of grace provided therefor.

(h) Any Restricted Person:

(i) suffers the entry against it of a judgment, decree or order for relief by a Tribunal of competent jurisdiction in an involuntary proceeding commenced under any applicable bankruptcy, insolvency or other similar Law of any jurisdiction now or hereafter in effect, including the federal Bankruptcy Code, as from time to time amended, or has any such proceeding commenced against it which remains undismissed for a period of sixty days; or

(ii) commences a voluntary case under any applicable bankruptcy, insolvency or similar Law now or hereafter in effect, including the federal Bankruptcy Code, as from time to time amended; or applies for or consents to the entry of an order for relief in an involuntary case under any such Law; or makes a general assignment for the benefit of

30

creditors; or fails generally to pay (or admits in writing its inability to pay) its debts as such debts become due; or takes corporate or other action to authorize any of the foregoing; or

(iii) suffers the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of all or a substantial part of its assets or of any part of the Collateral in a proceeding brought against or initiated by it, and such appointment or taking possession is neither made ineffective nor discharged within thirty days after the making thereof, or such appointment or taking possession is at any time consented to, requested by, or acquiesced to by it; or

(iv) suffers the entry against it of a final judgment for the payment of money in excess of \$100,000 (not covered by insurance satisfactory to Lender in its discretion), unless the same is discharged within thirty days after the date of entry thereof or an appeal or appropriate proceeding for review thereof is taken within such period and a stay of execution pending such appeal is obtained; or

(v) suffers a writ or warrant of attachment or any similar process to be issued by any Tribunal against all or any substantial part of its assets or any part of the Collateral, and such writ or warrant of attachment or any similar process is not stayed or released within thirty days after the entry or levy thereof or after any stay is vacated or set aside.

(i) Either (i) any "accumulated funding deficiency" (as defined in Section 412(a) of the Internal Revenue Code of 1986, as amended) in excess of \$100,000 exists with respect to any ERISA Plan, whether or not waived by the Secretary of the Treasury or his delegate, or (ii) any Termination Event occurs with respect to any ERISA Plan and the then current value of such ERISA Plan's benefit liabilities exceeds the then current value of such ERISA Plan's assets available for the payment of such benefit liabilities by more than \$100,000 (or in the case of a Termination Event involving the withdrawal of a substantial employer, the withdrawing employer's proportionate share of such excess exceeds such amount).

(j) Any Termination Event occurs.

(k) Any Change in Control occurs.

(l) Borrower fails to repay the entire principal balance of, and all accrued interest on, the Subordinated Debt on or before October 15, 1999.

(m) The September 1999 Issuance does not occur on or before September 30, 1999.

(n) One hundred percent (100%) of the Net Revenue from the Dedicated Leases for any three consecutive calendar months is less than the Production Threshold for such three month period.

Upon the occurrence of an Event of Default described in subsection (h) (i), (h) (ii) or (h) (iii) of this section with respect to Borrower, all of the Obligations shall thereupon be immediately due and payable, without demand,

notice of protest, notice of intention to accelerate, declaration or notice of acceleration, or any other notice or declaration of any kind, all of which are hereby expressly waived by Borrower and each other Restricted Person who at any time ratifies or approves this Agreement. During the continuance of any other Event of Default, Lender at any time and from time to time may, without notice to Borrower or any other Restricted Person, declare any or all of the Obligations immediately due and payable, and all such Obligations shall thereupon be immediately due and payable, without demand, presentment, notice of demand, default, or of dishonor and nonpayment, protest, notice of protest, notice of intention to accelerate, declaration or notice of acceleration, or any other notice or declaration of any kind, all of which are hereby expressly waived by Borrower and each other Restricted Person who at any time ratifies or approves this Agreement.

Section 8.2. Remedies. If any Default shall occur and be continuing, Lender may protect and enforce its rights under the Loan Documents by any appropriate proceedings, including proceedings for specific performance of any covenant or agreement contained in any Loan Document, and Lender may enforce the payment of any Obligations due it or enforce any other legal or equitable right which it may have. All rights, remedies and powers conferred upon Lender under the Loan Documents shall be deemed cumulative and not exclusive of any other rights, remedies or powers available under the Loan Documents or at Law or in equity.

ARTICLE IX - Miscellaneous

Section 9.1. Waivers and Amendments; Acknowledgments.

(a) Waivers and Amendments. No failure or delay (whether by course of conduct or otherwise) by Lender in exercising any right, power or remedy which Lender may have under any of the Loan Documents shall operate as a waiver thereof or of any other right, power or remedy, nor shall any single or partial exercise by Lender of any such right, power or remedy preclude any other or further exercise thereof or of any other right, power or remedy. No waiver of any provision of any Loan Document and no consent to any departure therefrom shall ever be effective unless it is in writing (which may be delivered by any means set out in Section 9.3) and signed as provided below in this section, and then such waiver or consent shall be effective only in the specific instances and for the purposes for which given and to the extent specified in such writing. No notice to or demand on any Restricted Person shall in any case of itself entitle such Restricted Person to any other or further notice or demand in similar or other circumstances. This Agreement and the other Loan Documents set forth the entire understanding between the parties hereto with respect to the transactions contemplated herein and therein and supersede all prior discussions and understandings with respect to the subject matter hereof and thereof, and no waiver, consent, release, modification or amendment of or supplement to this Agreement or the other Loan Documents shall be valid or effective against any party hereto unless the same is in writing and signed by such party.

(b) Acknowledgments and Admissions. Each Restricted Person hereby represents, warrants, acknowledges and admits that (i) it has made an independent decision to enter into this Agreement and the other Loan Documents to which it is a party, without reliance on any representation, warranty, covenant or undertaking by Lender, whether written, oral or implicit, other

than as expressly set out in this Agreement or in another Loan Document delivered on or after the date hereof, (ii) there are no representations, warranties, covenants, undertakings or agreements by Lender as to the Loan Documents except as expressly set out in this Agreement or in another Loan Document delivered on or after the date hereof, (iii) Lender has no fiduciary obligation toward it with respect to any Loan Document or the transactions contemplated thereby, (iv) the relationship pursuant to the Loan Documents between the Restricted Persons, on one hand, and Lender, on the other hand, is and shall be solely that of debtor and creditor, respectively, (v) no partnership or joint venture exists with respect to the Loan Documents between the Restricted Persons and Lender, (vi) should an Event of Default or Default occur or exist, Lender will determine in its sole discretion and for its own reasons what remedies and actions it will or will not exercise or take at that time, (vii) without limiting any of the foregoing, no Restricted Person is relying upon any representation or covenant by Lender, or any representative thereof, and no such representation or covenant has been made, that Lender will, at the time of an Event of Default or Default, or at any other time, waive, negotiate, discuss, or take or refrain from taking any action permitted under the Loan Documents with respect to any such Event of Default or Default or any other provision of the Loan Documents, and (viii) Lender has relied upon the truthfulness of the acknowledgments in this section in deciding to execute and deliver this Agreement and to become obligated hereunder.

(c) Joint Acknowledgment. THIS WRITTEN AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

Section 9.2. Survival of Agreements; Cumulative Nature. All of the various representations, warranties, covenants and agreements in the Loan Documents shall survive the execution and delivery of this Agreement and the other Loan Documents and the performance hereof and thereof, including the making or granting of the Loan and the delivery of the Note and the other Loan Documents, and shall further survive until all of the Obligations are paid in full to Lender and all of Lender's obligations to Borrower are terminated. All statements and agreements contained in any certificate or other instrument delivered by any Restricted Person to Lender under any Loan Document shall be deemed representations and warranties by Borrower or agreements and covenants of Borrower under this Agreement. The representations, warranties, indemnities, and covenants made by the Restricted Persons in the Loan Documents, and the rights, powers, and privileges granted to Lender in the Loan Documents, are cumulative, and, except for expressly specified waivers and consents, no Loan Document shall be construed in the context of another to diminish, nullify, or otherwise reduce the benefit to Lender of any such representation, warranty, indemnity, covenant, right, power or privilege. In particular and without limitation, no exception set out in this Agreement to any representation, warranty, indemnity, or covenant herein contained shall apply to any similar representation, warranty, indemnity, or covenant contained in any other Loan Document, and each such similar representation, warranty, indemnity, or covenant shall be subject only to those exceptions which are expressly made applicable to it by the terms of the various Loan Documents.

33

Section 9.3. Notices. All notices, requests, consents, demands and other communications required or permitted under any Loan Document shall be in writing, unless otherwise specifically provided in such Loan Document, and shall be deemed sufficiently given or furnished if delivered by personal delivery, by telecopy, by delivery service with proof of delivery, or by registered or certified United States mail, postage prepaid, to the parties hereto at the address for such Person specified on the signature pages hereto (unless changed by similar notice in writing given by the particular Person whose address is to be changed). Any such notice or communication shall be deemed to have been given (a) in the case of personal delivery or delivery service, as of the date of first attempted delivery during normal business hours at the address provided herein, (b) in the case of telecopy, upon receipt, or (c) in the case of registered or certified United States mail, three days after deposit in the mail.

Section 9.4. Payment of Expenses; Indemnity.

(a) Payment of Expenses. Whether or not the transactions contemplated by this Agreement are consummated, Borrower will promptly (and in any event, within 30 days after any invoice or other statement or notice) pay: (i) all transfer, stamp, mortgage, documentary or other similar taxes, assessments or charges levied by any governmental or revenue authority in respect of this Agreement or any of the other Loan Documents or any other document referred to herein or therein, (ii) all reasonable costs and expenses incurred by or on behalf of Lender, including attorneys' fees, engineering fees (whether for work by Lender's in-house petroleum engineer or independent petroleum engineers), travel costs and miscellaneous expenses, in connection with (A) the negotiation, preparation, execution and delivery of the Loan Documents, and any and all consents, waivers or other documents or instruments relating thereto (provided that Borrower shall not be obligated to pay more than \$45,000 for any costs described in this clause (A) and the costs of Lender's independent petroleum engineers and environmental consultants incurred prior to or in connection with the closing of this Agreement), (B) the filing, recording, refiling and re-recording of any Loan Documents and any other documents or instruments or further assurances required to be filed or recorded or refiled or re-recorded by the terms of any Loan Document, (C) the borrowing hereunder and other action reasonably required in the course of administration hereof, (D) monitoring or confirming (or preparation or negotiation of any document related to) Borrower's compliance with any covenants or conditions contained in this Agreement or in any Loan Document, and (iii) all reasonable costs and expenses incurred by or on behalf of Lender (including attorneys' fees, consultants' fees and accounting fees) in connection with the defense or enforcement of any of the Loan Documents (including this section) or the defense of Lender's exercise of its rights thereunder.

(b) Indemnity. Borrower agrees to indemnify Lender, upon demand, from and against any and all liabilities, obligations, claims, losses, damages, penalties, fines, actions, judgments, suits, settlements, costs, expenses or disbursements (including reasonable fees of attorneys, accountants, experts and advisors) of any kind or nature whatsoever (in this section collectively called "liabilities and costs") which to any extent (in whole or in part) may be

imposed on, incurred by, or asserted against Lender growing out of, resulting from or in any other way associated with any of the Collateral, the NPI, the Loan Documents and the transactions and events (including the enforcement or defense thereof) at any time associated therewith or contemplated therein (including any violation

34

or noncompliance with any Environmental Laws by any Restricted Person or any liabilities or duties of Borrower any Restricted Person or Lender with respect to Hazardous Materials found in or released into the environment).

THE FOREGOING INDEMNIFICATION SHALL APPLY WHETHER OR NOT SUCH LIABILITIES AND COSTS ARE IN ANY WAY OR TO ANY EXTENT OWED, IN WHOLE OR IN PART, UNDER ANY CLAIM OR THEORY OF STRICT LIABILITY, OR ARE CAUSED, IN WHOLE OR IN PART, BY ANY NEGLIGENT ACT OR OMISSION OF ANY KIND BY LENDER,

provided only that Lender shall not be entitled under this section to receive indemnification for that portion, if any, of any liabilities and costs which is proximately caused by its own individual gross negligence or willful misconduct, as determined in a final judgment. If any Person (including Borrower or any of its Affiliates) ever alleges such gross negligence or willful misconduct by Lender, the indemnification provided for in this section shall nonetheless be paid upon demand, subject to later adjustment or reimbursement, until such time as a court of competent jurisdiction enters a final judgment as to the extent and effect of the alleged gross negligence or willful misconduct. As used in this section the term "Lender" shall refer not only to Lender but also to NPI Assignee and to each director, officer, agent, attorney, employee, representative and Affiliate of Lender or NPI Assignee.

Section 9.5. Parties in Interest. All grants, covenants and agreements contained in the Loan Documents shall bind and inure to the benefit of the parties thereto and their respective successors and assigns; provided, however, that no Restricted Person will assign or transfer any of its rights or delegate any of its duties or obligations under any Loan Document without the prior consent of Lender.

Section 9.6. Assignments and Participations. Lender may assign all or a portion of its rights and obligations under this Agreement.

Section 9.7. Governing Law; Submission to Process. EXCEPT TO THE EXTENT THAT THE LAW OF ANOTHER JURISDICTION IS EXPRESSLY ELECTED IN A LOAN DOCUMENT, THE LOAN DOCUMENTS SHALL BE DEEMED CONTRACTS AND INSTRUMENTS MADE UNDER THE LAWS OF THE STATE OF TEXAS AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF TEXAS AND THE LAWS OF THE UNITED STATES OF AMERICA, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW. CHAPTER 346 OF THE TEXAS FINANCE CODE (WHICH REGULATES CERTAIN REVOLVING CREDIT LOAN ACCOUNTS AND REVOLVING TRI-PARTY ACCOUNTS) DOES NOT APPLY TO THIS AGREEMENT OR TO THE NOTE. BORROWER HEREBY IRREVOCABLY SUBMITS ITSELF AND EACH OTHER RESTRICTED PERSON TO THE NON-EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS SITTING IN THE STATE OF TEXAS AND AGREES AND CONSENTS THAT SERVICE OF PROCESS MAY BE MADE UPON IT OR ANY OTHER RESTRICTED PERSON IN ANY LEGAL

35

PROCEEDING RELATING TO THE LOAN DOCUMENTS OR THE OBLIGATIONS BY ANY MEANS ALLOWED UNDER TEXAS OR FEDERAL LAW.

Section 9.8. Limitation on Interest. Lender, Restricted Persons, and any other parties to the Loan Documents intend to contract in strict compliance with applicable usury Law from time to time in effect. In furtherance thereof such Persons stipulate and agree that none of the terms and provisions contained in the Loan Documents shall ever be construed to create a contract to pay, for the use, forbearance or detention of money, interest in excess of the maximum amount of interest permitted to be charged by applicable Law from time to time in effect. Neither any Restricted Person nor any present or future guarantors, endorsers, or other Persons hereafter becoming liable for payment of any Obligation shall ever be liable for unearned interest thereon or shall ever be required to pay interest thereon in excess of the maximum amount that may be lawfully contracted for, charged, or received under applicable Law from time to time in effect, and the provisions of this section shall control over all other provisions of the Loan Documents which may be in conflict or apparent conflict herewith. Lender expressly disavows any intention to contract for, charge, collect or receive excessive or unearned interest or finance charges in the event the maturity of any Obligation is accelerated or upon the occurrence of any other event. If (a) the maturity of any Obligation is accelerated for any reason, (b) any Obligation is prepaid and as a result any amounts that constitute interest are in excess of the legal maximum, or (c) any Lender or any other holder of any or all of the Obligations shall otherwise charge, receive, or collect, or any Person shall pay, moneys which would otherwise increase the interest on any or all of the Obligations to an amount in excess of that permitted by applicable Law then in effect, then all sums that constitute interest in excess of such legal limit shall, without penalty, be promptly applied to reduce the then outstanding principal of the related Obligations or, at such Lender's or holder's option, promptly returned to Borrower or the other

payor thereof upon such determination. In determining whether or not the interest paid or payable, under any specific circumstance, exceeds the maximum amount permitted under applicable Law, Lender and Restricted Persons (and any other payors thereof) shall to the greatest extent permitted under applicable Law, (i) characterize any non-principal payment as an expense, fee or premium rather than as interest, (ii) exclude voluntary prepayments and the effects thereof, and (iii) amortize, prorate, allocate, and spread the total amount of interest throughout the entire contemplated term of the instruments evidencing the Obligations in accordance with the amounts outstanding from time to time thereunder and the maximum legal rate of interest from time to time in effect under applicable Law in order to lawfully contract for, charge, collect, or receive the maximum amount of interest permitted under applicable Law. In the event applicable Law provides for an interest ceiling under Chapter 303 of the Texas Finance Code (the "Texas Finance Code") as amended, for any day, the ceiling for such day shall be the "weekly ceiling" as defined in the Texas Finance Code, provided that if any applicable Law permits greater interest, the Law permitting the greatest interest shall apply. As used in this section the term "applicable Law" means the Laws of the State of Texas including the Laws of the United States of America, as such Laws now exist or may be changed or amended or come into effect in the future.

Section 9.9. Termination; Limited Survival. In its sole and absolute discretion Borrower may at any time that no Obligations (other than Obligations under the NPI Conveyance) are owing elect in a written notice delivered to Lender to terminate this Agreement. Upon receipt by Lender of such a notice, if no Obligations are then owing, this Agreement and all other Loan Documents

36

(other than the NPI Conveyance) shall thereupon be terminated and the parties thereto released from all prospective obligations thereunder. Notwithstanding the foregoing or anything herein to the contrary, any waivers or admissions made by any Restricted Person in any Loan Document, any Obligations which any Person may have to indemnify or compensate Lender shall survive any termination of this Agreement or any other Loan Document. At the request and expense of Borrower, Lender shall prepare and execute all necessary instruments to reflect and effect such termination of the Loan Documents.

Section 9.10. Severability. If any term or provision of any Loan Document shall be determined to be illegal or unenforceable all other terms and provisions of the Loan Documents shall nevertheless remain effective and shall be enforced to the fullest extent permitted by applicable Law.

Section 9.11. Counterparts; Fax. This Agreement may be separately executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to constitute one and the same Agreement. This Agreement and the other Loan Documents may be validly executed and delivered by telecopy or other electronic transmission.

Section 9.12. Waiver of Punitive Damages, etc. EACH OF BORROWER AND LENDER HEREBY KNOWINGLY, VOLUNTARILY, INTENTIONALLY, AND IRREVOCABLY (A) WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY SUCH LITIGATION ANY "SPECIAL DAMAGES", AS DEFINED BELOW, (B) CERTIFIES THAT NO PARTY HERETO NOR ANY REPRESENTATIVE OF LENDER OR COUNSEL FOR ANY PARTY HERETO HAS REPRESENTED, EXPRESSLY OR OTHERWISE, OR IMPLIED THAT SUCH PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, AND (C) ACKNOWLEDGES THAT IT HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT, THE OTHER LOAN DOCUMENTS AND THE TRANSACTIONS CONTEMPLATED HEREBY AND THEREBY BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS CONTAINED IN THIS SECTION. AS USED IN THIS SECTION, "SPECIAL DAMAGES" INCLUDES ALL SPECIAL, CONSEQUENTIAL, EXEMPLARY, OR PUNITIVE DAMAGES (REGARDLESS OF HOW NAMED), BUT DOES NOT INCLUDE ANY PAYMENTS OR FUNDS WHICH ANY PARTY HERETO HAS EXPRESSLY PROMISED TO PAY OR DELIVER TO ANY OTHER PARTY HERETO.

