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

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**FORM 10-Q**

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended June 30, 2005

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-16383

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**CHENIERE ENERGY, INC.**

(Exact name as specified in its charter)

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**Delaware**

(State or other jurisdiction of incorporation or organization)

**95-4352386**

(I.R.S. Employer Identification No.)

**717 Texas Avenue, Suite 3100**

**Houston, Texas**

(Address of principal executive offices)

**77002**

(Zip Code)

**(713) 659-1361**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes  No .

As of August 1, 2005, there were 53,903,374 shares of Cheniere Energy, Inc. Common Stock, \$.003 par value, issued and outstanding.

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**CAUTIONARY STATEMENT  
REGARDING FORWARD-LOOKING STATEMENTS**

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

- statements that we expect to commence or complete construction of each of our proposed liquefied natural gas ("LNG") receiving terminals by certain dates, or at all;
- statements that we expect to receive Draft Environmental Impact Statements or Final Environmental Impact Statements from the Federal Energy Regulatory Commission ("FERC") by certain dates, or at all, or that we expect to receive an order from FERC authorizing us to construct and operate proposed LNG receiving terminals by a certain date, or at all;
- statements regarding any financing transactions or arrangements, or ability to enter into such transactions, whether on the part of Cheniere or at the project level;
- statements relating to the construction of our proposed LNG receiving terminals, including statements concerning the engagement of any engineering, procurement and construction ("EPC") contractor and the anticipated terms and provisions of any agreement with an EPC contractor, and anticipated costs related thereto;

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- statements regarding any terminal use agreement (“TUA”) or other agreement to be performed substantially in the future, including any cash distributions and revenues anticipated to be received and the anticipated timing thereof, and statements regarding the amounts of our total regasification capacity that is, or may become subject to, TUAs;
- statements regarding possible equity or asset purchases or sales, including of interests in current or future projects;
- statements that our proposed LNG receiving terminals and pipelines, when completed, will have certain characteristics, including amounts of regasification and storage capacities, a number of storage tanks and docks, pipeline deliverability and a number of pipeline interconnections, if any;
- statements regarding the possible expansions of the currently projected size of any of our proposed LNG receiving terminals;
- statements regarding our business strategy, our business plans or any other plans, forecasts or objectives, any or all of which are subject to change;
- statements regarding any Securities and Exchange Commission (“SEC”) or other governmental or regulatory inquiry or investigation;
- statements regarding anticipated legislative, governmental, regulatory, administrative or other public body actions, requirements, permits or decisions; and
- any other statements that relate to non historical or future information.

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

Our actual results could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors, including those discussed in “Risk Factors” of our annual report on Form 10-K, as amended, for the year ended December 31, 2004. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these risk factors. These forward-looking statements are made as of the date of this quarterly report. Other than as required under the securities laws, we assume no obligation to update or revise these forward-looking statements or provide reasons why actual results may differ.

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**CHENIERE ENERGY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
(in thousands, except share data)

	June 30, 2005	December 31, 2004
	(unaudited)	
<u>ASSETS</u>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 171,817	\$ 308,443
Restricted Cash	136	—
Restricted Certificate of Deposit	908	900
Advances to EPC Contractor	24,260	—
Accounts Receivable	1,071	1,374
Prepaid Expenses	1,439	564
	<u>199,631</u>	<u>311,281</u>
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	155,886	20,880
<b>DEBT ISSUANCE COSTS, NET</b>	20,648	1,302
<b>INVESTMENT IN LIMITED PARTNERSHIP</b>	—	—
<b>GOODWILL</b>	76,845	—
<b>INTANGIBLE LNG ASSETS</b>	93	88
<b>OTHER</b>	217	16
	<u>\$ 453,320</u>	<u>\$ 333,567</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 955	\$ 1,262
Accrued Liabilities	46,772	3,196
Accrued Losses on Investment in Limited Partnership	450	1,071
Current Derivative Liability	654	—
	<u>48,831</u>	<u>5,529</u>
<b>DEFERRED REVENUE</b>	38,000	23,000
<b>LONG-TERM DERIVATIVE LIABILITY</b>	15,506	—
<b>LONG-TERM ASSET RETIREMENT OBLIGATION</b>	100	99
<b>MINORITY INTEREST</b>	—	338
<b>COMMITMENTS AND CONTINGENCIES</b>	—	—
<b>STOCKHOLDERS' EQUITY</b>		
Preferred Stock, \$.0001 par value Authorized: 5,000,000 shares Issued and Outstanding: none	—	—
Common Stock, \$.003 par value Authorized: 120,000,000 and 40,000,000 shares at June 30, 2005 and December 31, 2004, respectively. Issued and Outstanding: 53,901,374 shares at June 30, 2005 and 50,918,582 shares at December 31, 2004	162	153
Additional Paid-in-Capital	443,929	364,504
Deferred Compensation	(5,149)	(6,543)
Accumulated Deficit	(72,566)	(53,513)
Accumulated Other Comprehensive Loss	(15,493)	—
	<u>350,883</u>	<u>304,601</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$ 453,320</u>	<u>\$ 333,567</u>

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

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**CHENIERE ENERGY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
(in thousands, except per share data)  
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
<b>Revenues</b>				
Oil and Gas Sales	\$ 689	\$ 335	\$ 1,425	\$ 667
<b>Total Revenues</b>	<b>689</b>	<b>335</b>	<b>1,425</b>	<b>667</b>
<b>Operating Costs and Expenses</b>				
LNG Terminal Development Expenses	5,350	5,566	10,775	9,967
Production Costs	34	7	89	14
Depreciation, Depletion and Amortization	528	161	1,055	366
General and Administrative Expenses	5,600	1,928	10,590	4,865
<b>Total Operating Costs and Expenses</b>	<b>11,512</b>	<b>7,662</b>	<b>22,509</b>	<b>15,212</b>
<b>Loss from Operations</b>	<b>(10,823)</b>	<b>(7,327)</b>	<b>(21,084)</b>	<b>(14,545)</b>
Equity in Net (Loss) Income of Limited Partnership	(127)	(1,488)	(971)	667
Reimbursement from Limited Partnership Investment	—	—	—	2,500
Unrealized Derivative Loss	(642)	—	(667)	—
Interest Income	1,755	10	3,572	17
<b>Loss Before Income Taxes and Minority Interest</b>	<b>(9,837)</b>	<b>(8,805)</b>	<b>(19,150)</b>	<b>(11,361)</b>
Provision for Income Taxes	—	—	—	—
<b>Loss Before Minority Interest</b>	<b>(9,837)</b>	<b>(8,805)</b>	<b>(19,150)</b>	<b>(11,361)</b>
Minority Interest	—	752	97	2,233
<b>Net Loss</b>	<b>\$ (9,837)</b>	<b>\$ (8,053)</b>	<b>\$ (19,053)</b>	<b>\$ (9,128)</b>
<b>Net Loss Per Share – Basic and Diluted</b>	<b>\$ (0.18)</b>	<b>\$ (0.21)</b>	<b>\$ (0.36)</b>	<b>\$ (0.25)</b>
<b>Weighted Average Number of Shares Outstanding – Basic and Diluted</b>	<b>53,757</b>	<b>37,833</b>	<b>53,063</b>	<b>37,026</b>

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

**CHENIERE ENERGY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**(in thousands)**  
**(unaudited)**

	Common Stock		Additional Paid-In Capital	Deferred Compensation	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount					
Balance—December 31, 2004	50,919	\$ 153	\$364,504	\$ (6,543)	\$ (53,513)	\$ —	\$ 304,601
Issuances of Stock	2,972	9	79,152	—	—	—	79,161
Issuance of Restricted Stock	10	—	300	(300)	—	—	—
Other Comprehensive Loss	—	—	—	—	—	(15,493)	(15,493)
Amortization of Deferred Compensation	—	—	—	1,694	—	—	1,694
Expenses Related to Offerings	—	—	(27)	—	—	—	(27)
Net Loss	—	—	—	—	(19,053)	—	(19,053)
Balance—June 30, 2005	53,901	\$ 162	\$443,929	\$ (5,149)	\$ (72,566)	\$ (15,493)	\$ 350,883

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

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

	Six Months Ended June 30,	
	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Loss	\$ (19,053)	\$ (9,128)
Adjustments to Reconcile Net Loss to Net Cash Used In Operating Activities:		
Depreciation, Depletion and Amortization	1,055	366
Non-Cash Compensation	1,671	2,261
Equity in Net (Income) Loss of Limited Partnership	971	(667)
Reimbursement from Limited Partnership Investment	—	(2,500)
Minority Interest	(97)	(2,233)
Unrealized Derivative Loss	667	—
Other	(8)	133
Changes in Operating Assets and Liabilities:		
Accounts Receivable – Affiliates	—	1,000
Other Accounts Receivable	390	157
Prepaid Expenses	(860)	(95)
Deferred Revenue	15,000	—
Accounts Payable and Accrued Liabilities	(190)	122
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(454)</b>	<b>(10,584)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
LNG Terminal Construction-In-Progress	(92,085)	—
Advance to EPC Contractor, net of transfers to Construction-In-Progress	(24,260)	—
Purchase of Fixed Assets	(1,899)	(787)
Investment in Limited Partnership	(1,592)	—
Oil and Gas Property Additions	(1,322)	(743)
Acquisition Costs	(156)	—
Investment in Restricted Cash	(136)	—
Sale of Limited Partnership Interest	—	883
Sale of Interest in Oil and Gas Properties	426	1,191
Reimbursement from Limited Partnership	—	2,500
Purchase of Restricted Certificate of Deposit	—	(1,123)
Other	(364)	(180)
<b>NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES</b>	<b>(121,388)</b>	<b>1,741</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of Note Payable	—	(1,000)
Sale of Common Stock	2,009	17,363
Debt Issuance Costs	(16,840)	—
Offering Costs	(27)	(965)
Partnership Contributions by Minority Owner	74	2,186
<b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>	<b>(14,784)</b>	<b>17,584</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(136,626)</b>	<b>8,741</b>
<b>CASH AND CASH EQUIVALENTS—BEGINNING OF PERIOD</b>	<b>308,443</b>	<b>1,258</b>
<b>CASH AND CASH EQUIVALENTS—END OF PERIOD</b>	<b>\$ 171,817</b>	<b>\$ 9,999</b>

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

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

**NOTE 1—Basis of Presentation**

The unaudited consolidated financial statements of Cheniere Energy, Inc. have been prepared in accordance with generally accepted accounting principles in the United States 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 our opinion, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation, have been included. As used herein, the terms “Cheniere,” “we,” “our,” and “us” refer to Cheniere Energy, Inc. and its subsidiaries.

For further information, refer to the consolidated financial statements and footnotes included in our annual report on Form 10-K, as amended, for the year ended December 31, 2004 and our quarterly report on Form 10-Q for the quarter ended March 31, 2005. Interim results are not necessarily indicative of results to be expected for the full fiscal year ending December 31, 2005. Certain reclassifications have been made to conform prior period amounts to the current period presentation. These reclassifications had no effect on net loss or stockholders’ equity.

All references to issued and outstanding shares, weighted average shares, and per share amounts in the accompanying unaudited consolidated financial statements have been retroactively adjusted to reflect our two-for-one stock split that occurred on April 22, 2005.

*New Accounting Pronouncements*

In December 2004, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) No. 123R, *Share-Based Payment*, that addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for equity instruments of the company, such as stock options and non-vested stock. SFAS No. 123R eliminates the ability to account for share-based compensation transactions using the Accounting Principles Board (“APB”) Opinion No. 25, *Accounting for Stock Issued to Employees*, and requires instead that such transactions be accounted for using a fair value-based method. We currently account for stock-based compensation using the intrinsic method pursuant to APB Opinion No. 25. SFAS No. 123R requires that all stock-based payments to employees, including grants of employee stock options and non-vested stock, be recognized as compensation expense in the financial statements based on their fair values. SFAS No. 123R was scheduled to be effective for periods beginning after June 15, 2005. However, on April 14, 2005, the SEC deferred the effective date to January 1, 2006 for companies with fiscal years ending December 31. Accordingly, we will be required to apply SFAS No. 123R beginning in the fiscal quarter ending March 31, 2006. We are currently assessing the provisions of SFAS No. 123R and its impact on our consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections – A Replacement of APB Opinion No. 20 and FASB Statement No. 3*. SFAS No. 154 changes the requirements for accounting and reporting on a change in accounting principle, while carrying forward the guidance in APB Opinion No. 20, *Accounting Changes* and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*, with respect to accounting for changes in estimates, changes in the reporting entity, and the correction of errors. APB 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change, the cumulative effect of changing to the new accounting principle. SFAS No. 154 requires retrospective application to prior periods’ financial statements for voluntary changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The impact of SFAS No. 154 will depend on the accounting change that occurs in a future period.



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

*Stock-Based Compensation*

We currently account for employee stock-based compensation granted under our long-term incentive plans using the intrinsic value method prescribed by APB Opinion No. 25 and related interpretations. There was no stock-based compensation expense associated with option grants recognized in the net loss for the three and six months ended June 30, 2005 and 2004, as all options granted had exercise prices greater than or equal to the market value of the underlying common stock on the dates of grant. The following table illustrates the effect on the net loss and the net loss per share if we had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net loss as reported	\$ (9,837)	\$ (8,053)	\$ (19,053)	\$ (9,128)
Add: Stock-based employee compensation included in net loss	—	—	61	—
Deduct:				
Total stock-based employee compensation expense determined under fair value method for all awards, net of related income tax	(3,787)	(509)	(5,193)	(910)
Pro forma net loss	\$ (13,624)	\$ (8,562)	\$ (24,185)	\$ (10,038)
Net Loss Per Share:				
Basic and diluted - as reported	\$ (0.18)	\$ (0.21)	\$ (0.36)	\$ (0.25)
Basic and diluted - pro forma	\$ (0.25)	\$ (0.23)	\$ (0.46)	\$ (0.27)

From our inception, we have recorded losses for both financial reporting purposes and for federal income tax reporting purposes. Accordingly, we are not presently a taxpayer, and therefore there is no tax affect on stock-based employee compensation expense.

**NOTE 2—Restricted Cash**

On February 25, 2005, Sabine Pass LNG, L.P., our wholly-owned subsidiary (“Sabine Pass LNG”), entered into an \$822,000,000 credit agreement and other related agreements (the “Sabine Pass Credit Facility”) with an initial syndicate of 47 financial institutions. Société Générale serves as the administrative agent and HSBC Bank USA, N.A. (“HSBC”) serves as collateral agent. Under the terms and conditions of the Sabine Pass Credit Facility, all cash held by Sabine Pass LNG is controlled by the collateral agent. These funds can only be released by the collateral agent upon receipt of satisfactory documentation that the Sabine Pass LNG project costs are bona fide expenditures and are permitted under the terms of the Sabine Pass Credit Facility. The Sabine Pass Credit Facility does not permit Sabine Pass LNG to hold any cash, or cash equivalents, outside of the accounts established under the agreement. Because these cash accounts are controlled by the collateral agent, our cash balance of \$136,000 held in these accounts as of June 30, 2005 is classified as restricted on our balance sheet.

**NOTE 3—Restricted Certificate of Deposit and Letter of Credit**

Under the terms of our office lease, we are required to post a standby letter of credit in favor of the lessor. The initial amount of the letter of credit was increased from \$865,000 to \$1,123,000 in April 2004

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

related to the expansion of our office space, and the amount will be reduced by \$225,000 per annum over a five-year period. This letter of credit was initially established under the terms of our bank line of credit at that time.

Upon the termination of our bank line of credit in June 2004, we purchased a certificate of deposit in the amount of \$1,123,000 and entered into a pledge agreement in favor of the commercial bank that had previously issued the standby letter of credit for \$1,123,000. In October 2004, both the letter of credit and certificate of deposit were amended to decrease the face amounts by \$225,000 to \$898,000. The renewed letter of credit and the certificate of deposit both mature on November 30, 2005. Under the terms of the pledge agreement, the commercial bank was assigned a security interest in the certificate of deposit as collateral for the letter of credit. As a result, the certificate of deposit plus accrued interest is classified as restricted on our balance sheet at June 30, 2005 and December 31, 2004.

**NOTE 4—Advances to EPC Contractor**

In December 2004, Sabine Pass LNG entered into a lump-sum turnkey EPC contract with Bechtel Corporation (“Bechtel”). Under the EPC contract, we were required to make a 5% advance payment to Bechtel upon issuance of the final notice to proceed (“NTP”) related to the construction of the Sabine Pass LNG facility. A payment of \$32,347,000 was made to Bechtel on March 28, 2005 when the NTP was issued and was classified on our consolidated balance sheet as a current asset. In accordance with the payment schedule included in the EPC contract, \$2,696,000 per month is being reclassified to construction-in-progress over a twelve-month period. As of June 30, 2005, the remaining balance of the advance was \$24,260,000.

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

Property, plant and equipment is comprised of LNG terminal construction-in-progress expenditures, LNG site and related costs, investments in oil and gas properties, and fixed assets, as follows (in thousands):

	<u>June 30, 2005</u>	<u>December 31, 2004</u>
<b>LNG TERMINAL COSTS</b>		
LNG terminal construction-in-progress	\$132,794	\$ —
LNG site and related costs, net	941	786
<b>Total LNG Terminal Costs</b>	<u>133,735</u>	<u>786</u>
<b>OIL AND GAS PROPERTIES, full cost method</b>		
Proved	3,417	3,339
Unproved	17,570	16,688
Accumulated depreciation, depletion and amortization	(1,593)	(971)
<b>Total Oil and Gas Properties, net</b>	<u>19,394</u>	<u>19,056</u>
<b>FIXED ASSETS</b>		
Computers and office equipment	2,511	905
Furniture and fixtures	611	523
Other	891	434
Accumulated depreciation	(1,256)	(824)
<b>Total Fixed Assets, net</b>	<u>2,757</u>	<u>1,038</u>
<b>PROPERTY, PLANT AND EQUIPMENT, net</b>	<u>\$155,886</u>	<u>\$ 20,880</u>

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

**NOTE 6—Debt Issuance Costs**

As of June 30, 2005, we had incurred \$20,648,000 of costs directly associated with arranging debt financing, net of accumulated amortization. Of this amount, \$19,466,000, net of accumulated amortization, related to the Sabine Pass Credit Facility, which closed February 25, 2005. In March 2005, we began amortizing the costs associated with the Sabine Pass Credit Facility over the ten-year term of the facility. The amortized cost is being capitalized as construction-in-progress during the construction period for the Sabine Pass LNG receiving terminal and will be recorded as interest expense beginning when the terminal commences operations. For the three and six months ended June 30, 2005, the amounts amortized and capitalized were \$530,000 and \$671,000, respectively.

In addition, as of June 30, 2005, we had incurred \$1,154,000 of costs directly related to our planned offering of senior notes in a private debt placement. In the event it is determined that the senior notes are not to be issued, we will charge this amount to expense.

**NOTE 7—Investment in Limited Partnership**

We account for our 30% limited partnership investment in Freeport LNG Development, L.P. (“Freeport LNG”) using the equity method of accounting. For the three and six months ended June 30, 2004, our equity share of the net (loss) income of the limited partnership was \$(1,488,000) and \$667,000, respectively. Net income for the six months ended June 30, 2004 was reduced by \$278,000, which was our equity share of the net loss of the partnership not recorded in 2003 because our investment in the limited partnership at December 31, 2003 had been reduced to zero, and we had no obligation or commitment to fund this unrecorded loss. For the three and six months ended June 30, 2005, our equity share of the net loss of the limited partnership was \$127,000 and \$971,000, respectively. These amounts are net of \$1,075,000 (“2005 Suspended Loss”), which was our 30% equity share of the second quarter 2005 net loss of Freeport LNG not recognized because our investment in Freeport LNG had been reduced to zero at June 30, 2005, and we currently intend only to pay the capital calls discussed below.

In January 2004, we received a \$2,500,000 payment from Freeport LNG. Because our investment basis in Freeport LNG had been reduced to zero as of December 31, 2003, the payment was recorded as a reimbursement from limited partnership investment in our consolidated statement of operations.

