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

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2007**

**OR**

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

**Commission File Number 0-32455**

**Far East Energy Corporation**

(Exact Name of Registrant as Specified in Its Charter)

Nevada

88-0459590

(State or other jurisdiction of incorporation or organization)

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

**363 N. Sam Houston Parkway East, Suite 380, Houston, Texas 77060**

(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code: **(832) 598-0470**

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of October 31, 2007.

**Title of each class**

Common Stock, par value \$0.001 per share

**Number of shares**

136,568,002

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**FAR EAST ENERGY CORPORATION**  
**(A Development Stage Company)**  
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# **PART I. FINANCIAL INFORMATION**

## **ITEM 1. FINANCIAL STATEMENTS**

### **FAR EAST ENERGY CORPORATION (A Development Stage Company) CONSOLIDATED BALANCE SHEETS**

	<b>September 30, 2007 (unaudited)</b>	<b>December 31, 2006</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 20,369,000	\$ 20,501,000
Inventory	304,000	57,000
Prepaid expenses	106,000	217,000
Deposits	45,000	363,000
Other current assets	36,000	9,000
Total current assets	<u>20,860,000</u>	<u>21,147,000</u>
Property and equipment, net	30,876,000	24,507,000
Total assets	<u><u>\$ 51,736,000</u></u>	<u><u>\$ 45,654,000</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,078,000	\$ 3,943,000
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$0.001 par value, 500,000,000 shares authorized, none outstanding	-	-
Common stock, \$0.001 par value, 500,000,000 shares authorized, 136,178,002 and 123,767,342 issued and outstanding, respectively	136,000	124,000
Additional paid-in capital	94,032,000	77,599,000
Unearned compensation	(295,000)	-
Deficit accumulated during the development stage	(44,215,000)	(36,012,000)
Total stockholders' equity	<u>49,658,000</u>	<u>41,711,000</u>
Total liabilities and stockholders' equity	<u><u>\$ 51,736,000</u></u>	<u><u>\$ 45,654,000</u></u>

See the accompanying notes to consolidated financial statements.

**FAR EAST ENERGY CORPORATION**  
**(A Development Stage Company)**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>		<b>February 4, 2000</b>
	<b>September 30,</b>		<b>September 30,</b>		<b>(Inception)</b>
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>through</b>
					<b>September 30, 2007</b>
Operating revenues	\$ -	\$ -	\$ -	\$ -	\$ -
Operating expenses:					
Exploration costs	678,000	502,000	2,129,000	1,572,000	7,210,000
Lease operating expense	560,000	958,000	1,392,000	958,000	2,350,000
General and administrative	1,283,000	1,576,000	5,172,000	4,814,000	31,824,000
Impairment loss	-	-	-	-	3,778,000
Loss on investment in joint venture	-	-	-	-	22,000
Amortization of contract rights	-	-	-	-	81,000
Total operating expenses	<u>2,521,000</u>	<u>3,036,000</u>	<u>8,693,000</u>	<u>7,344,000</u>	<u>45,265,000</u>
Operating loss	(2,521,000)	(3,036,000)	(8,693,000)	(7,344,000)	(45,265,000)
Other income (expense):					
Interest expense	-	-	-	-	(177,000)
Interest income	201,000	133,000	533,000	320,000	1,422,000
Gain on sale of assets	-	-	-	-	8,000
Foreign currency transaction losses	(7,000)	(10,000)	(43,000)	(27,000)	(203,000)
Total other income	<u>194,000</u>	<u>123,000</u>	<u>490,000</u>	<u>293,000</u>	<u>1,050,000</u>
Loss before income taxes	(2,327,000)	(2,913,000)	(8,203,000)	(7,051,000)	(44,215,000)
Income taxes	-	-	-	-	-
Net loss	<u>\$ (2,327,000)</u>	<u>\$ (2,913,000)</u>	<u>\$ (8,203,000)</u>	<u>\$ (7,051,000)</u>	<u>\$ (44,215,000)</u>
Earnings per share:					
Basic and diluted	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>	<u>\$ (0.07)</u>	<u>\$ (0.07)</u>	
Weighted average shares outstanding:					
Basic and diluted	<u>129,429,419</u>	<u>104,361,658</u>	<u>125,990,844</u>	<u>99,796,247</u>	

See the accompanying notes to consolidated financial statements.