Section 9.13. Arbitration.

(a) As used in this section:

(1) "AAA" means the American Arbitration Association (or any successor thereto),

37

(2) "Claims" means all claims by either party hereto against the other with respect to this Agreement or any of the Loan Documents (including among others any claims with respect to the interpretation or validity of any Loan Document, the existence or scope of any duties owed thereunder, whether or not any such duties have been performed or breached in any circumstances, or the extent or enforcement of any property rights created thereunder or subject thereto), and

(3) "Disputed Matters" means all Claims, all defenses against any Claims, and all controversies relating thereto.

(b) If either party hereto ever desires to assert a Claim against the other party, the party asserting such Claim will give written notice thereof to the other party. During the thirty day period following receipt of such notice by the other party, both parties will discuss such Claim and the validity thereof. If the parties hereto cannot come to agreement about such Claim by the end of such thirty day period (as such period may be extended by mutual agreement), then within fifteen days after the end of such period either party may by written notice to the other invoke the arbitration provisions of this Agreement, whereupon Borrower and Lender shall submit such Claim and all Disputed Matters in any way related thereto to arbitration under the procedures in the next following subsection (c).

(c) All Disputed Matters shall be resolved by arbitration conducted by three arbitrators in accordance with this Section 8.9 and, to the extent not in conflict herewith, under the auspices of the AAA and under the Commercial Arbitration Rules of the AAA then in effect. Each such arbitrator must be independent and impartial and a person with at least ten years' experience in the financing and valuation of oil and gas properties. Within ten days after the sending and receipt of a notice invoking arbitration as provided in subsection (b) above, each of Borrower and Lender shall specify (by notice to the other) the name and address of an arbitrator appointed by it. At the end of such ten days, if one party has made a specification of its appointed arbitrator but has not received notice of a similar specification by the other party, then the party which has made a specification shall give notice to the other party that it has not received a specification from the other party. If the other party does not act to specify its arbitrator within an additional seven days after the giving of such notice, the party who has made its specification may appoint the second arbitrator in place of the party who has failed to do so. Within fifteen days after the first two arbitrators have been appointed, they shall select the third arbitrator. If a third arbitrator has not been selected within such period, either party hereto may petition the Administrative Judge presiding over the State District Courts of Harris County, Texas to appoint such third arbitrator, whereupon such judge (or any person designated by such judge to make such appointment) may make such appointment unless the first two arbitrators have come to agreement on the third arbitrator. Consistent with the expedited nature of arbitration, each party will, upon the written request of the other party, provide the other with copies of documents relevant to the issues raised by the Disputed Matter. Other discovery may be ordered by the arbitrators to the extent they deem relevant and appropriate, and any dispute regarding discovery, including disputes as to the need thereof or the relevance or scope thereof, shall be determined by the arbitrators, whose determination shall be conclusive. All arbitrations hereunder shall be held in Houston, Texas at locations to be determined by the arbitrators. Borrower and Lender shall proceed expeditiously with any such arbitration and shall conclude all proceedings

38

thereunder, including any hearing, in order to allow a decision based on applicable Law to be rendered within ninety days after the appointment of the third arbitrator. The decision of any two such arbitrators on the issues before them shall be final, and any award or order so decided may be enforced in any court having personal jurisdiction over the party against whom enforcement is sought. Borrower shall pay all fees due to the AAA and shall bear its own expenses, including attorneys' fees and expenses of arbitration, in connection with any such arbitration, but all expenses of Lender shall be considered expenses to be paid or reimbursed by Borrower under Section 9.4. The arbitrators shall honor Borrower's and Lender's election of the Laws of the State of Texas and the State of Louisiana as set out in the various Loan Documents, provided that each arbitration proceeding shall also be subject to the United States Arbitration Act, 9 U.S.C., Chapter 1, (S)(S) 1 et seq, to the extent applicable. THE ARBITRATORS ARE NOT EMPOWERED TO AWARD PUNITIVE OR EXEMPLARY DAMAGES ON ANY CLAIM (BUT ARE EMPOWERED TO AWARD EXPENSES TO LENDER AND PRE-AWARD INTEREST TO EITHER PARTY), AND EACH OF BORROWER AND LENDER HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE TO RECOVER PUNITIVE OR EXEMPLARY DAMAGES ON ANY CLAIM.

(d) All applicable statutes of limitations and defenses based on the passage of time shall be tolled during the period in which arbitration has been invoked as set forth in this section. Each of Borrower and Lender is required to continue to perform its obligations under the Loan Documents pending final resolution of any Disputed Matter.

39

IN WITNESS WHEREOF, this Agreement is executed as of the date first written above.

CHENIERE ENERGY, INC.

By: /s/ Michael L. Harvey

Michael L. Harvey
President

Address:
Two Allen Center, Suite 1740
1200 Smith Street
Houston, Texas 77002
Attention: Don Turkleson

Telephone: 713-659-1361
Fax: 713-659-5459

ENCAP ENERGY FUND CAPITAL FUND, III, L.P.

By: ENCAP INVESTMENTS L.L.C.,
General Partner

By: _____
Gary R. Petersen
Managing Director

Address:
1100 Louisiana, Suite 3150
Houston, Texas 77002
Attention: John Howie
Telephone: 713-696-6100
Fax: 713-659-6130

CONVEYANCE OF NET PROFITS
OVERRIDING ROYALTY INTEREST

THIS CONVEYANCE OF NET PROFITS OVERRIDING ROYALTY INTEREST (this "Conveyance"), dated as of the date set out at the end hereof, is made from and by Cheniere Energy, Inc., a Delaware corporation (herein called "WI Owner") to and in favor of EnCap Energy Capital Fund III, L.P. (herein called "Royalty Owner").

ARTICLE I

Section 1.1. Defined Terms. When used in this Conveyance or in any exhibit or schedule hereto (unless otherwise defined in any such exhibit or schedule), the following terms have the respective meanings assigned to them in this section or in the sections, subsections, exhibits and schedules referred to below:

"Affiliate" means, with respect to any Person: (a) any other Person directly or indirectly owning, controlling or holding with power to vote 25% or more of the outstanding voting securities of such Person, (b) any other Person 25% or more of whose outstanding voting securities are directly or indirectly owned, controlled or held with power to vote by such Person, and (c) any other Person directly or indirectly controlling, controlled by or under common control with such Person.

"Business Day" means a day that is not a Saturday, a Sunday, or a legal holiday in Houston, Texas.

"Commencement Time" means 7:00 a.m., Louisiana time, on September 1, 1999.

"Credit Agreement" means the Credit Agreement of even date herewith, as from time to time supplemented, amended, or restated, between WI Owner and Royalty Owner, pursuant to which WI Owner has agreed to convey the Net Profits Interest to Royalty Owner.

"Default Rate" means a rate of interest of fifteen percent (15%) per annum, calculated on the basis of actual days elapsed and a year of 360 days.

"Delivery Point" means, for any Hydrocarbons produced from any Subject Well, the point or points on or in the vicinity of the production platform for such Subject Well at which such Hydrocarbons are delivered into a gathering system or a transportation pipeline or are otherwise removed from the platform for transportation to shore.

"Delivery Services" has the meaning given such term in Section 3.2.

"Direct Taxes" means all ad valorem, property, gathering, transportation, pipeline regulating, gross receipts, severance, production, excise, heating content, carbon, value added, environmental, occupation, sales, use, fuel, and other taxes and governmental charges and assessments imposed on or as a result of all or any part of the Subject Interests, the Hydrocarbons produced from Subject Interests, the proceeds thereof, or the Net Profits Interest, regardless of

41

the point at which or the manner in which or the Person against whom such taxes, charges or assessments are charged, collected, levied or otherwise imposed. The only taxes which are not Direct Taxes are federal income taxes, state income taxes, and franchise taxes and penalty or interest surcharges thereon levied against Royalty Owner. Interest, penalties and withholding obligations owing to governmental authorities with respect to any Direct Taxes shall constitute "Direct Taxes".

"Environmental Laws" means any and all Laws relating to the environment or to emissions, discharges, releases or threatened releases of pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or wastes into the environment including ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution use, treatment, storage, disposal, transport, or handling of pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or wastes.

"Gas" means natural gas and all other gaseous hydrocarbons, including casinghead gas, but excluding condensate and other liquid hydrocarbons removed by conventional mechanical field separation at the wellhead and also excluding the liquid products of any processing of Gas done prior to the sale of such Gas.

"Gross Proceeds" means, with respect to any Subject Hydrocarbons: (1) if such Subject Hydrocarbons are sold in an arm's length transaction to a Non-Affiliate, the gross proceeds received from such sale of such Subject Hydrocarbons, and (2) in all other cases (including the sale of Subject

Hydrocarbons other than in an arm's length transaction to a Non-Affiliate), the higher (from time to time) of the gross proceeds received or accrued from the sale or other disposition of such Subject Hydrocarbons or the Market Value of such Subject Hydrocarbons, subject in both cases to the following:

(a) Gross Proceeds shall include all consideration received, directly or indirectly, for sales or other dispositions of Subject Hydrocarbons;

(b) If a controversy or possible controversy exists (whether by reason of any Law, contract, or otherwise) as to the correct or lawful sales price of any Subject Hydrocarbons sold to a Non-Affiliate, then amounts received by WI Owner and promptly deposited by it with a Non-Affiliate escrow agent, to be placed in interest bearing accounts under usual and customary terms, shall not be considered to have been received by WI Owner and shall not be included in Gross Proceeds until disbursed to WI Owner by such escrow agent; and

(c) Gross Proceeds shall not include any proceeds received by WI Owner from the sale of production belonging to another Person that WI Owner is entitled to obtain pursuant to the "nonconsent" provisions of any operating agreement as a result of having paid a portion of such other Person's costs of operations.

To the extent that clause (2) above is applicable to any Subject Hydrocarbons, the amounts described in clause (2) shall be deemed to have been received by Borrower during the Month next following the Month in which such Subject Hydrocarbons were produced.

42

"Hydrocarbons" means Gas and Oil.

"Law" means any constitution, statute, ordinance, regulation, rule, ruling, order, restriction, writ, judgement, decree, injunction, or other requirement or official act of or by any governmental authority of any kind.

"Lien" means, with respect to any property or assets, any lien, mortgage, security interest, pledge, security deposit, production payment, rights of a vendor under any title retention or conditional sale agreement or lease substantially equivalent thereto, tax lien, mechanic's or materialman's lien, or any other charge or encumbrance for security purposes, whether arising by Law or agreement or otherwise, but excluding any right of offset which arises without agreement in the ordinary course of business.

"Market Value" of any Subject Hydrocarbons means:

(a) With respect to any Gas, (i) the average of the three highest prices (adjusted for all material differences in quality) being paid at the time of production in sales between non-affiliated persons for Gas purchased within a 10-mile radius of the applicable Subject Well) but, for any Gas subject to price restrictions established, prescribed or otherwise imposed by any governmental authority having jurisdiction over the sale of such Gas, no more than the highest price permitted for such category or type of Gas after all applicable adjustments (including without limitation tax reimbursement, dehydration, compression and gathering allowances, inflation and other permitted escalations), or (ii) if subsection (a)(i) above is not applicable, the fair market value of such Gas on the date of delivery, at the lease level, determined in accordance with other generally accepted and usual industry practices; and

(b) With respect to Oil, (i) the highest price available to WI Owner for such Oil at the lease level, on the date of delivery, pursuant to a bona fide offer, posted price or other generally available marketing arrangement from or with a Non-Affiliate purchaser, or (ii) if no such offer, posted price or arrangement is available, the fair market value of such Oil on the date of delivery, at the lease level, determined in accordance with other generally accepted and usual industry practices.

"Month" means (i) the period between the Commencement Time and 7:00 A.M. Louisiana time on October 1, 1999, and (ii) thereafter, the period between 7:00 A.M. Louisiana time on the first day of one calendar month and 7:00 A.M. Louisiana time on the first day of the next calendar month.

"Net Profits" has the meaning given to such term in Section 2.2.

"Net Profits Interest" means the overriding royalty interest which is granted herein to Royalty Owner, and all other rights, titles, interests, estates, remedies, powers and privileges appurtenant or incident to such overriding royalty, whether hereunder, by operation of Law, or otherwise.

43

"Non-Affiliate" means, with respect to any Person, any Person who is not an Affiliate of such Person.

"NRI Percentage" means, with respect to each portion of Subject Lands described on Exhibit "A", the percentage shown on Exhibit "A" as the "Net Revenue Interest" for such portion of Subject Lands.

"Oil" means crude oil, condensate, and other liquid hydrocarbons, including liquid hydrocarbons removed by conventional mechanical field separation at the wellhead and also including the liquid products of any processing of Gas done prior to the sale of such Gas.

"Person" means an individual, corporation, partnership, limited liability company, association, joint stock company, pension fund, trust or trustee thereof, estate or executor thereof, unincorporated organization or joint venture, court or governmental unit or any agency or subdivision thereof, or any other legally recognizable entity.

"Reimbursable Expenses" means all actual and reasonable costs and expenses paid or incurred by or on behalf of Royalty Owner or its Affiliates which are in any way related to: (a) the negotiation, acquisition, ownership, enforcement, or termination of the Net Profits Interest, this Conveyance, the other Transaction Documents, or any waivers or amendments hereto or thereto, or (b) any litigation, contest, release or discharge of any adverse claim or demand made or proceeding instituted by any Person affecting in any manner whatsoever the Net Profits Interest, any Subject Hydrocarbons or Net Profits, this Conveyance or any other Transaction Document, or the enforcement or defense hereof or thereof, or the defense of Royalty Owner's and its Affiliates' exercise of their rights hereunder or thereunder. Included among the Reimbursable Expenses are (i) all recording and filing fees, (ii) all actual and reasonable fees and expenses of counsel, engineers, accountants and other consultants, experts and advisors for Royalty Owner and its Affiliates, and (iii) all amounts which Royalty Owner is entitled to receive under Section 5.1 hereof and all costs of Royalty Owner in exercising any of its remedies under Section 5.1 hereof. The Reimbursable Expenses are limited to certain costs incurred in connection with the closing of the transactions contemplated hereby and in the Credit Agreement, which limit is set out in detail in the Credit Agreement.

"Retained Interests" means the interests retained by WI Owner in the Subject Interests after conveyance of the Net Profits Interest hereunder.

"Royalty Owner" means the Person named in the preamble to this Conveyance as the Royalty Owner, and, unless the context in which used shall otherwise require, such term shall also include any successor to such Person as owner at the time in question of any or all of the Net Profits Interest.

"Subject Hydrocarbons" means that portion of the Hydrocarbons in and under and that may be produced from (or, to the extent pooled or unitized, allocated to) the Subject Lands which is attributable to the Subject Interests (determined after deducting all royalties, overriding royalties, production payments and similar burdens, excluding only the Net Profits Interest,

44

which both burden the Subject Interests at the Commencement Time and are reflected in the Net Revenue Interest figures set out on Exhibit "A").

"Subject Interests" means:

(a) All of the leasehold interests and other property interests described in Exhibit "A" attached hereto, to the extent of the NRI Percentage listed for such leasehold or other property interests on Exhibit "A"; and

(b) Without limitation of the foregoing, all other right, title and interest (of whatever kind or character, whether legal or equitable and whether vested or contingent) of WI Owner in and to the Oil, Gas and other minerals in and under or that may be produced from any Subject Lands (including interests in oil, gas or mineral leases to the extent the same cover such lands, overriding royalties, production payments and net profits interests in such lands or such leases, and fee mineral interests, fee royalty interests and other interests in such Oil, Gas and other minerals) even though WI Owner's interest in such Oil, Gas and other minerals may be incorrectly described in, or omitted from, Exhibit "A", to the extent of, and expressly limited to, the NRI Percentage listed for such leasehold or other property interests on Exhibit "A"; and

(c) All rights, titles and interests of WI Owner in and to, or otherwise derived from, all presently existing and valid oil, gas or mineral unitization, pooling, or communitization agreements, declarations or orders and in and to the properties covered and the units created thereby (including all units formed under orders, rules, regulations, or other official acts of any federal, state, or other authority having jurisdiction, voluntary unitization agreements, designations or declarations, and so-called "working interest units" created under operating agreements or otherwise) relating to the properties described in subsections (a) or (b) above in this definition.

"Subject Lands" means the lands and depths described in Exhibit "A" (where no depth limit is specified, Subject Lands shall include all depths) and all lands and depths covered by Subject Interests described in subsection (a) of the previous definition whether or not described in Exhibit "A".

"Subject Wells" means all wells now located on the Subject Lands (whether fully drilled and completed or not) or hereafter drilled on the Subject Lands, and (unless production therefrom is expressly excluded by the terms of the descriptions on Exhibit "A") any other wells now or hereafter located on lands or leases pooled, communitized or unitized with the Subject Lands or the Subject Interests.

"Transaction Documents" means this Conveyance, the Credit Agreement, and all of the other "Loan Documents" referred to in the Credit Agreement.

"WI Owner" means the Person named in the preamble of this Conveyance as WI Owner, and, unless the context in which used shall otherwise require, such term means any successor-

45

owner at the time in question of any or all of the Subject Interests (other than the Net Profits Interest).

Section 1.2. Rules of Construction. All references in this Conveyance to articles, sections, subsections and other subdivisions refer to corresponding articles, sections, subsections and other subdivisions of this Conveyance unless expressly provided otherwise. Titles appearing at the beginning of any of such subdivisions are for convenience only and shall not constitute part of such subdivisions and shall be disregarded in construing the language contained in such subdivisions. The words "this Conveyance", "this instrument", "herein", "hereof", "hereunder" and words of similar import refer to this Conveyance as a whole and not to any particular subdivision unless expressly so limited. Unless the context otherwise requires: "including" and its grammatical variations mean "including without limitation"; "or" is not exclusive; words in the singular form shall be construed to include the plural and vice versa; words in any gender include all other genders; references herein to any instrument or agreement refer to such instrument or agreement as it may be from time to time amended or supplemented; and references herein to any Person include such Person's successors and assigns. All references in this Conveyance to exhibits and schedules refer to exhibits and schedules to this Conveyance unless expressly provided otherwise, and all such exhibits and schedules are hereby incorporated herein by reference and made a part hereof for all purposes.

ARTICLE II

Section 2.1. Conveyance. WI Owner does hereby GRANT, BARGAIN, SELL, CONVEY, ASSIGN, TRANSFER, SET OVER AND DELIVER unto Royalty Owner an overriding royalty interest in and to the Subject Hydrocarbons equal to five percent (5.0%) of the Net Profits, if any, calculated in the manner provided for herein, that are realized from the production of Hydrocarbons from the Subject Interests from and after the Commencement Time.