We have received capital call notices totaling \$2,317,000 from Freeport LNG related to the funding of our 30% share of forecasted partnership expenditures. We have paid a total of \$1,867,000 in such cash calls, leaving an unpaid balance of \$450,000 outstanding as of June 30, 2005.

As of June 30, 2005 and December 31, 2004, our investment balances in Freeport LNG were zero, and we had accrued losses on investment in limited partnership of \$450,000 and \$1,071,000, respectively. We accrued these liabilities because we intended to provide additional financial support through the capital calls as described above.

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

The financial position of Freeport LNG at June 30, 2005 and December 31, 2004, and the results of Freeport LNG's operations for the three and six months ended June 30, 2005 and 2004, are summarized as follows (in thousands):

	June 30, 2005	December 31, 2004		
	2005	2004	Three Months Ended June 30,	Six Months Ended June 30,
	2005	2004	2005	2004
Current assets	\$ 7,592	\$ 38,106		
Construction-in-progress	118,563	9,728		
Fixed assets, net, and other assets	2,098	592		
<b>Total assets</b>	<b>\$128,253</b>	<b>\$ 48,426</b>		
Current liabilities	\$ 28,265	\$ 5,676		
Note payable	104,889	48,041		
Deferred revenue	5,729	3,500		
Partners' capital	(10,630)	(8,791)		
<b>Total liabilities and partners' capital</b>	<b>\$128,253</b>	<b>\$ 48,426</b>		
Income (loss) from continuing operations	\$(4,009)	\$(4,960)	\$(6,821)	\$3,151
Net income (loss)	\$(4,009)	\$(4,960)	\$(6,821)	\$3,151
Cheniere's equity in income (loss) from limited partnership	\$ (127)(1)	\$(1,488)	\$ (971)(1)	\$ 667(2)

- (1) Represents equity in net loss for the three and six months ended June 30, 2005, excluding the \$1,075,000 2005 Suspended Loss.  
(2) Represents equity in net income for the six months ended June 30, 2004, less \$278,000 equity in loss not recorded as of December 31, 2003.

**NOTE 8 – Derivative Instruments**

*Interest Rate Derivative Instruments*

In connection with the closing of the Sabine Pass Credit Facility on February 25, 2005, we entered into interest rate swap agreements with HSBC and Société Générale (the "Swaps") to hedge against changes in floating interest rates. Under the terms of the Swaps, Sabine Pass LNG will be able to hedge against rising interest rates, to a certain extent, with respect to its drawings under the Sabine Pass Credit Facility, up to a maximum amount of \$700,000,000. The Swaps have the effect of fixing the LIBOR component of the interest rate payable under the Sabine Pass Credit Facility with respect to anticipated hedged drawings thereunder at 4.49% from July 25, 2005 through March 25, 2009 and at 4.98% from March 26, 2009 through March 25, 2012. The final termination date of the Swaps will be March 25, 2012.

*Accounting for Hedges*

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted by other related accounting literature, establishes accounting and reporting standards for derivative instruments. Under SFAS No. 133, we are required to record derivatives on our balance sheet as either an asset or liability measured at their fair value, unless exempted from derivative treatment under the normal purchase and normal sale exception. Changes in the fair value of derivatives are recognized currently in earnings unless specific hedge criteria are met. These criteria require that the derivative is determined to be effective as a hedge and that it is formally documented and designated as a hedge.

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

We have determined that the Swaps qualify as cash flow hedges within the meaning of SFAS No. 133 and have designated them as such. At their inception, we determined the hedging relationship of the Swaps and the Sabine Pass Credit Facility to be highly effective using the cumulative dollar offset method. We will continue to assess the hedge effectiveness of the Swaps on a quarterly basis in accordance with the provisions of SFAS No. 133.

SFAS No. 133 provides that the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument be reported as a component of other comprehensive income ("OCI") and be reclassified into earnings in the same period during which the hedged forecasted transaction affects earnings. The remaining gain or loss on the derivative instrument, if any, must be recognized currently in earnings. For the three and six months ended June 30, 2005, we have recognized losses of \$642,000 and \$667,000, respectively, in earnings. If the forecasted transaction is no longer probable of occurring, the associated gain or loss recorded in OCI is recognized currently in earnings.

*Summary of Derivative Values*

The following table reflects the amounts that are recorded as assets and liabilities at June 30, 2005 for our derivative instruments (in thousands):

	<b>Interest Rate Derivative Instruments</b>
Current derivative assets	\$ —
Long-term derivative assets	—
<b>Total derivative assets</b>	<b>—</b>
Current derivative liabilities	654
Long-term derivative liabilities	15,506
<b>Total derivative liabilities</b>	<b>16,160</b>
<b>Net derivative liabilities</b>	<b>\$ 16,160</b>

From our inception, we have recorded losses for both financial reporting purposes and for federal income tax reporting purposes. Accordingly, we are not presently a taxpayer, and therefore there is no tax affect on comprehensive income.

Below is a reconciliation of our net derivative liabilities to our accumulated other comprehensive loss, net of tax, at June 30, 2005 (in thousands):

Net derivative liabilities	\$(16,160)
Recognized derivative ineffectiveness recorded as a loss	667
<b>Accumulated other comprehensive loss.</b>	<b>\$(15,493)</b>

As of June 30, 2005, we had not realized any actual earnings or losses as a result of our hedging activity. The maximum length of time over which we have hedged our exposure to the variability in future cash flows for forecasted transactions is seven years under the Swaps. As of June 30, 2005, \$15,000 of accumulated net deferred losses on our Swaps currently included in other comprehensive loss are expected to be reclassified to earnings during the next six months assuming no change in the LIBOR forward curve at June 30, 2005. The actual amounts that will be reclassified will likely vary based on the probability that interest rates will, in fact, change. Therefore, management is unable to predict what the actual reclassification from OCI to earnings (positive or negative) will be for the next six months.

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

**NOTE 9—Goodwill**

On February 8, 2005, we acquired the minority interest of Corpus Christi LNG, L.P. (“Corpus Christi LNG”) through the acquisition of BPU LNG, Inc. (“BPU”) in exchange for 2,000,000 restricted shares of our common stock. BPU held as its sole asset the 33.3% limited partner interest in Corpus Christi LNG. As a result of this transaction, we now own 100% of the limited partner interests of Corpus Christi LNG. This transaction was accounted for using the purchase method of accounting as prescribed by SFAS No. 141, *Accounting for Business Combinations*, and was valued at \$77,246,000, including direct transaction costs. Of this amount, \$76,845,000 has been recorded as goodwill and will be accounted for in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. The goodwill is the difference between the deemed value of the shares conveyed and the historical carrying value of the minority interest under generally accepted accounting principles plus direct transaction costs. Goodwill is subject to an annual goodwill impairment review, although we may perform a goodwill impairment review more frequently whenever events or circumstances indicate that the carrying value may not be recoverable.

Because BPU’s sole asset was the 33.3% limited partner interest in Corpus Christi LNG, which was consolidated in our financial statements, we do not believe that pro forma financial statements would provide any additional benefit to an investor in our common stock. As a result, we have not prepared pro forma financial statements related to the transaction.

**NOTE 10—Accrued Liabilities**

Accrued liabilities consist of the following (in thousands):

	June 30, 2005	December 31, 2004
LNG terminal construction	\$40,027	\$ —
Debt issuance costs	3,178	—
LNG terminal development expenses	1,826	1,611
Insurance expense	—	488
Professional and legal services	840	342
Fixed assets	187	—
Taxes other than income	22	111
Other accrued liabilities	692	644
	<u>          </u>	<u>          </u>
Accrued liabilities	<u>\$46,772</u>	<u>\$ 3,196</u>

**NOTE 11—Deferred Revenue**

In December 2003, we entered into an option agreement with J & S Cheniere S.A., a Switzerland joint-stock company (“J & S Cheniere”), in which we are a minority owner, under which J & S Cheniere has an option to enter into a TUA reserving up to 200 million cubic feet per day (“MMcf/d”) of capacity at each of our Sabine Pass and Corpus Christi LNG facilities. We were paid \$1,000,000 in connection with the execution of the option agreement by J & S Cheniere in January 2004. The terms of the TUA contemplated by the J & S Cheniere option agreement have not been negotiated or finalized. We anticipate that definitive arrangements with J & S Cheniere may involve different terms and transaction structures than were contemplated when the option agreement was entered into in December 2003. Although non-refundable, we have recorded the option fee as deferred revenue.

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

In November 2004, Total LNG USA, Inc. (“Total”) paid Sabine Pass LNG a nonrefundable advance capacity reservation fee of \$10,000,000 in connection with the reservation of approximately 1.0 billion cubic feet per day (“Bcf/d”) of LNG regasification capacity at the Sabine Pass LNG receiving terminal. An additional advance capacity reservation fee payment of \$10,000,000 was paid by Total to Sabine Pass LNG in April 2005. The advance capacity reservation fee payments will be amortized over a 10-year period after operations commence as a reduction of Total’s regasification capacity fee under its TUA. As a result, we record the advance capacity reservation payments that we receive, although non-refundable, as deferred revenue to be amortized to income over the corresponding 10-year period.

Also in November 2004, we entered into a TUA to provide Chevron USA, Inc. (“Chevron USA”) with approximately 700 MMcf/d of LNG regasification capacity at our Sabine Pass LNG receiving terminal. Chevron USA had the option, which it did not exercise, to reduce its capacity at Sabine Pass to approximately 500 MMcf/d by July 1, 2005. Chevron USA has the option to increase its reserved capacity to approximately 1.0 Bcf/d by December 1, 2005. A related omnibus agreement requires Chevron USA to make advance capacity reservation fee payments to Sabine Pass LNG totaling up to \$20,000,000, with \$12,000,000 paid in 2004 and \$5,000,000 paid in April 2005. A payment of \$3,000,000 will be due if Chevron USA exercises the option to increase its reserved capacity at the Sabine Pass LNG facility to approximately 1.0 Bcf/d. These capacity reservation fee payments will be amortized over a 10-year period as a reduction of Chevron USA’s regasification capacity fee under the TUA. As a result, we record the advance capacity reservation payments that we receive, although non-refundable, as deferred revenue to be amortized to income over the corresponding 10-year period.

As of June 30, 2005 and December 31, 2004, we had recorded \$38,000,000 and \$23,000,000, respectively, as deferred revenue related to option and advance capacity reservation fee payments.

**NOTE 12—Minority Interest in Limited Partnership**

In May 2003, we formed Corpus Christi LNG to develop an LNG receiving terminal near Corpus Christi, Texas. Under the terms of the limited partnership agreement, we contributed our technical expertise and know-how and all of the work in progress related to the Corpus Christi LNG project, in exchange for a 66.7% limited partnership interest in Corpus Christi LNG.

Substantially all Corpus Christi LNG expenditures incurred through March 31, 2004 were the obligation of the minority owner, as the minority owner was required to fund 100% of the first \$4,500,000 of partnership expenditures. As partnership expenditures had reached \$4,500,000 as of March 31, 2004, the minority owner began sharing all subsequent expenditures based on its 33.3% limited partner interest.

On February 8, 2005, we acquired the minority interest of Corpus Christi LNG through the acquisition of BPU. As a result of this transaction, we now own 100% of the limited partner interests of Corpus Christi LNG and are required to fund 100% of expenditures incurred after such date. We also manage the project as the general partner through one of our wholly-owned subsidiaries.

For the three months ended June 30, 2005 and 2004, the consolidated statement of operations includes zero and \$752,000, respectively, related to the minority interest of Corpus Christi LNG. For the six months ended June 30, 2005 and 2004, the consolidated statement of operations includes \$97,000 and \$2,233,000, respectively, related to the minority interest of Corpus Christi LNG.

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

**NOTE 13— Sabine Pass Credit Facility and Notes Payable**

*Sabine Pass Credit Facility*

On February 25, 2005, Sabine Pass LNG entered into the \$822,000,000 Sabine Pass Credit Facility with an initial syndicate of 47 financial institutions. Société Générale serves as the administrative agent and HSBC serves as collateral agent. The Sabine Pass Credit Facility will be used to fund a substantial majority of the costs of constructing and placing into operation the Sabine Pass LNG receiving terminal. Unless Sabine Pass LNG decides to terminate availability earlier, the Sabine Pass Credit Facility will be available until no later than April 1, 2009, after which time any unutilized portion of the Sabine Pass Credit Facility will be permanently canceled. Before Sabine Pass LNG may make an initial borrowing under the Sabine Pass Credit Facility, it will be required to provide evidence that it has received equity contributions in amounts sufficient to fund \$234,000,000 of the project costs. Of such amount, as of June 30, 2005, approximately \$143,000,000 had been funded, and there were no borrowings outstanding under the Sabine Pass Credit Facility.

Borrowings under the Sabine Pass Credit Facility bear interest at a variable rate equal to LIBOR plus the applicable margin. The applicable margin varies from 1.25% to 1.625% during the term of the Sabine Pass Credit Facility. The Sabine Pass Credit Facility provides for a commitment fee of 0.50% per annum on the daily committed, undrawn portion of the facility. Annual administrative fees must also be paid to the administrative and collateral agents. The principal of loans made under the Sabine Pass Credit Facility must be repaid in semi-annual installments commencing six months after the later of (i) the date that substantial completion of the project occurs under the EPC contract and (ii) the commercial start date under the Total TUA. Sabine Pass LNG may specify an earlier date to commence repayment upon -satisfaction of certain conditions. In any event, payments under the Sabine Pass Credit Facility must commence no later than October 1, 2009, and all obligations under the Sabine Pass Credit Facility mature and must be fully repaid by February 25, 2015.

During the construction period, all interest costs and commitment fees will be capitalized as part of the total cost of the Sabine Pass LNG terminal. As of June 30, 2005, \$1,439,000 in accrued commitment fees have been capitalized and included in LNG terminal construction-in-progress.

The Sabine Pass Credit Facility contains customary conditions precedent to the initial borrowing and any subsequent borrowings as well as customary affirmative and negative covenants. Sabine Pass LNG has obtained and may in the future seek consents, waivers and amendments to the Sabine Pass Credit Facility documents. The obligations of Sabine Pass LNG under the Sabine Pass Credit Facility are secured by substantially all of Sabine Pass LNG's property, including the Total and Chevron USA TUAs and the partnership interests in Sabine Pass LNG.

*Note Payable*

In January 2004, we repaid the \$1,000,000 outstanding balance under a line of credit with a commercial bank. The line of credit was terminated in June 2004.

**NOTE 14—Net Loss Per Share**

Basic net loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding for the period. The computation of diluted net loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock that are dilutive to net income were exercised or converted into common stock or resulted in the issuance of common stock that would then share in the earnings of Cheniere.



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

The following table is a reconciliation of the basic and diluted weighted average shares outstanding for the three and six months ended June 30, 2005 and 2004 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
<b>Weighted average common shares outstanding:</b>				
Basic	53,757	37,833	53,063	37,026
Dilutive common stock options (a)	—	—	—	—
Dilutive common stock warrants (b)	—	—	—	—
<b>Diluted</b>	<b>53,757</b>	<b>37,833</b>	<b>53,063</b>	<b>37,026</b>

- (a) In-the-money options representing 2,443,000 and 3,041,000 weighted average equivalent shares of common stock were not included in the computation of diluted net loss per share for the three months ended June 30, 2005 and 2004, respectively, because they have an anti-dilutive effect to net loss per share. Weighted average options to purchase 2,668,000 and 281,000 shares of common stock were outstanding but not included in the computations of diluted net loss per share for the three months ended June 30, 2005 and 2004, respectively, because the exercise prices of the options were greater than the average market price of the common shares and would be anti-dilutive to the computations. In-the-money options representing 2,350,000 and 2,889,000 weighted average equivalent shares of common stock were not included in the computation of diluted net loss per share for the six months ended June 30, 2005 and 2004, respectively, because they have an anti-dilutive effect to net loss per share. Weighted average options to purchase 1,535,000 and 213,000 shares of common stock were outstanding but not included in the computations of diluted net loss per share for the six months ended June 30, 2005 and 2004, respectively, because the exercise prices of the options were greater than the average market price of the common shares and would be anti-dilutive to the computations.
- (b) In-the-money warrants to purchase 133,000 and 1,884,000 weighted average equivalent shares of common stock were not included in the computation of diluted net loss per share for the three and six months ended June 30, 2005 and 2004, respectively, because they have an anti-dilutive effect to net loss per share.

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

**NOTE 15—Other Comprehensive Loss**

The following table is a reconciliation of our Net Loss to our Comprehensive Loss for the periods shown (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net Loss	\$ (9,837)	\$(8,053)	\$(19,053)	\$(9,128)
Other Comprehensive Loss items:				
Cash Flow Hedges	(20,499)	—	(15,493)	—
Other Comprehensive Loss, net of tax	(20,499)	—	(15,493)	—
Comprehensive Loss	\$(30,336)	\$(8,053)	\$(34,546)	\$(9,128)

From our inception, we have recorded losses for both financial reporting purposes and for federal income tax reporting purposes. Accordingly, we are not presently a taxpayer, and therefore there is no tax affect on comprehensive loss.

**NOTE 16 – Related Party Transactions**

From time to time, officers and employees may charter aircraft for company business travel. We entered into a letter agreement (“charter letter”) with an unrelated third-party entity, Western Airways, Inc. (“Western”), that specifies the terms under which it would provide for charter of a Challenger 600 aircraft. One of the Challenger 600 aircraft which may be provided by Western for such services is owned by Bramblebush, LLC (the “LLC”). The LLC is owned and/or controlled by our Chairman and Chief Executive Officer, Charif Souki. Our Code of Business Conduct and Ethics prohibits potential conflicts of interest. Upon the recommendation of our Audit Committee, which determined that the terms of the charter letter are fair and in our best interest, our Board of Directors unanimously approved the terms of the charter letter on May 24, 2005, and granted an exception under our Code of Business Conduct and Ethics in order to permit us to charter the Challenger 600 aircraft. For the three and six months ended June 30, 2005, we had incurred \$252,000 related to the charter of the Challenger 600 aircraft owned by the LLC.

**NOTE 17—Commitments and Contingencies**

On January 15, 2005, we exercised our Sabine Pass LNG site options and executed 30-year leases related to the option acreage. These lease agreements call for annual payments totaling \$1,500,000. We have the option to renew these leases for six 10-year periods.

On March 30, 2005, we amended our office lease to increase our rentable square footage to include an additional floor on the premises. The lease term for the additional floor runs from May 2005 through January 2014. We have an option to renew the lease for an additional five years at the then-current market rate as part of the renewal of our original lease space. Under the amended lease, there are no monthly lease payments for the additional floor from May 2005 through April 14, 2007, after which time the lease payments range from approximately \$30,000 to \$39,000 per month through January 2014. We have prepaid \$201,000 in rent related to 2013 and have included such amount in Other Assets on the accompanying consolidated balance sheet as of June 30, 2005.

We have executed a letter of intent with a potential EPC contractor to negotiate an EPC contract for construction of our Corpus Christi LNG terminal. Subject to certain terms and conditions, in the event that we do not execute an EPC contract with this contractor on or before January 31, 2006, we are obligated to pay the contractor a fee of \$1,000,000.

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

**NOTE 18—Business Segment Information**

Our business activities are conducted within two principal operating segments: LNG receiving terminal development and oil and gas exploration and development. These segments operate independently.

Our LNG receiving terminal development segment is in various stages of developing LNG receiving terminal projects along the U.S. Gulf Coast, primarily at the following locations: on Quintana Island near Freeport, Texas; in Cameron Parish, Louisiana near Sabine Pass; near Corpus Christi, Texas; and at the mouth of the Calcasieu Channel in Cameron Parish, Louisiana.