**FAR EAST ENERGY CORPORATION**  
**(A Development Stage Company)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

	<b>Nine Months Ended September 30,</b>		<b>February 4, 2000</b>
	<b>2007</b>	<b>2006</b>	<b>(Inception) through September 30, 2007</b>
Cash flows from operating activities			
Net loss	\$ (8,203,000)	\$ (7,051,000)	\$ (44,215,000)
Adjustments to reconcile net loss to cash used in operating activities:			
Depreciation and amortization	66,000	62,000	342,000
Stock issued to pay expense	44,000	76,000	266,000
Share-based compensation	1,015,000	1,380,000	5,329,000
Capitalized exploratory well costs expensed	64,000	483,000	3,508,000
(Increase) decrease in inventory	(247,000)	82,000	(304,000)
(Increase) decrease in prepaids	111,000	5,000	(106,000)
(Increase) decrease in deposits	318,000	811,000	(45,000)
(Increase) decrease in other current assets	(27,000)	4,000	(36,000)
Increase (decrease) in			
accounts payable and accrued liabilities	(1,865,000)	(179,000)	2,078,000
Impairment expense	-	-	3,778,000
Other, net	-	29,000	410,000
Net cash used in operating activities	<u>(8,724,000)</u>	<u>(4,298,000)</u>	<u>(28,995,000)</u>
Cash flows from investing activities			
Additions to unproved oil and gas properties	(6,246,000)	(11,102,000)	(35,263,000)
Additions to other property	(253,000)	(12,000)	(759,000)
Sale of oil and gas property	-	-	1,108,000
Loss on investment in joint venture	-	-	(22,000)
Decrease in restricted cash	-	1,250,000	-
Net cash used in investing activities	<u>(6,499,000)</u>	<u>(9,864,000)</u>	<u>(34,936,000)</u>
Cash flows from financing activities			
Net proceeds from issuance of notes payable	-	-	300,000
Net proceeds from sale of common stock	14,812,000	8,308,000	75,043,000
Net proceeds from exercise of options	279,000	247,000	766,000
Net proceeds from exercise of warrants	-	784,000	8,191,000
Net cash provided by financing activities	<u>15,091,000</u>	<u>9,339,000</u>	<u>84,300,000</u>
Effect of exchange rate changes on cash	-	353,000	-
Increase (decrease) in cash and cash equivalents	(132,000)	(4,470,000)	20,369,000
Cash and cash equivalents--beginning of period	20,501,000	14,631,000	-
Cash and cash equivalents--end of period	<u>\$ 20,369,000</u>	<u>\$ 10,161,000</u>	<u>\$ 20,369,000</u>

See the accompanying notes to consolidated financial statements.

**FAR EAST ENERGY CORPORATION**  
**(A Development Stage Company)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Summary of Significant Accounting Policies**

**Business.** We were incorporated in the state of Nevada on February 4, 2000, and on January 10, 2002, we changed our name to Far East Energy Corporation. The terms “we,” “us,” “our,” “FEEC” and “our company” refer to Far East Energy Corporation and its subsidiaries, unless the context suggests otherwise. References to common stock refer to the common stock of FEEC. We are an independent energy company. FEEC, together with its subsidiaries, engages in the acquisition, exploration and development of coalbed methane (“CBM”) gas properties in the People’s Republic of China (“China” or “PRC”). We are a development stage company and we have conducted significant exploration activities in China. To date, we have not generated significant revenues from operations. We do not expect meaningful revenues prior to the second half of 2008 and we are not able to accurately predict the timing of our first revenue.

**Basis of Presentation.** The accompanying consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosure normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to those rules and regulations. These consolidated financial statements should be read in conjunction with the consolidated annual financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2006.

Prior period information presented in these financial statements includes reclassifications which were made to conform to the current period presentation. These reclassifications had no material effect on our previously reported net loss or stockholders’ equity.

**Non-Cash Transactions.** During the nine-month periods ended September 30, 2007 and 2006, we issued 40,000 shares and 44,259 shares, respectively, of common stock as payment of consulting fees, valued at approximately \$44,000 and \$76,000, respectively.