TO HAVE AND TO HOLD the Net Profits Interest, together with all and singular the rights and appurtenances thereto in anywise belonging, unto Royalty Owner and its successors and assigns, forever, subject to the terms and conditions hereof.

Section 2.2. Net Profits. WI Owner shall determine the Net Profits for each Month on or before the last Business Day of the following Month. As used herein, "Net Profits" means, for any Month, the positive remainder, if any, of:

- (a) all of the Gross Proceeds from the sale of Subject Hydrocarbons which were received or deemed received during such Month, minus
- (b) all severance and production taxes paid out of such Gross Proceeds, minus
- (c) all direct costs (excluding capital costs) which are attributable to the Subject Interests (i) for all direct labor and other services necessary for operating, producing, and maintaining the Subject Interests after the Commencement Time, (ii) for compression and separation of the Subject Hydrocarbons after the Commencement Time and prior to the sale thereof, and (iii) for all material and supplies purchased after the Commencement

46

Time to carry out the activities described in the preceding clauses (i) and (ii) provided, however, that the subtractions made pursuant to this subsection with respect to any Subject Interest shall be made on the same basis as such costs are charged under the operating agreement (if any) applicable to such Subject Interest at the time the transaction giving rise to such subtraction occurred and further provided that no such subtraction shall include any payments by WI Owner pursuant to the "nonconsent"

provisions of any such operating agreement for another Person's share of the costs of operations.

WI Owner acknowledges and agrees that the costs set out in the preceding clauses (b) and (c) do not represent (and are not intended to represent) all of the costs of WI Owner in operating the Subject Interests, and that only the costs specifically described in such clauses (b) and (c) shall be subtracted in calculating Net Profits.

Section 2.3. Payments. WI Owner shall furnish to Royalty Owner a detailed statement setting out the calculation of the Net Profits for each Month on or before the last Business Day of the following Month, clearly reflecting (with sufficient description so that Royalty Owner can identify such items and the particular Subject Interest involved) each item taken into account in making such calculation and clearly reflecting for each Subject Interest the quantities of Subject Hydrocarbons produced therefrom during the Month covered by such statement, the volumes of such production sold, the prices at which such volumes were sold, and the taxes paid with respect to such sales. WI Owner shall pay to Royalty Owner its share of the Net Profits shown in such statement by means of a check enclosed with such statement (or, if requested at any time by Royalty Owner, paid by bank wire transfer of immediately available funds to such bank and account as may be designated in writing by Royalty Owner).

Section 2.4. Overpayments. If at any time WI Owner inadvertently pays Royalty Owner more than the amount then due with respect to the Net Profits Interest, Royalty Owner (a) shall promptly pay back to WI Owner any particular overpayment which exceeds \$5,000, and (b) shall not be obligated to return any particular overpayment which does not exceed \$5,000, but the amount or amounts otherwise payable for any subsequent period or periods shall be reduced by such overpayment.

Section 2.5. Past Due Payments. Any amount not paid by WI Owner to Royalty Owner with respect to the Net Profits Interest when due shall bear, and WI Owner hereby agrees to pay, interest at the Default Rate from the due date until such amount has been paid.

Section 2.6. Non-Cost-Bearing Interest. The Net Profits Interest shall be free and clear of (a) all Direct Taxes, (b) all costs and expenses associated with acquiring, exploring, developing, maintaining, producing, operating, reworking, recompleting, and remediating the Subject Interests, (c) all royalties, overriding royalties, production payments, and similar charges burdening the Subject Interests, and (d) all costs for separating, gathering, compressing, treating, processing or transporting Subject Hydrocarbons. Although certain Direct Taxes and operating expenses are taken into account in determining Net Profits, all Direct Taxes, all costs and expenses associated with acquiring, exploring, developing, maintaining, producing, operating, reworking, recompleting, and remediating the Subject Interests, all royalties, overriding royalties, production payments, and similar charges burdening the Subject Interests, and all costs for

47

separating, gathering, compressing, treating, processing or transporting Subject Hydrocarbons shall be borne by the Retained Interests and paid by WI Owner promptly, on or before the dates the same become delinquent (unless being disputed in good faith by appropriate proceedings being diligently pursued and for which adequate reserves have been established, provided that such dispute causes no interruption in production or Delivery Services). In addition, WI Owner will promptly (and in any event within 30 days after receiving any notice or statement for the same) pay all Reimbursable Expenses which have been incurred and are unpaid and reimburse Royalty Owner for any Reimbursable Expenses which have been paid by or on behalf of Royalty Owner. Each amount which is to be paid by WI Owner pursuant to this Section 2.6 which is instead paid by or on behalf of Royalty Owner shall bear interest at the Default Rate on each day from and including the date of such payment until but not including the date repaid by WI Owner.

Section 2.7. Measurement: Hydrocarbons Lost or Used. As used in this Conveyance, the term "Subject Hydrocarbons" shall not include (and the calculation of Gross Proceeds shall not include) Hydrocarbons produced from any particular Subject Well which are unavoidably lost in the production thereof or in the compression or transportation thereof prior to the applicable Delivery Point or which are used by WI Owner or the operator of any Subject Well for the production of Subject Hydrocarbons or for the compression or transportation of Subject Hydrocarbons prior to the applicable Delivery Point, in each case only to the extent the same are lost or used in the course of operations which are being conducted prudently and in a good and workmanlike manner. WI Owner hereby represents, warrants and covenants to Royalty Owner that production from each Subject Well is and will continue to be measured at a point prior to any point where Hydrocarbons from such Subject Well are commingled with Hydrocarbons from any other well or wells that are not Subject Wells.

Section 2.8. No Proportionate Reduction. It is understood and agreed that, though the Net Profits Interest is conveyed by WI Owner to Royalty Owner out of the Subject Interests, the Subject Hydrocarbons (and thus the Net Profits) shall

be determined based on 100% of the full NRI Percentage of the Hydrocarbons produced from (or, to the extent pooled or unitized, allocated to) the various Subject Lands and shall not be reduced for any reason. Among other things, the Net Profits Interest, the Subject Hydrocarbons and the Net Profits shall not be reduced due to (a) the undivided interest owned by WI Owner in a lease constituting any Subject Interests being less than the entire interest in such lease, or (b) the interest in Hydrocarbons underlying any portion of the Subject Lands which is covered by a particular lease (or group of leases) being less than the entire interest in the Hydrocarbons underlying such portion of the Subject Lands, or (c) the share of production from (or, to the extent pooled or unitized, allocated to) any portion of Subject Lands which is attributable to the Subject Interests being less than the NRI Percentage set forth on Exhibit "A" for such portion of the Subject Lands, or (d) WI Owner's failure to own, or otherwise have good title to, all or any part of the Subject Interests as described on Exhibit "A".

48

ARTICLE III

Section 3.1. Operations. As between Royalty Owner and WI Owner, WI Owner shall have exclusive charge, management and control of all operations to be conducted on the Subject Interests. WI Owner shall take or cause to be taken any and all actions that a prudent operator would deem necessary or appropriate in the development, operation, maintenance and management thereof and in the production, handling, treating and transportation of Hydrocarbons produced therefrom to the applicable Delivery Points, and in so doing WI Owner shall not take into account the diminution in WI Owner's share of production from the Subject Interests caused by the granting of the Net Profits Interest and WI Owner shall at all times make its economic decisions as if WI Owner owned the full interest in the Subject Interests undiminished by the Net Profits Interest. In addition to, but without limitation of, the foregoing, (a) WI Owner shall maintain the Subject Interests full force and effect, (b) WI Owner shall not allow any Liens to attach to or burden the Net Profits Interest, (c) WI Owner shall not, except as required by Law, pool or unitize the Subject Interests in any way that would affect the calculation of the Net Profits Interest unless Royalty Owner has first consented thereto in writing, and (d) WI Owner shall perform for the benefit of Royalty Owner all obligations with respect to the Subject Interests and Subject Wells that are owed by WI Owner to the lessor of any of the Subject Interests and will furnish to Royalty Owner copies of all reports and other information delivered to such lessor.

Section 3.2. Delivery Services. WI Owner shall deliver, or cause to be delivered, all Subject Hydrocarbons to the relevant Delivery Point in a condition satisfactory to meet or exceed pipeline or transporter specifications and qualifications at such Delivery Point, and WI Owner will market and sell (or cause to be marketed and sold) all of the Subject Hydrocarbons in arm's length transactions with Non-Affiliates on reasonable market terms that are at least as good as those obtained by WI Owner and its Affiliates with respect to all other Hydrocarbons marketed by them in the area of the Subject Lands. All tasks required to make such delivery (whether gathering, treating, separating, compressing, processing, transporting, or otherwise), marketing and sales are herein called the "Delivery Services". Although the costs of certain Delivery Services are taken into account in determining Net Profits, all Delivery Services, whether performed by WI Owner or by any other Person, shall be performed without any cost or charge to Royalty Owner, whether incurred or assessed by WI Owner or any other Person, and all costs so incurred or assessed shall be borne by the Retained Interests and paid by WI Owner.

Section 3.3. Renewals and Extensions and New Leases. This Conveyance and the Net Profits Interest shall apply to WI Owner's and its Affiliates' interests in all renewals, extensions and other similar arrangements of each lease (or other determinable interest) which is included in the Subject Interests, whether such renewals, extensions or arrangements have heretofore been obtained by WI Owner or are hereafter obtained by or for WI Owner or any Affiliate thereof and whether or not the same are described in Exhibit "A". For the purposes of the preceding sentence, a new lease that covers the same interest (or any part thereof) covered by a prior lease, and which is acquired within one year after the expiration, termination, or release of such prior lease, shall be treated as a renewal or extension of such prior lease.

49

ARTICLE IV

Section 4.1. No Liability of Royalty Owner Parties; Indemnity. NO ROYALTY OWNER PARTY SHALL EVER BE RESPONSIBLE FOR ANY PART OF THE COSTS, EXPENSES OR LIABILITIES INCURRED IN CONNECTION WITH:

(A) THE EXPLORING, DEVELOPING, OPERATING, OWNING, MAINTAINING, REWORKING OR RECOMPLETING OF THE SUBJECT INTERESTS OR SUBJECT LANDS, THE PHYSICAL CONDITION OF THE SUBJECT INTERESTS OR THE SUBJECT LANDS, OR THE HANDLING, TREATING OR TRANSPORTING OF HYDROCARBONS PRODUCED FROM THE SUBJECT LANDS (INCLUDING ANY COSTS, EXPENSES, LOSSES OR LIABILITIES RELATED TO VIOLATION OF AN ENVIRONMENTAL LAW OR OTHERWISE RELATED TO DAMAGE TO OR REMEDIATION OF THE ENVIRONMENT, WHETHER THE SAME ARISE OUT OF ROYALTY

OWNER'S OWNERSHIP OF AN INTEREST IN PROPERTY OR OUT OF THE ACTIONS OF WI OWNER OR ROYALTY OWNER OR OF THIRD PARTIES OR ARISE OTHERWISE), OR

(B) THE FAILURE BY WI OWNER TO HAVE GOOD AND DEFENSIBLE TITLE TO THE SUBJECT INTERESTS FREE AND CLEAR OF ALL BURDENS, ENCUMBRANCES, LIENS AND TITLE DEFECTS OTHER THAN PERMITTED ENCUMBRANCES (INCLUDING ANY COSTS, EXPENSES, LOSSES OR LIABILITIES SUFFERED BY ANY ROYALTY OWNER PARTY AS A RESULT OF ANY CLAIM THAT SUCH ROYALTY OWNER PARTY MUST DELIVER OR PAY OVER TO ANY PERSON ANY PART OF THE NET PROFITS AT ANY TIME PREVIOUSLY RECEIVED OR THEREAFTER TO BE RECEIVED BY SUCH ROYALTY OWNER PARTY),

AND WI OWNER WILL INDEMNIFY AND HOLD EACH ROYALTY OWNER PARTY HARMLESS FROM AND AGAINST ALL COSTS, EXPENSES, LOSSES AND LIABILITIES INCURRED BY ANY ROYALTY OWNER PARTY IN CONNECTION WITH ANY OF THE FOREGOING OR IN CONNECTION WITH THE NET PROFITS INTEREST, THIS CONVEYANCE, ANY OTHER TRANSACTION DOCUMENT, OR THE TRANSACTIONS AND EVENTS (INCLUDING THE ENFORCEMENT OR DEFENSE THEREOF OR HEREOF) AT ANY TIME ASSOCIATED WITH OR CONTEMPLATED IN ANY OF THE FOREGOING. SUCH INDEMNITY SHALL

50

ALSO COVER ALL REASONABLE COSTS AND EXPENSES OF ANY ROYALTY OWNER PARTY, INCLUDING REASONABLE LEGAL FEES AND EXPENSES, WHICH ARE INCURRED IN CONNECTION WITH THE MATTERS INDEMNIFIED AGAINST. AS USED IN THIS SECTION 4.1, "ROYALTY OWNER PARTIES" MEANS ROYALTY OWNER AND ROYALTY OWNER'S SUCCESSORS AND ASSIGNS (INCLUDING ANY PERSON AT ANY TIME LENDING FUNDS TO ROYALTY OWNER SECURED BY A LIEN ON ANY PART OF THE NET PROFITS INTEREST), ALL OF THEIR RESPECTIVE AFFILIATES, AND ALL OF THE OFFICERS, DIRECTORS, AGENTS, BENEFICIARIES, TRUSTEES, ATTORNEYS AND EMPLOYEES OF THEMSELVES AND THEIR AFFILIATES.

THE FOREGOING INDEMNITY SHALL APPLY WHETHER OR NOT ARISING OUT OF THE SOLE, JOINT OR CONCURRENT NEGLIGENCE, FAULT OR STRICT LIABILITY OF ANY ROYALTY OWNER PARTY AND SHALL APPLY, WITHOUT LIMITATION, TO ANY LIABILITY IMPOSED UPON ANY ROYALTY OWNER PARTY AS A RESULT OF ANY THEORY OF STRICT LIABILITY OR ANY OTHER DOCTRINE OF LAW, PROVIDED THAT THE FOREGOING INDEMNITY SHALL NOT APPLY TO ANY COSTS, EXPENSES, LOSSES OR LIABILITIES INCURRED BY ANY ROYALTY OWNER PARTY TO THE EXTENT PROXIMATELY CAUSED BY THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF SUCH ROYALTY OWNER PARTY. THE FOREGOING INDEMNITY SHALL SURVIVE ANY TERMINATION OF THIS AGREEMENT AND SHALL INURE TO THE BENEFIT OF ALL OF THE ROYALTY OWNER PARTIES, REGARDLESS OF ANY SALE OR TRANSFER OF ITS RIGHTS UNDER THIS AGREEMENT BY ONE ROYALTY OWNER PARTY TO ANOTHER ROYALTY OWNER PARTY.

ARTICLE V

Section 5.1. Remedies. If WI Owner breaches any of its covenants, agreements, representations or warranties made in this Conveyance (or made with respect to this Conveyance or the Net Profits Interest in any other Transaction Document), or if WI Owner or any of its Affiliates or any Person acting on its behalf challenges the validity or enforceability of any provision of this Conveyance, then Royalty Owner may, either on its own behalf or through any agent or representative and in addition to all other rights and remedies available to Royalty Owner at law and in equity (including the right to sue for damages, which right of Royalty Owner is specifically acknowledged), exercise any one or more of the following remedies (it being agreed that the exercising of any one remedy shall not preclude the exercising of any other remedy):

51

(a) If WI Owner has failed to cure any of the foregoing breaches or to obtain the dismissal and termination of any of the foregoing challenges, then, upon written notice to WI Owner, Royalty Owner may, but shall not be obligated to, take such action and pay such money, all in WI Owner's name or in Royalty Owner's own name, as may be required to cure or mitigate such breach or to obtain the dismissal and termination of such challenge. Any expenses so incurred by Royalty Owner and any money so paid by Royalty Owner shall be obligations owing by WI Owner to Royalty Owner (which obligations WI Owner hereby expressly promises to pay) and Royalty Owner, upon making such payment, shall be subrogated to all rights of the Person receiving such payment. Each amount due and owing by WI Owner to Royalty Owner pursuant to this subsection shall bear interest each day, from the date of such expenditure or payment until paid, at the Default Rate, which interest shall be payable on the first day of each calendar month and shall itself bear interest at the same rate if not timely paid.

(b) Royalty Owner shall be entitled to apply to a court of competent jurisdiction for the specific performance or observance of any covenant or agreement or in aid of the execution of any power herein granted and for the appointment of a receiver for the Subject Interests and the Subject Hydrocarbons, but no such appointment shall prejudice or affect the rights of Royalty Owner to receive all Net Profits and any amounts due under the Transaction Documents.

Section 5.2. Termination of Remedies. The specific remedies to which Royalty Owner may become entitled under Sections 5.1(a) and (b) shall cease to be exercisable when all breaches of or challenges to this Conveyance have been

fully cured (provided that the effecting of performance or observation of any unperformed covenant or agreement, or other resolution of such a breach by Royalty Owner or Royalty Owner's agent or representative shall not be deemed to cure any such breach), without prejudice, however, to the exercise of any such remedies upon any subsequent breach or challenge. Nothing in this section shall impose limitations or otherwise inhibit the exercise of any other rights or remedies which Royalty Owner may have.

ARTICLE VI

Section 6.1. Assignments. Royalty Owner shall have the right to assign, sell, transfer, convey, exchange, mortgage or pledge the Net Profits Interest in whole or in part at any time, subject to its obligation under the Credit Agreement to reconvey a portion of the Net Profits Interest to WI Owner under certain circumstances. Upon termination of the Credit Agreement and the liens granted pursuant thereto on the Subject Interests, WI Owner shall have the right to assign, sell, transfer, convey, exchange, mortgage or pledge its interest in the Subject Interests in whole or in part at any time, subject to the Net Profits Interest and the terms of this Conveyance.

Section 6.2. Binding Effect. All the covenants and agreements of the respective parties herein contained shall be deemed to be covenants running with the Subject Interests and the lands covered thereby or included therein. All of the provisions hereof shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

52

ARTICLE VII

Section 7.1. General Warranty of Title. WI Owner hereby binds itself to warrant and forever defend all and singular title to the Net Profits Interest unto Royalty Owner, its successors and assigns, against every person lawfully claiming or to claim the same or any part thereof. Without limitation of the generality of the foregoing, WI Owner represents and warrants to Royalty Owner that the ownership of WI Owner of the Subject Interests does and will, with respect to each tract of land, lease or unit identified in Exhibit "A" hereto:

(a) entitle WI Owner and Royalty Owner collectively to receive, free and clear of liens and encumbrances, a decimal or percentage net revenue interest share of the Hydrocarbons produced from, or allocated to, such tract, lease or unit equal to not less than the decimal or percentage interest set forth in Exhibit "A" in connection therewith in the column headed "Net Revenue Interest", and

(b) cause WI Owner to be obligated to bear a decimal or percentage share of the costs associated with wells or operation on such tract, lease or unit not greater than the decimal or percentage share set forth in Exhibit "A" in connection therewith in the column headed "Working Interest", without a corresponding increase in net revenue interest.