Our oil and gas exploration and development segment explores for oil and natural gas using a regional database of 7,000 square miles of regional 3D seismic data. Exploration efforts are focused on the shallow waters of the Gulf of Mexico offshore of Louisiana and Texas and consist primarily of active interpretation of our seismic data and generation of prospects, participation in the drilling of wells and farm-out arrangements and back-in interests (reversionary interests in oil and gas leases reserved by us) whereby the capital costs of such activities are borne by industry partners. This segment participates in drilling and production operations with industry partners on the prospects that we generate.

The following table summarizes our revenues, net loss and total assets for each of our operating segments (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
<b>Revenues:</b>				
LNG Receiving Terminal	\$ —	\$ —	\$ —	\$ —
Oil & Gas Exploration and Development	689	335	1,425	667
Total	689	335	1,425	667
Corporate and Other (1)	—	—	—	—
Total Consolidated	\$ 689	\$ 335	\$ 1,425	\$ 667
<b>Net loss:</b>				
LNG Receiving Terminal	\$(7,460)	\$(6,303)	\$(14,221)	\$(4,567)
Oil & Gas Exploration and Development	(42)	153	(38)	404
Total	(7,502)	(6,150)	(14,259)	(4,163)
Corporate and Other (1)	(2,335)	(1,903)	(4,794)	(4,965)
Total Consolidated	\$(9,837)	\$(8,053)	\$(19,053)	\$(9,128)

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

	<u>June 30,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
<b>Total Assets:</b>		
LNG Receiving Terminal	\$255,925	\$ 24,355
Oil & Gas Exploration and Development	19,874	19,931
	<u>275,799</u>	<u>44,286</u>
Total	275,799	44,286
Corporate and Other (1)	177,521	289,281
	<u>\$453,320</u>	<u>\$ 333,567</u>
Total Consolidated	\$453,320	\$ 333,567

(1) Includes corporate activities and certain intercompany eliminations

**NOTE 19—Subsequent Events**

On July 27, 2005, we consummated a private offering of \$325,000,000 aggregate principal amount of convertible senior unsecured notes due 2012 to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The notes will bear interest at a rate of 2.25% per year. The notes are convertible into our common stock under certain circumstances at an initial conversion rate of 28.2326 per \$1,000 principal amount of the notes, which is equal to a conversion price of approximately \$35.42 per share. We may redeem some or all of the notes on or before August 1, 2012, for cash equal to 100% of the principal plus any accrued and unpaid interest if in the previous 10 days the volume weighted average price of our common stock exceeds \$53.13, subject to adjustment, for at least 5 consecutive trading days. In the event of such a redemption, we will make an additional payment equal to the present value of all remaining scheduled interest payments through August 1, 2012, discounted at U.S Treasuries plus 50 basis points. The notes may be converted at the option of the holders at any time.

Concurrent with the issuance of the convertible senior unsecured notes, we also entered into hedge transactions (consisting of a purchase and a sale of call options) with an affiliate of the initial purchaser of the notes, having a term of two years, and a net cost to us of approximately \$75,700,000. These hedge transactions are expected to offset potential dilution from conversion of the notes up to a market price of \$70.00 per share. The net cost of the hedge transactions will be recorded as a reduction to Additional Paid-in-Capital in accordance with the guidance of the Emerging Issues Task Force (“EITF”) Issue 00-19 *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock*. Net proceeds from the offering were approximately \$240,000,000, after deducting the cost of the hedge transactions, the underwriting discount and related fees.

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

The following table includes the pro forma effect as of June 30, 2005 of our private offering of \$325,000,000 aggregate principal amount of convertible senior unsecured notes due 2012, which was consummated on July 27, 2005 (in thousands):

	Unaudited			
	Historical	Pro Forma Adjustments		ProForma
		Debits	Credits	
Cash and Cash Equivalents	\$171,817	\$240,000	\$ —	\$411,817
Advances to EPC Contractor	24,260	—	—	24,260
Other Current Assets	3,554	—	—	3,554
Property, Plant and Equipment, Net	155,886	—	—	155,886
Debt Issuance Costs, Net	20,648	9,300(a)	—	29,948
Goodwill	76,845	—	—	76,845
Other Assets	310	—	—	310
<b>Total Assets</b>	<b>\$453,320</b>			<b>\$702,620</b>
Current Liabilities	\$ 48,831	\$ —	\$ —	\$ 48,831
Notes Payable	—	—	325,000	325,000
Deferred Revenue	38,000	—	—	38,000
Other Liabilities	15,606	—	—	15,606
Stockholders' Equity	350,883	75,700(b)	—	275,183
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$453,320</b>			<b>\$702,620</b>

(a) Represents underwriter discount and related fees.

(b) Represents cost of hedge transaction discussed above.

The notes bear interest at a rate of 2.25% per year. Excluding the effect of any future conversions of the convertible notes, we expect to record approximately \$8,600,000 per year in interest expense, before any interest capitalization, over the 7-year life of the notes, including cash payments to the note holders and amortization of the debt issuance costs. The amount of interest on the convertible notes that is capitalized will depend on the amount of qualifying exploration and construction expenditures not financed by project or other debt facilities.

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### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

#### **General**

We are engaged primarily in the development of an LNG receiving terminal business and related LNG business opportunities centered on the U.S. Gulf Coast. Upon completion of LNG receiving terminals, our business will consist of receiving deliveries of LNG from LNG carriers, processing such LNG to return it to a gaseous state and delivering it to pipelines for transportation to purchasers. We own interests in four limited partnerships that are developing LNG receiving terminals:

- Freeport LNG, in which we own a 30% interest, is developing an LNG receiving terminal on Quintana Island, near Freeport, Texas;
- Sabine Pass LNG, in which we own a 100% interest, is developing an LNG receiving terminal near Sabine Pass in Cameron Parish, Louisiana;
- Corpus Christi LNG, in which we own a 100% interest, is developing an LNG receiving terminal near Corpus Christi, Texas; and
- Creole Trail LNG, L.P. ("Creole Trail LNG") in which we own a 100% interest, is developing an LNG receiving terminal at the mouth of the Calcasieu Channel in Cameron Parish, Louisiana.

#### ***Freeport LNG***

Freeport LNG is currently developing an LNG receiving terminal with initial regasification capacity of 1.5 Bcf/d. We developed this project and then sold a 60% limited partner interest to an affiliate of the general partner of Freeport LNG and a 10% limited partner interest to another unaffiliated party. We continue to own a 30% limited partner interest in Freeport LNG. Freeport LNG has received authorization from FERC to commence construction of the Freeport LNG facility. Construction began in the first quarter of 2005, and we expect that terminal operations will commence in 2008. In order to commence operations, Freeport LNG will be required to satisfy the remaining conditions specified by FERC. Freeport LNG has filed an application seeking an additional order from FERC to authorize the construction of an expansion that would increase the regasification capacity at its currently permitted 1.5 Bcf/d Freeport LNG terminal to approximately 4.0 Bcf/d.

In March 2004, The Dow Chemical Company ("Dow") entered into a 20-year TUA with Freeport LNG providing for a firm commitment by Dow for the use of approximately 500 MMcf/d of regasification capacity beginning with commercial start-up of the facility.

ConocoPhillips Company ("ConocoPhillips") paid Freeport LNG nonrefundable fees of \$13.5 million during 2004 and has reserved approximately 1.0 Bcf/d of regasification capacity in the terminal, has reserved 300 MMcf/d of additional regasification capacity in connection with the proposed expansion, has acquired a 50% interest in the general partner of Freeport LNG and has agreed to provide a substantial majority of the construction funding for the initial phase of the project. ConocoPhillips will be primarily responsible for managing the construction and operation of the facility.

Freeport LNG announced in January 2005 that it executed a 17-year TUA with MC Global Gas Corporation, ("MC Global"), a wholly-owned subsidiary of Mitsubishi Corporation. MC Global reserved approximately 150 MMcf/d of regasification capacity in the Freeport LNG terminal and has an option to increase its total regasification capacity by an additional 100 MMcf/d, to a total of 250 MMcf/d, in connection with the proposed expansion.

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### ***Sabine Pass LNG***

We own 100% of the general partner and limited partner interests in Sabine Pass LNG, which is developing an LNG receiving terminal with an initial regasification capacity of 2.6 Bcf/d. In March 2005, FERC issued an order authorizing Sabine Pass LNG to commence construction of the Sabine Pass LNG facility. Construction began in March 2005, and we expect to commence terminal operations in 2008. In order to commence operations, Sabine Pass LNG will be required to satisfy remaining conditions specified by FERC. On July 29, 2005, we made a filing with FERC seeking approval to increase the regasification capacity of the Sabine Pass LNG terminal to 4.0 Bcf/d.

In September 2004, Sabine Pass LNG entered into a TUA to provide Total with approximately 1.0 Bcf/d of LNG regasification capacity at the Sabine Pass LNG receiving terminal. In November 2004, Total exercised its option to proceed with the transaction by delivering to Sabine Pass LNG an advance capacity reservation fee payment of \$10 million and a guarantee by Total S.A. of certain Total obligations under the TUA. Cheniere, Sabine Pass LNG and Total also entered into an omnibus agreement in September 2004, under which the TUA remains subject to certain conditions. An additional advance capacity reservation fee payment of \$10 million was paid by Total to Sabine Pass LNG in April 2005.

The TUA provides for Total to pay a fee of \$0.32 per million British thermal units (“MMbtu”), subject in part to adjustment for inflation, for approximately 1.0 Bcf/d of regasification capacity for a 20-year period beginning not later than April 2009, subject to substantial completion. In addition, under the omnibus agreement, if Sabine Pass LNG enters into a new TUA with a third party, other than our affiliates, for capacity of 50 MMcf/d or more, with a term of five years or more, prior to the commercial start date of the terminal, Total will have the option, exercisable within 30 days of the receipt of notice of such transaction, to adopt the pricing terms contained in such new TUA for the remainder of the term of the Total TUA.

In November 2004, Sabine Pass LNG entered into a TUA to provide Chevron USA with approximately 700 MMcf/d of LNG regasification capacity at the Sabine Pass LNG receiving terminal. The TUA provides for Chevron USA to pay a fee of \$0.32 per MMbtu, subject in part to adjustment for inflation, for a 20-year period beginning not later than July 2009, subject to substantial completion. Chevron USA had the option, which it did not exercise, to reduce its reserved capacity at the Sabine Pass LNG facility to approximately 500 MMcf/d by July 1, 2005. Chevron USA has the option to increase its reserved capacity to approximately 1.0 Bcf/d by December 1, 2005. ChevronTexaco Corporation will guarantee certain Chevron USA payment obligations under the TUA.

In accordance with the provisions of an omnibus agreement, Chevron USA agreed to make advance capacity reservation fee payments to Sabine Pass LNG totaling up to \$20 million, under specified conditions, of which \$17 million has been paid through April 2005. An additional \$3 million advance capacity reservation fee payment will be due if Chevron USA exercises its option to increase its capacity at the Sabine Pass LNG facility to approximately 1.0 Bcf/d by December 1, 2005.

We estimate that the cost of constructing the 2.6 Bcf/d Sabine Pass LNG facility will be approximately \$750 million to \$850 million, before financing costs. In December 2004, we entered into a lump-sum turnkey agreement with Bechtel at a contract price of \$646.9 million, which price is subject to change. Our cost estimate is subject to change due to such items as cost overruns, change orders and changes in commodity prices (particularly steel). Bechtel will be entitled to a bonus of \$12 million, or a lesser amount in certain cases, if Bechtel, by April 3, 2008 completes construction sufficient to achieve among other requirements specified in the EPC agreement, a sendout rate of at least 2.0 Bcf/d for a minimum sustained test period of 24 hours. Bechtel will be entitled to receive an additional bonus of up to \$6 million, if commercial operations is achieved by January 2, 2008. As of August 5, 2005, change orders to the EPC contract of \$22.8 million in the aggregate have been approved, thereby increasing the total contract price to \$669.7 million.

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### ***Corpus Christi LNG***

We own 100% of the general partner and limited partner interests in Corpus Christi LNG, which is developing an LNG receiving terminal near Corpus Christi, Texas with a regasification capacity of 2.6 Bcf/d. We are currently marketing 1.0 Bcf/d of capacity under long-term TUAs at \$0.32 per MMBtu, the same price contracted for at Sabine Pass LNG. We intend to market the remaining capacity under other long-term, mid-term and/or short-term contracts. However, we may not be able to obtain any TUAs or other contracts for Corpus Christi LNG on terms acceptable to us, or at all. In April 2005, FERC issued an order authorizing Corpus Christi LNG to site, construct and operate the Corpus Christi LNG receiving terminal. In order to obtain authorization to commence construction of the project, Corpus Christi LNG will be required to satisfy remaining conditions specified by FERC. We expect to begin construction after obtaining financing and customer commitments for regasification capacity and entering into an EPC agreement for our planned regasification capacity at our Corpus Christi LNG facility and to commence terminal operations approximately three years after construction commences.

### ***Creole Trail LNG***

We own 100% of the general partner and limited partner interests in Creole Trail LNG. We plan to develop the Creole Trail LNG facility in the same manner as our Sabine Pass LNG facility, although it will be a larger facility with two docks, four 160,000 cm storage tanks and an initial regasification capacity of 3.3 Bcf/d. We are currently marketing 1.0 Bcf/d of capacity under long-term TUAs at \$0.32 per MMBtu, the same price contracted for at Sabine Pass LNG. We intend to market the remaining capacity under other long-term, mid-term and/or short-term contracts. However, we may not be able to obtain any TUAs or other contracts for Creole Trail LNG on terms acceptable to us, or at all. In May 2005, we filed an application with FERC to obtain an order to site, construct and operate the facility. Once we obtain FERC authorization, we expect to begin construction after obtaining financing and customer commitments for regasification capacity at Creole Trail LNG and to commence terminal operations approximately three years after construction commences.

### ***Other***

In December 2003, we entered into an option agreement with J & S Cheniere (an entity in which we are a minority owner), under which J & S Cheniere has an option to enter into a TUA reserving up to 200 MMcf/d of capacity at each of our Sabine Pass and Corpus Christi LNG facilities. We were paid \$1 million in January 2004 in connection with the execution of the option agreement by J & S Cheniere. The terms of the TUA contemplated by the option agreement have not been negotiated or finalized. We anticipate that definitive arrangements with J & S Cheniere may involve different terms and transaction structures than were contemplated when the option agreement was entered into in December 2003.

As part of our overall energy business strategy, we are pursuing initiatives that could complement the development of our LNG receiving terminal business. These initiatives include pursuing downstream opportunities such as natural gas pipelines, storage, marketing and trading. In addition, these initiatives include pursuing upstream opportunities such as investment in LNG shipping businesses, securing foreign LNG supply arrangements, development of foreign natural gas reserves that could be converted into LNG, and oil and gas exploration, development, production, transportation and processing activities generally.



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### **Liquidity and capital resources**

#### ***LNG terminal development***

We are primarily engaged in developing LNG receiving terminals. These LNG terminal projects will require significant amounts of capital and are subject to risks and delays in completion. Even if successfully completed, these projects will not begin to operate and generate significant cash flows until several years from now. As a result, our business success will depend to a significant extent upon our ability to obtain the funding necessary to construct these LNG terminals, to bring them into operation on a commercially viable basis and to finance the costs of staffing, operating and expanding our company during that process.

We currently estimate that, in the aggregate, our four terminal projects will require in excess of \$3 billion, before financing costs, to construct and place in service. In addition, we have related potential pipeline projects in different stages of development. These projects and the other downstream and upstream opportunities we are pursuing, if successfully pursued, will also require significant amounts of capital.

We are currently engaged in the marketing process, seeking long-term, creditworthy "anchor tenant" TUA contracts for 1.0 Bcf/d of regasification capacity at each of our proposed Corpus Christi LNG and Creole Trail LNG facilities. Upon execution of each TUA, we expect to receive an advance payment for regasification capacity sold. This provides additional capital to help meet our ongoing liquidity needs. Certain of our TUAs are designed to serve as collateral to facilitate project level debt financing that we have obtained or may in the future obtain with respect to the construction of the related LNG receiving terminal.

As of June 30, 2005, our cash and cash equivalent balance was \$171.8 million. In addition, on July 27, 2005, we received net proceeds of approximately \$240 million related to the issuance of convertible senior unsecured notes, after deducting the cost of related hedge transactions, underwriting discounts and related fees. However, we must augment these existing sources of cash with significant additional funds in order to carry out our business plan.

We currently expect that capital requirements for our four current LNG terminal projects will be financed in part through issuances of project-level debt, equity or a combination of the two and in part with net proceeds of debt or equity securities issued by Cheniere or other Cheniere borrowings. Our anticipated capital requirements and financing plans for the four current LNG terminal development projects follow.

#### ***Freeport LNG***

We have been advised by Freeport LNG that it has entered into a lump-sum turnkey contract for its 1.5 Bcf/d facility and that the estimated cost to construct this facility is approximately \$750 million to \$800 million, before financing costs. Construction began in the first quarter of 2005. ConocoPhillips has agreed to provide a substantial majority of the financing to construct the initial phase of the project. ConocoPhillips has also paid Freeport LNG an aggregate of \$13.5 million, has reserved approximately 1.0 Bcf/d of LNG regasification capacity at the terminal and has reserved 300 MMcf/d of additional capacity in connection with the proposed expansion.

Freeport LNG has filed an application seeking an additional order from FERC to authorize the construction of an expansion that would increase the regasification capacity at its currently permitted 1.5 Bcf/d LNG terminal to approximately 4.0 Bcf/d. In addition to the enhanced revaporization capacity, the proposed expansion includes a second dock, a third LNG storage tank and underground gas storage. The development, construction and operation of the Freeport LNG facility, as well as the anticipated financial consequences for us as a limited partner in Freeport LNG, will change as a result of such an expansion.

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Freeport LNG announced in January 2005 that it executed a 17-year TUA with MC Global, a wholly-owned subsidiary of Mitsubishi Corporation. MC Global reserved approximately 150 MMcf/d of regasification capacity in the Freeport LNG terminal and has an option to increase its total regasification capacity by an additional 100 MMcf/d, to a total of 250 MMcf/d, in connection with the proposed expansion.

Under the limited partnership agreement of Freeport LNG, development expenses of the Freeport LNG project and other Freeport LNG cash needs generally are to be funded out of Freeport LNG's own cash flows, borrowings or other sources, and with capital contributions by the limited partners. Capital contributions in the amount of approximately \$2.3 million have been requested from us for our pro rata share, \$1.9 million of which has been paid. Additional capital calls may be made upon us and the other limited partners in Freeport LNG. In the event of each such future capital call, we will have the option either to contribute the requested capital or to decline to contribute. If we decline to contribute, the other limited partners could elect to make our contribution and receive back twice the amount contributed on our behalf, without interest, before any Freeport LNG cash flows are otherwise distributed to us. We currently expect to evaluate Freeport LNG capital calls on a case-by-case basis and to fund additional capital contributions that we elect to make using cash on hand and funds raised through the issuance of Cheniere equity or debt securities or other Cheniere borrowings.

### ***Sabine Pass LNG***

In February 2005, Sabine Pass LNG entered into the \$822 million Sabine Pass Credit Facility with an initial syndicate of 47 financial institutions. Société Générale serves as the administrative agent and HSBC serves as collateral agent. The Sabine Pass Credit Facility will be used to fund a substantial majority of the costs of constructing and placing into operation the Sabine Pass LNG receiving terminal. Unless Sabine Pass LNG decides to terminate availability earlier, the Sabine Pass Credit Facility will be available until no later than April 1, 2009, after which time any unutilized portion of the Sabine Pass Credit Facility will be permanently canceled. Before Sabine Pass LNG may make an initial borrowing under the Sabine Pass Credit Facility, it will be required to provide evidence that it has received equity contributions in amounts sufficient to fund \$234 million of the project costs. Of such amount, as of June 30, 2005, approximately \$143 million had been funded, and there were no borrowings outstanding under the Sabine Pass Credit Facility.