**2. Share-Based Compensation**

Our 2005 Stock Incentive Plan (“2005 Plan”), which was approved by our stockholders at our 2005 annual meeting, permits the grant of share-based awards, including restricted shares, options, and stock appreciation rights to employees, consultants and members of the board of directors and provides for a total of 3,500,000 shares of common stock to be granted. Of such total, no more than 900,000 shares may be awarded as restricted stock, restricted stock units or other full-valued stock-based awards. Options granted under the 2005 Plan must carry an exercise price equal to or above the fair market value (defined as the average of the closing bid and asked prices as quoted on the OTC Bulletin Board) of the common stock at the grant date, and a term of no greater than ten years. We issue new shares when options are exercised or shares are granted. Our stock options under the 2005 Plan to date have generally been granted at an exercise price above or equal to the fair market value on the date of the grant with vesting periods of up to four years from date of grant. We have also issued restricted stock under the 2005 Plan with a vesting period of three years.

Prior to adoption of the 2005 Plan, grants of options to employees and non-employees included varying terms, some differing from the above. We account for share-based compensation expense under Statement of Financial Accounting Standard (“SFAS”) No. 123 (Revised 2004), “Share-Based Payment,” (“SFAS No. 123(R)”). We measure the cost of employee and non-employee services received in exchange for stock options and other equity awards granted based on the grant date fair value, using the Black-Scholes option pricing model to determine the fair value of options, and closing stock price on date of grant to determine the fair value of restricted shares. We

recognize the cost over the period during which the grantee is required to provide service in exchange for the award, usually the vesting period.

Total shared-based compensation expenses recognized for the three-month periods ended September 30, 2007 and 2006 were \$227,000 and \$382,000, respectively. Total expenses recognized for the nine-month periods ended September 30, 2007 and 2006, were \$1,015,000 and \$1,380,000, respectively.

The following table summarizes stock option and restricted stock transactions during the first nine months of 2007:

	Stock Options			
	Options	Weighted Average Exercise Price	Weighted Average Contractual Life Remaining	Restricted Stock
Outstanding January 1, 2007	10,203,000	\$ 1.44		-
Granted	1,081,000	0.92		600,000
Forfeited	(1,099,000)	2.00		(150,000)
Exercised	(430,000)	0.65		-
Expired	(100,000)	3.85		-
Outstanding September 30, 2007	<u>9,655,000</u>	1.33	4.12 years	<u>450,000</u>
Weighted average grant-date fair value of options or restricted stock granted during the period	<u>\$ 0.67</u>			<u>\$ 0.82</u>

As of September 30, 2007, we had approximately \$1,149,000 in total unrecognized compensation cost related to share-based compensation, of which \$295,000 was related to restricted stock and was recorded in Unearned Compensation. This cost is expected to be recognized over a weighted average period of 2.49 years at September 30, 2007. This expected cost does not include the impact of any future share-based compensation awards.

### 3. Liquidity

We are a development stage company. Our operations to date have consisted of exploration and development activities and we have funded these activities primarily through the sale and issuance of common stock. We have not established a source of revenue. We do not expect to generate meaningful revenues prior to the second half of 2008 and we are not able to accurately predict the timing of our first revenue. The sole source of income we have is interest income derived from the cash accounts at our banks. In late August 2007, we entered into a stock subscription agreement with International Finance Corporation ("IFC") pursuant to which we issued to IFC 11,485,452 shares of our common stock, for aggregate gross proceeds to us of \$15 million. In conjunction with the transaction, we also issued to IFC warrants for the purchase of 4,019,908 shares of common stock at an exercise price of \$2.61 per share. No placement agent fee, finder fee or commission was paid in conjunction with the sale of the common stock or the warrants to IFC. Legal expenses and other direct costs related to the transaction totaled \$188,000.

Based on funds currently available to us, management believes that we have adequate cash resources to fund our operations and minimum contractual exploration and development obligations in China through early third quarter of 2008. To continue to operate and explore and develop our projects in China, we will need to raise additional funds in 2008. To obtain the funds for our planned exploration and development activities, we may utilize any of several potential options, including the issuance of equity securities, the continued exercise of warrants issued to investors in conjunction with previous private offerings, entering into farmout agreements and other arrangements with strategic partners, debt financing, and potential sales of property interests, among other alternatives. No assurance can be given that we will be able to obtain financing on favorable terms, if at all.