WI Owner further represents and warrants to Royalty Owner that such shares of production which WI Owner and Royalty Owner are entitled to receive, and shares of expenses which WI Owner is obligated to bear, are not and will not be subject to change except, and only to the extent that, such changes are reflected on Exhibit "A". This Conveyance is made with full substitution and subrogation of Royalty Owner in and to all covenants, representations and warranties by others heretofore given or made with respect to the Subject Interests.

ARTICLE VIII

Section 8.1. Choice of Law. This Conveyance shall be construed and enforced in accordance with and governed by the laws of the State of Louisiana and the laws of the United States of America.

Section 8.2. Intentions of the Parties. Nothing herein contained shall be construed to constitute either party hereto (under state Law or for tax purposes) in partnership with the other party. The parties hereto intend that the Net Profits Interest shall at all times be treated (and all provisions of this Conveyance shall be construed and treated accordingly) as an overriding royalty, a mineral right and a real right under the Laws of the State of Louisiana, belonging solely to Royalty Owner.

Section 8.3. No Ownership of Equipment. The Net Profits Interest does not include any right, title or interest in and to any of the personal property, fixtures, structures or equipment now or hereafter placed on, or used in connection with, the Subject Interests.

53

Section 8.4. Further Assurances. WI Owner hereto agrees, upon request therefor by Royalty Owner, to execute and deliver to Royalty Owner all such other and additional instruments, notices, division orders, transfer orders and other documents and to do all such other and further acts and things as may be reasonably necessary or desirable to correct any error herein and to more fully

and effectively grant, convey and assign to Royalty Owner the rights, titles, interest and estates conveyed to Royalty Owner hereby or intended to be so conveyed. If any Person ever challenges or attacks (a) the validity, enforceability or priority of this Conveyance or the Net Profits Interest or (b) the title of WI Owner to any Subject Interest or of Royalty Owner to the Net Profits Interest, then upon learning thereof WI Owner will give prompt written notice thereof to Royalty Owner and at WI Owner's own cost and expense will diligently endeavor to defeat such challenge or attack and to cure any defect that may be developed or claimed, and WI Owner will take all reasonable steps for the defense of any legal proceedings with respect thereto, including the employment of counsel to represent WI Owner, the prosecution or defense of litigation, and the release or discharge of all adverse claims. Royalty Owner is hereby authorized and empowered to take such additional steps as in its judgment and discretion may be necessary or proper for the defense of any such legal proceedings or the protection of the enforceability, validity or priority of this Conveyance and the Net Profits Interest, including the employment of independent counsel to represent Royalty Owner, the prosecution or defense of litigation, the compromise or discharge of any adverse claims made with respect to the Subject Interests or the Net Profits Interest, the purchase of any tax title and the removal of prior Liens, and all reasonable and related expenditures so made of every kind and character shall be a Reimbursable Expense (which obligation WI Owner hereby expressly promises to pay on demand) owing by WI Owner to Royalty Owner and shall bear interest from the date demanded until paid at the Default Rate.

Section 8.5. No Partition. WI Owner and Royalty Owner acknowledge that neither has any right or interest that would permit it to partition any portion of the Subject Interests as against the other, and each waives any such right.

Section 8.6. Notices and Addresses. All notices and other communications required or permitted under this Conveyance shall be in writing and, unless otherwise specifically provided, shall be delivered personally or by telecopier or by registered or certified mail, postage prepaid, or by delivery service with proof of delivery, at the respective addresses shown below, and shall be deemed delivered on the date of receipt. Either party may specify as its proper address any other street address within the continental limits of the United States by giving notice to the other party, in the manner provided in this section, at least fifteen (15) days prior to the effective date of such change of address.

54

WI Owner's address:

Cheniere Energy, Inc.
Two Allen Center
1200 Smith Street, Suite 1710
Houston, Texas 77002-4312
Attention: Don Turkleson
Telephone: (713) 659-1361
Telecopy: (713) 659-5459

Royalty Owner's address:

EnCap Energy Capital Fund III, L.P.
1100 Louisiana, Suite 3150
Houston, Texas 77002
Attention: John Howie
Telephone: (713) 659-6100
Telecopy: (713) 659-0200

Section 8.7. Consents, Waivers, Supplements and Amendments. No consent, waiver, supplement or amendment given by Royalty Owner in connection with this Conveyance or the Net Profits Interest shall be valid or effective unless given in writing and signed by Royalty Owner.

Section 8.8. Counterparts. This Conveyance is being executed in multiple counterparts, all of which are identical.

Section 8.9. Arbitration.

(a) As used in this section:

(1) "AAA" means the American Arbitration Association (or any successor thereto),

(2) "Claims" means all claims by either party hereto against the other with respect to the Net Profits Interest, this Conveyance, or any of the Transaction Documents (including among others any claims with respect to the interpretation or validity of any Transaction Document, the existence or scope of any duties owed thereunder, whether or not any such duties have been performed or breached in any circumstances, or the extent or enforcement of any property rights created thereunder or subject

thereto), and

(3) "Disputed Matters" means all Claims, all defenses against any Claims, and all controversies relating thereto.

55

(b) If either party hereto ever desires to assert a Claim against the other party, the party asserting such Claim will give written notice thereof to the other party. During the thirty day period following receipt of such notice by the other party, both parties will discuss such Claim and the validity thereof. If the parties hereto cannot come to agreement about such Claim by the end of such thirty day period (as such period may be extended by mutual agreement), then within fifteen days after the end of such period either party may by written notice to the other invoke the arbitration provisions of this Conveyance, whereupon Royalty Owner and WI Owner shall submit such Claim and all Disputed Matters in any way related thereto to arbitration under the procedures in the next following subsection (c).

(c) All Disputed Matters shall be resolved by arbitration conducted by three arbitrators in accordance with this Section 8.9 and, to the extent not in conflict herewith, under the auspices of the AAA and under the Commercial Arbitration Rules of the AAA then in effect. Each such arbitrator must be independent and impartial and a person with at least ten years' experience in the financing and valuation of oil and gas properties. Within ten days after the sending and receipt of a notice invoking arbitration as provided in subsection (b) above, each of WI Owner and Royalty Owner shall specify (by notice to the other) the name and address of an arbitrator appointed by it. At the end of such ten days, if one party has made a specification of its appointed arbitrator but has not received notice of a similar specification by the other party, then the party which has made a specification shall give notice to the other party that it has not received a specification from the other party. If the other party does not act to specify its arbitrator within an additional seven days after the giving of such notice, the party who has made its specification may appoint the second arbitrator in place of the party who has failed to do so. Within fifteen days after the first two arbitrators have been appointed, they shall select the third arbitrator. If a third arbitrator has not been selected within such period, either party hereto may petition the Administrative Judge presiding over the State District Courts of Harris County, Texas to appoint such third arbitrator, whereupon such judge (or any person designated by such judge to make such appointment) may make such appointment unless the first two arbitrators have come to agreement on the third arbitrator. Consistent with the expedited nature of arbitration, each party will, upon the written request of the other party, provide the other with copies of documents relevant to the issues raised by the Disputed Matter. Other discovery may be ordered by the arbitrators to the extent they deem relevant and appropriate, and any dispute regarding discovery, including disputes as to the need thereof or the relevance or scope thereof, shall be determined by the arbitrators, whose determination shall be conclusive. All arbitrations hereunder shall be held in Houston, Texas at locations to be determined by the arbitrators. Royalty Owner and WI Owner shall proceed expeditiously with any such arbitration and shall conclude all proceedings thereunder, including any hearing, in order to allow a decision based on applicable Law to be rendered within ninety days after the appointment of the third arbitrator. The decision of any two such arbitrators on the issues before them shall be final, and any award or order so decided may be enforced in any court having personal jurisdiction over the party against whom enforcement is sought. WI Owner shall pay all fees due to the AAA and shall bear its own expenses, including attorneys' fees and expenses of arbitration, in connection with any such arbitration, but all expenses of Royalty Owner shall be considered Reimbursable Expenses to be paid or reimbursed by WI Owner. The arbitrators shall honor WI Owner's and Royalty Owner's election of the Laws of the State of Texas and the State of Louisiana as set out in the various Transaction Documents, provided that each arbitration proceeding shall also be subject to

56

the United States Arbitration Act, 9 U.S.C., Chapter 1, (S)(S) 1 et seq, to the extent applicable. THE ARBITRATORS ARE NOT EMPOWERED TO AWARD PUNITIVE OR EXEMPLARY DAMAGES ON ANY CLAIM (BUT ARE EMPOWERED TO AWARD REIMBURSABLE EXPENSES TO ROYALTY OWNER AND PRE-AWARD INTEREST TO EITHER PARTY), AND EACH OF WI OWNER AND ROYALTY OWNER HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE TO RECOVER PUNITIVE OR EXEMPLARY DAMAGES ON ANY CLAIM.

(d) All applicable statutes of limitations and defenses based on the passage of time shall be tolled during the period in which arbitration has been invoked as set forth in this section. Each of WI Owner and Royalty Owner is required to continue to perform its obligations under the Transaction Documents pending final resolution of any Disputed Matter.

IN WITNESS WHEREOF, this Conveyance is executed and delivered on September 1, 1999 and is made effective as of the Commencement Time.

By: /s/ Michael L. Harvey

Michael L. Harvey
President

57

ACKNOWLEDGMENT

STATE OF TEXAS (S)
(S)
COUNTY OF HARRIS (S)

On this date before me, the undersigned authority, personally came and appeared Michael L. Harvey, to me personally known and known by me to be the person whose genuine signature is affixed to the foregoing document as the President of Cheniere Energy, Inc., a Delaware corporation, who signed said document before me in the presence of the two witnesses, whose names are thereto subscribed as such, being competent witnesses, and who acknowledged, in my presence and in the presence of said witnesses, that he signed the above and foregoing document as his own free act and deed on behalf of such corporation by authority of its board of directors and as the free act and deed of such corporation and for the uses and purposes therein set forth and apparent.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal in the City of Houston, Harris County, Texas, on the day and year first above written.

NOTARY PUBLIC, State of Texas

(printed name)

My commission expires:

[SEAL]

58

MORTGAGE,
ASSIGNMENT, SECURITY AGREEMENT, FIXTURE FILING
AND FINANCING STATEMENT
FROM
CHENIERE ENERGY, INC.
(Taxpayer I.D. No. 95-45352386)
TO

ENCAP ENERGY CAPITAL FUND III, L.P.
(Taxpayer I.D. No.76-0545517)
Dated September 1, 1999

A CARBON, PHOTOGRAPHIC, FACSIMILE, OR OTHER REPRODUCTION OF THIS INSTRUMENT IS SUFFICIENT AS A FINANCING STATEMENT.

THIS INSTRUMENT CONTAINS AFTER-ACQUIRED PROPERTY PROVISIONS, SECURES PAYMENT OF FUTURE ADVANCES, AND COVERS PROCEEDS OF COLLATERAL.

THIS INSTRUMENT COVERS MINERALS AND OTHER SUBSTANCES OF VALUE WHICH MAY BE EXTRACTED FROM THE EARTH (INCLUDING WITHOUT LIMITATION OIL AND GAS), AND THE ACCOUNTS RELATED THERETO, WHICH WILL BE FINANCED AT THE WELLHEADS OR MINEHEADS OF THE WELLS OR MINES LOCATED ON THE PROPERTIES DESCRIBED IN SECTION 1.1 OF THIS INSTRUMENT. THIS INSTRUMENT COVERS GOODS WHICH ARE OR ARE TO BECOME FIXTURES ON THE REAL PROPERTY DESCRIBED HEREIN. THIS INSTRUMENT IS TO BE FILED FOR RECORD, AMONG OTHER PLACES, IN THE REAL ESTATE OR COMPARABLE RECORDS OF THE COUNTIES AND/OR PARISHES REFERENCED IN EXHIBIT A HERETO AND SUCH FILING SHALL SERVE, AMONG OTHER PURPOSES, AS A FIXTURE FILING. THE MORTGAGOR HAS AN INTEREST OF RECORD IN THE REAL ESTATE AND IMMOVABLE PROPERTY CONCERNED, WHICH INTEREST IS DESCRIBED IN SECTION 1.1 OF THIS INSTRUMENT.

WHEN RECORDED OR FILED RETURN TO: THIS DOCUMENT PREPARED BY:

Thompson & Knight L.L.P.
1700 Pacific Avenue
Suite 3300
Dallas, Texas 75201
Attention: Melissa Vance

John W. Rain
Thompson & Knight L.L.P.
1700 Pacific Avenue
Suite 3300
Dallas, Texas 75201

MORTGAGE, ASSIGNMENT, SECURITY AGREEMENT,
FIXTURE FILING AND FINANCING STATEMENT

BE IT KNOWN that on the 1st day of September, 1999, BEFORE ME, the undersigned Notary Public duly commissioned and qualified in and for the State set forth below, PERSONALLY APPEARED CAME AND APPEARED

Cheniere Energy, Inc., a Delaware corporation represented herein by Michael L. Harvey, its President and Chief Executive Officer, duly authorized by resolution of its Board of Directors, a certified copy of which is annexed hereto as Annex I, whose mailing address is Two Allen Center, Suite 1740, 1200 Smith Street, Houston, Texas 77002, and whose federal tax identification number 95-45352386 ("Mortgagor"), and

EnCap Energy Capital Fund III, L.P., a Texas limited partnership, represented herein by the undersigned duly authorized officer of EnCap Investments L.L.C., a Delaware limited liability company, its general partner, whose mailing address is 1100 Louisiana Street, Suite 3150, Houston, Texas 77002 and whose federal tax identification number is 76-0545517 ("Mortgagee"),

who being duly sworn, executed this Mortgage, Assignment, Security Agreement, Fixture Filing and Financing Statement (this "Mortgage") on the terms and conditions set forth herein.

ARTICLE I.

Granting Clauses; Secured Indebtedness

Section 1.1. Grant and Mortgage. Mortgagor, for and in consideration of the sum of Ten Dollars (\$10.00) to Mortgagee in hand paid, in order to secure the payment of the secured indebtedness hereinafter referred to and the performance of the obligations, covenants, agreements, warranties and undertakings of Mortgagor hereinafter described, does hereby MORTGAGE ASSIGN, WARRANT, PLEDGE AND HYPOTHECATE to Mortgagee the following described properties, rights and interests (the "Mortgaged Properties"):

A. The oil, gas and/or mineral properties, mineral servitudes and/or mineral rights which are described in Exhibit "A" attached hereto and made a part hereof;

B. Without limitation of the foregoing, all other right, title and interest of Mortgagor of whatever kind or character (whether now owned or hereafter acquired by operation of law or otherwise) in and to (i) the oil, gas and/or mineral leases or other agreements described in Exhibit "A" hereto, or (ii) the lands (including submerged lands) described or referred to in Exhibit "A" (or described in any of the instruments described or referred to in Exhibit "A"), without regard to any limitations as to specific lands or depths that may be set forth in Exhibit "A" hereto or in any of the leases or other agreements described in Exhibit "A" hereto;

C. All of Mortgagor's interest (whether now owned or hereafter acquired by operation of law or otherwise) in and to all presently existing and hereafter created oil, gas and/or mineral unitization, pooling and/or communitization agreements, declarations and/or orders, and in and to the properties, rights and interests covered and the units created thereby (including, without limitation, units formed under orders, rules, regulations or other official acts of any federal, state or other authority having jurisdiction), which cover, affect or otherwise relate to the properties, rights and interests described in clause A or B above;

D. All of Mortgagor's interest in and rights under (whether now owned or hereafter acquired by operation of law or otherwise) all presently existing and hereafter created operating agreements, equipment leases, production sales contracts, processing agreements, transportation agreements, gas balancing agreements, farmout and/or farm-in agreements, salt water disposal agreements, area of mutual interest agreements, and other contracts and/or agreements which cover, affect, or otherwise relate to the properties, rights and interests described in clause A, B or C above or to the operation of such properties, rights and interests or to the treating, handling, storing, processing, transporting or marketing of oil, gas, other hydrocarbons, or other minerals produced from (or allocated to) such properties, rights and interests including, but not limited to, those contracts listed in Exhibit "A" hereto, as same may be amended or supplemented from time to time;

E. All of Mortgagor's interest (whether now owned or hereafter acquired by operation of law or otherwise) in and to all improvements, fixtures, movable or immovable property and other real and/or personal property (including, without limitation, all wells, pumping units, wellhead equipment, tanks, pipelines, flow lines, gathering lines, compressors, dehydration units, separators, meters, buildings, injection facilities, salt water disposal facilities, and power, telephone and telegraph lines) and all easements, servitudes, rights-of-way, surface leases, licenses, permits and other surface rights, which are now or hereafter used, or held for use, in connection with the properties, rights and interests described in clause A, B or C above, or in connection with the operation of such properties, rights and interests, or in connection with the treating, handling, storing, processing, transporting or marketing of oil, gas, other hydrocarbons, or other minerals produced from (or allocated to) such properties, rights and interests; and

F. All rights, estates, powers and privileges appurtenant to the foregoing rights, interests and properties.

TO HAVE AND TO HOLD the Mortgaged Properties unto Mortgagee, and Mortgagee's heirs, devisees, representatives, successors and assigns, upon the terms, provisions and conditions herein set forth.