Borrowings under the Sabine Pass Credit Facility bear interest at a variable rate equal to LIBOR plus the applicable margin. The applicable margin varies from 1.25% to 1.625% during the term of the Sabine Pass Credit Facility. The Sabine Pass Credit Facility provides for a commitment fee of 0.50% per annum on the daily committed, undrawn portion of the facility. Annual administrative fees must also be paid to the administrative and collateral agents. The principal of the loans made under the Sabine Pass Credit Facility must be repaid in semi-annual installments commencing six months after the later of (i) the date that substantial completion of the project occurs under the EPC agreement and (ii) the commercial start date under the Total TUA. Sabine Pass LNG may specify an earlier date to commence repayment upon satisfaction of certain conditions. In any event, payments under the Sabine Pass Credit Facility must commence no later than October 1, 2009, and all obligations under the Sabine Pass Credit Facility mature and must be fully repaid by February 25, 2015.

The Sabine Pass Credit Facility contains customary conditions precedent to the initial borrowing and any subsequent borrowings as well as customary affirmative and negative covenants. Sabine Pass LNG has obtained and may in the future seek consents, waivers and amendments to the Sabine Pass Credit Facility documents. The obligations of Sabine Pass LNG under the Sabine Pass Credit Facility are secured by substantially all of Sabine Pass LNG's property, including the Total and Chevron USA TUAs, and the partnership interests in Sabine Pass LNG.

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In connection with the closing of the Sabine Pass Credit Facility, Sabine Pass LNG entered into swap agreements with HSBC and Société Générale. Under the terms of the swap agreements, Sabine Pass LNG will be able to hedge against rising interest rates, to a certain extent, with respect to its drawings under the Sabine Pass Credit Facility up to a maximum amount of \$700 million. The swap agreements have the effect of fixing the LIBOR component of the interest rate payable under the Sabine Pass Credit Facility with respect to anticipated hedged drawings under the Sabine Pass Credit Facility up to a maximum of \$700 million at 4.49% from July 25, 2005 to March 25, 2009 and at 4.98% from March 26, 2009 through March 25, 2012. The final termination date of the swap agreements will be March 25, 2012.

In December 2004, Sabine Pass LNG entered into the EPC contract with Bechtel pursuant to which Bechtel will provide Sabine Pass LNG with services for the engineering, procurement and construction of the Sabine Pass LNG receiving terminal. In December 2004, a limited notice to proceed (“LNTP”) was issued to and accepted by Bechtel, at which time Bechtel was required to promptly commence performance of certain off-site engineering and preparatory work under the EPC contract. In late March 2005, we advanced 5% of the contract price, or \$32.3 million, to Bechtel and issued the full notice to proceed, or NTP. This advance is credited against amounts due under the EPC contract in equal installments over a twelve-month period. In early April 2005, Bechtel accepted the NTP and commenced all other aspects of the work under the EPC contract.

Sabine Pass LNG entered into the EPC contract with Bechtel for \$646.9 million plus certain reimbursable costs. This contract price is subject to adjustment for changes in certain commodity prices, contingencies change orders and other items. Payments under the EPC agreement will be made in accordance with the payment schedule set forth in the EPC agreement. The contract price and payment schedule, including milestones, may be amended only by change order. Bechtel will be liable to Sabine Pass LNG in the event of certain delays in achieving substantial completion, minimum acceptance criteria and performance guarantees. Bechtel will be entitled to a bonus of \$12 million, or a lesser amount in certain cases, if Bechtel, by April 3, 2008, completes construction sufficient to achieve, among other requirements specified in the EPC agreement, a sendout rate of at least 2.0 Bcf/d for a minimum sustained test period of 24 hours. Bechtel will be entitled to receive an additional bonus of up to \$6 million if commercial operations is achieved by January 2, 2008. As of August 5, 2005, change orders to the EPC contract of \$22.8 million, in the aggregate have been approved, thereby increasing the total contract price to \$669.7 million.

In November 2004, Total paid Sabine Pass LNG a nonrefundable advance capacity reservation fee of \$10 million in connection with the reservation of approximately 1.0 Bcf/d of LNG regasification capacity at the Sabine Pass LNG receiving terminal. An additional advance capacity reservation fee payment of \$10 million was paid by Total to Sabine Pass LNG in April 2005. The capacity reservation fee payments will be amortized over a 10-year period as a reduction of Total’s regasification capacity fee under the TUA. As a result, we record the advance payments that we receive, although non-refundable, as deferred revenue to be amortized to income over the corresponding 10-year period.

In accordance with the provisions of an omnibus agreement, Chevron USA agreed to make advance capacity reservation fee payments to Sabine Pass LNG totaling up to \$20 million, under specified conditions, beginning with \$5 million paid in November 2004 and \$7 million paid in December 2004. A third payment of \$5 million was paid by Chevron USA to Sabine Pass LNG in April 2005. A payment of \$3 million will be due if Chevron USA exercises the option to increase its reserved capacity at the Sabine Pass LNG facility to approximately 1.0 Bcf/d. These capacity reservation fee payments will be amortized over a 10-year period as a reduction of Chevron USA’s regasification capacity fee under the TUA. As a result, we record the advance payments that we receive, although non-refundable, as deferred revenue to be amortized to income over the corresponding 10-year period.

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In January 2004, we were paid \$1 million by J & S Cheniere in connection with an option to purchase LNG regasification capacity in each of our Sabine Pass and Corpus Christi LNG facilities. Although non-refundable, we have recorded the option fee as deferred revenue.

### ***Corpus Christi LNG***

We currently estimate that the cost of constructing the Corpus Christi LNG facility will be approximately \$650 million to \$750 million, before financing costs. The former minority owner was required to fund 100% of the first \$4.5 million of Corpus Christi LNG's expenditures, which amount was reached as of March 31, 2004, and thereafter 33.3%, with us funding the balance. In February 2005, we acquired the minority owner's interest in Corpus Christi LNG, and we have since funded, or will arrange funding of, 100% of Corpus Christi LNG's expenditures. We currently expect to be able to fund the costs of the Corpus Christi LNG terminal using project financing similar to that used for our Sabine Pass LNG facility, proceeds from debt or equity offerings, or a combination thereof. If these types of financing are not available, we will be required to seek alternative sources of financing, which may not be available on acceptable terms, if at all.

### ***Creole Trail LNG***

We currently estimate that the cost of constructing the Creole Trail LNG facility will be approximately \$850 million to \$950 million, before financing costs. We currently expect to be able to fund the costs of the Creole Trail LNG terminal using project financing similar to that used for our Sabine Pass LNG facility, proceeds from debt or equity offerings, or a combination thereof. If these types of financing are not available, we will be required to seek alternative sources of financing, which may not be available on acceptable terms, if at all.

### ***Convertible senior unsecured notes***

On July 27, 2005, we consummated a private offering of \$325 million aggregate principal amount of convertible senior unsecured notes due 2012 to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The notes will bear interest at a rate of 2.25% per year. The notes are convertible into our common stock under certain circumstances at an initial conversion rate of 28.2326 per \$1,000 principal amount of the notes, which is equal to a conversion price of approximately \$35.42 per share. We may redeem some or all of the notes on or before August 1, 2012, for cash equal to 100% of the principal plus any accrued and unpaid interest if in the previous 10 days the volume weighted average price of our common stock exceeds \$53.13, subject to adjustment, for at least 5 consecutive trading days. In the event of such a redemption, we will make an additional payment equal to the present value of all remaining scheduled interest payments through August 1, 2012, discounted at U.S Treasuries plus 50 basis points. The notes may be converted at the option of the holders at any time.

Concurrent with the issuance of the convertible senior unsecured notes, we also entered into hedge transactions (consisting of a purchase and a sale of call options) with an affiliate of the initial purchaser of the notes, having a term of two years and a net cost to us of approximately \$75.7 million. These hedge transactions are expected to offset potential dilution from conversion of the notes up to a market price of \$70.00 per share. The net cost of the hedge transactions will be recorded as a reduction to Additional Paid-in-Capital in accordance with the guidance of the Emerging Issues Task Force ("EITF") Issue 00-19 *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*. Net proceeds from the offering were approximately \$240 million, after deducting the cost of the hedge transactions, the underwriting discount and related fees.

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### *Short-term liquidity needs*

We anticipate funding our more immediate liquidity requirements, including some expenditures related to the construction of the LNG receiving terminals, through a combination of any or all of the following:

- cash balances;
- issuances of Cheniere debt and equity securities, including issuances of common stock pursuant to exercises by the holders of existing warrants and options;
- LNG receiving terminal capacity reservation fees;
- collection of receivables; and
- sales of prospects generated by our exploration group.

### *Historical cash flows*

Net cash used in operations totaled \$454,000 during the six months ended June 30, 2005 compared to \$10.6 million in the same period of 2004. The improvement is a result of \$15 million in advance capacity reservation fee payments received by Sabine Pass LNG.

Net cash used in investing activities was \$121.4 million during the six months ended June 30, 2005 compared to net cash provided by investing activities of \$1.7 million in the same period of 2004. During the first half of 2005, we advanced \$24.3 million (net of \$8.1 million credited against invoices and transferred to construction-in-progress) to Bechtel related to the construction of our Sabine Pass LNG receiving terminal. We also charged \$92.1 million to construction-in-progress related to the Sabine Pass LNG facility. The remaining cash used for investing activities during the first half of 2005 primarily related to the purchase of fixed assets, advances to Freeport LNG and oil and gas property additions, partially offset by the sale of our interest in an oil and gas prospect. During the first half of 2004, cash provided by investing activities of \$1.7 million included a reimbursement from limited partnership investment, sale of limited partnership interest, and sales of our interests in oil and gas prospects, partially offset by the purchase of restricted certificate of deposit and oil and gas property and fixed asset additions.

Net cash used in financing activities was \$14.8 million in the six months ended June 30, 2005 compared to net cash provided by financing activities of \$17.6 million in the same period of 2004. During the first half of 2005, we incurred \$16.8 million in debt issuance costs related to the Sabine Pass Credit Facility and a contemplated private debt offering, partially offset by \$2.0 million in proceeds from the exercise of stock options and warrants. During the first half of 2004, we received net proceeds of \$16.4 million (after offering costs of \$965,000) related to a private sale of our common stock in January 2004 and exercises of warrants and stock options during the first half of 2004. We also received \$2.2 million in partnership contributions in the first half of 2004 from the minority owner in Corpus Christi LNG. Cash flows from financing activities in the first half of 2004 were partially offset by the repayment of a \$1.0 million note payable.

Due to the factors described above, our cash and cash equivalents decreased to \$171.8 million as of June 30, 2005 compared to \$308.4 million at December 31, 2004, and our working capital decreased to \$150.8 million as of June 30, 2005 compared to \$305.8 million at December 31, 2004.

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### ***Issuances of common stock***

In February 2005, our stockholders approved an increase in Cheniere's authorized common stock from 40 million to 120 million shares. On April 22, 2005, we issued 26,789,242 shares of our common stock in a two-for-one stock split. The stock split entitled all stockholders of record at the close of business on April 8, 2005 to receive one additional share of common stock for each share held on that date. All per share amounts and outstanding and weighted share amounts included in this quarterly report on Form 10-Q have been restated to give effect to the two-for-one stock split.

On February 8, 2005, we acquired the 33.3% minority interest in Corpus Christi LNG through the acquisition of BPU in exchange for 2 million restricted shares of our common stock valued at \$77.0 million plus direct transaction costs.

In June 2005, 10,000 shares of restricted common stock, valued at \$30.00 per share, were issued to a non-executive officer or director. We recorded \$300,000 of deferred compensation as a reduction to stockholders' equity. The stock vests 25% per year over a four-year period on each anniversary of the grant date.

During the six months ended June 30, 2005, a total of 539,850 shares of our common stock were issued pursuant to the exercise of stock options, resulting in net cash proceeds of \$1.5 million. An additional 32,942 shares were issued in satisfaction of cashless exercises of options to purchase 33,868 shares of common stock. A total of 400,000 shares of common stock were also issued pursuant to the exercise of warrants, resulting in net proceeds of \$500,000.

### ***Lease obligations***

On January 15, 2005, we exercised our Sabine Pass site options and executed 30-year leases related to the option acreage. These lease agreements call for annual payments totaling \$1.5 million. We have the option to renew these leases for six 10-year periods.

On March 30, 2005, we amended our office lease to increase our rentable square footage to include an additional floor on the premises. The lease term for the additional floor runs from May 2005 through January 2014. We have an option to renew the lease for an additional five years at the then-current market rate as part of the renewal of our original lease space. Under the amended lease, there are no monthly lease payments for the additional floor from May 2005 through April 14, 2007, after which time the lease payments range from approximately \$30,000 to \$39,000 per month through January 2014. We have prepaid \$201,000 in rent related to 2013 and have included such amount in other assets on the accompanying consolidated balance sheet as of June 30, 2005.

### ***Restricted cash, restricted certificate of deposit and letter of credit***

The Sabine Pass Credit Facility established cash collateral accounts under the exclusive control of HSBC, the collateral agent. Accordingly, our total cash balance of \$136,000 held in these accounts as of June 30, 2005 is classified as restricted on our balance sheet.

Under the terms of our office lease, we are required to post a standby letter of credit in favor of the lessor. The initial amount of the letter of credit was increased from \$865,000 to \$1.1 million in April 2004 related to the expansion of our office space, and the amount will be reduced by \$225,000 per annum over a five-year period. This letter of credit was initially established under the terms of our bank line of credit at that time.

Upon the termination of our bank line of credit in June 2004, we purchased a certificate of deposit in the amount of \$1.1 million and entered into a pledge agreement in favor of the commercial bank that

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had previously issued the standby letter of credit for \$1.1 million. In October 2004, both the letter of credit and certificate of deposit were amended to decrease the face amounts by \$225,000 to \$898,000. The renewed letter of credit and the certificate of deposit both mature on November 30, 2005. Under the terms of the pledge agreement, the commercial bank was assigned a security interest in the certificate of deposit as collateral for the letter of credit. As a result, the certificate of deposit plus \$10,000 of accrued interest is classified as restricted on our balance sheet at June 30, 2005.

### ***Off-balance sheet arrangements***

As of June 30, 2005, we had no “off-balance sheet arrangements” that may have a current or future material effect on our consolidated financial condition or results of operations.

## **Results of Operations—Comparison of the Three-Month Periods Ended June 30, 2005 and 2004**

### ***Overview***

Our financial results for the three months ended June 30, 2005 reflected a net loss of \$9.8 million, or \$0.18 per share (basic and diluted), compared to a net loss of \$8.1 million, or \$0.21 per share (basic and diluted), for the three months ended June 30, 2004.

The major factors contributing to our net loss of \$9.8 million during the second quarter of 2005 were LNG receiving terminal development expenses of \$5.4 million and general and administrative expenses of \$5.6 million. The major factors contributing to our \$8.1 million net loss during the second quarter of 2004 were LNG receiving terminal development expenses of \$5.6 million (which were offset by a \$752,000 minority interest in the operations of Corpus Christi LNG), general and administrative expenses of \$1.9 million and our equity share of the net loss of Freeport LNG of \$1.5 million.

### ***LNG receiving terminal development and related pipeline activities***

LNG receiving terminal development expenses were 4% lower in the second quarter of 2005 (\$5.4 million) than in the second quarter of 2004 (\$5.6 million). Our development expenses primarily include professional fees associated with front-end engineering and design work, obtaining orders from FERC authorizing construction of our facilities and other required permitting for our planned LNG receiving terminals and their related natural gas pipelines. Other expenses directly related to the development of our LNG receiving terminals, including expenses of our LNG employees directly involved in the development activities, are also included. Beginning in the first quarter of 2005, costs related to the construction of our Sabine Pass LNG receiving terminal have been capitalized.

In the second quarter of 2005, we recorded \$2.5 million of development expenses relating to pipeline development activities for our Sabine Pass LNG and Creole Trail LNG projects. In addition, we incurred \$1.1 million of LNG receiving terminal development expenses attributable to our Creole Trail LNG and Corpus Christi LNG projects. We also incurred \$1.7 million in other LNG receiving terminal development expenses, including \$1.5 million in LNG employee related costs. Our LNG staff increased from an average of 16 employees in the second quarter of 2004 to an average of 24 employees in the second quarter of 2005 as a result of the expansion of our business. LNG employee-related costs for the second quarter of 2005 also included non-cash compensation of \$286,000 primarily related to the amortization of deferred compensation associated with non-vested stock awarded in 2004.

In the second quarter of 2004, we incurred \$2.3 million in terminal development expenses related to our Sabine Pass LNG receiving terminal and related pipeline. We also incurred \$2.4 million related to our Corpus Christi LNG receiving terminal and related pipeline. This amount was offset partially by \$752,000 related to the minority interest of our 33.3% limited partner. In addition, we incurred \$895,000 in other terminal development expenses primarily related to LNG employee related costs. Such amount also included non-cash compensation of \$112,000 related to the amortization of deferred compensation associated with non-vested stock awards granted in February 2004.

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In the second quarter of 2005, our 30% equity share of the net loss of Freeport LNG resulted in a reported net loss of \$127,000 attributable to the partnership. In contrast, in the second quarter of 2004, our 30% equity share of the net loss of Freeport LNG was \$1.5 million.

### ***General and administrative expenses***

General and administrative (“G&A”) expenses primarily relate to our general corporate and other activities. These expenses increased \$3.7 million, or 190%, to \$5.6 million in the second quarter of 2005 compared to \$1.9 million in the second quarter of 2004. The increase in G&A resulted primarily from the expansion of our business (including increases in average corporate staff from an average of 14 employees in the second quarter of 2004 to an average of 44 employees in the second quarter of 2005). Corporate employee-related costs for the second quarter of 2005 and 2004 included non-cash compensation of \$536,000 and \$366,000, respectively related to the amortization of deferred compensation associated with non-vested stock awards granted in 2004. We capitalize as oil and gas property costs that portion of G&A expenses directly related to our exploration and development activities. We capitalized \$188,000 in the second quarter of 2005 compared to \$240,000 in the second quarter of 2004.

### ***Depreciation, depletion and amortization expenses***

Depreciation, depletion and amortization (“DD&A”) expenses increased \$367,000, or 228%, to \$528,000 in the second quarter of 2005 from \$161,000 in the second quarter of 2004. The increase primarily resulted from higher oil and gas DD&A as a result of an increase in our DD&A rate from \$1.28 per thousand cubic feet equivalent (“Mcf”) to an average \$2.84 per Mcfe and higher production volumes discussed below. DD&A also increased as a result of more depreciation expense resulting from the acquisition of furniture, fixtures and equipment associated with the expansion of our business.

### ***Unrealized derivatives loss***

During the second quarter of 2005, we recorded an unrealized derivative loss of \$642,000 attributable to the ineffective portion of the interest rate swaps related to our Sabine Pass Credit Facility.

### ***Interest income***

Interest income increased to \$1.8 million in the second quarter of 2005 from \$10,000 in the second quarter of 2004 as a result of our increased cash and cash equivalents balances.

### ***Oil and gas activities***

Oil and gas revenues increased by \$354,000, or 106%, to \$689,000 in the second quarter of 2005 from \$335,000 in the second quarter of 2004 as a result of a 77% increase in production volumes (100,000 Mcfe in the second quarter of 2005 compared to 56,000 Mcfe in the second quarter of 2004) and by a 15% increase in average natural gas prices to \$6.87 per thousand cubic feet (“Mcf”) in the second quarter of 2005 from \$5.99 per Mcf in the second quarter of 2004. Our production costs are relatively minor because most of our revenues are generated from non-cost bearing, overriding royalty interests (“ORRI”). In December 2004, we converted an ORRI to a cost-bearing working interest upon well payout, which resulted in higher production volumes as well as higher operating costs during the second quarter of 2005.



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### **Results of Operations – Comparison of the Six–Month Periods Ended June 30, 2005 and 2004.**

#### ***Overview***

Our financial results for the six months ended June 30, 2005 reflected a net loss of \$19.1 million, or \$0.36 per share (basic and diluted), compared to a net loss of \$9.1 million, or \$0.25 per share (basic and diluted), for the six months ended June 30, 2004.