Our ability to continue as a going concern depends upon our ability to raise substantial funds for use in our development activities and upon the success of our planned exploration and development activities. There can be no guarantee of future fundraising success. The success of exploratory drilling is uncertain. However, management believes that we will continue to be successful in raising the funds necessary to explore for gas and, assuming success in those exploratory efforts, raising the funds necessary for production and development. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

#### 4. Property and Equipment

Property and equipment include the following:

	At September 30, 2007	At December 31, 2006
Unproved leasehold costs	\$ 375,000	\$ 375,000
Suspended well costs	30,202,000	24,020,000
Furniture and equipment	625,000	371,000
	<u>31,202,000</u>	<u>24,766,000</u>
Accumulated depreciation and amortization	(326,000)	(259,000)
	<u>\$ 30,876,000</u>	<u>\$ 24,507,000</u>

Depreciation expenses for the three-month periods ended September 30, 2007 and 2006 were \$24,000 and \$20,000, respectively. Depreciation expenses for the nine-month periods ended September 30, 2007 and 2006 were approximately \$66,000 and \$62,000, respectively.

#### 5. Suspended Well Costs

In accordance with Financial Accounting Standards Board Staff Position (“FSP”) No. 19-1, “Accounting for Suspended Well Costs,” we have assessed and analyzed our current projects for exploratory wells which had capitalized costs beyond one year at September 30, 2007. We assess these capitalized exploratory well costs each quarter to determine whether they should remain capitalized or should be charged to earnings. Our assessment indicated that our work programs were making sufficient continuing progress toward assessing the reserves and therefore, capitalization of these costs were to be continued in accordance with FSP No. 19-1.

Our net changes in suspended well costs for the nine months ended September 30, 2007 are presented below:

	Nine Months Ended September 30, 2007
Beginning balance at January 1, 2007	\$ 24,020,000
Additions to capitalized exploratory well costs pending the determination of proved reserves	6,246,000
Reclassifications to wells, facilities, and equipment based on the determination of proved reserves	-
Capitalized exploratory well costs charged to expense	(64,000)
Ending balance at September 30, 2007	<u>\$ 30,202,000</u>



The following table provides an aging of capitalized exploratory well costs based on the date the costs were incurred and the number of related projects for which these exploratory well costs have been capitalized for a period greater than one year:

	<u>At September 30, 2007</u>
Capitalized exploratory well costs that have been capitalized for a period of one year or less	\$ 9,597,000
Capitalized exploratory well costs that have been capitalized for a period greater than one year	<u>20,605,000</u> <sup>(1)</sup>
Balance at September 30, 2007	<u><u>\$ 30,202,000</u></u>
Number of projects that have exploratory well costs that have been capitalized for a period greater than one year	<u><u>2</u></u>

- (1) Costs as of September 30, 2007, related to our exploratory projects in the Shouyang and Qinnan Blocks in the Shanxi Province. We are making sufficient progress assessing the reserves and the economic and operating viability of the wells, among other efforts, by dedicating project personnel who have the appropriate skills and by incurring the necessary costs.

## 6. Commitments and Contingencies

**Legal Proceedings.** We are periodically named in legal actions arising from normal business activities. We evaluate the merits of these actions and, if we determine that an unfavorable outcome is probable and can be estimated, we will establish the necessary accruals. We do not anticipate any material losses as a result of commitments and contingent liabilities. We are involved in no material legal proceedings.

**Shanxi Production Sharing Contracts.** Under both the Shouyang and Qinnan Production Sharing Contracts (“PSCs”) in the Shanxi Province, we must bear all exploration costs for discovering and evaluating CBM-bearing areas during the exploration period. We are currently operating in the third phase of the exploration period under both PSCs. We have committed to satisfy certain work obligations as discussed below. On June 26, 2007, PRC’s Ministry of Commerce (“MOC”) approved the extension of the exploration phase for both PSCs from June 30, 2007 to June 30, 2009. In connection with the extension, we have committed to satisfy certain annual minimum exploration expenditure requirements for the Shouyang PSC and for the Qinnan PSC. Thus, we must meet both our work obligations and our minimum exploration expenditure requirements under those PSCs. The annual minimum exploration expenditure requirements for 2007 are prorated based on the date of the extension approval. As of September 30, 2007, we have incurred exploration expenditures for the Shouyang PSC which exceed its prorated 2007 minimum requirement and we have incurred exploration expenditures for the Qinnan PSC of \$0.2 million toward the satisfaction of the prorated 2007 exploration expenditure requirement of \$1.5 million. Taking into consideration the additional exploration expenditures associated with our Qinnan work programs scheduled for the fourth quarter of 2007, we expect that the 2007 requirement will be satisfied. The PSC’s minimum exploration expenditure requirements are based on minimum exploration expenditure requirements of China United Coalbed Methane Co. Ltd (“CUCBM”) established by the PRC’s Ministry of Land and Resources (“MLR”). The MLR sets its requirements by applying a minimum expenditure per acre to the total acreage encompassed by each PSC. Under the PSC, the portion of the exploration expenditures which exceed the current year’s minimum exploration expenditure requirement can be carried forward toward the satisfaction of the subsequent year’s minimum requirement. The resulting minimum expenditure requirement is a significant factor that influences the company’s exploration work program.