Section 1.2. Grant of Security Interest. In order to further secure the payment of the secured indebtedness hereinafter referred to and the performance of the obligations, covenants, agreements, warranties, and undertakings of Mortgagor hereinafter described, Mortgagor hereby

-2-

grants to Mortgagee a security interest in the entire interest of Mortgagor (whether now owned or hereafter acquired by operation of law or otherwise) in and to the Mortgaged Properties and in and to:

(a) all oil, gas, other hydrocarbons, and other minerals produced from or allocated to the Mortgaged Properties, and any products processed or obtained therefrom (herein collectively called the "Production"), together with all proceeds of Production (regardless of whether Production to which such proceeds relate occurred on or before or after the date hereof), and together with all liens and security interests securing payment of the proceeds of the Production, including, but not limited to, those liens and security interests provided for under (i) statutes enacted in the jurisdictions in which the Mortgaged Properties are located, or (ii) statutes made applicable to the Mortgaged Properties under federal law (or some combination of federal and state law);

(b) without limitation of any other provisions of this Section 1.2, all payments received in lieu of production from the Mortgaged Properties (regardless of whether such payments accrued, and/or the events which gave rise to such payments occurred, on or before or after the date hereof),

including, without limitation, "take or pay" payments and similar payments, payments received in settlement of or pursuant to a judgment rendered with respect to take or pay or similar obligations or other obligations under a production sales contract, payments received in buyout or buydown or other settlement of a production sales contract, and payments received under a gas balancing or similar agreement as a result of (or received otherwise in settlement of or pursuant to judgment rendered with respect to) rights held by Mortgagor as a result of Mortgagor (and/or its predecessors in title) taking or having taken less gas from lands covered by a Mortgaged Property (or lands pooled or unitized therewith) than their ownership of such Mortgaged Property would entitle them to receive (the payments described in this subsection (b) being herein called "Payments in Lieu of Production");

(c) all equipment, inventory, improvements, fixtures, accessions, goods and other personal property or movable property of whatever nature now or hereafter located on or used or held for use in connection with the Mortgaged Properties (or in connection with the operation thereof or the treating, handling, storing, processing, transporting, or marketing of Production), and all licenses and permits of whatever nature now or hereafter used or held for use in connection with the Mortgaged Properties (or in connection with the operation thereof, or the treating, handling, storing, processing, transporting or marketing of Production), and all renewals or replacements of the foregoing or substitutions for the foregoing;

(d) all contract rights, choses in action (i.e., rights to enforce contracts or to bring claims thereunder) and other general intangibles (regardless of whether the same arose, and/or the events which gave rise to the same occurred, on or before or after the date hereof) related to the Mortgaged Properties, the operation thereof (whether Mortgagor is operator or non-operator), or the treating, handling, storing, processing, transporting, or marketing of Production (including, without limitation, any of the same

-3-

relating to payment of proceeds of Production or to payment of amounts which could constitute Payments in Lieu of Production);

(e) without limitation of the generality of the foregoing, any rights and interests of the Mortgagor under any present or future hedge or swap agreements, cap, floor, collar, exchange, forward or other hedge or protection agreements or transactions relating to crude oil, natural gas or other hydrocarbons, or any option with respect to any such agreement or transaction now existing or hereafter entered into by or on behalf of Mortgagor;

(f) to the extent permitted under applicable confidentiality and license agreements, all geological, geophysical, engineering, accounting, title, legal, and other technical or business data concerning the Mortgaged Properties, the Production, or any other item of Property (as hereinafter defined) which are now or hereafter in the possession of Mortgagor or in which Mortgagor can otherwise grant a security interest, and all books, files, records, magnetic media, and other forms of recording or obtaining access to such data;

(g) all money, documents, instruments, chattel paper, securities, accounts or general intangibles arising from or by virtue of any transaction (regardless of whether such transaction occurred on or before or after the date hereof) related to the Mortgaged Properties, the Production or any other item of Property (all of the properties, rights and interests described in subsections (a), (b), (c), (d), (e) and (f) above and this subsection (g) being herein sometimes collectively called the "Collateral"); and

(h) all proceeds of the Collateral or of the Mortgaged Properties, whether such proceeds or payments are goods, money, documents, instruments, chattel paper, securities, accounts, general intangibles, fixtures, real/immovable property, personal/movable property or other assets (the Mortgaged Properties, the Collateral and the proceeds of the Mortgaged Properties and of the Collateral being herein sometimes collectively called the "Property").

Section 1.3. Note, Loan Documents, Other Obligations. This Mortgage is made to secure and enforce the payment and performance of the following promissory notes, obligations, indebtedness and liabilities:

(a) All indebtedness and other obligations now or hereafter incurred or arising pursuant to the provisions of that certain Credit Agreement dated of even date herewith between Mortgagor and Mortgagee and all supplements thereto and amendments or modifications thereof, and all agreements given in substitution therefor or in restatement, renewal or extension thereof, in whole or in part (such Credit Agreement as the same may from time to time be supplemented, amended or modified, and all other agreements given in substitution therefor or in restatement, renewal or

extension thereof, in whole or in part, being herein called the "Credit Agreement");

-4-

(b) One certain promissory note dated of even date herewith, in the principal amount of Three Million One Hundred Thousand Dollars (\$3,100,000) made by Mortgagor and payable to the order of Mortgagee, on or before August 31, 2001, bearing interest as therein provided, and containing a provision for the payment of a reasonable additional amount as attorneys' fees, as the same may from time to time be supplemented, amended or modified, and all other notes given in substitution therefor or in modification, renewal or extension thereof, in whole or in part (such note, as from time to time supplemented, amended, or modified and all other notes given in substitution therefor, or in modification, renewal or extension thereof, in whole or in part, being herein called the "Note");

(c) All indebtedness and other obligations now or hereafter incurred or arising pursuant to or permitted by the provisions of the Note, the Credit Agreement, this Mortgage or any other instrument now or hereafter evidencing, governing, guaranteeing or securing the "secured indebtedness" (as hereinafter defined) or any part thereof or otherwise executed in connection with any advance or loan evidenced or governed by the Note or the Credit Agreement (the Note, the Credit Agreement, this Mortgage and such other instruments being herein sometimes collectively called the "Loan Documents");

(d) Payment of and performance of any and all present or future obligations of Mortgagor under the terms of any present or future swap agreements, cap, floor, collar, exchange transaction, forward agreement or other derivative, exchange or protection agreements relating to interest rates or to crude oil, natural gas, natural gas liquids, refined products or other hydrocarbons or the prices thereof, or any option with respect to any such transaction, now existing or hereafter entered into between Mortgagor and Mortgagee or any affiliate of Mortgagee (including without limitation El Paso Energy Marketing Company);

(e) All other loans and future advances made by Mortgagee to Mortgagor and all other debts, obligations and liabilities of Mortgagor of every kind and character now or hereafter existing in favor of Mortgagee (including without limitation all debts, obligations and liabilities owing under that certain Conveyance of Net Profits Overriding Royalty Interest of even date herewith from Mortgagor to Mortgagee), whether direct or indirect, primary or secondary, joint or several, fixed or contingent, and whether originally payable to Mortgagee or to a third party and subsequently acquired by Mortgagee, it being contemplated that Mortgagor may hereafter become indebted to Mortgagee for such further debts, obligations and liabilities; and

(f) Without limiting the generality of the foregoing, all post-petition interest, expenses, and other duties and liabilities with respect to indebtedness or other obligations described above in this Section 1.3, which would be owed but for the fact that they are unenforceable or not allowable due to the existence of a bankruptcy, reorganization, or similar proceeding.

-5-

Section 1.4. Secured Indebtedness. The indebtedness referred to in Section 1.3, and all renewals, extensions and modifications thereof, and all substitutions therefor, in whole or in part, are herein sometimes referred to as the "secured indebtedness" or the "indebtedness secured hereby". It is contemplated and acknowledged that the secured indebtedness may include revolving credit loans and advances from time to time, and that this Mortgage shall have effect, as of the date hereof, to secure all secured indebtedness, regardless of whether any amounts are advanced on the date hereof or on a later date or, whether having been advanced, are later repaid in part or in whole and further advances made at a later date.

Section 1.5. Maximum Secured Amount. Notwithstanding any provision hereof to the contrary, the outstanding indebtedness secured by hereby shall not, at any time or from time to time, exceed an aggregate maximum amount of \$50,000,000.

Section 1.7 Maturity of Indebtedness. The maturity of the indebtedness secured hereby, subject to rights of acceleration, is August 31, 2001.

ARTICLE II.

Representations, Warranties and Covenants

Section 2.1. Mortgagor represents, warrants, and covenants as follows:

(a) Title and Permitted Encumbrances. Mortgagor has, and Mortgagor

covenants to maintain, good and marketable title to the Property, free and clear of all liens, security interests, and encumbrances except for (i) the contracts, agreements, burdens, encumbrances and other matters set forth in the descriptions of certain of the Mortgaged Properties on Exhibit "A" hereto, (ii) the liens and security interests evidenced by this Mortgage, (iii) statutory liens for taxes which are not yet delinquent, or which are being contested in good faith by appropriate proceedings and for which Mortgagor has established reserves as required by generally accepted accounting principles, (iv) liens securing lessors' royalties arising by statute or under the terms of a lease, liens under operating agreements, pooling orders and unitization agreements, and mechanics' and materialmen's liens, with respect to obligations which are not yet due or the enforceability of which is being contested in good faith by appropriate proceedings, (v) other liens and security interests (if any) in favor of Mortgagee, (vi) minor defects and irregularities in title to any Property, so long as such defects and irregularities neither (A) are liens which secure other indebtedness or obligations nor (B) materially impair the value of such Property or the use thereof for the purposes for which such Property is held (the matters described in the foregoing clauses (i), (ii), (iii), (iv), (v) and (vi) being herein called the "Permitted Encumbrances"); Mortgagor will warrant and defend title to the Property, subject as aforesaid, against the claims and demands (including claims which would be a Permitted Encumbrance under item (vi) above) of all persons claiming or to claim the same or any part thereof. With respect to each Mortgaged Property, the ownership of Mortgagor in such Mortgaged Property does and will (after giving effect to all Permitted

-6-

Encumbrances, but prior to giving effect to the Conveyance of Net Profits Overriding Royalty Interest given by Mortgagor to Mortgagee immediately prior to the grant of this Mortgage): (i) with respect to each tract of land described in Exhibit "A" hereto (whether described directly in such Exhibit "A" or described by reference to another instrument) in connection with such Mortgaged Property, (A) entitle Mortgagor to receive (subject to the terms and provisions of this Mortgage) a decimal or percentage share of the oil, gas and other hydrocarbons produced from, or allocated to, such tract equal to not less than the decimal or percentage share set forth in Exhibit "A" in connection with such tract opposite the words "Net Revenue Interest" (or words of similar import), (B) cause Mortgagor to be obligated to bear a decimal or percentage share of the cost of exploration, development and operation of such tract of land not greater than the decimal or percentage share set forth in Exhibit "A" in connection with such tract opposite the words "Working Interest" (or words of similar import) and (ii) if such Mortgaged Property is shown on Exhibit "A" to be subject to a unit or units, with respect to each such unit, (A) entitle Mortgagor to receive (subject to the terms and provisions of this Mortgage) a decimal or percentage share of all substances covered by such unit which are produced from, or allocated to, such unit equal to not less than the decimal or percentage share set forth in Exhibit "A" in connection with such Mortgaged Property opposite the words "Unit Net Revenue Interest" or words of similar import (and if such Mortgaged Property is subject to more than one unit, words identifying such interest with such unit), and (B) obligate Mortgagor to bear a decimal or percentage share of the cost of exploration, development and operation of such unit not greater than the decimal or percentage share set forth in Exhibit "A" in connection with such Mortgaged Property opposite the words "Unit Working Interest" or words of similar import (and if such Mortgaged Property is subject to more than one unit, words identifying such interest with such unit). With respect to each Property described in Exhibit "A" hereto which is subject to a voluntary or involuntary pooling, unitization or communitization agreement and/or order, the term "tract of land" as used in this Section 2.1(a) shall mean the pooled, unitized or communitized area as an entirety and shall not be deemed to refer to any individual tract committed to said pooled, unitized or communitized area. The above-described shares of production which Mortgagor is entitled to receive, and shares of expenses which Mortgagor is obligated to bear, are not and will not be subject to change (other than changes which arise pursuant to non-consent provisions of operating agreements described in Exhibit "A" in connection with operations hereafter proposed), except, and only to the extent that, such changes are expressly set out in Exhibit "A". There is not and will not be any unexpired financing statement covering any part of the Property on file in any public office naming any party other than Mortgagee as secured party. Upon request by Mortgagee, Mortgagor will deliver to Mortgagee schedules of all internal and third party information identifying the Mortgaged Properties (such as, for example, lease names and numbers assigned by Mortgagor or the operator of any Mortgaged Property, well and/or unit and/or property names and numbers assigned by purchasers of Production, and internal identification names and numbers used by Mortgagor in accounting for revenues, costs, and joint interest transactions attributable to the Mortgaged Properties). The listing of Permitted Encumbrances above is made for the purpose of limiting certain warranties and covenants made by Mortgagor herein; such

-7-

listing is not intended to affect the description herein of the Mortgaged Properties nor to subordinate the liens and security interests hereunder to any Permitted Encumbrances.

(b) Leases and Contracts; Performance of Obligations. The oil, gas and/or mineral leases, contracts, servitudes and other agreements forming a part of the Property, to the extent the same cover or otherwise relate to the Property, are in full force and effect, and Mortgagor agrees to so maintain them in full force and effect. All rents, royalties and other payments due and payable under such leases, contracts, servitudes and other agreements, or under the Permitted Encumbrances, or otherwise attendant to the ownership or operation of the Property, have been, and will continue to be, properly and timely paid. Mortgagor is not in default with respect to Mortgagor's obligations (and Mortgagor is not aware of any default by any third party with respect to such third party's obligations) under such leases, contracts, servitudes and other agreements, or under the Permitted Encumbrances, or otherwise attendant to the ownership or operation of any part of the Property, where such default could adversely affect the ownership or operation of the Property; Mortgagor will fulfill all such obligations coming due in the future. Mortgagor is not currently accounting (and will not hereafter agree to account) for any royalties, or overriding royalties or other payments out of production, on a basis (other than delivery in kind) less favorable to Mortgagor than proceeds received by Mortgagor (calculated at the well) from sale of production.

(c) Sale of Production. No Mortgaged Property is or will become subject to any contractual or other arrangement (i) whereby payment for production is or can be deferred for a substantial period after the month in which such production is delivered (i.e., in the case of oil, not in excess of 60 days, and in the case of gas, not in excess of 90 days) or (ii) whereby payments are made to Mortgagor other than by checks, drafts, wire transfer advises or other similar writings, instruments or communications for the immediate payment of money. Except for production sales contracts, processing agreements or transportation agreements (or other agreements relating to the marketing of Production) listed on Exhibit "A" (in connection with the Mortgaged Properties to where they relate), (i) no Mortgaged Property is or will become subject to any contractual or other arrangement for the sale, processing or transportation of Production (or otherwise related to the marketing of Production) which cannot be canceled on 120 days' (or less) notice and (ii) all contractual or other arrangements for the sale, processing or transportation of Production (or otherwise related to the marketing of Production) shall be bona fide arm's length transactions with third parties not affiliated with Mortgagor and shall be at the best price (and on the best terms) available (such price shall, in the case of Production sales which are subject to price controls, be determined giving consideration to such fact). Mortgagor is presently receiving a price for all production from (or attributable to) each Mortgaged Property covered by a production sales contract listed on Exhibit "A" as computed in accordance with the terms of such contract, and is not having deliveries of production from such Mortgaged Property curtailed substantially below such property's delivery capacity. Neither Mortgagor, nor any of its predecessors in title, has received prepayments (including, but not limited to, payments for gas not taken pursuant to "take or pay" or other similar arrangements) for any oil, gas or other hydrocarbons

-8-

produced or to be produced from the Mortgaged Properties after the date hereof, and Mortgagor hereby covenants not to enter into any such advance or prepayment arrangements whereby it accepts consideration for oil, gas or other hydrocarbons not yet produced. No Mortgaged Property is or will become subject to any "take or pay" or other similar arrangement (i) which can be satisfied in whole or in part by the production or transportation of gas from other properties or (ii) as a result of which production from the Mortgaged Properties may be required to be delivered to one or more third parties without payment (or without full payment) therefor as a result of payments made, or other actions taken, with respect to other properties. There is no Mortgaged Property with respect to which Mortgagor, or its predecessors in title, has, prior to the date hereof, taken more ("overproduced"), or less ("underproduced"), gas from the lands covered thereby (or pooled or unitized therewith) than its ownership interest in such Mortgaged Property would entitle it to take. Mortgagor will not after the date hereof become "overproduced" (as above defined) with respect to any well on the Mortgaged Properties (or on any unit in which the Mortgaged Properties participate), in an amount in excess of Mortgagor's share of gas produced from such well during the preceding four calendar months. No Mortgaged Property is or will become subject to a gas balancing arrangement under which one or more third parties may take a portion of the production attributable to such Mortgaged Property without payment (or without full payment) therefor as a result of production having been taken from, or as a result of other actions or inactions with respect to, other properties. No Mortgaged Property is subject at the present time to any regulatory refund obligation and, to the best of Mortgagor's knowledge, no facts exist which might cause the same to be imposed.

(d) Condition of Personal or Movable Property. The equipment, inventory, improvements, fixtures, goods and other tangible personal/movable property forming a part of the Property are and will remain in good repair and condition and are and will be adequate for the normal operation of the Property in accordance with prudent industry standards; all of such Property is, and will remain, located on the Mortgaged Properties, except for that portion thereof which is or shall be located elsewhere (including that usually located on the Mortgaged Properties but temporarily located elsewhere) in the course of the normal operation of the Property or which is hereafter sold or disposed of as allowed under the Credit Agreement.

(e) Operation of Mortgaged Properties. The Mortgaged Properties (and properties unitized therewith) are being (and, to the extent the same could adversely affect the ownership or operation of the Mortgaged Properties after the date hereof, have in the past been), and hereafter will be, maintained, operated and developed in a good and workmanlike manner, in accordance with prudent industry standards and in conformity with all applicable laws and all rules, regulations and orders of all duly constituted authorities having jurisdiction and in conformity with all oil, gas and/or other mineral leases and other contracts and agreements forming a part of the Property and in conformity with the Permitted Encumbrances; specifically in this connection, (i) no Mortgaged Property is subject to having allowable production after the date hereof, reduced below the full and regular allowable (including the maximum permissible

-9-

tolerance) because of any overproduction (whether or not the same was permissible at the time) prior to the date hereof, and (ii) none of the wells located on the Mortgaged Properties (or properties unitized therewith) are or will be deviated from the vertical more than the maximum permitted by applicable laws, regulations, rules and orders, and such wells are, and will remain, bottomed under and producing from, with the well bores wholly within, the Mortgaged Properties (or, in the case of wells located on properties unitized therewith, such unitized properties). There are no wells being drilled, deepened, plugged back or reworked, and no other operations are being conducted for which consent is required under the applicable operating agreement (or which are other than normal operation of existing wells on the Mortgaged Properties); there are no proposals currently outstanding (whether made by Mortgagor or by any other party) to drill, deepen, plug back, or rework wells, or to conduct any such other operations, or to abandon any wells on the Mortgaged Properties (nor are there any such proposals which have been approved, either by Mortgagor or any other party, with respect to which the operations covered thereby have not been commenced other than those disclosed by Mortgagor to Mortgagee in writing prior to the execution hereof). There are no dry holes, or otherwise inactive wells, located on the Mortgaged Properties or on lands pooled or unitized therewith except for wells that have been properly plugged and abandoned. Mortgagor has, and will have in the future, all governmental licenses and permits necessary or appropriate to own and operate the Property; and Mortgagor has not received notice of any violations in respect of any such licenses or permits.

(f) Sale or Disposal. Mortgagor will not, without the prior written consent of Mortgagee, sell, exchange, lease, transfer, or otherwise dispose of any part of, or interest in, the Property other than (i) sales, transfers and other dispositions of machinery, equipment and other personal/movable property and fixtures made in connection with a release, surrender or abandonment (to which Mortgagee has given its prior written consent) of a lease, (ii) sales, transfers and other dispositions of machinery, equipment and other personal/movable property and fixtures in connection with the abandonment (to which Mortgagee has given its prior written consent) of a well, (iii) sales, transfers and other dispositions of machinery, equipment and other personal/movable property and fixtures which are (A) obsolete for their intended purpose and disposed of in the ordinary course of business or (B) replaced by articles of at least equal suitability and value owned by Mortgagor free and clear of all liens except this Mortgage and the Permitted Encumbrances, (iv) sales of Production which are made in the ordinary course of business and in compliance with Section 2.1(c) hereof, and (v) sales permitted under Section 7.5 of the Credit Agreement; provided that nothing in clause (iv) shall be construed as limiting Mortgagee's rights under Article III of this Mortgage. Mortgagor shall account fully and faithfully for and, if Mortgagee so elects, shall promptly pay or turn over to Mortgagee the proceeds in whatever form received from disposition in any manner of any of the Property.