The major factors contributing to our net loss of \$19.1 million during the first six months of 2005 were LNG receiving terminal development expenses of \$10.8 million and general and administrative expenses of \$10.6 million, partially offset by \$3.6 million in interest income. The major factors contributing to our \$9.1 million net loss during the first six months of 2004 were LNG receiving terminal development expenses of \$10.0 million (which were offset by a \$2.2 million minority interest in the operations of Corpus Christi LNG) and general and administrative expenses of \$4.9 million, partially offset by a \$2.5 million reimbursement from our limited partnership investment in Freeport LNG.

#### ***LNG receiving terminal development activities***

LNG receiving terminal development expenses were 8% higher in the first six months of 2005 (\$10.8 million) than in the first six months of 2004 (\$10.0 million). Beginning in the first quarter of 2005, however, costs related to the construction of our Sabine Pass LNG receiving terminal have been capitalized. Our development expenses primarily include professional fees associated with front-end engineering and design work, obtaining orders from FERC authorizing construction of our facilities and other required permitting for the Sabine Pass LNG, Corpus Christi LNG and Creole Trail LNG receiving terminals and their related natural gas pipelines. Other expenses directly related to the development of our LNG receiving terminals, including expenses of our LNG employees directly involved in the development activities, are also included.

In the first six months of 2005, we incurred \$4.8 million in LNG pipeline development expenses primarily related to our Sabine Pass LNG and Creole Trail LNG projects. LNG receiving terminal development expenses for the first six months of 2005 were \$3.0 million and were mainly attributable to our Creole Trail LNG and Corpus Christi LNG terminal projects. In addition, we incurred \$3.0 million in other LNG receiving terminal development expenses, including \$2.5 million in LNG employee related costs. Our LNG staff increased from an average of 13 employees in the first half of 2004 to an average of 21 employees in the first half of 2005 as a result of the expansion of our business. LNG employee-related costs for the first half of 2005 included non-cash compensation of \$578,000 related to the amortization of deferred compensation associated with non-vested stock awarded in 2004.

In the first six months of 2004, we incurred \$4.2 million in terminal development expenses related to our Sabine Pass LNG receiving terminal and related pipeline. We also incurred \$3.9 million related to our Corpus Christi LNG receiving terminal and related pipeline. This amount, however, was partially offset by the minority interest of our 33.3% limited partner totaling \$2.2 million. Substantially all expenditures incurred through March 31, 2004 by Corpus Christi LNG were the obligation of the minority owner, as the minority owner was required to fund 100% of the first \$4.5 million of project expenditures. As project expenditures had reached \$4.5 million by March 31, 2004, the minority owner began sharing all subsequent project expenditures based on its 33.3% limited partner interest. During the first six months of 2004, we also incurred \$1.9 million in other terminal development expenses, including \$1.6 million in LNG employee related costs. Such amount also included non-cash compensation of \$637,000 (which included vested stock awards and amortization of deferred compensation associated with non-vested stock awards) granted in February 2004.

In the first six months of 2005, our 30% equity share of the net loss of Freeport LNG resulted in a reported net loss of \$971,000 attributable to the partnership. In contrast, in the first six months of 2004,

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our 30% equity share of the net income of Freeport LNG was \$667,000 because Freeport LNG recorded net income as a result of Freeport LNG's receipt of a non-refundable fee of \$10 million from ConocoPhillips in January 2004.

In January 2004, we received the final \$2.5 million payment from Freeport LNG pursuant to the terms of the agreement related to our February 2003 disposition of LNG assets in exchange for cash and a limited partner interest in Freeport LNG. Because our investment basis in Freeport LNG had been previously reduced to zero, the \$2.5 million payment was recorded as a reimbursement from limited partnership investment in our consolidated statement of operations during the first quarter of 2004.

### ***General and administrative expenses***

G&A expenses increased \$5.7 million, or 118%, to \$10.6 million in the first six months of 2005 compared to \$4.9 million in the first six months of 2004. The increase in G&A resulted primarily from the expansion of our business (including increases in average corporate staff from an average of 12 employees in the first six months of 2004 to an average of 36 employees in the first six months of 2005). Corporate employee-related costs for the first six months of 2005 included non-cash compensation of \$1.2 million related to the amortization of deferred compensation associated with non-vested stock awarded in 2004. Corporate employee related costs for the first six months of 2004 included non-cash compensation of \$2.1 million (which included vested stock awards and amortization of deferred compensation associated with non-vested stock awards) granted in February 2004. We capitalize as oil and gas property costs that portion of G&A expenses directly related to our exploration and development activities. We capitalized \$472,000 in the first six months of 2005 compared to \$976,000 in the first six months of 2004.

### ***Depreciation, depletion and amortization expenses***

DD&A expenses increased \$689,000, or 188%, to \$1.1 million in the first six months of 2005 from \$366,000 in the first six months of 2004. The increase primarily resulted from higher oil and gas DD&A as a result of an increase in our DD&A rate from \$1.28 per Mcfe to \$2.66 per Mcfe and higher production volumes discussed below. DD&A also increased as a result of more depreciation expense resulting from the acquisition of furniture, fixtures and equipment associated with the expansion of our business.

### ***Unrealized derivative loss***

During the first six months of 2005, we recorded an unrealized derivative loss of \$667,000 attributable to the ineffective portion of the interest rate swaps related to our Sabine Pass Credit Facility.

### ***Interest income***

Interest income increased to \$3.6 million in the first six months of 2005 from \$17,000 in the first six months of 2004 as a result of an increase in our cash and cash equivalents balances.

### ***Oil and gas activities***

Oil and gas revenues increased by \$758,000, or 114%, to \$1.4 million in the first six months of 2005 from \$667,000 in the first six months of 2004 as a result of a 106% increase in production volumes (234,000 Mcfe in the first six months of 2005 compared with 114,000 Mcfe in the first six months of 2004) and a 2% increase in average natural gas prices to \$6.01 per Mcf in the first six months of 2005 from \$5.88 per Mcf in the first six months of 2004. Our production costs are relatively minor because most of our revenues are generated from non-cost bearing ORRI. In December 2004, we converted an ORRI to a cost-bearing working interest upon well payout resulting in higher production volumes as well as higher operating costs during the first six months of 2005.

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### **Other matters**

#### ***Critical accounting estimates and policies***

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

#### ***Accounting for LNG activities***

Costs to develop our planned LNG receiving terminals are expensed as incurred. These costs primarily include professional fees associated with front-end engineering and design work and obtaining orders from FERC authorizing construction of our terminals and other required permitting for our planned LNG receiving terminals and their related natural gas pipelines. Land costs associated with LNG terminal sites are capitalized. Costs of certain permits are capitalized as intangible LNG assets. We have also capitalized costs related to options to purchase or lease land that may be used for potential LNG terminal sites. Such costs will be amortized over the term of the lease should a lease be entered into. LNG terminal site rentals and related amortization of capitalized options are capitalized during the construction period of the terminal.

In the first quarter of 2005, we began capitalizing all direct costs associated with the construction of the Sabine Pass LNG facility, upon satisfaction of the following criteria: (1) regulatory approval had been received, (2) financing was in place and (3) management was committed to the construction of the facility. In addition, to the extent that in the future we have outstanding debt, we will capitalize interest on capital invested in the Sabine Pass LNG facility, as well as our other LNG receiving terminal projects during the construction period, in accordance with SFAS No. 34, *Capitalization of Interest Cost*, as amended by SFAS No. 58, *Capitalization of Interest Cost in Financial Statements That Include Investments Accounted for by the Equity Method (an Amendment of FASB Statement No. 34)*. Upon commencement of LNG terminal operations, capitalized interest, as a component of the total cost of the terminal, will be amortized over the estimated useful life of the LNG receiving terminal.

#### ***Revenue recognition***

LNG regasification capacity fees are recognized as revenue over the term of the respective TUAs. Advance capacity reservation fees are initially deferred.

#### ***Full cost method of accounting***

We follow the full cost method of accounting for our oil and gas properties. Under this method, all productive and non-productive exploration and development costs incurred for the purpose of finding oil and gas reserves are capitalized. Such capitalized costs include lease acquisition, geological and geophysical work, delay rentals, drilling, completing and equipping oil and gas wells, together with internal costs directly attributable to property acquisition, exploration and development activities. Interest is capitalized on oil and gas properties not subject to amortization.

The costs of our oil and gas properties, including the estimated future costs to develop proved reserves and the carrying amounts of any asset retirement obligations, are depreciated using a composite

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unit-of-production rate based on estimates of proved reserves. Investments in unproved properties and major development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that the properties are impaired, then the amount of the impairment is added to the capitalized costs to be amortized. Net capitalized costs are limited to a capitalization ceiling, calculated on a quarterly basis as the aggregate of the present value, discounted at 10%, of estimated future net revenues from proved reserves (based on current economic and operating conditions), but excluding asset retirement obligations, plus the lower of cost or fair market value of unproved properties, less related income tax effects.

Our allocation of seismic exploration costs between proved and unproved properties involves an estimate of the total reserves to be discovered through our exploration program. This estimate includes a number of assumptions that we have incorporated into a three-year plan. Such factors include an estimate of the number of exploration prospects generated, prospect reserve potential, success ratios and ownership interests. We transfer unproved properties to proved properties based on a ratio of proved reserves discovered at a point in time to the estimate of total reserves to be discovered in our exploration program. The carrying value of unproved properties is evaluated for possible impairment by comparing it to the estimated future net cash flows associated with the estimated total reserves to be discovered in our exploration program. To the extent that the carrying value of unproved properties is greater than the estimated future net revenue, any excess is transferred to proved properties. It is reasonably possible, based on the results obtained from future drilling and prospect generation, that revisions to this estimate of total reserves to be discovered could affect our capitalization ceiling.

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

We account for the retirement of our tangible long-lived assets in accordance with SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 requires us to record the fair value of a liability for legal obligations associated with the retirement of tangible long-lived assets and a corresponding increase in the carrying amount of the related long-lived assets. Subsequently, the asset retirement costs included in the carrying amount of the related asset are allocated to expense using the unit-of-production method used to depreciate oil and gas properties under the full cost method of accounting.

### *Oil and gas reserves*

The process of estimating quantities of proved reserves is inherently uncertain, and our reserve data are only estimates. Reserve engineering is a subjective process of estimating underground accumulations of natural gas and crude oil that cannot be measured in an exact manner. The process relies on interpretations of available geologic, geophysical, engineering and production data. The extent, quality and reliability of this technical data can vary. The process also requires certain economic assumptions, some of which are mandated by the SEC, such as oil and gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. The accuracy of a reserve estimate is a function of the quality and quantity of available data, the interpretation of that data, the accuracy of various mandated economic assumptions and the judgment of the persons preparing the estimate. At least annually, our reserves are estimated by an independent petroleum engineer.

Because these estimates depend on many assumptions, all of which may substantially differ from actual results, reserve estimates may be different from the quantities of natural gas and crude oil that are ultimately recovered. In addition, results of drilling, testing and production after the date of an estimate may justify material revisions to the estimate.

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The present value of future net cash flows does not necessarily represent the current market value of our estimated proved natural gas and oil reserves. In accordance with SEC requirements, we base the estimated discounted future net cash flows from proved reserves on prices and costs on the date of the estimate. Actual future prices and costs may be materially higher or lower than the prices and costs as of the date of the estimate.

Our rate of recording DD&A is dependent upon our estimate of proved reserves. If the estimate of proved reserves declines, the rate at which we record DD&A expense increases, reducing net income. Such a decline may result from lower market prices, which may make it uneconomical to drill for and produce higher cost fields.

### *Cash flow hedges*

As defined in SFAS No. 133, cash flow hedge transactions hedge the exposure to variability in expected future cash flows (i.e., in our case, the variability of floating interest rate exposure). In the case of cash flow hedges, the hedged item (the underlying risk) is generally unrecognized (i.e., not recorded on the balance sheet prior to settlement), and any changes in the fair value, therefore, will not be recorded within earnings. Conceptually, if a cash flow hedge is effective, this means that a variable, such as a movement in interest rates, has been effectively fixed, so that any fluctuations will have no net result on either cash flows or earnings. Therefore, if the changes in fair value of the hedged item are not recorded in earnings, then the changes in fair value of the hedging instrument (the derivative) must also be excluded from the income statement, or else a one-sided net impact on earnings will be reported, despite the fact that the establishment of the effective hedge results in no net economic impact. To prevent such a scenario from occurring, SFAS No. 133 requires that the fair value of a derivative instrument designated as a cash flow hedge be recorded as an asset or liability on the balance sheet, but with the offset reported as part of other comprehensive income, to the extent that the hedge is effective. Any ineffective portion will be reflected in earnings.

### *Goodwill*

Goodwill will be accounted for in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. Goodwill is subject to an annual goodwill impairment review, although we may perform a goodwill impairment review more frequently whenever events or circumstances indicate the carrying value may not be recoverable.

### *New accounting pronouncements*

In December 2004, the FASB issued SFAS No. 123R, *Share-Based Payment*, that addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for equity instruments of the company, such as stock options and restricted stock. SFAS No. 123R eliminates the ability to account for share-based compensation transactions using the APB Opinion No. 25 and requires instead that such transactions be accounted for using a fair value-based method. We currently account for stock-based compensation using the intrinsic method pursuant to APB Opinion No. 25. SFAS No. 123R requires that all stock-based payments to employees, including grants of employee stock options and restricted stock, be recognized as compensation expense in the financial statements based on their fair values. SFAS No. 123R was scheduled to be effective for periods beginning after June 15, 2005. However, on April 14, 2005, the SEC deferred the effective date to January 1, 2006 for companies with fiscal years ending December 31. Accordingly, we will be required to apply SFAS No. 123R beginning in the fiscal quarter ending March 31, 2006. We are currently assessing the provisions of SFAS No. 123R and its impact on our consolidated financial statements.

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In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections – A Replacement of APB Opinion No. 20 and FASB Statement No. 3*. SFAS No. 154 changes the requirements for accounting and reporting on a change in accounting principle, while carrying forward the guidance in APB Opinion No. 20, *Accounting Changes* and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*, with respect to accounting for changes in estimates, changes in the reporting entity, and the correction of errors. APB 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change, the cumulative effect of changing to the new accounting principle. SFAS No. 154 requires retrospective application to prior periods' financial statements for voluntary changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The impact of SFAS No. 154 will depend on the accounting change that occurs in a future period.

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

The development of our LNG receiving terminal business is based upon the foundational premise that prices of natural gas in the U.S. will be sustained at levels of \$3.00 per Mcf or more. Should the price of natural gas in the U.S. decline to sustained levels below \$3.00 per Mcf, our ability to develop and operate LNG receiving terminals could be materially adversely affected.

We produce and sell natural gas, crude oil and condensate. As a result, our financial results can be affected as these commodity prices fluctuate widely in response to changing market forces. We have not entered into any derivative transactions related to our oil and gas producing activities.

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

We are utilizing interest rate swap agreements to mitigate exposure to fluctuations associated with our Sabine Pass Credit Facility. We do not use interest rate swap agreements for speculative or trading purposes.

The following table summarizes the fair market values of our existing interest rate swap agreements as of June 30, 2005 (in thousands):

#### Variable to Fixed Swaps

<u>Maturity Date</u>	<u>Notional Principal Amount</u>	<u>Fixed Interest Rate (Pay)</u>	<u>Weighted Average Interest Rate</u>	<u>Fair Market Value</u>
July 25, 2005 through December 28, 2005	\$ 228,504	4.49%	US \$ LIBOR BBA	\$ (124)
December 28, 2005 through December 27, 2006	3,288,818	4.49%	US \$ LIBOR BBA	(1,427)
December 27, 2006 through December 27, 2007	6,725,074	4.49%	US \$ LIBOR BBA	(2,291)
December 27, 2007 through December 29, 2008	8,301,516	4.49%	US \$ LIBOR BBA	(2,094)
December 29, 2008 through March 25, 2009	2,100,000	4.49%	US \$ LIBOR BBA	(394)
March 25, 2009 through March 25, 2010	1,390,700	4.98%	US \$ LIBOR BBA	(4,162)
March 25, 2010 through March 25, 2011	1,352,000	4.98%	US \$ LIBOR BBA	(3,042)
March 25, 2011 through March 26, 2012	1,310,800	4.98%	US \$ LIBOR BBA	(2,626)
	<u>\$ 24,697,412</u>			<u>\$ (16,160)</u>

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### **Item 4. Disclosure Controls and Procedures**

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

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

## **PART II. Other Information**

### **Item 1. Legal Proceedings**

We are and may in the future be involved as a party to various legal proceedings, which are incidental to the ordinary course of business. We regularly analyze current information and, as necessary, provide accruals for probable liabilities on the eventual disposition of these matters. In the opinion of management and legal counsel, as of June 30, 2005, there were no threatened or pending legal matters that would have a material impact on our consolidated results of operations, financial position or cash flows.

We received a letter dated December 17, 2004 advising us of a nonpublic, informal inquiry being conducted by the SEC and captioned "In the Matter of Trading in the Securities of Cheniere Energy, Inc." The SEC requested a chronology, documents and other information, including the names of persons and entities involved in or aware of events leading up to our press releases and related Form 8-K filings in November and December 2004, regarding our negotiations and agreements with Chevron USA and our public offering of 10 million shares of common stock. We are cooperating fully with this SEC informal inquiry.

### **Item 4. Submission of Matters to a Vote of Security Holders**

The Company held an annual meeting of its stockholders on May 24, 2005. The following individuals were elected to the Board of Directors: Keith F. Carney, Charif Souki and Walter L. Williams. In addition to the election of Directors, the ratification of the appointment of UHY Mann Frankfort Stein & Lipp CPAs, LLP as independent accountants for the fiscal year ending December 31, 2005 was submitted to a vote of the security holders. There were 53,578,576 shares of common stock outstanding and eligible to vote as of the record date of March 28, 2005. The result of voting on these matters is summarized in the following table:

<u>Description</u>	<u>Votes For</u>	<u>Votes Against</u>	<u>Abstentions or Votes Withheld</u>
Keith F. Carney	37,963,156	-0-	8,187,356
Charif Souki	38,620,992	-0-	7,529,520
Walter L. Williams	38,621,832	-0-	7,528,680
Independent Accountants	46,009,192	119,438	21,882

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**Item 6. Exhibits**

(a) Each of the following exhibits is filed herewith:

- 10.1 Consent and Waiver No. 2 to Credit Agreement, dated as of May 5, 2005, among Sabine Pass LNG, L.P., Société Générale and HSBC Bank USA, National Association
- 10.2 Consent and Waiver No. 3 to Credit Agreement, dated as of April 25, 2005, among Sabine Pass LNG, L.P., Société Générale and HSBC Bank USA, National Association
- 10.3 Consent and Waiver No. 4 to Credit Agreement, dated as of May 31, 2005, among Sabine Pass LNG, L.P., Société Générale and HSBC Bank USA, National Association
- 31.1 Certification by Chief Executive Officer required by Rule 13a-14(a) and 15d-14(a) under the Exchange Act
- 31.2 Certification by Chief Financial Officer required by Rule 13a-14(a) and 15d-14(a) under the Exchange Act
- 32.1 Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002



**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/ Craig K. Townsend

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

Date: August 5, 2005

**CONSENT, WAIVER AND AMENDMENT NO. 2  
TO CREDIT AGREEMENT**

This CONSENT, WAIVER AND AMENDMENT NO. 2 TO CREDIT AGREEMENT (this "Waiver and Amendment"), dated as of May 5, 2005, is made among Sabine Pass LNG, L.P., a Delaware limited partnership (the "Borrower"), Société Générale, in its capacity as administrative agent for the Lenders (the "Agent"), HSBC Bank USA, National Association, in its capacity as collateral agent for the Lenders (the "Collateral Agent") and the Lenders party to the Credit Agreement (defined below).