Our exploration work commitment in the second and third phases of the exploration period under both the Shouyang and Qinnan PSCs consists of a total of 12,000 meters of horizontal drilling in coal. This work obligation can be met by performing the work commitment on either of the Shouyang and Qinnan PSC contract areas, effectively combining the work commitments and drilling results for both PSCs. For the Shouyang PSC, we have completed five wells which totaled approximately 7,100 meters of horizontal drilling in coal as of October 31,

2007. For the Qinnan PSC, using the test results of a vertical core well, we have begun drilling of a horizontal well in the Qinnan Block and expect to drill to a total length of approximately 3,000 meters, or 9,800 feet, in the coal. Therefore, we are committed to drill additional wells to fulfill the 12,000 meter obligation.

In addition to the work obligation and annual minimum exploration expenditure requirements, we are required to make other expenditures over the term of the PSCs, including: (1) CUCBM assistance fees totaling \$100,000 per year during the exploration period and \$240,000 per year during the development and production periods; (2) training fees for Chinese personnel working on the projects for \$120,000 per year during the exploration phase and \$300,000 per year during the development and production periods; (3) signature fees totaling \$300,000 which will be due within 30 days after first approval of the overall development plan following the exploration period; (4) reimbursement to CUCBM for government-imposed fees for CBM exploration rights during the exploration period, which are estimated to be \$278,000 for 2007, and in proportion to our participating interest in the development and production periods; and (5) salary and benefits paid to CUCBM professionals during the exploration period, which are expected to be \$14,000 per month through December 2007. The allocation of salary and benefits for CUCBM professionals during the development and production periods shall be determined by CUCBM and us through consultation. As of September 30, 2007, CUCBM has not collected, and therefore we have carried forward the accrual for, approximately \$40,000 of the \$120,000 training fees for 2006.

**Yunnan Production Sharing Contract.** Under the Enhong-Laochang PSC in the Yunnan Province, we must bear all exploration costs for discovering and evaluating CBM-bearing areas during the exploration period. We are currently operating in the second phase of the exploration period. We have committed to satisfy certain work obligations as discussed below. On June 26, 2007, MOC approved the extension of the exploration phase from June 30, 2007 to June 30, 2009. In connection with the extension, we have committed to satisfy certain annual minimum exploration expenditure requirement for the Enhong-Laochang PSC. Thus, we must meet both our work obligations and our minimum exploration expenditure requirement under the PSC. The annual minimum exploration expenditure requirement for 2007 is prorated based on the date of the extension approval. As of September 30, 2007, we have incurred exploration expenditures for the Enhong-Laochang PSC of \$0.1 million toward satisfaction of the prorated 2007 exploration expenditure requirement of \$0.7 million. Taking into consideration the additional exploration expenditures associated with our Yunnan work programs scheduled for the fourth quarter of 2007, we expect that the prorated 2007 requirement will be satisfied. The PSC's minimum exploration expenditure requirement is based on minimum exploration expenditure requirements of CUCBM established by the MLR. The MLR sets its requirements by applying a minimum expenditure per acre to the total acreage encompassed by the PSC. Under the PSC, the portion of the exploration expenditures which exceed the current year's minimum exploration expenditure requirement can be carried forward toward the satisfaction of the subsequent year's minimum requirement. The resulting minimum expenditure requirement is a significant factor that influences the company's exploration work program.

Under the current phase, we are required to drill one horizontal well with a minimum of two laterals by June 30, 2009 to satisfy the exploration work obligation for the Enhong and Laochang areas. In the Laochang area, we completed the drilling of a vertical well in February 2007. We intend to drill in the same area two vertical wells and a parameter well during the fourth quarter of 2007. Therefore, we are committed to drill additional wells to fulfill the exploration work obligations.