(g) Ad Valorem and Severance Taxes. Mortgagor has paid and discharged, and will continue to pay and discharge, all ad valorem taxes assessed against the Property

-10-

or any part thereof and all production, severance and other taxes assessed against, or measured by, the Production or the value, or proceeds, of the Production.

(h) Suits and Claims. There are no suits, actions, claims, investigations, inquiries, proceedings or demands pending (or, to Mortgagor's knowledge, threatened) which affect the Property (including, without limitation, any which challenge or otherwise pertain to Mortgagor's title to the Property) and no judicial or administrative actions, suits or proceedings pending (or, to Mortgagor's knowledge, threatened) against Mortgagor.

(i) Environmental.

-11-

(A) Current Status. The Property and Mortgagor are not in violation of Applicable Environmental Laws (below defined), or subject to any existing, pending or, to the best knowledge of Mortgagor, threatened investigation or inquiry by any governmental authority or any other person under or with respect to Applicable Environmental Laws, or subject to any remedial obligations under Applicable Environmental Laws, and are in compliance with all permits and licenses required under Applicable Environmental Laws, and this representation will continue to be true and correct following disclosure to the applicable governmental authorities of all relevant facts, conditions and circumstances, if any, pertaining to the Property and Mortgagor. "Applicable Environmental Laws" shall mean any applicable laws, orders, rules, or regulations pertaining to safety, health or the environment, as such laws, orders, rules or regulations now exist or are hereafter enacted and/or amended (including without limitation the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986 (as amended, hereinafter called "CERCLA"), the Resource Conservation and Recovery Act of 1976, as amended by the Used Oil Recycling Act of 1980, the Solid Waste Disposal Act Amendments of 1980, and the Hazardous and Solid Waste Amendments of 1984 (as amended, hereinafter called "RCRA") and applicable state and local law). Mortgagor undertook, at the time of acquisition of the Property, all appropriate inquiry into the previous ownership and uses of the Property consistent with good commercial or customary practice. Mortgagor has taken all steps necessary to determine and has determined that no hazardous substances or solid wastes have been disposed of or otherwise released at, into, upon or under the Property. The use which Mortgagor makes and intends to make of the Property will not result in the use, treatment, storage or disposal or other release of any hazardous substance or solid waste at, into, upon or under the Property, except such usage, and temporary storage in anticipation of usage, as is in the ordinary course of business and in compliance with Applicable Environmental Laws. The terms "hazardous substance" and "release" as used in this Mortgage shall have the meanings specified in CERCLA, and the terms "solid waste" and "disposal" (or "disposed") shall have the meanings specified in RCRA; provided, in the event either CERCLA or RCRA is amended so as to broaden the meaning of any term defined thereby, such broader meaning shall apply subsequent to the effective date of such amendment and provided further, to the extent that the laws of the states in which the Mortgaged Properties are located establish a meaning for "hazardous substance," "release," "solid waste," or "disposal" which is broader than that specified in either CERCLA or RCRA, such broader meaning shall apply. The "Associated Property" (as such term is hereinafter defined) is not in violation of any Applicable Environmental Laws for which Mortgagor or its predecessors in the Property would be responsible. The term "Associated Property" as used in this Mortgage shall mean any and all interests in and to (and or carved out of) the lands which are described or referred to in Exhibit "A" hereto, or which are otherwise described in any of the oil, gas

-12-

and/or mineral leases or other instruments described in or referred to in such Exhibit "A", whether or not such property interests are owned by Mortgagor.

(B) Future Performance. Mortgagor will not cause or permit the Property or the Associated Property or Mortgagor to be in violation of, or do anything or permit anything to be done which will subject the Property or the Associated Property to any remedial obligations under, or result in noncompliance with applicable permits and licenses under, any Applicable Environmental Laws, assuming disclosure to the applicable governmental authorities of all relevant facts, conditions and circumstances, if any, pertaining to the Property or the Associated Property and Mortgagor will promptly notify Mortgagee in writing of any existing, pending or, to the best

knowledge of Mortgagor, threatened investigation, claim, suit or inquiry by any governmental authority or any person in connection with any Applicable Environmental Laws. Mortgagor will take all steps necessary to determine that no hazardous substances or solid wastes have been disposed of or otherwise released on or to the Property or the Associated Property. Mortgagor will not cause or permit the disposal or other release of any hazardous substance or solid waste at, into, upon or under the Property or the Associated Property and covenants and agrees to keep or cause the Property and/or the Associated Property to be kept free of any hazardous substance or solid waste (except such use, and temporary storage in anticipation of use, as is required in the ordinary course of business, all while in compliance with Applicable Environmental Laws), and to remove the same (or if removal is prohibited by law, to take whatever action is required by law) promptly upon discovery at its sole expense. Upon Mortgagee's reasonable request, at any time and from time to time during the existence of this Mortgage, Mortgagor will provide at Mortgagor's sole expense an inspection or audit of the Property and the Associated Property from an engineering or consulting firm approved by Mortgagee, indicating the presence or absence of hazardous substances and solid waste on the Property and/or the Associated Property and compliance with Applicable Environmental Laws.

(j) Not Abandon Wells; Participate in Operations. Mortgagor will not, without prior written consent of Mortgagee, abandon, or consent to the abandonment of, any well producing from the Mortgaged Properties (or properties unitized therewith) so long as such well is capable (or is subject to being made capable through drilling, reworking or other operations which it would be commercially feasible to conduct) of producing oil, gas, or other hydrocarbons or other minerals in commercial quantities (as determined without considering the effect of this Mortgage). Mortgagor will not, without prior written consent of Mortgagee, elect not to participate in a proposed operation on the Mortgaged Properties where the effect of such election would be the forfeiture either temporarily (i.e. until a certain sum of money is received out of the forfeited interest) or permanently of any interest in the Mortgaged Properties.

-13-

(k) Defense of Mortgage. If the validity or priority of this Mortgage or of any rights, titles, liens or security interests created or evidenced hereby with respect to the Property or any part thereof or the title of Mortgagor to the Property shall be endangered or questioned or shall be attacked directly or indirectly or if any legal proceedings are instituted against Mortgagor with respect thereto, Mortgagor will give prompt written notice thereof to Mortgagee and at Mortgagor's own cost and expense will diligently endeavor to cure any defect that may be developed or claimed, and will take all necessary and proper steps for the defense of such legal proceedings, including, but not limited to, the employment of counsel, the prosecution or defense of litigation and the release or discharge of all adverse claims, and Mortgagee is hereby authorized and empowered to take such additional steps as in their judgment and discretion may be necessary or proper for the defense of any such legal proceedings or the protection of the validity or priority of this Mortgage and the rights, titles, liens and security interests created or evidenced hereby, including but not limited to the employment of independent counsel, the prosecution or defense of litigation, the compromise or discharge of any adverse claims made with respect to the Property, the purchase of any tax title and the removal of prior liens or security interests, and all expenditures so made of every kind and character shall be a demand obligation (which obligation Mortgagor hereby expressly promises to pay) owing by Mortgagor to Mortgagee and shall bear interest from the date expended until paid at the rate described in Section 2.3 hereof, and the party incurring such expenses shall be subrogated to all rights of the person receiving such payment.

(l) Indemnity. Mortgagor will reimburse Mortgagee (for purposes of this paragraph, the term "Mortgagee" shall include the directors, officers, partners, employees and agents of Mortgagee and any persons or entities owned or controlled by or affiliated with Mortgagee) for all expenditures, including reasonable attorneys' fees and expenses, incurred or expended in connection with (i) the breach by Mortgagor of any covenant, agreement or condition contained herein or in any other Loan Document, (ii) the exercise by Mortgagee of any rights and remedies hereunder or under any other Loan Document, and (iii) the protection of the Property and/or liens and security interests therein. Mortgagor will indemnify and hold harmless Mortgagee from and against (and will reimburse Mortgagee for) all claims, demands, liabilities, losses, damages (including without limitation consequential damages), causes of action, judgments, penalties, costs and expenses (including without limitation reasonable attorneys' fees and expenses) which may be imposed upon, asserted against or incurred or paid by Mortgagee on account of, in connection with, or arising out of (A) any bodily injury or death or natural resource, human health or property damage occurring in, at, into, under or upon or in the vicinity of the Property through any cause whatsoever, (B) any act performed or omitted to be performed hereunder or the breach of any representation or warranty herein,

(C) the exercise of any rights and remedies hereunder or under any other Loan Document, (D) any transaction, act, omission, event or circumstance arising out of or in any way connected with the Property or with this Mortgage or any other Loan Document, (E) any violation on or prior to the Release Date (as hereinafter defined) of any Applicable Environmental Law, (F) any act, omission, event or circumstance existing or occurring on or prior to the Release Date (including without limitation the presence on or under the

-14-

Property or the Associated Property or release at, into, upon, under or from the Property or the Associated Property of hazardous substances or solid wastes disposed of or otherwise released) resulting from or in connection with the ownership, construction, occupancy, operation, use and/or maintenance of the Property or the Associated Property, regardless of whether the act, omission, event or circumstance constituted a violation of any Applicable Environmental Law at the time of its existence or occurrence, and (G) any and all claims or proceedings (whether brought by private party or governmental agencies) for human health, bodily injury, property damage, abatement or remediation, environmental damage, cleanup, mitigation, removal, natural resource damage or impairment or any other injury or damage resulting from or relating to any hazardous or toxic substance, solid waste or contaminated material located upon or migrating into, from or through the Property or the Associated Property (whether or not the release of such materials was caused by Mortgagor, a tenant or subtenant or a prior owner or tenant or subtenant on the Property or the Associated Property and whether or not the alleged liability is attributable to the use, treatment, handling, storage, generation, transportation, removal or disposal of such substance, waste or material or the mere presence of such substance, waste or material on or under the Property or the Associated Property), which the Mortgagee may have liability with respect to due to the making of the loan or loans evidenced by the Note, the granting of this Mortgage, the exercise of any rights under the Loan Documents, or otherwise. Mortgagee shall have the right to compromise and adjust any such claims, actions and judgments, and in addition to the rights to be indemnified as herein provided, all amounts paid in compromise, satisfaction or discharge of any such claim, action or judgment, and all court costs, attorneys' fees and other expenses of every character expended by Mortgagee pursuant to the provisions of this section shall be a demand obligation (which obligation Mortgagor hereby expressly promises to pay) owing by Mortgagor to Mortgagee. The "Release Date" as used herein shall mean the earlier of the following two dates: (i) the date on which the indebtedness and obligations secured hereby have been paid and performed in full and this Mortgage has been released of record, or (ii) the date on which the lien of this Mortgage is foreclosed or a deed in lieu of such foreclosure is fully effective and recorded. WITHOUT LIMITATION, IT IS THE INTENTION OF MORTGAGOR AND MORTGAGOR AGREES THAT THE FOREGOING INDEMNITIES SHALL APPLY TO EACH INDEMNIFIED PARTY WITH RESPECT TO CLAIMS, DEMANDS, LIABILITIES, LOSSES, DAMAGES, CAUSES OF ACTION, JUDGMENTS, PENALTIES, COSTS AND EXPENSES (INCLUDING WITHOUT LIMITATION REASONABLE ATTORNEYS' FEES) WHICH IN WHOLE OR IN PART ARE CAUSED BY OR ARISE OUT OF THE NEGLIGENCE OR STRICT LIABILITY OF SUCH (AND/OR ANY OTHER) INDEMNIFIED PARTY. However, such indemnities shall not apply to any particular indemnified party (but shall apply to the other indemnified parties) to the extent the subject of the indemnification is caused by or arises out of the gross negligence or willful misconduct of such particular indemnified party. The foregoing indemnities shall not terminate upon the Release Date or upon the release, foreclosure or other termination of this Mortgage but will survive the Release Date, foreclosure of this Mortgage or conveyance in lieu of foreclosure, and the repayment of the secured indebtedness and the discharge and release of this Mortgage and the other

-15-

documents evidencing and/or securing the secured indebtedness. Any amount to be paid hereunder by Mortgagor to Mortgagee shall be a demand obligation owing by Mortgagor to Mortgagee and shall be subject to and covered by the provisions of Section 2.3 hereof.

(m) Insurance. Mortgagor will carry insurance as provided in the Credit Agreement. All policies evidencing such insurance shall contain clauses providing that the proceeds thereof shall be payable to Mortgagee as its interest may appear and providing that such policies may not be canceled, reduced or otherwise affected without at least thirty (30) days prior written notice to Mortgagee. Upon request by Mortgagee, Mortgagor shall deliver to Mortgagee the original policies, evidence of payment of premiums, certificates evidencing renewals, and such other information regarding such insurance as Mortgagee may request. In the event of any loss under any insurance policies so carried by Mortgagor, Mortgagee shall have the right (but not the obligation) to make proof of loss and collect the same, and all amounts so received shall be applied toward costs, charges and expenses (including reasonable attorneys' fees), if any, incurred in the collection thereof, then to the payment, in the order determined by Mortgagee in its own discretion, of the secured indebtedness,

and any balance remaining shall be subject to the order of Mortgagor. Mortgagee is hereby authorized but not obligated to enforce in its name or in the name of Mortgagor payment of any or all of said policies or settle or compromise any claim in respect thereof, and to collect and make receipts for the proceeds thereof and Mortgagee is hereby appointed Mortgagor's agent and attorney-in-fact to endorse any check or draft payable to Mortgagor in order to collect the proceeds of insurance. In the event of foreclosure of this Mortgage, or other transfer of title to the Property in extinguishment in whole or in part of the secured indebtedness, all right, title and interest of Mortgagor in and to such policies then in force concerning the Property and all proceeds payable thereunder shall thereupon vest in the purchaser at such foreclosure or other transferee in the event of such other transfer of title.

(n) Further Assurances. Mortgagor will, on request of Mortgagee, (i) promptly correct any defect, error or omission which may be discovered in the contents of this Mortgage, or in any other Loan Document, or in the execution or acknowledgment of this Mortgage or any other Loan Document; (ii) execute, acknowledge, deliver and record and/or file such further instruments (including, without limitation, further mortgages, deeds of trust, security agreements, financing statements, continuation statements, and assignments of production, accounts, funds, contract rights, general intangibles, and proceeds) and do such further acts as may be necessary, desirable or proper to carry out more effectively the purposes of this Mortgage and the other Loan Documents and to more fully identify and subject to the liens and security interests hereof any property intended to be covered hereby, including specifically, but without limitation, any renewals, additions, substitutions, replacements, or appurtenances to the Property; and (iii) execute, acknowledge, deliver, and file and/or record any document or instrument (including specifically any financing statement) desired by Mortgagee to protect the lien or the security interest hereunder against the rights or interests of third persons. Mortgagor shall pay all costs connected with any of the foregoing.

-16-

(p) Not a Foreign Person. Mortgagor is not a "foreign person" within the meaning of the Internal Revenue Code of 1986, as amended, (hereinafter called the "Code"), Sections 1445 and 7701 (i.e. Mortgagor is not a non-resident alien, foreign corporation, foreign partnership, foreign trust or foreign estate as those terms are defined in the Code and any regulations promulgated thereunder).

Section 2.2. Compliance by Operator. As to any part of the Mortgaged Properties which is not a working interest, Mortgagor agrees to take all such action and to exercise all rights and remedies as are available to Mortgagor to cause the owner or owners of the working interest in such properties to comply with the covenants and agreements contained herein; and as to any part of the Mortgaged Properties which is a working interest but which is operated by a party other than Mortgagor, Mortgagor agrees to take all such action and to exercise all rights and remedies as are available to Mortgagor (including, but not limited to, all rights under any operating agreement) to cause the party who is the operator of such property to comply with the covenants and agreements contained herein.

Section 2.3. Performance on Mortgagor's Behalf. Mortgagor agrees that, if Mortgagor fails to perform any act or to take any action which hereunder Mortgagor is required to perform or take, or to pay any money which hereunder Mortgagor is required to pay, Mortgagee, in Mortgagor's name or its own name, may, but shall not be obligated to, perform or cause to be performed such act or take such action or pay such money, and any expenses so incurred by Mortgagee and any money so paid by Mortgagee shall be a demand obligation owing by Mortgagor to Mortgagee (which obligation Mortgagor hereby expressly promises to pay) and Mortgagee, upon making such payment, shall be subrogated to all of the rights of the person, corporation or body politic receiving such payment. Each amount due and owing by Mortgagor to Mortgagee pursuant to this Mortgage shall bear interest each day, from the date of such expenditure or payment until paid, at the rate of fifteen percent per annum; all such amounts, together with such interest thereon, shall be a part of the secured indebtedness and shall be secured by this Mortgage.

ARTICLE III.

Assignment of Production, Accounts, and Proceeds

Section 3.1. Assignment of Production. Mortgagor does hereby absolutely and unconditionally assign, transfer and set over to Mortgagee all Production which accrues to Mortgagor's interest in the Mortgaged Properties, all proceeds of such Production and all Payments in Lieu of Production (herein collectively referred to as the "Production Proceeds"), together with the immediate and continuing right to collect and receive such Production Proceeds. Mortgagor directs and instructs any and all purchasers of any Production to pay to Mortgagee all of the Production Proceeds accruing to Mortgagor's interest until such time as such purchasers have been furnished with evidence that all secured indebtedness has been paid and that this Mortgage has been released. Mortgagor

agrees that no purchasers of the Production shall have any responsibility for the application of any funds paid to Mortgagee.