WITNESSETH

WHEREAS, the Borrower, the Agent and the Collateral Agent are party to a Credit Agreement dated as of February 25, 2005 (as amended, modified and supplemented and in effect from time to time, the "Credit Agreement"), pursuant to which the lenders from time to time party thereto (the "Lenders") have agreed to make loans to the Borrower in an aggregate principal amount of \$822,000,000;

WHEREAS, the Borrower desires to enter into an agreement substantially in the form attached hereto as Exhibit A (the "Assumption Agreement") for the assumption and adoption of certain obligations under a Settlement and Purchase Agreement dated June 14, 2001 (the "Settlement Agreement") by and among Cheniere Energy, Inc. ("Cheniere"), Cheniere FLNG, L.P. (formerly known as Cheniere LNG, Inc. and before that CXY Corporation), Crest Investment Company, Crest Energy, L.L.C. and Freeport LNG Terminal, LLC;

WHEREAS, the Borrower has requested that the Lenders (i) consent to the Borrower entering into the Assumption Agreement, (ii) waive certain Events of Default under the Credit Agreement in connection with the Settlement Agreement and (iii) waive or amend certain provisions of the Credit Agreement, the Pledge Agreement, the Security Agreement and the Collateral Agency Agreement to permit the Assumption Agreement, each as more fully described in the waiver request letter (the "Waiver Request Letter") attached hereto as Exhibit B;

NOW THEREFORE, in consideration of the mutual agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

Section 1. Definitions. Capitalized terms (including those used in the preamble and the recitals above) not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement and the principles of interpretation set forth therein shall apply herein.

Section 2. Consent and Waiver. Subject to the satisfaction of the conditions precedent set forth in Section 8 hereof, the Agent, the Collateral Agent and the Lenders hereby

Consent, Waiver and Amendment No. 2

(a) consent to the Borrower entering into the Assumption Agreement, (b) waive any Defaults or Events of Default under the Credit Agreement arising directly as a result of the existence of the Settlement Agreement or the execution and delivery of the Assumption Agreement and (c) waive compliance with (i) Section 8.24 of the Credit Agreement solely to the extent that it relates to the Assumption Agreement, (ii) Section 8.30 of the Credit Agreement solely to the extent necessary to permit the Borrower to enter into the Assumption Agreement and (iii) the requirement of Section 8.21(c) of the Credit Agreement to deliver Ancillary Documents other than (X) a legal opinion of counsel to Cheniere, with respect to the due authorization, execution and delivery of the Indemnification Agreement and its validity and enforceability and such other matters as the Agent may reasonably request, (Y) evidence of the due authorization of Cheniere to execute, deliver and perform the Indemnification Agreement and (Z) evidence of the due authorization of the Borrower to execute, deliver and perform the Assumption Agreement.

Section 3. Amendments of the Credit Agreement. Subject to the satisfaction of the conditions precedent set forth in Section 8 hereof, the Credit Agreement is hereby amended as follows:

(a) Section 1.01 of the Credit Agreement is amended by adding the following definitions in the appropriate alphabetical locations:

(i) "Assumption Agreement" shall mean the agreement for the assumption and adoption by the Pledgors, the Operator, the Borrower, Cheniere LNG, Inc., Cheniere LNG Terminals, Inc., Corpus Christi LNG-GP, Inc., Corpus Christi LNG-LP, Inc., Corpus Christi LNG, L.P., Corpus Christi Interests, LLC., Creole Trail LNG-GP, Inc., Creole Trail LNG, L.P., Cheniere Energy Shared Services, Inc., Cheniere MGT Services, LLC, Corpus Christi LNG-LP, LLC, Creole Trail LNG-LP, LLC, Cheniere FLNG-GP, LLC and Cheniere LNG-LP Interests, LLC of certain obligations under the Settlement Agreement."

(ii) "Indemnification Agreement" shall mean an indemnification agreement substantially in the form of Exhibit A to the Assumption Agreement.

(iii) "Settlement Agreement" shall mean the Settlement and Purchase Agreement dated as of June 14, 2001 among Cheniere Energy, Inc., Cheniere FLNG, L.P., Crest Energy L.L.C., Crest Investment Company and Freeport LNG Terminal LLC, as modified by the letter agreement dated February 27, 2003."

(b) The definition of "Restricted Payments" in Section 1.01 of the Credit Agreement is amended by adding the following sentence immediately after the last sentence thereof:

"Notwithstanding the foregoing, any payment made by the Borrower pursuant to the Settlement Agreement shall constitute a Restricted Payment, except to the extent that the funds utilized to effect any such payment shall have been provided by Cheniere Energy, Inc."

(c) The definition of "Material Project Documents" in Section 1.01 of the Credit Agreement is amended by replacing "(i)" with "(j)" and inserting the phrase "(i) the

Indemnification Agreement” immediately following the phrase “Noble Option Agreement” in the fourth line thereof.

(d) The definition of “Other Project Documents” in Section 1.01 of the Credit Agreement is amended by replacing “(b)” with “(c)” and inserting the phrase “(b) the Assumption Agreement,” immediately following the term “Agreement” appearing as the first term in the second line of the definition thereof.

(e) Section 9.01(c) of the Credit Agreement is amended by adding “or the Indemnification Agreement” following the reference to “or any other Financing Document” in the second line thereof.

Section 4. Waiver of the Pledge Agreement. Subject to the satisfaction of the conditions precedent set forth in Section 8 hereof, the Agent, the Collateral Agent and the Lenders hereby waive compliance with clause (d) of Article IV of the Pledge Agreement, solely to the extent necessary to permit the Pledgors to enter into the Assumption Agreement.

Section 5. Amendment of the Pledge Agreement. Subject to the satisfaction of the conditions precedent set forth in Section 8 hereof, the Agent, the Collateral Agent and the Lenders hereby consent to the amendment of Section 5.05(e) of Article V of the Pledge Agreement to include the following provisions at the end of the first sentence thereof:

“provided that, as a condition precedent to any such sale or transfer of all or substantially all of the assets constituting the Project by the Collateral Agent to any purchaser or transferee, such purchaser or transferee and Cheniere Energy, Inc. shall (i) enter into an assumption agreement substantially in the form of the Assumption Agreement unless, at the time of each such transfer, Cheniere Energy, Inc. or any of its direct and indirect affiliates, joint ventures, and subsidiaries that are involved in the LNG business have under contract at one or more LNG facilities it retains, the right and obligation to process and receive a tariff for processing at least one Bcf of gas per day, for a period of at least five years following such transfer of assets and (ii) to the extent any purchaser or transferee is required to enter into any such assumption agreement, be assigned the benefits of the Indemnification Agreement.”

Section 6. Amendment of the Security Agreement. Subject to the satisfaction of the conditions precedent set forth in Section 8 hereof, the Agent, the Collateral Agent and the Lenders hereby consent to the amendment of clause 6.01(d) of Article VI of the Security Agreement to include the following provisions at the end of the first sentence thereof:

“provided that, as a condition precedent to any such sale or transfer of all or substantially all of the assets constituting the Project by the Collateral Agent to any purchaser or transferee, such purchaser or transferee and Cheniere Energy, Inc. shall (i) enter into an assumption agreement substantially in the form of the Assumption Agreement unless, at the time of each such transfer, Cheniere Energy, Inc. or any of its direct and indirect affiliates, joint ventures, and subsidiaries that are involved in the LNG business have under contract at one or

more LNG facilities it retains, the right and obligation to process and receive a tariff for processing at least one Bcf of gas per day, for a period of at least five years following such transfer of assets and (ii) to the extent any purchaser or transferee is required to enter into any such assumption agreement, be assigned the benefits of the Indemnification Agreement.”

Section 7. Amendment of the Collateral Agency Agreement Subject to the satisfaction of the conditions precedent set forth in Section 8 hereof, the Agent, the Collateral Agent and the Lenders hereby consent to the amendment of Section 4.02 of the Collateral Agency Agreement to include the following phrase “and obligations under the Assumption Agreement (other than Restricted Payments) to the extent that funds have been deposited by Cheniere Energy, Inc. to the Revenue Account for the purpose of paying such obligations” after the words “Operation and Maintenance Expenses” in clause (1) of each of subsections (b) and (c) of such Section 4.02.

Section 8. Conditions Precedent. This Waiver and Amendment shall become effective on the date on which the Agent has received (a) counterparts of this Waiver and Amendment duly executed and delivered by each of the Borrower, the Agent, the Collateral Agent and the Majority Lenders, (b) the documents specified in Section 2(c)(iii)(X), (Y) and (Z) hereof, (c) the Assumption Agreement duly executed and delivered by the parties thereto and (d) the Indemnification Agreement duly executed and delivered by Cheniere Energy, Inc.

Section 9. Miscellaneous.

(a) Limited Waiver.

(i) Except as expressly consented to, amended or waived hereby, all of the representations, warranties, terms, covenants, conditions and other provisions of the Credit Agreement and the other Financing Documents shall remain unchanged and unwaived and shall continue to be and shall remain in full force and effect in accordance with their respective terms.

(ii) The consent, waivers and amendments set forth herein shall be limited precisely as provided for herein to the provisions expressly consented to, waived or amended herein and shall not be deemed to be a waiver of any right, power or remedy of any Lender, the Agent or the Collateral Agent under, or a waiver of, consent to or modification of any other term or provision of the Credit Agreement, any other Financing Document referred to therein or herein or of any transaction or further or future action on the part of the Borrower which would require the consent of the Lenders under the Credit Agreement or any of the other Financing Documents.

(iii) Except as provided in Sections 2, 3, 4, 5, 6 and 7 hereof, nothing contained in this Waiver and Amendment shall abrogate, prejudice, diminish or otherwise affect any powers, rights, remedies or obligations of any Person arising before the date of this Waiver and Amendment.

Consent, Waiver and Amendment No. 2

(b) Financing Document. This Waiver and Amendment shall be deemed to be a Financing Document referred to in the Credit Agreement and shall be construed, administered and applied in accordance with the terms and provisions thereof.

(c) Counterparts; Integration; Effectiveness. This Waiver and Amendment may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any parties hereto may execute this Waiver and Amendment by signing any such counterpart.

(d) Costs and Expenses. The Borrower agrees to pay and reimburse the Agent for all its reasonable costs and out-of-pocket expenses (including, without limitation, the reasonable fees and expenses of counsel to the Agent and the Lenders) incurred in connection with the preparation and delivery of this Waiver and Amendment and such other related documents.

(e) Governing Law. **THIS WAIVER AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.**

[Signature Pages Follow]

Consent, Waiver and Amendment No. 2

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IN WITNESS WHEREOF, the parties hereto have caused this Waiver and Amendment to be duly executed and delivered as of the day and year first above written.

SABINE PASS LNG, L.P.,  
as Borrower

By: Sabine Pass LNG – GP, Inc.,  
its General Partner

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

Address for Notices:

717 Texas Avenue, Suite 3100  
Houston, TX 77002  
Attn: Treasurer

Consent, Waiver and Amendment No. 2

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SOCIÉTÉ GÉNÉRALE,  
as Agent

By: /s/ Robert J. Preminger  
Name: Robert J. Preminger  
Title: Director

Address for Notices:

1221 Avenue of the Americas  
New York, NY 10020  
Attn: Robert Preminger

Consent, Waiver and Amendment No. 2



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HSBC BANK USA, NATIONAL ASSOCIATION,  
as Collateral Agent

By: /s/ Deirdra N. Ross

Name: Deirdra N. Ross

Title: Assistant Vice President

Address for Notices:

HSBC Bank USA, National Association  
452 Fifth Avenue  
New York, NY 10018  
Attn: Corporate Trust

With a copy to:

DLA Piper Rudnick Gray Cary US LLP  
One Liberty Place  
1650 Market Street, Suite 4900  
Philadelphia, PA 19103  
Attn: Peter Tucci, Esq.

Consent, Waiver and Amendment No. 2

Form of Assumption Agreement  
(see attached)

[FORM OF ASSUMPTION AGREEMENT]

April \_\_\_\_, 2005

Cheniere Energy, Inc.  
Cheniere FLNG, L.P.  
717 Texas Avenue, Suite 3100  
Houston, TX 77002

Re: *Assumption and Adoption of Obligations under Settlement and Purchase Agreement*

Ladies and Gentlemen:

This document (this "Assumption Agreement") is executed and delivered pursuant to and in accordance with Section 1.07 of the Settlement and Purchase Agreement, dated as of June 14, 2001 (the "Crest Settlement Agreement"), by and among Cheniere Energy, Inc., a Delaware corporation ("Cheniere"), Cheniere FLNG, L.P., a Delaware limited partnership (formerly Cheniere LNG, Inc. and before that CXY Corporation) ("CXY"), Crest Energy, L.L.C., a Texas limited liability company, Crest Investment Company, a Texas corporation, and Freeport LNG Terminal, LLC, a Delaware limited liability company.

For good and valuable consideration, including but not limited to the Indemnification Agreement in the form attached hereto as Exhibit A executed by Cheniere and dated as of even date herewith, the receipt and sufficiency of which being hereby acknowledged by each of the entities that now or at any time hereafter executes and delivers a counterpart hereof ("Assuming Entities"), and pursuant to and in accordance with Section 1.07 of the Crest Settlement Agreement, each of the undersigned entities hereby, jointly and severally, assumes and adopts the obligations of Cheniere and CXY (as CXY is defined under the Crest Settlement Agreement) under the Crest Settlement Agreement. Such assumption and adoption by each of the respective Assuming Entities is effective upon the execution and delivery hereof by or on behalf of such Assuming Entity, regardless of whether or when any other Assuming Entity executes and delivers a counterpart hereof.

Each of the Assuming Entities represents and warrants that as of the date hereof it is in compliance with the provisions of the Crest Settlement Agreement except for any non-compliance which could not reasonably be expected to have a material adverse effect on such Assuming Entity and, to each of the Assuming Entities' knowledge, no default thereunder has occurred or is continuing.

This Assumption Agreement shall become effective on the date on which the Agent has received the Indemnification Agreement duly executed and delivered by Cheniere.

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This Assumption Agreement is governed by, and shall be construed in accordance with, the law of the state of New York.

Sincerely,

CHENIERE LNG, INC.

By: \_\_\_\_\_  
Name: Don A. Turkleson  
Title: Secretary

CHENIERE LNG TERMINALS, INC.

By: \_\_\_\_\_  
Name: Don A. Turkleson  
Title: Secretary

CORPUS CHRISTI LNG-GP, INC.

By: \_\_\_\_\_  
Name: Don A. Turkleson  
Title: Secretary

CORPUS CHRISTI LNG, L.P.

By: CORPUS CHRISTI LNG-GP, INC.,  
its general partner

By: \_\_\_\_\_  
Name: Don A. Turkleson  
Title: Secretary

CORPUS CHRISTI INTERESTS, LLC

By: \_\_\_\_\_  
Name: Don A. Turkleson  
Title: Secretary

SABINE PASS LNG-GP, INC.

By: \_\_\_\_\_  
Name: Don A. Turkleson  
Title: Secretary

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SABINE PASS LNG, L.P.

By: SABINE PASS LNG-GP, INC.,  
its general partner

By: \_\_\_\_\_  
Name: Don A. Turkleson  
Title: Secretary

CREOLE TRAIL LNG-GP, INC.

By: \_\_\_\_\_  
Name: Don A. Turkleson  
Title: Secretary

CREOLE TRAIL LNG, L.P.

By: CREOLE TRAIL LNG-GP, INC.,  
its general partner

By: \_\_\_\_\_  
Name: Don A. Turkleson  
Title: Secretary

CORPUS CHRISTI LNG-LP, INC.

By: \_\_\_\_\_  
Name: Don A. Turkleson  
Title: Chief Executive Officer & Chief Financial Officer

CHENIERE ENERGY SHARED SERVICES, INC.

By: \_\_\_\_\_  
Name: Don A. Turkleson  
Title: Secretary

CHENIERE MGT SERVICES, LLC

By: \_\_\_\_\_  
Name: Don A. Turkleson  
Title: Chief Executive Officer & Chief Financial Officer

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CHENIERE LNG O&M SERVICES, L.P.

By: CHENIERE ENERGY SHARED  
SERVICES, INC.,  
its general partner

By: \_\_\_\_\_  
Name: Don A. Turkleson  
Title: Secretary

CHENIERE LNG-LP INTERESTS, LLC

By: \_\_\_\_\_  
Name: Don A. Turkleson  
Title: Chief Executive Officer, Chief Financial Officer &  
Chairman of the Board

CORPUS CHRISTI LNG-LP, LLC

By: \_\_\_\_\_  
Name: Don A. Turkleson  
Title: Chief Executive Officer, Chief Financial Officer &  
Chairman of the Board

SABINE PASS LNG-LP, LLC

By: \_\_\_\_\_  
Name: Don A. Turkleson  
Title: Chief Executive Officer, Chief Financial Officer &  
Chairman of the Board

CREOLE TRAIL LNG-LP, LLC

By: \_\_\_\_\_  
Name: Don A. Turkleson  
Title: Chief Executive Officer, Chief Financial Officer &  
Chairman of the Board

CHENIERE FLNG-GP, LLC

By: \_\_\_\_\_  
Name: Don A. Turkleson  
Title: Secretary

## [FORM OF INDEMNIFICATION AGREEMENT]

April \_\_\_\_, 2005

To the Assuming Entities  
party to the Assumption Agreement  
(as defined below)

*Re: Indemnification Agreement in connection with the Assumption and Adoption of Obligations under Settlement and Purchase Agreement dated as of even date herewith (the "Assumption Agreement"; capitalized terms not otherwise defined herein shall have the meanings assigned to such terms in the Assumption Agreement.)*

Ladies and Gentlemen;

For good and valuable consideration, including but not limited to the assumption and adoption by the Assuming Entities of the obligations of Cheniere and CXY (as CXY is defined under the Crest Settlement Agreement) under the Crest Settlement Agreement, Cheniere hereby: (1) represents and warrants to each and all of the Assuming Entities that Freeport LNG Development, L.P., a Delaware limited partnership ("Freeport Partnership"), has assumed the "Royalty" (as defined in the Crest Settlement Agreement) payment obligation contained in and pursuant to Section 1.03(a) of the Crest Settlement Agreement for gas processed and produced at the LNG receiving and regasification facility on the Quintana Island site in or about Freeport, Texas (the "Freeport LNG Facility"); (2) agrees to indemnify and hold harmless each Assuming Entity and any and all successors and assigns thereof (including any purchaser or transferee from any Assuming Entity of assets constituting all or substantially all of the assets of any LNG facility that assumes and adopts the obligations of Cheniere and CXY under the Crest Settlement Agreement) from and against any and all costs, claims, actions, causes of action, demands, assessments, losses, liabilities, damages, judgments, settlements, penalties, expenses or obligations of any kind ("Claims") in any manner arising out of or in connection with the assumption and adoption by such Assuming Entity of the obligations of Cheniere and CXY under the Crest Settlement Agreement, including but not limited to any Claims relating to any Royalty amounts at any time not paid by Freeport Partnership and (3) represents and warrants that Cheniere and CXY are in compliance in all material respect with their obligations under the Crest Settlement Agreement and that no default thereunder has occurred or is continuing.

**It is the express intention of Cheniere and the Assuming Entities that each of the Assuming Entities and any and all successors and assigns thereof (including any purchaser or transferee from any Assuming Entity of assets constituting all or substantially all of the assets of any LNG facility that assumes and adopts the obligations of Cheniere and CXY under the Crest Settlement Agreement) shall be indemnified and held harmless from and against all Claims as to which indemnity is provided for hereunder notwithstanding that any such Claims arise out of or result from the ordinary, strict, sole or contributory negligence of such Assuming Entity and regardless of whether any other person is or is not also negligent. Cheniere and the Assuming Entities agree that this and the preceding sentence constitute a conspicuous notice.**

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This Indemnification Agreement shall be governed by, and construed in accordance with, the laws of the State of New York.

CHENIERE ENERGY, INC.