In addition to the work obligation and annual minimum exploration expenditure requirements, we are required to make other expenditures over the term of the PSC, including: (1) CUCBM assistance fees for Chinese personnel totaling \$45,000 each per year during the exploration phase and \$80,000 each per year during the development and production periods; (2) training fees for Chinese personnel working on the projects of \$45,000 per year during the exploration period and \$80,000 per year during the development and production periods; (3) reimbursement to CUCBM for government-imposed fees for CBM exploration rights during the exploration period, which are estimated to be \$45,000 for 2007, and in proportion to our participating interest in the development and production periods; and (4) salary and benefits paid to CUCBM professionals during the exploration period, which are estimated to be \$16,000 per month through December 2007. The allocation of salary and benefits for CUCBM

professionals during the development and production periods shall be determined by CUCBM and us through consultation.

**Additional Contingent Expenditures.** Our exploration and proposed production activities, including the administration and interpretation of our rights and obligations under the PSCs, are subject to the laws, decrees, regulations and standards promulgated or imposed by Chinese government authorities including, but not limited to, the MOC and the MLR. Revised or additional laws and regulations or new applications of existing laws and regulations may result in additional expenditures which are unforeseen to us based on our current understanding of these laws and regulations. Further, it is possible that these governmental authorities could impose additional capital expenditure requirements or other obligations under the PSCs than what we agreed to with CUCBM. We endeavor to continuously monitor Chinese laws, decrees, regulations and standards to identify additional contingent expenditures and will establish accruals for identified contingent expenditures when necessary.

**Closing of the 2003 Securities and Exchange Commission Investigation.** On October 31, 2007, we were orally notified that the Securities and Exchange Commission (“SEC”) is closing their investigation that they initiated on November 25, 2003. We learned that the Company and/or certain of its stockholders were the subject of that investigation. We believe the SEC was investigating whether anyone had issued false or misleading statements in connection with purchases and sales of our common stock, whether anyone has profited from selling stock at artificially high prices due to the manipulative statements, and whether any individual or group has failed to file ownership reports with the SEC as required for 10% or more beneficial owners under Section 16 of the Securities Exchange Act of 1934, as amended (“Exchange Act”), or failed to file ownership reports with the SEC as required for 5% or more beneficial owners under Section 13 of the Exchange Act.

**China Business Taxes.** In our normal course of business, we may agree to pay to the local Chinese tax authorities certain business taxes on behalf of vendors and consultants engaged outside of the PRC for their activities conducted in the PRC. Due to the lack of clarity in the tax law promulgated by the local Chinese tax authorities, underpayments may result. Management believes that the chance that such underpayments will individually, or in the aggregate, have a material adverse effect on our financial condition or results of operations is remote.

## 7. Comprehensive Income

The following table presents the components of FEEC’s comprehensive income:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Net loss	\$ (2,327,000)	\$ (2,913,000)	\$ (8,203,000)	\$ (7,051,000)
Foreign currency translation adjustment	-	235,000	-	353,000
Comprehensive loss	<u>\$ (2,327,000)</u>	<u>\$ (2,678,000)</u>	<u>\$ (8,203,000)</u>	<u>\$ (6,698,000)</u>

## 8. Common Stock

	<b>Common Stock</b>		<b>Additional</b>	
	<b>Number of</b>	<b>Par</b>	<b>Paid-In</b>	<b>Total</b>
	<b>Shares</b>	<b>Value</b>	<b>Capital</b>	<b>Proceeds</b>
<b>Balance at December 31, 2006</b>	123,767,342	\$ 124,000	\$ 77,599,000	
<b>Common Stock Issued</b>				
<b>Stock Issued for Cash</b>	11,485,452	11,000	14,801,000	\$ 14,812,000
<b>Stock Issued for Services</b>	40,000	-	44,000	-
<b>Restricted Stock Grants</b>	450,000	1,000	354,000	-
<b>Net Exercise of Warrants</b>	5,208	-	-	-
<b>Exercise of Options</b>	430,000	-	279,000	279,000
<b>Expense on Stock-Based Compensation</b>	-	-	955,000	-
<b>Balance at September 30, 2007</b>	<u>136,178,002</u>	<u>\$ 136,000</u>	<u>\$ 94,032,000</u>	<u>\$ 15,091,000</u>