-17-

Section 3.2. Effectuating Payment of Production Proceeds to Mortgagee. Independent of the foregoing provisions and authorities herein granted, Mortgagor agrees to execute and deliver any and all transfer orders, division orders and other instruments that may be requested by Mortgagee or that may be required by any purchaser of any Production for the purpose of effectuating payment of the Production Proceeds to Mortgagee. If under any existing sales agreements, other than division orders or transfer orders, any Production Proceeds are required to be paid by the purchaser to Mortgagor so that under such existing agreements payment cannot be made of such Production Proceeds to Mortgagee, Mortgagor's interest in all Production Proceeds under such sales agreements and in all other Production Proceeds which for any reason may be paid to Mortgagor shall, when received by Mortgagor, constitute trust funds in Mortgagor's hands and shall be immediately paid over to Mortgagee. Without limitation upon any of the foregoing, Mortgagor hereby constitutes and appoints Mortgagee as Mortgagor's special attorney-in-fact (with full power of substitution, either generally or for such periods or purposes as Mortgagee may from time to time prescribe) in the name, place and stead of Mortgagor to do any and every act and exercise any and every power that Mortgagor might or could do or exercise personally with respect to all Production and Production Proceeds (the same having been assigned by Mortgagor to Mortgagee pursuant to Section 3.1 hereof), expressly inclusive, but not limited to, the right, power and authority to:

(a) Execute and deliver in the name of Mortgagor any and all transfer orders, division orders, letters in lieu of transfer orders, indemnifications, certificates and other instruments of every nature that may be requested or required by any purchaser of Production from any of the Mortgaged Properties for the purposes of effectuating payment of the Production Proceeds to Mortgagee or which Mortgagee may otherwise deem necessary or appropriate to effect the intent and purposes of the assignment contained in Section 3.1; and

(b) If under any product sales agreements other than division orders or transfer orders, any Production Proceeds are required to be paid by the purchaser to Mortgagor so that under such existing agreements payment cannot be made of such Production Proceeds to Mortgagee, to make, execute and enter into such sales agreements or other agreements as are necessary to direct Production Proceeds to be payable to Mortgagee;

giving and granting unto said attorney-in-fact full power and authority to do and perform any and every act and thing whatsoever necessary and requisite to be done as fully and to all intents and purposes, as Mortgagor might or could do if personally present; and Mortgagor shall be bound thereby as fully and effectively as if Mortgagor had personally executed, acknowledged and delivered any of the foregoing certificates or documents. The powers and authorities herein conferred upon Mortgagee may be exercised by Mortgagee through any person who, at the time of the execution of the particular instrument, is an officer of Mortgagee. The power of attorney herein conferred is granted for valuable consideration and hence is coupled with an interest and is irrevocable so long as the secured indebtedness, or any part thereof, shall remain unpaid. All persons dealing with Mortgagee or any substitute shall be fully protected in treating the powers and authorities conferred by this paragraph as continuing in full force and effect until advised by

-18-

Mortgagee that all the secured indebtedness is fully and finally paid. Mortgagee may, but shall not be obligated to, take such action as it deems appropriate in an effort to collect the Production Proceeds and any reasonable expenses (including reasonable attorney's fees) so incurred by Mortgagee shall be a demand obligation of Mortgagor and shall be part of the secured indebtedness, and shall bear interest each day, from the date of such expenditure or payment until paid, at the rate described in Section 2.3 hereof.

Section 3.3. Change of Purchaser. To the extent a default has occurred hereunder and is continuing, should any person now or hereafter purchasing or taking Production fail to make payment promptly to Mortgagee of the Production Proceeds, Mortgagee shall, subject to then-existing contractual prohibitions, have the right to make, or to require Mortgagor to make, a change of purchaser, and the right to designate or approve the new purchaser, and Mortgagee shall have no liability or responsibility in connection therewith so long as ordinary care is used in making such designation.

Section 3.4. Application of Production Proceeds. So long as no default has occurred hereunder, the Production Proceeds received by Mortgagee during each calendar month shall on the first business day of the next succeeding calendar month (or, at the option of Mortgagee, on any earlier date) be applied by Mortgagee as follows:

FIRST, to the payment of all secured indebtedness then due and

payable, in such manner and order as Mortgagee deems advisable;

SECOND, to the prepayment of the remainder of the secured indebtedness in such manner and order and to such extent as Mortgagee deems advisable; and

THIRD, the remainder, if any, of the Production Proceeds shall be paid over to Mortgagor or to Mortgagor's order or to such other parties as may be entitled thereto by law.

After a default hereunder has occurred, all Production Proceeds from time to time in the hands of Mortgagee shall be applied by it toward the payment of all secured indebtedness (principal, interest, attorneys' fees and other fees and expenses) at such times and in such manner and order and to such extent as Mortgagee deems advisable.

Section 3.5. Release From Liability; Indemnification. Mortgagee and its successors and assigns are hereby released and absolved from all liability for failure to enforce collection of the Production Proceeds and from all other responsibility in connection therewith, except the responsibility of each to account to Mortgagor for funds actually received by each. Mortgagor agrees to indemnify and hold harmless Mortgagee (for purposes of this paragraph, the term "Mortgagee" shall include the directors, officers, partners, employees and agents of Mortgagee and any persons or entities owned or controlled by or affiliated with Mortgagee) from and against any and all claims, demands, liabilities, losses, damages (including without limitation consequential damages), causes of action, judgments, penalties, costs and expenses (including without limitation reasonable attorneys' fees and expenses) imposed upon, asserted against or

-19-

incurred or paid by Mortgagee by reason of the assertion that Mortgagee received, either before or after payment in full of the secured indebtedness, funds from the production of oil, gas, other hydrocarbons or other minerals claimed by third persons (and/or funds attributable to sales of production which (i) were made at prices in excess of the maximum price permitted by applicable law or (ii) were otherwise made in violation of laws, rules, regulations and/or orders governing such sales), and Mortgagee shall have the right to defend against any such claims or actions, employing attorneys of its own selection, and if not furnished with indemnity satisfactory to it, Mortgagee shall have the right to compromise and adjust any such claims, actions and judgments, and in addition to the rights to be indemnified as herein provided, all amounts paid by Mortgagee in compromise, satisfaction or discharge of any such claim, action or judgment, and all court costs, attorneys' fees and other expenses of every character expended by Mortgagee pursuant to the provisions of this section shall be a demand obligation (which obligation Mortgagor hereby expressly promises to pay) owing by Mortgagor to Mortgagee and shall bear interest, from the date expended until paid, at the rate described in Section 2.3 hereof. The foregoing indemnities shall not terminate upon the Release Date or upon the release, foreclosure or other termination of this Mortgage but will survive the Release Date, foreclosure of this Mortgage or conveyance in lieu of foreclosure, and the repayment of the secured indebtedness and the discharge and release of this Mortgage and the other documents evidencing and/or securing the secured indebtedness. WITHOUT LIMITATION, IT IS THE INTENTION OF MORTGAGOR AND MORTGAGEE TO AGREE THAT THE FOREGOING RELEASES AND INDEMNITIES SHALL APPLY TO EACH INDEMNIFIED PARTY WITH RESPECT TO ALL CLAIMS, DEMANDS, LIABILITIES, LOSSES, DAMAGES (INCLUDING WITHOUT LIMITATION CONSEQUENTIAL DAMAGES), CAUSES OF ACTION, JUDGMENTS, PENALTIES, COSTS AND EXPENSES (INCLUDING WITHOUT LIMITATION REASONABLE ATTORNEYS' FEES AND EXPENSES) WHICH IN WHOLE OR IN PART ARE CAUSED BY OR ARISE OUT OF THE NEGLIGENCE OF SUCH (AND/OR ANY OTHER) INDEMNIFIED PARTY. However, such indemnities shall not apply to any particular indemnified party (but shall apply to the other indemnified parties) to the extent the subject of the indemnification is caused by or arises out of the gross negligence or willful misconduct of such particular indemnified party.

Section 3.6. Mortgagor's Absolute Obligation to Pay Note. Nothing herein contained shall detract from or limit the obligations of Mortgagor to make prompt payment of the Note, and any and all other secured indebtedness, at the time and in the manner provided herein and in the Loan Documents, regardless of whether the Production and Production Proceeds herein assigned are sufficient to pay same, and the rights under this Article III shall be cumulative of all other rights under the Loan Documents.

-20-

ARTICLE IV.

Remedies Upon Default

Section 4.1. Default. The term "default" as used in this Mortgage shall mean the occurrence of an "Event of Default" as defined in the Credit Agreement.

Section 4.2. Acceleration of Secured Indebtedness. Upon the occurrence of a default, Mortgagee at any time and from time to time may, as provided in the

Credit Agreement, without notice to Mortgagor or any other person declare any or all of the secured indebtedness immediately due and payable and all such secured indebtedness shall thereupon be immediately due and payable, without presentment, demand, protest, notice of protest, declaration or notice of acceleration or intention to accelerate, putting the Mortgagor in default, dishonor, notice of dishonor or any other notice or declaration of any kind, all of which are hereby expressly waived by Mortgagor, and the liens evidenced hereby shall be subject to foreclosure in any manner provided for herein or provided for by law as Mortgagee may elect.

Section 4.3. Pre-Foreclosure Remedies. Upon the occurrence of a default, or any event or circumstance which, with the lapse of time or the giving of notice, or both, would constitute a default hereunder, Mortgagee is authorized, prior or subsequent to the institution of any foreclosure proceedings, to enter upon the Property, or any part thereof, and to take possession of the Property and all books and records relating thereto, and to exercise without interference from Mortgagor any and all rights which Mortgagor has with respect to the management, possession, operation, protection or preservation of the Property. If necessary to obtain the possession provided for above, Mortgagee may invoke any and all remedies to dispossess Mortgagor. All costs, expenses and liabilities of every character incurred by Mortgagee in managing, operating, maintaining, protecting or preserving the Property shall constitute a demand obligation (which obligation Mortgagor hereby expressly promises to pay) owing by Mortgagor to Mortgagee and shall bear interest from date of expenditure until paid at the rate described in Section 2.3 hereof, all of which shall constitute a portion of the secured indebtedness and shall be secured by this Mortgage and by any other instrument securing the secured indebtedness. In connection with any action taken by Mortgagee pursuant to this Section 4.3, MORTGAGEE SHALL NOT BE LIABLE FOR ANY LOSS SUSTAINED BY MORTGAGOR RESULTING FROM ANY ACT OR OMISSION OF MORTGAGEE (INCLUDING MORTGAGEE'S OWN NEGLIGENCE) IN MANAGING THE PROPERTY UNLESS SUCH LOSS IS CAUSED BY THE WILLFUL MISCONDUCT OR BAD FAITH OF MORTGAGEE, nor shall Mortgagee be obligated to perform or discharge any obligation, duty or liability of Mortgagor arising under any agreement forming a part of the Property or arising under any Permitted Encumbrance or otherwise arising. Mortgagor hereby assents to, ratifies and confirms any and all actions of Mortgagee with respect to the Property taken under this Section 4.3.

Section 4.4. Foreclosure.

(a) Upon the occurrence of a default, this Mortgage may be foreclosed as to the Mortgaged Properties, or any part thereof, in any manner permitted by applicable law. Cumulative of the foregoing and the other provisions of this Section 4.4, Mortgagee may foreclose this Mortgage by executory process subject to, and on the terms and conditions required or permitted by, applicable law, and shall have the right to appoint a keeper of such Mortgaged Properties.

-21-

(b) Upon the occurrence of a default, Mortgagee may exercise its rights of enforcement with respect to the Collateral under the Louisiana Commercial Laws or under, the Uniform Commercial Code or any other statute in force in any state to the extent the same is applicable law. Cumulative of the foregoing and the other provisions of this Section 4.4:

(i) Mortgagee may enter upon the Mortgaged Properties or otherwise upon Mortgagor's premises to take possession of, assemble and collect the Collateral or to render it unusable; and

(ii) Mortgagee may require Mortgagor to assemble the Collateral and make it available at a place Mortgagee designates which is mutually convenient to allow Mortgagee to take possession or dispose of the Collateral; and

(iii) written notice mailed to Mortgagor as provided herein at least five (5) days prior to the date of public sale of the Collateral or prior to the date after which private sale of the Collateral will be made shall constitute reasonable notice; and

(iv) in the event of a foreclosure of the liens and/or security interests evidenced hereby, the Collateral, or any part thereof, and the Mortgaged Properties, or any part thereof, may, at the option of Mortgagee, be sold, as a whole or in parts, together or separately (including, without limitation, where a portion of the Mortgaged Properties is sold, the Collateral related thereto may be sold in connection therewith); and

(v) the expenses of sale provided for in clause FIRST of Section 4.6 shall include the reasonable expenses of retaking the Collateral, or any part thereof, holding the same and preparing the same for sale or other disposition; and

(vi) should, under this subsection, the Collateral be disposed of other than by sale, any proceeds of such disposition shall be treated under Section 4.6 as if the same were sales proceeds; and

(vii) as to the Collateral located in or otherwise subject to the

laws of the State of Louisiana, Mortgagee may foreclose this Mortgage as a security agreement affecting the Collateral by executory process subject to, and on the terms and conditions required or permitted by, applicable law, and shall have the right to appoint a keeper of such Collateral.

(c) To the extent permitted by applicable law, the sale hereunder of less than the whole of the Property shall not exhaust the powers of sale under the Uniform Commercial Code herein granted or the right to judicial foreclosure, and successive sale or sales may be made until the whole of the Property shall be sold and, if the proceeds of such sale of less than the whole of the Property shall be less than the aggregate of the indebtedness secured hereby and the expense of conducting such sale, this Mortgage and the liens and security interests hereof shall remain in full force and effect as to the unsold portion of the Property just as though no sale had been

-22-

made. In the event any sale hereunder is not completed or is defective in the opinion of Mortgagee, such sale shall not exhaust the powers of sale under the Uniform Commercial Code herein granted or the right to judicial foreclosure, and Mortgagee shall have the right to cause a subsequent sale or sales to be made. Any sale may be adjourned by announcement at the time and place appointed for such sale without further notice except as may be required by law. Mortgagee acting under such Uniform Commercial Code power of sale may appoint or delegate any one or more persons as agent to perform any act or acts necessary or incident to any sale held by it (including, without limitation, the posting of notices and the conduct of sale), and such appointment need not be in writing or recorded. Any and all statements of fact or other recitals made in any deed or deeds, or other instruments of transfer, given in connection with a sale as to nonpayment of the secured indebtedness or as to the occurrence of any default, or as to all of the secured indebtedness having been declared to be due and payable, or as to the request to sell, or as to notice of time, place and terms of sale and the properties to be sold having been duly given, or as to any other act or thing having been duly done, shall be taken as prima facie evidence of the truth of the facts so stated and recited. Notwithstanding any reference herein to the Note or the Credit Agreement or any other Loan Document, all persons dealing with the Mortgaged Properties shall be entitled to rely on any document, or certificate, of the Mortgagee as to the occurrence of an event, such as an Event of Default, and shall not be charged with or forced to review any provision of any other document to determine the accuracy thereof. With respect to any sale held in foreclosure of the liens and/or security interests covered hereby, it shall not be necessary for the Mortgagee, any public officer acting under execution or order of the court or any other party to have physically present or constructively in his/her or its possession, either at the time of or prior to such sale, the Property or any part thereof.

(d) As to Property now or hereafter located in, or otherwise subject to the laws of, the State of Louisiana, Mortgagor acknowledges the secured indebtedness, whether now existing or to arise hereafter, and for Mortgagor, Mortgagor's heirs, devisees, personal representatives, successors and assigns, hereby confesses judgment for the full amount of the secured indebtedness in favor of the Mortgagee. Mortgagor further agrees that the Mortgagee may cause all or any part of the Property to be seized and sold after due process of law, the Mortgagor waiving the benefit of all laws or parts of laws relative to the appraisal of property seized and sold under executory process or other legal process, and consenting that all or any part of the Property may be sold without appraisal, either in its entirety or in lots and parcels, as the Mortgagee may determine, to the highest bidder for cash or on such terms as the plaintiff in such proceedings may direct. Mortgagor hereby waives (i) the benefit of appraisal provided for in articles 2332, 2336, 2723, and 2724 of the Louisiana Code of Civil Procedure and all other laws conferring the same; (ii) the demand and three (3) days notice of demand as provided in articles 2639 and 2721 of the Louisiana Code of Civil Procedure; (iii) the notice of seizure provided for in articles 2293 and 2721 of the Louisiana Code of Civil Procedure; (iv) the three (3) days delay provided for in articles 2331 and 2722 of the Louisiana Code of Civil Procedure; and (v) all other laws providing rights of notice, demand, appraisal, or delay. Mortgagor expressly authorizes and agrees that Mortgagee shall have the right to appoint a keeper of such Property pursuant to the terms and provisions of La. R.S. 9:5131 et seq. and La. R.S. 9:5136 et seq., which keeper may be the Mortgagee, any agent or employee thereof, or any other person, firm, or corporation. Compensation for the services of the keeper is hereby fixed at five percent (5%) of the amount

-23-

due or sued for or claimed or sought to be protected, preserved, or enforced in the proceeding for the recognition or enforcement of this Mortgage and shall be secured by the liens and security interests of this Mortgage.

Section 4.5. Receiver. In addition to all other remedies herein provided for, Mortgagor agrees that, upon the occurrence of a default or any event or circumstance which, with the lapse of time or the giving of notice, or both, would constitute a default hereunder, Mortgagee shall as a matter of right be entitled to the appointment of a receiver or receivers for all or any part of the Property, whether such receivership be incident to a proposed sale (or

sales) of such property or otherwise, and without regard to the value of the Property or the solvency of any person or persons liable for the payment of the indebtedness secured hereby, and Mortgagor does hereby consent to the appointment of such receiver or receivers, waives any and all defenses to such appointment, and agrees not to oppose any application therefor by Mortgagee, and agrees that such appointment shall in no manner impair, prejudice or otherwise affect the rights of Mortgagee under Article III hereof. Mortgagor expressly waives notice of a hearing for appointment of a receiver and the necessity for bond or an accounting by the receiver. Nothing herein is to be construed to deprive Mortgagee of any other right, remedy or privilege it may now or hereafter have under the law to have a receiver appointed. Any money advanced by Mortgagee in connection with any such receivership shall be a demand obligation (which obligation Mortgagor hereby expressly promises to pay) owing by Mortgagor to Mortgagee and shall bear interest, from the date of making such advancement by Mortgagee until paid, at the rate described in Section 2.3 hereof.

Section 4.6. Proceeds of Foreclosure. The proceeds of any sale held in foreclosure of the liens and/or security interests evidenced hereby shall be applied:

FIRST, to the payment of all necessary costs and expenses incident to such foreclosure sale, including but not limited to all court costs and charges of every character in the event foreclosed by suit and including but not limited to the compensation of the keeper, if any;

SECOND, to the payment of the secured indebtedness (including specifically without limitation the principal, interest and attorneys' fees due and unpaid on the Note and the amounts due and unpaid and owed under this Mortgage) in such manner and order as Mortgagee may elect; and

THIRD, the remainder, if any there shall be, shall be paid to Mortgagor, or to Mortgagor's heirs, devisees, representatives, successors or assigns, or such other persons as may be entitled thereto by law.

Section 4.7. Mortgagee as Purchaser. Any party constituting Mortgagee shall have the right to become the purchaser at any sale held in foreclosure of the liens and/or security interests evidenced hereby, and any party constituting Mortgagee which is purchasing at any such sale shall have the right to credit upon the amount of the bid made therefor, to the extent necessary to satisfy such bid, the secured indebtedness owing to such party, or if such party holds less than all

-24-

of such indebtedness, the pro rata part thereof owing to such party, accounting to all other parties constituting Mortgagee who are not joining in such bid in cash for the portion of such bid or bids apportionable to such non-bidding parties.

Section 4.8. Foreclosure as to Matured Debt. Upon the occurrence of a default, Mortgagee shall have the right to proceed with foreclosure of the liens and/or security interests evidenced hereby without declaring the entire secured indebtedness due, and in such event, any such foreclosure sale may be made subject to the unmatured part of the secured indebtedness and shall not in any manner affect the unmatured part of the secured indebtedness, but as to such unmatured part, this Mortgage shall remain in full force and effect just as though no sale had been made. The proceeds of such sale shall be applied as provided in Section 4.6 except that the amount paid under clause SECOND thereof shall be only the matured portion of the secured indebtedness and any proceeds of such sale in excess of those provided for in clauses FIRST and SECOND (modified as provided above) shall be applied as provided in clause SECOND AND THIRD of Section 3.4 hereof. Several sales may be made hereunder without exhausting the right of sale for any unmatured part of the secured indebtedness.