By: \_\_\_\_\_

Name: Don A. Turkleson

Title: Senior Vice President, Chief Financial Officer and  
Secretary



Waiver Request Letter

(see attached)



April 11, 2005

Societe Generale  
1221 Avenue of the Americas  
New York, NY 10020  
Attn: Robert Preminger

Re: Sabine Pass LNG, L.P. ("Sabine")

Gentlemen:

In connection with the acquisition by Cheniere Energy, Inc. ("Cheniere"), of an option to lease the Freeport LNG receiving terminal site in Freeport, Texas and the contemporaneous settlement of litigation previously initiated by Cheniere, Cheniere and its subsidiary CXY Corporation now known as Cheniere FLNG L.P., ("CXY") entered into a Settlement and Purchase Agreement dated as of June 14, 2001 ("Crest Settlement Agreement") with Crest Energy L.L.C., Crest Investment Company, ("Crest"), and Freeport LNG Terminal LLC. The Crest Settlement Agreement provides, among other things, for payment of a royalty to Crest ("Crest Royalty"). The Crest Royalty obligation is by its terms expressly subordinated to third party senior or project financing

Section 1.07 of the Crest Settlement Agreement requires Cheniere to cause its affiliates, joint ventures and subsidiaries that are involved in the LNG business, which would include Sabine, to assume and adopt the obligations of Cheniere and CXY under the Crest Settlement Agreement. In addition, Section 1.03(a) of the Crest Settlement Agreement requires that Cheniere and its subsidiaries, which would include Sabine, cause the Crest Royalty obligation to be binding on transferees or purchasers of equity interests in, or assets constituting all or substantially all of the assets of, any LNG facility.

Last month, Cheniere received communications from Crest's legal counsel asking that Cheniere confirm that it had satisfied the requirement of Section 1.07 of the Crest Settlement Agreement. To avoid a potential dispute with Crest, Cheniere proposes to proceed now to cause its affiliates, joint ventures and subsidiaries that are involved in the LNG business, including Sabine and its partners, to assume and adopt the obligations of Cheniere and CXY under the Crest Settlement Agreement as contemplated under Section 1.07 of the Crest Settlement Agreement. In this connection, Cheniere will indemnify each of its subsidiaries, including Sabine, and their successors and assigns against any claim, liability or obligation as a result of such assumption and adoption of the Settlement Agreement obligations.

**CHENIERE ENERGY, INC.**

717 Texas Avenue, Suite 3100



Houston, Texas 77002



(713) 659-1361



Fax (713) 659-5459

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Mr. Robert Preminger  
April 11, 2005  
Page Two

The Credit Agreement dated February 25, 2005 (the "Credit Agreement") among Sabine, Societe Generale as Agent, HSBC Bank USA, National Association as Collateral Agent and the Lenders party thereto and the Security Documents (as defined in the Credit Agreement) contain covenants and other provisions that may need to be waived or amended in order for Sabine to enter into the proposed assumption and adoption agreement. Because of this, Sabine requests a consent and waiver under the Credit Agreement and the Security Documents expressly permitting Sabine and its partners to enter into the proposed assumption and adoption without the need for execution of Ancillary Documents (as defined in the Credit Agreement) as well as modifications to the Security Documents so that they comply with Section 1.03(a) of the Settlement Agreement.

Very truly yours,

Sabine Pass LNG, L.P

By: \_\_\_\_\_  
Name: Graham A. McArthur  
Title: Treasurer

**CONSENT AND WAIVER NO.3  
TO CREDIT AGREEMENT**

This CONSENT AND WAIVER NO. 3 TO CREDIT AGREEMENT (this "Consent and Waiver"), dated as of April 25, 2005, is made among Sabine Pass LNG, L.P., a Delaware limited partnership (the "Borrower"), Société Générale, in its capacity as administrative agent for the Lenders (the "Agent"), HSBC Bank USA, National Association, in its capacity as collateral agent for the Lenders (the "Collateral Agent") and the Lenders party to the Credit Agreement (as defined below).

WITNESSETH

WHEREAS, the Borrower, the Agent and the Collateral Agent are party to a Credit Agreement dated as of February 25, 2005 (as amended, modified and supplemented and in effect from time to time, the "Credit Agreement"), pursuant to which the lenders from time to time party thereto (the "Lenders") have agreed to make loans to the Borrower in an aggregate principal amount of \$822,000,000;

WHEREAS, the Borrower and Bechtel Corporation (the "EPC Contractor") have entered into an Engineering, Procurement and Construction Agreement (the "EPC Contract") relating to the Project;

WHEREAS, the Borrower desires to amend certain provision of Attachment EE to the EPC Contract in order to reflect the Tank Subcontractor October 2004 updated material pricing proposal to the EPC Contractor; and

WHEREAS, the Borrower has requested that the Lenders consent to the Borrower entering into Change Order SP/BE-006 (the "Change Order"), attached hereto as Exhibit B, to effect the necessary amendments to Attachment EE to the EPC Contract, as more fully described in the waiver request letter (the "Waiver Request Letter") attached hereto as Exhibit A.

NOW THEREFORE, in consideration of the mutual agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

Section 1. Definitions. Capitalized terms (including those used in the preamble and the recitals above) not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement and the principles of interpretation set forth therein shall apply herein.

Section 2. Consent and Waiver. Subject to the satisfaction of the conditions precedent set forth in Section 3 hereof, the Agent, the Collateral Agent and the Lenders hereby consent to the Borrower entering into the Change Order. In addition, the Lenders hereby waive (1) compliance with Section 8.20(e) of the Credit Agreement solely to the extent necessary to

Consent and Waiver No. 3

permit the Borrower to enter into the Change Order and (ii) any Defaults or Events of Default arising directly as a result of the Borrower's entering into the Change Order.

Section 3. Conditions Precedent. This Consent and Waiver shall become effective on the date on which the Agent has received counterparts of this Consent and Waiver duly executed and delivered by each of the Borrower, the Agent, the Collateral Agent and the Majority Lenders.

Section 4. Miscellaneous.

(a) Limited Waiver.

(i) Except as expressly consented to or waived hereby, all of the representations, warranties, terms, covenants, conditions and other provisions of the Credit Agreement and the other Financing Documents shall remain unchanged and unwaived and shall continue to be and shall remain in full force and effect in accordance with their respective terms.

(ii) The consent and waivers set forth herein shall be limited precisely as provided for herein to the provisions expressly consented to or waived and shall not be deemed to be a waiver of any right, power or remedy of any Lender, the Agent or the Collateral Agent under, or a waiver of, consent to or modification of any other term or provision of the Credit Agreement, any other Financing Document referred to therein or herein or of any transaction or further or future action on the part of the Borrower which would require the consent of the Lenders under the Credit Agreement or any of the other Financing Documents.

(iii) Except as provided in Section 2 hereof, nothing contained in this Consent and Waiver shall abrogate, prejudice, diminish or otherwise affect any powers, rights, remedies or obligations of any Person arising before the date of this Consent and Waiver.

(b) Financing Document. This Consent and Waiver shall be deemed to be a Financing Document referred to in the Credit Agreement and shall be construed, administered and applied in accordance with the terms and provisions thereof.

(c) Counterparts; Integration; Effectiveness. This Consent and Waiver may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any parties hereto may execute this Consent and Waiver by signing any such counterpart.

(d) Costs and Expenses. The Borrower agrees to pay and reimburse the Agent for all its reasonable costs and out-of-pocket expenses (including, without limitation, the reasonable fees and expenses of counsel to the Agent and the Lenders) incurred in connection with the preparation and delivery of this Consent and Waiver and such other related documents.

Consent and Waiver No. 3

(e) Governing Law. **THIS CONSENT AND WAIVER AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.**

[Signature Pages Follow]

Consent and Waiver No. 3

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IN WITNESS WHEREOF, the parties hereto have caused this Consent and Waiver to be duly executed and delivered as of the day and year first above written.

SABINE PASS LNG, L.P.,  
as Borrower

By: Sabine Pass LNG – GP, Inc.,  
its General Partner

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

Address for Notices:

717 Texas Avenue, Suite 3100  
Houston, TX 77002  
Attn: Treasurer

Consent and Waiver No. 3

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SOCIÉTÉ GÉNÉRALE,  
as Agent

By: /s/ Robert J. Preminger  
Name: Robert J. Preminger  
Title: Director

Address for Notices:

1221 Avenue of the Americas  
New York, NY 10020  
Attn: Robert Preminger

Consent and Waiver No. 3



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HSBC BANK USA, NATIONAL ASSOCIATION,  
as Collateral Agent

By: /s/ Deirdra N. Ross  
Name: Deirdra N. Ross  
Title: Assistant Vice President

Address for Notices:

HSBC Bank USA, National Association  
452 Fifth Avenue  
New York, NY 10018  
Attn: Corporate Trust

With a copy to:

DLA Piper Rudnick Gray Cary US LLP  
One Liberty Place  
1650 Market Street, Suite 4900  
Philadelphia, PA 19103  
Attn: Peter Tucci, Esq.

Consent and Waiver No. 3

Waiver Request Letter

(see attached)

Consent and Waiver No. 3

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April 12, 2005

Societe Generale  
1221 Avenue of the Americas  
New York, NY 10020  
Attn: Robert Preminger

Re: Sabine Pass LNG, L.P. ("Sabine")  
Credit Agreement Dated February 25, 2005

Gentlemen:

Pursuant to section 8.20(e) of the above referenced Agreement, Sabine is hereby requesting the consent of the Majority Lenders to make the following modifications to Attachment EE to the EPC Contract:

- Amend the price index start date in Sections 3.2 through 3.8 from October 2004 to January 2004. This change will result in a price escalation of \$17,715,027.17 which is within the permitted Adjustment Amount. Stone & Webster's review of the calculations will be sent directly to you.
- Amend the indexes used in the Tank Subcontract Materials Adjustment for Sections 3.3 through 3.8 so that the index is established on the day the tank subcontractor receives (ex-mill) the material rather than using a best fit linear regression straight line of values of the applicable index from October 2004 through the Exercise Date.
- Add Section 3.10 to establish invoicing and payment guidelines for the Tank Subcontract Materials Adjustment.

Please note that the pricing proposal quoted by the tank subcontractor for the 9% nickel steel adjustment is only valid through April 26, 2005. Accordingly, we request consent to these proposed changes to Attachment EE no later than April 22, 2005 to allow adequate time to place the 9% nickel steel order.

Very truly yours,

Sabine Pass LNG, L.P

By: \_\_\_\_\_  
Name: Graham A. McArthur  
Title: Treasurer

**CHENIERE ENERGY, INC.**  
**717 Texas Avenue, Suite 3100 • Houston, Texas 77002 • (713) 659-1361 • Fax (713) 659-5459**

Change Order

(see attached)

**DRAFT**  
**SCHEDULE D-1**  
**CHANGE ORDER FORM**

**PROJECT NAME:** Sabine Pass LNG Receiving,  
Storage and Regasification Terminal

**CHANGE ORDER NUMBER:** SP/BE-00x

**OWNER:** Sabine Pass LNG, L.P.

**DATE OF CHANGE ORDER:** April 1, 2005

**CONTRACTOR:** Bechtel Corporation

**DATE OF AGREEMENT:** December 18, 2004

**The Agreement between the Parties listed above is changed as follows:**

Attachment EE of the Agreement is replaced by the attached Attachment EE, Rev 1. All references in the Agreement to Attachment EE shall be understood to refer to Attachment EE, Rev I.

**Adjustment to Contract Price**

The original Contract Price was	\$ 646,936,000
Net change by previously authorized Change Orders (#SP/BE-002)	\$ 1,500,000
The Contract Price prior to this Change Order was	\$ 648,436,000
The Contract Price will be unchanged by this Change Order	\$ 0
The new Contract Price including this Change Order will be	\$ 648,436,000

**Adjustment to dates in Project Schedule**

The following dates are modified (*list all dates modified; insert N/A if no dates modified*):

The Target Bonus Date will be unchanged.

The Target Bonus Date as of the date of this Change Order therefore is 1,095 Days following NTP

The Guaranteed Substantial Completion Date will be unchanged.

The Guaranteed Substantial Completion Date as of the date of this Change Order therefore is 1,247 Days following NTP

Adjustment to other Changed Criteria: None

Adjustment to Minimum Acceptance Criteria: None

Adjustment to Performance Guarantees: None

Adjustment to Design Basis: None

**Other adjustments to liability or obligation of Contractor or Owner under the Agreement**

1. In addition to the due Monthly Payments, Milestone Payments, and Reimbursable Costs described in the Agreement, Contractor shall invoice the applicable Tank Subcontract Materials Adjustment in the Month immediately following the Month in which the materials are received (ex-mill or ex-works) by the Tank Subcontractor, and Owner shall make payment to Contractor in accordance with Section 7.2E of the Agreement.
2. To provide clarification, Owner and Contractor have jointly performed the sample calculations shown in Table 1 below using the formulas set forth in Sections 3.2 through 3.9 of Attachment EE Rev 1. The total and component amounts shown in Table 1 are the cost reimbursable material escalation amounts that would be due and payable to Contractor for the period from January 2004 through October 2004, subject to shipment of all affected materials. October 2004 was selected since the LNG Tank Subcontractor had initially updated its proposal to the Contractor as of that date. This escalation amount is not currently included in the Contract Price from Contractor to Owner.

**Table 1. Sample Calculation Through October 2004**

		Oct 04	Oct 04
		Index	Escalation
3.2	9% Ni Steel	13440	4,739,797.00
3.3	Rebar & Anchors	520	245,313.40
3.4	Tank Stainless Steel	3480	205,097.28
3.5	Aluminum	137	310,857.79
3.6	Carbon Steel	744	8,368,940.93
3.7	Structural Steel	574	2,582,096.83
3.8	Piping & Valves	3480	1,262,923.94
	Total Escalation to October 2004		\$17,715,027.17

Owner, Contractor, and the Tank Subcontractor have also jointly developed a package, as per Contractor letter to Owner dated March 17, 2005, which provides supporting details and adequately documents the formulas for the Tank Subcontract

Materials Adjustments shown in Attachment EE, Rev. 1. Contractor will confirm quantities provided by Tank Subcontractor for rebar by September 2005 and will confirm remaining quantities provided by Tank Subcontractor for structural steel by December 2005. All other quantities have been provided to Owner.

Attachment EE Rev 1 and the Change Order will prevail should any inconsistency occur between Contractor letter of March 17, 2005, and Attachment EE Rev 1 and the Change Order.

Upon execution of this Change Order by Owner and Contractor, the above-referenced change shall become a valid and binding part of the original Agreement without exception or qualification, unless noted in this Change Order. Except as modified by this and any previously issued Change Orders, all other terms and conditions of the Agreement shall remain in full force and effect. This Change Order is executed by each of the Parties' duly authorized representatives.

\_\_\_\_\_  
\* Charif Souki

Chairman

\_\_\_\_\_  
Contractor

\_\_\_\_\_  
Name

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date of Signing

\_\_\_\_\_  
Date of Signing

\_\_\_\_\_  
\* Keith Meyer

President

\_\_\_\_\_  
Date of Signing

\_\_\_\_\_  
\* Ed Lehotsky

Owner Representative

\_\_\_\_\_  
Date of Signing

\* Required Owner signature

**STAINLESS STEEL ADJUSTMENT, TANK SUBCONTRACT MATERIALS  
ADJUSTMENT, MARINE LOADING ARM ADJUSTMENT AND BOG COMPRESSOR  
ADJUSTMENT**

**1. STAINLESS STEEL ADJUSTMENT**

**1.1 Stainless Steel Adjustment**

The Stainless Steel Adjustment, which is used to account for the changes in commodity pricing of 304L stainless steel pipe, fittings and flanges as described in Section 7.1D of the Agreement, shall be determined in accordance with this Section 1. All calculations shall be rounded to four (4) decimal places.

**1.2 Step 1, Determine Base Metal Price at NTP**

$Ni_{base}$  = nickel base metal price

$Cr_{base}$  = chromium base metal price

$Fe_{base}$  = iron base metal price

The above  $Ni_{base}$ ,  $Cr_{base}$  and  $Fe_{base}$  shall be as published by North American Stainless at website <http://www.northamericanstainless.com>, using the commercial information/flat alloy surcharge and the averages cited for two (2) Months prior to NTP. For example, if the NTP is given in March 2005, the Monthly average for January 2005 shall be used.

**1.3 Step 2, Calculate Alloy Surcharge for Pipe “ $Pipe_{sch}$ ” at NTP**

$$Pipe_{sch} = 0.096*(Ni_{base} - 2.0) + 0.216*(Cr_{base} - 0.35) + 0.8388*(Fe_{base} - 0.0625)$$

**1.4 Step 3, Determine Base Price for Pipe at NTP**

The base price for stainless pipe at NTP (“ $Pipe_{base}$ ”) shall be the pricing index “*Stainless Steel Pipe & Tube – 4-1/2 in. to 16 in.*” for the Month in which the NTP is issued, as specified in the pricing index database maintained by Preston Pipe & Tube Report, expressed in U.S. Dollars per lb.

**1.5 Step 4, Determine Piping Component of Adjustment**

$$Pipe_{NTP} = U.S.\$10,860,880 * [(Pipe_{sch} + Pipe_{base}) / 1.4635] - 1$$

**1.6 Step 5, Calculate Alloy Surcharge for Fittings at NTP**

$$Ftg_{sch} = 1.0836 * Pipe_{sch}$$



### 1.7 Step 6, Determine Fitting Component of Adjustment

$$Ftg_{NTP} = U.S.\$3,100,000 * [(Ftg_{sch} + Pipe_{base}) / 1.4938] - 1]$$

### 1.8 Step 7, Calculate Stainless Steel Adjustment

In accordance with Section 7.1D of the Agreement, the Contract Price shall be adjusted by the Stainless Steel Adjustment (“ $SS_{adj}$ ”), which shall be determined as follows:

$$SS_{adj} \text{ (in U.S.\$)} = Pipe_{NTP} + Ftg_{NTP}$$

The Stainless Steel Adjustment shall be paid as an adjustment to the applicable Milestone(s) in Schedule C-1.

## 2. MARINE LOADING ARM ADJUSTMENT AND BOG COMPRESSOR ADJUSTMENT

### 2.1 Introduction

The Marine Loading Arm Adjustment (“ $Arm_{adj}$ ”) and BOG Compressor Adjustment (“ $BOG_{adj}$ ”), which are used to take into account currency fluctuations, shall be determined in accordance with this Section 2. All calculations shall be rounded to four (4) decimal places. All currency exchange rates shall be determined using *FxConverter* on website <http://www.oanda.com/convert/classic>.

In accordance with Section 7.1F of the Agreement, the Contract Price shall be adjusted by the Marine Loading Arm Adjustment, which shall be determined as follows:

$$Arm_{adj} \text{ (in U.S.\$)} = U.S.\$6,289,705 * ((0.79177 / Euro_{NTP}) - 1)$$

Where:

$Euro_{NTP}$  = The currency exchange rate for Euros compared to U.S.\$ (Euro/U.S.\$), defined as the Interbank rate, median price (ask) for the Day of the Notice to Proceed.

In accordance with Section 7.1 G of the Agreement, the Contract Price shall be adjusted by the BOG Compressor Adjustment, which shall be determined as follows:

$$BOG_{adj} \text{ (in U.S.\$)} = U.S.\$8,314,332 * ((107.35 / Yen_{NTP}) - 1)$$

Where:

$Yen_{NTP}$  = The currency exchange rate for Japanese Yen compared to U.S.\$ (Yen/U.S.\$) defined as the Interbank rate, median price (ask) for the Day of the Notice to Proceed.

The Marine Loading Arm and BOG Compressor Adjustment shall be paid as an adjustment to the applicable Milestone(s) in Schedule C-1.

### **3. TANK SUBCONTRACT MATERIALS ADJUSTMENT**

#### **3.1 Adjustment Date**

The Tank Subcontract Materials Adjustment, which is used to account for changes in commodity pricing of certain materials used in the Tanks, shall be determined in accordance with this Section 3.

The Adjustment Date for determining the Tank Subcontract Materials Adjustment shall be the date as advised in writing to Owner by the Tank Subcontractor through Contractor. The Adjustment Date for Section 3.2 is the Day that Tank Subcontractor places a purchase order for 9% Nickel Steel. The "Adjustment Date" for Sections 3.3 through 3.8 shall be the respective Days the Tank Subcontractor receives (ex-mill) the materials, or portions thereof, listed in Sections 3.3 through 3.8 hereunder. If the Tank Subcontractor receives the materials in partial shipments, the formulas in Sections 3.3 through 3.8 will be adjusted by using the corresponding percentage of material received.