**IFC Stock Subscription.** In late August 2007, we entered into a stock subscription agreement with IFC pursuant to which we issued to IFC 11,485,452 shares of our common stock, for aggregate gross proceeds to us of \$15,000,000. In conjunction with the transaction, we also issued to IFC warrants for the purchase of 4,019,908 shares of common stock at an exercise price of \$2.61 per share pursuant to a warrant agreement between us and Continental Stock Transfer & Trust Company as warrant agent. The warrants will terminate on the earlier of August 27, 2012 or the date fixed for redemption of the warrant under the warrant agreement. We may call the outstanding warrants for redemption in whole or in part upon forty-five days' prior notice of redemption to each warrant holder if, and only if, the trading price of our common stock has equaled or exceeded \$3.92 per share for fifteen or more consecutive trading days. No placement agent fee, finder fee or commission was paid in conjunction with the sale of the common stock or the warrants to IFC. Legal expenses and other direct costs related to the transaction totaled \$188,000.

**2005 Stock Incentive Plan.** The 2005 Plan permits the granting of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards to employees, consultants and members of the board of directors. The 2005 Plan currently provides that the maximum number of shares of our common stock with respect to which awards may be granted is 3,500,000 shares, subject to adjustment in accordance with the provisions of the 2005 Plan. As of October 31, 2007, we had 536,000 shares available for awards under the 2005 Plan, of which 350,000 could be issued as restricted stock, restricted stock units or other full-valued stock-based awards.

**Outstanding Warrants.** A summary of warrants outstanding as of September 30, 2007 is as follows:

<b>Exercise Price /</b>	<b>Warrants</b>	<b>Expiration Date In</b>			
		<b>2007</b>	<b>2008</b>	<b>2010</b>	<b>2012</b>
<b>Range</b>	<b>Outstanding</b>				
\$0.80 - \$0.90	383,164	92,287	150,000	140,877	-
\$1.25	375,000	375,000	-	-	-
\$1.50	299,212	278,650	-	20,562	-
\$2.50	6,904,063	6,867,188	-	36,875	-
\$2.61	4,019,908	-	-	-	4,019,908 <sup>(1)</sup>
<b>Total</b>	<u>11,981,347</u>	<u>7,613,125</u>	<u>150,000</u>	<u>198,314</u>	<u>4,019,908</u>

(1) Comprised of warrants granted to IFC in conjunction with the 2007 stock subscription discussed above.

## **9. Supplemental Cash Flow Information**

Cash paid for interest expense and income taxes for both of the nine-month periods ended September 30, 2007 and 2006 was zero.

## PART 1. FINANCIAL INFORMATION

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2006 ("2006 Annual Report"), the financial statements and related notes in this Quarterly Report, the risk factors in our 2006 Annual Report, and all of the other information contained elsewhere in this report. The terms "we," "us," "our" and "our company" refer to Far East Energy Corporation and its subsidiaries, unless the context suggests otherwise.*

**Forward-Looking Statements.** This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21B of the Securities Exchange Act of 1934 ("Exchange Act"). All statements other than statements of historical facts contained in this report, including statements regarding our future financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. The words "believe," "may," "will," "plan," "estimate," "continue," "anticipate," "intend," "expect," "project," and similar expressions, as they relate to us, are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements are subject to a number of known and unknown risks, uncertainties and assumptions described in this Quarterly Report on Form 10-Q.

Although we believe that the expectations reflected in these forward-looking statements are reasonable, there can be no assurance that the actual results or developments we anticipate will be realized or, even if substantially realized, that they will have the expected effects on our business or operations. Actual results could differ materially from those projected in such forward-looking statements. Factors that could cause actual results to differ materially from those projected in such forward-looking statements include: our lack of operating history; limited and potentially inadequate management of our cash resources; risk and uncertainties associated with exploration; development and production of coal bed methane ("CBM"); expropriation and other risks associated with foreign operations; matters affecting the energy industry generally; lack of availability of oil and gas field goods and services; environmental risks; drilling and production risks; changes in laws or regulations affecting our operations, as well as other risks described in our 2006 Annual Report and subsequent filings with the Securities and Exchange Commission ("SEC").

When you consider these forward-looking statements, you should keep in mind these factors, the risk factors set forth in our 2006 Annual Report under "Item 1A. Risk Factors" and in other filings with the SEC and the other cautionary statements in this Quarterly Report filed on Form 10-Q. Our forward-looking statements speak only as of the date made. All subsequent oral and written forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these factors. We assume no obligation to update any of these statements.