Section 4.9. Remedies Cumulative. All remedies herein provided for are cumulative of each other and of all other remedies existing at law or in equity and are cumulative of any and all other remedies provided for in any other Loan Document, and, in addition to the remedies herein provided, there shall continue to be available all such other remedies as may now or hereafter exist at law or in equity for the collection of the secured indebtedness and the enforcement of the covenants herein and the foreclosure of the liens and/or security interests evidenced hereby, and the resort to any remedy provided for hereunder or under any such other Loan Document or provided for by law shall not prevent the concurrent or subsequent employment of any other appropriate remedy or remedies.

Section 4.10. Discretion as to Security. Mortgagee may resort to any security given by this Mortgage or to any other security now existing or hereafter given to secure the payment of the secured indebtedness, in whole or in part, and in such portions and in such order as may seem best to Mortgagee in its sole and uncontrolled discretion, and any such action shall not in any way be considered as a waiver of any of the rights, benefits, liens or security interests evidenced by this Mortgage.

Section 4.11. Mortgagor's Waiver of Certain Rights. To the full extent

Mortgagor may do so, Mortgagor agrees that Mortgagor will not at any time insist upon, plead, claim or take the benefit or advantage of any law now or hereafter in force providing for any appraisal, valuation, stay, extension or redemption, and Mortgagor, for Mortgagor, Mortgagor's heirs, devisees, representatives, successors and assigns, and for any and all persons ever claiming any interest in the Property, to the extent permitted by applicable law, hereby waives and releases all rights of appraisal, valuation, stay of execution, redemption, notice of intention to mature or declare due the whole of the secured indebtedness, notice of election to mature or declare due the whole of the secured indebtedness and all rights to a marshaling of assets of Mortgagor, including the Property, or to a sale in inverse order of alienation in the event of foreclosure of the liens and/or security interests hereby created. Mortgagor shall not have or assert any right under

-25-

any statute or rule of law pertaining to the marshaling of assets, sale in inverse order of alienation, the exemption of homestead, the administration of estates of decedents, or other matters whatever to defeat, reduce or affect the right under the terms of this Mortgage to a sale of the Property for the collection of the secured indebtedness without any prior or different resort for collection, or the right under the terms of this Mortgage to the payment of the secured indebtedness out of the proceeds of sale of the Property in preference to every other claimant whatever. If any law referred to in this section and now in force, of which Mortgagor or Mortgagor's heirs, devisees, representatives, successors or assigns or any other persons claiming any interest in the Mortgaged Properties or the Collateral might take advantage despite this section, shall hereafter be repealed or cease to be in force, such law shall not thereafter be deemed to preclude the application of this section.

Section 4.12. Mortgagor as Tenant Post-Foreclosure. In the event there is a foreclosure sale hereunder and at the time of such sale Mortgagor or Mortgagor's heirs, devisees, representatives, successors or assigns or any other persons claiming any interest in the Property by, through or under Mortgagor are occupying or using the Property, or any part thereof, each and all shall immediately become the tenant of the purchaser at such sale, which tenancy shall be a tenancy from day to day, terminable at the will of either landlord or tenant, at a reasonable rental per day based upon the value of the property occupied, such rental to be due daily to the purchaser. To the extent permitted by applicable law, the purchaser at such sale shall, notwithstanding any language herein apparently to the contrary, have the sole option to demand immediate possession following the sale or to permit the occupants to remain as tenants at will. In the event the tenant fails to surrender possession of said property upon demand, the purchaser shall be entitled to institute and maintain a summary action for possession of the property (such as an action for forcible entry and detainer) in any court having jurisdiction.

ARTICLE V.

Miscellaneous

Section 5.1. Scope of Mortgage. This Mortgage is a mortgage of both real/immovable and personal/movable property, a security agreement, a financing statement and an assignment, and also covers proceeds and fixtures.

Section 5.2. Effective as a Financing Statement. This Mortgage covers goods which are or are to become fixtures on the real property described herein, and this Mortgage shall be effective as a financing statement filed as a fixture filing with respect to all such fixtures included within the Property. This Mortgage shall also be effective as a financing statement covering minerals and other substances of value which may be extracted from the earth (including without limitation oil and gas), and accounts related thereto, which will be financed at the wellhead or minehead of the wells or mines located on the Mortgaged Properties. This Mortgage is to be filed for record in the real/immovable property records of each county or parish where any part of the Mortgaged Properties is situated or which lies shoreward of any Mortgaged Property (i.e., to the extent a Mortgaged Property lies offshore within the actual or projected seaward extension of

-26-

the relevant county or parish boundaries), and may also be filed in the Uniform Commercial Code records of any such parish, in the offices of the Bureau of Land Management or the Minerals Management Service, and in the offices of the Louisiana Mineral Board or any other relevant state agency (or any successor agencies). This Mortgage shall also be effective as a financing statement covering any other Property and may be filed in any other appropriate filing or recording office. The mailing address of Mortgagor is the address of Mortgagor set forth at the end of this Mortgage and the address of Mortgagee from which information concerning the security interests hereunder may be obtained is the address of Mortgagee set forth at the end of this Mortgage.

Section 5.3. Reproduction of Mortgage as Financing Statement. A carbon, photographic, facsimile or other reproduction of this Mortgage or of any

financing statement relating to this Mortgage shall be sufficient as a financing statement for any of the purposes referred to in Section 5.2.

Section 5.4. Notice to Account Debtors. In addition to, but without limitation of, the rights granted in Article III hereof, Mortgagee may, at any time after a default has occurred that is continuing, notify the account debtors or obligors of any accounts, chattel paper, negotiable instruments or other evidences of indebtedness included in the Collateral to pay Mortgagee directly.

Section 5.5. Waivers. Mortgagee may at any time and from time to time in writing waive compliance by Mortgagor with any covenant herein made by Mortgagor to the extent and in the manner specified in such writing, or consent to Mortgagor's doing any act which hereunder Mortgagor is prohibited from doing, or to Mortgagor's failing to do any act which hereunder Mortgagor is required to do, to the extent and in the manner specified in such writing, or release any part of the Property or any interest therein or any Production Proceeds from the lien and security interest of this Mortgage. Any party liable, either directly or indirectly, for the secured indebtedness or for any covenant herein or in any other Loan Document may be released from all or any part of such obligations without impairing or releasing the liability of any other party. No such act shall in any way impair any rights or powers hereunder except to the extent specifically agreed to in such writing.

Section 5.6. No Impairment of Security. The lien, security interest and other security rights hereunder shall not be impaired by any indulgence, moratorium or release which may be granted including, but not limited to, any renewal, extension or modification which may be granted with respect to any secured indebtedness, or any surrender, compromise, release, renewal, extension, exchange or substitution which may be granted in respect of the Property (including without limitation Production Proceeds), or any part thereof or any interest therein, or any release or indulgence granted to any endorser, guarantor or surety of any secured indebtedness.

Section 5.7. Acts Not Constituting Waiver. Any default may be waived without waiving any other prior or subsequent default. Any default may be remedied without waiving the default remedied. Neither failure to exercise, nor delay in exercising, any right, power or remedy upon any default shall be

-27-

construed as a waiver of such default or as a waiver of the right to exercise any such right, power or remedy at a later date. No single or partial exercise of any right, power or remedy hereunder shall exhaust the same or shall preclude any other or further exercise thereof, and every such right, power or remedy hereunder may be exercised at any time and from time to time. No modification or waiver of any provision hereof nor consent to any departure by Mortgagor therefrom shall in any event be effective unless the same shall be in writing and signed by Mortgagee and then such waiver or consent shall be effective only in the specific instances, for the purpose for which given and to the extent therein specified. No notice to nor demand on Mortgagor in any case shall of itself entitle Mortgagor to any other or further notice or demand in similar or other circumstances. Acceptance of any payment in an amount less than the amount then due on any secured indebtedness shall be deemed an acceptance on account only and shall not in any way excuse the existence of a default hereunder.

Section 5.8. Mortgagor's Successors. In the event the ownership of the Property or any part thereof becomes vested in a person other than Mortgagor, then, without notice to Mortgagor, such successor or successors in interest may be dealt with, with reference to this Mortgage and to the indebtedness secured hereby, in the same manner as with Mortgagor, without in any way vitiating or discharging Mortgagor's liability hereunder or for the payment of the indebtedness or performance of the obligations secured hereby. No transfer of the Property, no forbearance, and no extension of the time for the payment of the indebtedness secured hereby, shall operate to release, discharge, modify, change or affect, in whole or in part, the liability of Mortgagor hereunder or for the payment of the indebtedness or performance of the obligations secured hereby or the liability of any other person hereunder or for the payment of the indebtedness secured hereby.

Section 5.9. Place of Payment. All secured indebtedness which may be owing hereunder at any time by Mortgagor shall be payable at the place designated in the Note (or if no such designation is made, at the address of Mortgagee indicated at the end of this Mortgage), or at such other place as Mortgagee may designate in writing.

Section 5.10. Subrogation to Existing Liens. To the extent that proceeds of the Note are used to pay indebtedness secured by any outstanding lien, security interest, charge or prior encumbrance against the Property, such proceeds have been advanced at Mortgagor's request, and the party or parties advancing the same shall be subrogated to any and all rights, security interests and liens owned by any owner or holder of such outstanding liens, security interests, charges or encumbrances, irrespective of whether said liens, security interests, charges or encumbrances are released, and it is expressly understood that, in consideration of the payment of such indebtedness, Mortgagor hereby

waives and releases all demands and causes of action for offsets and payments to, upon and in connection with the said indebtedness.

Section 5.11. Application of Payments to Certain Indebtedness. If any part of the secured indebtedness cannot be lawfully secured by this Mortgage or if any part of the Property cannot be lawfully subject to the lien and security interest hereof to the full extent of such indebtedness, then all payments made shall be applied on said indebtedness first in discharge of that portion thereof which is not secured by this Mortgage.

-28-

Section 5.12. Compliance With Usury Laws. It is the intent of Mortgagor, Mortgagee and all other parties to the Loan Documents to contract in strict compliance with applicable usury law from time to time in effect. In furtherance thereof, it is stipulated and agreed that none of the terms and provisions contained herein shall ever be construed to create a contract to pay, for the use, forbearance or detention of money, interest in excess of the maximum amount of interest permitted to be charged by applicable law from time to time in effect, and any interest purportedly in excess of such maximum shall be limited to such maximum. The provisions of Section 9.8 of the Credit Agreement (limiting the interest under the Loan Documents) apply to this Mortgage.

Section 5.13. Release of Mortgage. If all of the secured indebtedness be paid as the same becomes due and payable, all other requirements of the Credit Agreement are satisfied and all of the covenants, warranties, undertakings and agreements made in this Mortgage are kept and performed, and if neither the Mortgagor nor the Mortgagee is bound to the other or to any third person to permit any obligation or secured indebtedness to be incurred then or thereafter, then, upon twenty (20) days prior written notice (or such lesser number of days as may be mandated by applicable law), the Mortgagor may request that this Mortgage be terminated. Upon such termination the Mortgagor may further request that a written act of release of this Mortgage be provided (except this Mortgage shall be reinstated to the extent expressly provided herein, and will continue with respect to indemnification and other rights which are to continue following the release hereof). Mortgagee agrees to deliver such an act of release (subject to the foregoing limitation), all at the cost and expense of the Mortgagor, within twenty (20) days (or such lesser number of days as may be mandated by applicable law) of receiving such request unless Mortgagee in good faith, has cause to believe that Mortgagor is not entitled to a termination of this Mortgage. Notwithstanding the foregoing, it is understood and agreed that certain indemnifications, and other rights, which are provided herein to continue following the release hereof, shall continue in effect notwithstanding such release; provided that if any payment to Mortgagee is held to constitute a preference or a voidable transfer under applicable state or federal laws or if for any other reason Mortgagee is required to refund such payment to the payor thereof or to pay the amount thereof to any third party, this Mortgage shall be reinstated to the extent of any such payment or payments.

Section 5.14. Notices. All notices, requests, consents, demands and other communications required or permitted hereunder shall be in writing and shall be deemed sufficiently given or furnished if delivered by personal delivery, by telecopy, by delivery service with proof of delivery, or by registered or certified United States mail, postage prepaid, at the addresses specified at the end of this Mortgage (unless changed by similar notice in writing given by the particular party whose address is to be changed). Any such notice or communication shall be deemed to have been given (a) in the case of personal delivery or delivery service, as of the date of first attempted delivery at the address and in the manner provided herein, (b) in the case of telecopy, upon receipt, and (c) in the case of registered or certified United States mail, three days after deposit in the mail. Notwithstanding the foregoing, or anything else in the Loan Documents which may appear to the contrary, any notice given in connection with a foreclosure of the liens and/or security interests created hereunder, or otherwise in connection with the

-29-

exercise by Mortgagee of its rights hereunder or under any other Loan Document, which is given in a manner permitted by applicable law shall constitute proper notice; without limitation of the foregoing, notice given in a form required or permitted by statute shall (as to the portion of the Property to which such statute is applicable) constitute proper notice.

Section 5.15. Invalidity of Certain Provisions. A determination that any provision of this Mortgage is unenforceable or invalid shall not affect the enforceability or validity of any other provision and the determination that the application of any provision of this Mortgage to any person or circumstance is illegal or unenforceable shall not affect the enforceability or validity of such provision as it may apply to other persons or circumstances.

Section 5.16. Gender; Titles. Within this Mortgage, words of any gender shall be held and construed to include any other gender, and words in the singular number shall be held and construed to include the plural, unless the context otherwise requires. Titles appearing at the beginning of any

subdivisions hereof are for convenience only, do not constitute any part of such subdivisions, and shall be disregarded in construing the language contained in such subdivisions.

Section 5.17. Recording. Mortgagor will cause this Mortgage and all amendments and supplements thereto and substitutions therefor and all financing statements and continuation statements relating thereto to be recorded, filed, re-recorded and refiled in such manner and in such places as Mortgagee shall reasonably request and will pay all such recording, filing, re-recording and refiling taxes, fees and other charges.

Section 5.18. Reporting Compliance. Mortgagor agrees to comply with any and all reporting requirements applicable to the transaction evidenced by the Note and secured by this Mortgage which are set forth in any law, statute, ordinance, rule, regulation, order or determination of any governmental authority, and further agrees upon request of Mortgagee to furnish Mortgagee with evidence of such compliance.

Section 5.19. Certain Consents. Except where otherwise expressly provided herein, in any instance hereunder where the approval, consent or the exercise of judgment of Mortgagee is required, the granting or denial of such approval or consent and the exercise of such judgment shall be within the sole discretion of Mortgagee, and Mortgagee shall not, for any reason or to any extent, be required to grant such approval or consent or exercise such judgment in any particular manner, regardless of the reasonableness of either the request or Mortgagee's judgment.

Section 5.20. Certain Obligations of Mortgagor. Without limiting Mortgagor's obligations hereunder, Mortgagor's liability hereunder shall extend to and include all post petition interest, expenses, and other duties and liabilities with respect to Mortgagor's obligations hereunder which would be owed but for the fact that the same may be unenforceable due to the existence of a bankruptcy, reorganization or similar proceeding.

Section 5.21. Counterparts. This Mortgage may be executed in several counterparts, all of which are identical, except that, to facilitate recordation, certain counterparts hereof may

-30-

include only that portion of Exhibit "A" which contains descriptions of the properties located in (or otherwise subject to the recording or filing requirements and/or protections of the recording or filing acts or regulations of) the recording jurisdiction in which the particular counterpart is to be recorded, and other portions of Exhibit "A" shall be included in such counterparts by reference only. All of such counterparts together shall constitute one and the same instrument. Complete copies of this Mortgage containing the entire Exhibit "A", and being fully executed by Mortgagee, attested and sealed by a representative of Mortgagor, and witnessed by two individuals, have been retained by Mortgagor and Mortgagee and one such copy has been recorded in Cameron Parish, Louisiana.

Section 5.22. Successors and Assigns. The terms, provisions, covenants, representations, indemnifications and conditions hereof shall be binding upon Mortgagor, and the successors and assigns of Mortgagor, and shall inure to the benefit of Mortgagee and the successors and assigns of Mortgagee, and shall constitute covenants running with the Mortgaged Properties. All references in this Mortgage to Mortgagor or Mortgagee shall be deemed to include all such successors and assigns.

SECTION 5.23. FINAL AGREEMENT OF THE PARTIES. THE WRITTEN LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

SECTION 5.24. CHOICE OF LAW. WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW, THIS MORTGAGE SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF LOUISIANA APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE AND THE LAWS OF THE UNITED STATES OF AMERICA.

SECTION 5.25 . APPEARANCE, RESOLUTIONS. For purposes of Louisiana law, including but not limited to the availability of executory process, Mortgagor and Mortgagee have appeared on this date before the undersigned Notaries Public and witnesses in order to execute this Mortgage. Mortgagor attaches to counterparts hereof being recorded in Louisiana, certified resolutions of its Board of Directors authorizing the execution and delivery of this Mortgage.

Section 5.26. Paraph. Mortgagor acknowledges that no promissory note or other instrument has been presented to the undersigned Notary Public(s) to be paraphed for identification herewith.

Section 5.27 Reliance as to Facts. Notwithstanding any reference herein to the Credit Agreement, the Note, or any other document, no third party shall be obligated to inquire as to whether any term or condition set forth therein

has occurred but shall be entitled to rely upon

-31-

the certificate of the Mortgagee as to all events, including but not limited to the occurrence of a default hereunder.

-32-

THUS DONE AND PASSED this 1st day of September, 1999 in my presence and in the presence of the undersigned competent witnesses who hereunto sign their names with Mortgagor and me, Notary, after reading of the whole.

WITNESSES: MORTGAGOR

CHENIERE ENERGY, INC.

Name:

By: _____

Name:

Title:

Name:

NOTARY PUBLIC, STATE OF TEXAS

The address of Mortgagor is:

Two Allen Center, Suite 1740
1200 Smith Street
Houston, Texas 77002

-33-

THUS DONE AND PASSED this 1st day of September, 1999 in my presence and in the presence of the undersigned competent witnesses who hereunto sign their names with Mortgagee and me, Notary, after reading of the whole.

WITNESSES: MORTGAGEE

ENCAP ENERGY CAPITAL FUND III, L.P.

By: ENCAP INVESTMENTS L.L.C.,
General Partner

Name:

By: _____

Gary R. Petersen
Managing Director

Name:

NOTARY PUBLIC, STATE OF TEXAS

The address of Mortgagee is:

1100 Louisiana Street, Suite 3150
Houston, Texas 77002

This instrument prepared by:

John W. Rain
Thompson & Knight L.L.P.
1700 Pacific Avenue
Dallas, Texas 75201

-34-

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