Except for SSC<sub>1</sub> defined in Section 3.4 hereunder, the "Purchasing Magazine Business Information Center Price Index" (available through subscription at [www.Purchasing.com](http://www.Purchasing.com)) shall be the applicable Purchasing Magazine Business Information Center Indices defined in Sections 3.2 through 3.8 below available on the Adjustment Date.

#### **3.2 Adjustment for 9% Nickel Steel Materials ("9Ni<sub>adj</sub>")**

$$9Ni_{adj} = \text{U.S. } \$4,739,797 + (4644 * ((0.09 * N_i) - 1209.6))$$

Where "N<sub>i</sub>" is the 3-Month Bid price of nickel (in U.S.\$/metric ton), as published in the Wall Street Journal on the Day of the Adjustment Date

If Owner does not issue the NTP to Contractor pursuant to 5.2.B of the Agreement on or before April 26, 2005, then the formula set forth in this Section 3.2 will be renegotiated.

#### **3.3 Adjustment for Rebar and Anchors ("Rebar<sub>adj</sub>")**

$$\text{Rebar}_{adj} = \text{U.S. } \$551,955 * ((R_i / 360) - 1)$$

Where "R<sub>i</sub>" is the Purchasing Magazine Business Information Center Price Index for "Steel, reinforcing bar (PURPRI50D208)" for the Month of the Adjustment Date.

#### **3.4 Adjustment for Tank Stainless Steel ("TankSS<sub>adj</sub>")**

$$\text{TankSS}_{adj} = \text{U.S. } \$524,846 * (((S_i + SSC_1) / 2502.2) - 1)$$

Where:

$S_1$  is the *Purchasing Magazine Business Information Center Price Index* for “Stainless steel, hot rolled plate (PURPRI50D210)”, for the Month of the Adjustment Date; and

$SSC_1$  is the current Allegheny Ludlum “Raw Material Surcharge for 304/304L Stainless Steel”, as published on website <http://www.alleghenyludlum.com>, for the Month of the Adjustment Date.

### 3.5 Adjustment for Aluminum Materials (“ $Al_{adj}$ ”)

$$Al_{adj} = \text{U.S.}\$1,266,458 * ((Al_1/110) - 1)$$

Where “ $Al_1$ ” is the *Purchasing Magazine Business Information Center Price Index* for Aluminum, grade 3003 common alloy sheet (PURPRI50D303), for the Month of the Adjustment Date.

### 3.6 Adjustment for Carbon Steel Materials (“ $CS_{adj}$ ”)

$$CS_{adj} = \text{U.S.}\$8,279,434 * ((CS_1/370) - 1)$$

Where “ $CS_1$ ” is the *Purchasing Magazine Business Information Center Price Index* for Steel, hot rolled plate (PURPRI50D204) for the Month of the Adjustment Date.

### 3.7 Adjustment for Structural Steel Materials (“ $ST_{adj}$ ”)

$$ST_{adj} = \text{U.S.}\$5,259,827 * ((ST_1/385) - 1)$$

Where “ $ST_1$ ” is the *Purchasing Magazine Business Information Center Price Index* for Steel, wide-flange beams (PURPRI50D206) for the Month of the Adjustment Date.

### 3.8 Adjustment for Piping and Valves (“ $PV_{adj}$ ”)

$$PV_{adj} = \text{U.S.}\$6,463,670 * 0.5 * [(S_1 + SSC_1) / 2502.2] - 1]$$

Where  $S_1$  and  $SSC_1$  are as specified in Section 3.4 above.

### 3.9 Tank Subcontract Materials Adjustment

In accordance with Section 7.1E, the Contract Price shall be adjusted by the Tank Subcontract Materials Adjustment (“ $Tank_{adj}$ ”), which shall be determined as follows:

$$Tank_{adj} \text{ (in U.S.\$)} = Rebar_{adj} + 9Ni_{adj} + TankSS_{adj} + Al_{adj} + CS_{adj} + ST_{adj} + PV_{adj}$$

### 3.10 Invoicing and Support Documentation

The Parties agree that the Adjustments calculated in accordance with this Section 3 for materials used in the Tanks shall be invoiced in the Month immediately following the Month in which the materials are received (ex-mill or ex-works) by the Tank Subcontractor. Contractor’s Invoice for

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the Tank Subcontract Material Adjustments shall include for each of the materials in Section 3.2 through 3.8 the date of the receipt of the materials, the percentage of materials received and the applicable Index for the Adjustment Date. Reasonably sufficient supporting documentation sufficient for the approval of the Tank Subcontract Materials Adjustments by Owner shall consist of: a) Contractor's Invoice, b) Tank Subcontractor's Invoice, c) total quantities, d) percentage received based on actual weight or weighting, e) bill of lading or other document evidencing date of receipt of materials, f) calculation of applicable escalation, and g) index in effect as of date materials received, all of which shall be made available to Owner to verify the materials adjustment calculation and the partial materials shipment percentage, if applicable. Contractor will provide to Owner updated projections of material shipment dates during the materials delivery phase.

The Contract Price shall be adjusted by Change Order every six (6) Months (or such other earlier period as requested by Owner) to account for the Tank Subcontract Material Adjustments occurring during such six (6) Month period, with the first such Change Order occurring in the second Month following NTP and with the last Change Order occurring in the Month following the last Tank Subcontract Material Adjustment.

**CONSENT AND WAIVER NO. 4  
TO CREDIT AGREEMENT**

This CONSENT AND WAIVER NO. 4 TO CREDIT AGREEMENT (this "Consent and Waiver"), dated as of May 31, 2005, is made among Sabine Pass LNG, L.P., a Delaware limited partnership (the "Borrower"), Société Générale, in its capacity as administrative agent for the Lenders (the "Agent") and HSBC Bank USA, National Association, in its capacity as collateral agent for the Lenders (the "Collateral Agent").

WITNESSETH

WHEREAS, the Borrower, the Agent and the Collateral Agent are party to a Credit Agreement dated as of February 25, 2005 (as amended, modified and supplemented and in effect from time to time, the "Credit Agreement"), pursuant to which the lenders from time to time party thereto (the "Lenders") have agreed to make loans to the Borrower in an aggregate principal amount of \$822,000,000;

WHEREAS, the Borrower has been unable to procure the levels of insurance required pursuant to the EPC Contract and Credit Agreement on commercially reasonable terms;

WHEREAS, pursuant to, and as more fully described in, the waiver request letter dated as of May 18, 2005 (the "Waiver Request Letter") attached hereto as Exhibit A, the Borrower has requested that the Lenders (a) consent to a modification to the EPC Contract and a waiver of certain provisions of the Credit Agreement to modify the required insurance coverages, and (b) consent to a Change Order to increase the contract price of the EPC contract by an amount not to exceed \$6,900,000 to cover the increased costs of the contemplated insurance;

NOW THEREFORE, in consideration of the mutual agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

Section 1. Definitions. Capitalized terms (including those used in the preamble and the recitals above) not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement and the principles of interpretation set forth therein shall apply herein.

Section 2. Consent. The Agent, acting with the consent of the Majority Lenders, hereby consents to the Borrower (a) entering into a modification of Attachment O to the EPC Contract solely to the extent necessary to effect the changes to Attachment O requested in the Waiver Request Letter, and (b) entering into a Change Order to increase the contract price of the EPC Contract by an amount not to exceed \$6,900,000 to cover the increased costs of the contemplated insurance coverages above the current insurance allowance.

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Section 3. Waiver. The Agent, acting with the consent of the Majority Lenders, hereby waives compliance with (a) Schedule 8.05(C)(6) of the Credit Agreement solely to the extent necessary to permit the Borrower to obtain pollution liability insurance with a term of no less than 41 months and (b) Schedule 8.05(F)(4)(a) of the Credit Agreement solely to the extent necessary to permit the Borrower to obtain delayed startup and strikes, riots and civil commotion coverages with term aggregate limits, in each case as set forth in the Waiver Request Letter.

Section 4. Effectiveness. This Consent and Waiver shall become effective upon receipt by the Agent of the counterparts of this Consent and Waiver duly executed and delivered by the Borrower and receipt of approval of the Majority Lenders.

Section 5. Miscellaneous.

(a) Limited Waiver.

(i) Except as expressly consented to or waived hereby, all of the representations, warranties, terms, covenants, conditions and other provisions of the Credit Agreement and the other Financing Documents shall remain unchanged and unwaived and shall continue to be and shall remain in full force and effect in accordance with their respective terms.

(ii) The consents and waivers set forth herein shall be limited precisely as provided for herein to the provisions expressly consented to or waived herein and shall not be deemed to be a waiver of any right, power or remedy of any Lender, the Agent or the Collateral Agent under, or a waiver of, consent to, or modification of, any other term or provision of the Credit Agreement, any other Financing Document referred to therein or herein or of any transaction or further or future action on the part of the Borrower which would require the consent of the Lenders under the Credit Agreement or any of the other Financing Documents.

(iii) Except as provided in Sections 2 and 3 hereof, nothing contained in this Consent and Waiver shall abrogate, prejudice, diminish or otherwise affect any powers, rights, remedies or obligations of any Person arising before the date of this Consent and Waiver.

(b) Financing Document. This Consent and Waiver shall be deemed to be a Financing Document referred to in the Credit Agreement and shall be construed, administered and applied in accordance with the terms and provisions thereof.

(c) Counterparts; Integration; Effectiveness. This Consent and Waiver may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any parties hereto may execute this Consent and Waiver by signing any such counterpart.

(d) Costs and Expenses. The Borrower agrees to pay and reimburse the Agent for all its reasonable costs and out-of-pocket expenses (including, without limitation, the reasonable fees and expenses of counsel to the Agent and the Lenders) incurred in connection with the preparation and delivery of this Consent and Waiver and such other related documents.

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(c) Governing Law. THIS CONSENT AND WAIVER AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

[Signature Pages Follow]

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IN WITNESS WHEREOF, the parties hereto have caused this Consent and Waiver to be duly executed and delivered as of the day and year first above written.

SABINE PASS LNG, L.P.,  
as Borrower

By: Sabine Pass LNG—GP, Inc.,  
its General Partner

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

Address for Notices:

717 Texas Avenue, Suite 3100  
Houston, TX 77002  
Attn: Treasurer



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SOCIÉTÉ GÉNÉRALE,  
as Agent

By: /s/ Deepa Dadiani  
Name: Deepa Dadiani  
Title: Vice President

Address for Notices:

1221 Avenue of the Americas  
New York, NY 10020  
Attn: Robert Preminger

Appendix A

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HSBC BANK USA, NATIONAL ASSOCIATION, as Collateral  
Agent

By: /s/ Deirdra N. Ross

Name: Deirdra N. Ross

Title: Assistant Vice President

Address for Notices:

HSBC Bank USA, National Association  
452 Fifth Avenue  
New York, NY 10018  
Attn: Corporate Trust

With a copy to:

DLA Piper Rudnick Gray Cary US LLP  
One Liberty Place  
1650 Market Street, Suite 4900  
Philadelphia, PA 19103  
Attn: Peter Tucci, Esq.

Waiver Request Letter

(see attached)



May 18, 2005

Societe Generale  
1221 Avenue of the Americas  
New York, NY 10020  
Attn: Robert Preminger

**Re: Sabine Pass LNG, L.P. ("Sabine")  
Credit Agreement Dated February 25, 2005**

Gentlemen:

Sabine and Bechtel Corporation have been negotiating with various insurance markets to place the insurance coverages required by both the Credit Agreement and the EPC Contract. The EPC Contract includes an insurance allowance of \$5,600,000 to cover the cost of the insurance. We have not been able to place all of the required coverages due to the commercial unfeasibility of some of the insurance.

Consequently, both Attachment O to the EPC Contract and Schedule 8.05 of the Credit Agreement require modifications to reflect the insurance coverages that we are seeking Lender approval to put in place.

Therefore, pursuant to Section 8.20(a)(i) of the above referenced Agreement, Sabine is hereby requesting the consent of the Majority Lenders to make the following modifications:

**(1) Attachment O to the EPC Contract**

**Section 1A. 9(b) – Contractor’s Insurance – Builder’s Risk Insurance – Additional Coverages**

Attachment O requires that the builder’s risk policy shall insure the cost of preventative measures to reduce or prevent a loss (sue & labor) in an amount not less than \$10 million.

Sabine requests this limit be reduced to \$5 million. Sabine is of the opinion that a \$5 million limit is reasonable for a project of this nature. It should be noted that the lenders have already consented to a \$5 million sublimit in Schedule 8.05 to the Credit Agreement.

**Section 1A. 9(e) – Contractor’s Insurance – Builder’s Risk Insurance – Sum Insured**

Attachment O requires full limits for (i) flood and windstorm, and (ii) strikes riots and civil commotion. The current builder’s risk program negotiated by Bechtel has \$100 million sub-

**CHENIERE ENERGY, INC.**

717 Texas Avenue, Suite 3100



Houston, Texas 77002



(713) 659-1361



Fax (713) 659-5459

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limits for both coverages under Section 1 (property damage) but no sub-limits of the Delayed Start-up Insurance (DSU).

Sabine requests that the following changes be made:

1. Wind and flood coverage be modified to \$400 million. It is our intent to purchase an excess wind and flood policy which would provide an additional \$300 million of aggregate limits in excess of the current \$100 million limits provided for in the builder's risk program. It also should be noted the base builder's risk policy allows for one reinstatement of the \$100 million limit at a fixed price.

Sabine is comfortable with this reduction in limit given that the Komposit Risk Engineering Review derived a total probable maximum loss, including both physical and consequential losses, of \$173 million. It should be noted that Bechtel still retains the risk of loss for this exposure.

2. Strikes, riots and civil commotion coverage be modified to \$100 million. Bechtel met with a lot of resistance from the insurance markets when they attempted to get full limits for this exposure. Sabine is comfortable with this reduction in limit given the actual exposures that the facility is exposed to. The facility has received very positive local support from all levels of Louisiana government from the Cameron parish police jury up to the governor of the state. Komposit evaluated this risk as moderate. They point out that there is a high concentration of oil refineries and petrochemical plants in the area, and therefore do not anticipate significant local opposition to the project. Neither Sabine nor Bechtel anticipates any significant labor issues arising during the construction of the facility. It should be noted that Sabine retains the risk of loss for this exposure.

#### Section 1A. 9(f) – Contractor's Insurance – Builder's Risk Insurance – Deductible

##### Wind and Flood

Pursuant to Attachment O, flood and windstorm is subject to a deductible of 2% of values at risk, subject to a minimum deductible of \$1 million and a maximum deductible of \$2 million. The current builder's risk policy has a deductible of 2% of values at risk, subject to a minimum deductible of \$1 million but subject to a maximum deductible of \$5 million. Given the current deductible is 2% of the values at risk, to a maximum of \$5 million, there is no exposure this year given the values at the site will not exceed \$100 million until next year.

Sabine requests that the maximum deductible permitted be changed to \$5 million. It should be noted that the lenders have already consented to a \$10 million maximum deductible in Schedule 8.05 to the Credit Agreement. It should further be noted that Sabine bears the risk of loss between \$2 million and \$5 million.

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#### Wet works

Attachment O requires a wet works deductible of no more than \$500,000. The current form of the builder's risk policy has a \$1 million deductible for wet works. Sabine requests that this deductible be increased to \$1 million. It should be noted that the lenders have consented to a \$1,000,000 deductible in Schedule 8.05 of the Credit Agreement. The only wet work that is going to be performed is the construction of the jetties. The subcontractor who is going to be working on the jetties is assuming some of the risk of loss. Sabine is of the opinion that a deductible of \$1 million is reasonable for a project of this magnitude.

#### Section 1A, 10 – Contractor's Insurance – Builder's Risk Delayed Startup Insurance

Attachment O requires a deductible of not greater than 60 days. The current form of the builder's risk policy contains a 60 day deductible for most losses, but a 90 day deductible for wind and flood. The insurance carriers will not agree to lower this deductible to 60 days. However, for an additional premium of approximately \$250,000 they are willing to lower the wind and flood DSU deductible to 75 days. Sabine requests that the required DSU deductible for wind and flood be increased to 75 days as a 60 day deductible is not currently reasonably and commercially feasible in the marketplace.

Additionally, Attachment O stipulates that the DSU insurance cover losses sustained when access to the site is prevented due to an insured peril at premises in the vicinity of the site or losses sustained due to the accidental interruption or failure, caused by an insured peril, of supplies of electricity, gas, sewers, water or telecommunication up to the terminal point of the utility supplier with the site, in both cases for a period of not less than 60 days. The current form of the builder's risk insurance contains 30 days coverage.

These coverages do not begin until after the deductible period of 60 days. Sabine is of the opinion that 90 days (60 day deductible plus 30 days of insurance coverage) is an adequate period to restore access to the site, or utility supplies. Sabine requests that the required coverage periods be lowered to 30 days.

#### Section 1B – Time for Procuring and Maintaining Insurance

The builder's risk insurance is currently required to be in place no later than June 3, 2005. Sabine requests that the placement of the contemplated \$300 million aggregate limit for wind and flood in excess of the \$100 million coverage provided for in the main builders risk policy be extended to no later than May 15, 2006.

Sabine feels that this request is reasonable given the fact that during the 2005 hurricane season, only soil preparation work is being performed. Therefore, the \$100 million limit already in place is adequate.

#### Section 6 – Miscellaneous Policy Provisions

Attachment O prohibits any annual or term aggregate limits of liability except for the perils of flood, earth movement and windstorm. Sabine requests that the delayed startup and the Strikes,

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riots and civil commotion coverages be permitted to have a term aggregate limit to enable them to be procured in a commercially feasible manner.

Additional Coverages Required by the Lenders

Schedule 8.05 of the Credit Agreement, requires Marine General Liability Insurance and Pollution Liability Insurance. Bechtel Corporation is placing this insurance on behalf of Sabine. Consequently, these coverages need to be added to Attachment O.

***(2) Increase the contract price of the EPC Contract***

Sabine is hereby requesting the consent of the Majority Lenders to enter into a change order to increase the contract price of the EPC Contract by an amount not to exceed \$6,900,000 to cover the increased costs of the contemplated insurance coverages above the current insurance allowance of \$5,600,000. This increase in cost will be covered by unallocated contingencies already included in the approved Construction Budget and Schedule.

In addition to the above requested modifications to Attachment O, Sabine also requests the following modifications to Schedule 8.05 of the Credit Agreement:

Section C(6) – Pollution Liability Insurance

Schedule 8.05 requires a 5 year policy. Sabine requests that this requirement be changed to a 48 month term, to be more in line with the other insurance coverages being put into place pursuant to Attachment O.

Section F(4)(a) – Miscellaneous Policy Provisions

Schedule 8.05 does not permit any annual or term limits of liability except for the perils of flood, windstorm, earth movement and terrorism. Sabine requests that the delayed startup and strikes, riots and civil commotion coverages be permitted to have term aggregate limits to enable the coverages to be procured in a commercially feasible manner. This request is also necessary due to the contemplated change in Attachment O requesting the same modification.

Sincerely,

SABINE PASS LNG, L.P.

By: \_\_\_\_\_  
Graham A. McArthur  
Its: Treasurer

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

I, Charif Souki, certify that:

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

Date: August 5, 2005

/s/ Charif Souki

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Charif Souki  
Chief Executive Officer



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

I, Don A. Turkleson, certify that:

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

Date: August 5, 2005

/s/ Don A. Turkleson

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Don A. Turkleson  
Chief Financial Officer

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

In connection with the quarterly report of Cheniere Energy, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charif Souki, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

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

/s/ Charif Souki

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Charif Souki  
Chief Executive Officer  
August 5, 2005

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

In connection with the quarterly report of Cheniere Energy, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Don A. Turkleson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

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

/s/ Don A. Turkleson

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Don A. Turkleson  
Chief Financial Officer  
August 5, 2005