**Overview.** We are a development stage company, and our objective is to become a recognized leader in CBM property acquisition, exploration, development and production. The drilling, testing and completion of exploratory wells has been our primary activity since late 2003.

During the first nine months of 2007, we continued our efforts of CBM exploration and development in the Shanxi Province in northern People's Republic of China ("PRC" or "China") and in the Yunnan Province in southern PRC. We incurred exploration costs of \$2.1 million and capitalized development costs of \$6.2 million during the first nine months of 2007. See "Capital Resources and Liquidity – Total Exploration Expenditures" below.

During February 2007, we completed a horizontal well, which was spudded in December 2006, bringing the total completed number of horizontal wells in the Shouyang Block of Shanxi Province to five. These wells are currently being dewatered. During the second quarter of 2007, we drilled an underbalanced vertical well (HZ06V) and cavitated the well bore in the coal to accelerate the dewatering process. The HZ06V well is located between the HZ04 and the HZ05 horizontal wells.

We drilled a vertical well in the Qinnan Block of Shanxi Province in December 2006 and have processed the test data from that well. During the second quarter of 2007, we began drilling of a horizontal well (QN01H) which is planned to be drilled to a length in the coal of approximately 3,000 meters (9,800 feet). This well is being drilled under a turnkey contract with a Chinese drilling company. The drilling company encountered drilling difficulties and has been unable to complete the well program as specified. We are not liable for payment of the cost of this well until the drilling company meets its obligations under the contract. As such, there is no current accrual for the expected cost of approximately \$1.3 million in our financial statements. Drilling operations are continuing, but we cannot predict when or if the drilling company will be able to successfully drill the well.

In the Laochang area of the Yunnan Province, we completed drilling of a vertical well (LC07) in February 2007. We are conducting tests on a previously drilled well and plan to drill a vertical well during the fourth quarter of 2007. Depending on the results of these wells, we may drill additional wells in this area.

Although we believe the results of our exploration activities in the Yunnan and Shanxi Provinces have been favorable, we will need to complete several more wells to achieve commercial viability in these provinces, which will require significant capital expenditures. No liquefied natural gas ("LNG") plant or other off-take candidate currently exists near our Shanxi Province projects, and pipelines must also be built on those projects to connect to larger pipelines to transport any CBM that may be produced from those projects. No gas pipeline, LNG plant, or other off-take candidate currently exists to transport CBM from our properties in the Yunnan Province, and it is not likely that any such facilities will be built until favorable results are obtained from several more wells.

For the nine months ending September 30, 2007, our capital expenditures were \$6.2 million and our operating expenditures were \$8.7 million. For the remainder of 2007, we estimate that our capital expenditures in the PRC will be approximately \$4.6 million and we estimate that our operating expenditures will be approximately \$2.0 million.

We have not recognized any revenues from our operations. We do not anticipate recognizing meaningful revenues prior to the second half of 2008 and we are not able to accurately predict the timing of our first revenue. The sole source of income we have is interest income derived from the cash accounts at our banks. We incurred a net loss of \$8.2 million for the first nine months of 2007 and we expect to incur losses and negative cash flows for the foreseeable future. As we are a development stage company concentrating on exploration and development of CBM in the PRC, our expenditures primarily consist of exploratory drilling, engineering services, exploration costs, lease operating expenses, technical consulting and professional service fees, and travel expenses between our U.S. headquarters and the PRC. To facilitate necessary organizational activities, we also incur organizational consulting and professional service fees (including capital raising), compensation, legal and accounting and other general and administrative expenses.

Management believes that we can fund our operations and minimum exploration and development activities in the PRC with our existing cash resources through early third quarter of 2008. To continue to operate and explore and develop our projects in China, we will need to raise additional funds in 2008. To obtain the funds for our planned exploration and development activities, we may seek to utilize any of several potential options, including the

issuance of equity securities, the continued exercise of warrants issued to investors in conjunction with previous private offerings, entering into farmout agreements and other arrangements with strategic partners, debt financing, and potential sales of property interests, among other alternatives. No assurance can be given that we will be able to obtain financing on favorable terms, if at all.

We may choose to raise additional funds in 2008 to continue our drilling plans in China and to provide funds for activities for 2008 and beyond. We intend to finance our operations by various methods mentioned above. If we fail to raise the necessary funds to complete our exploration activities, we would not be able to successfully complete our exploration activities, and we may lose rights under our production sharing contracts (“PSCs”).

Our ability to continue as a going concern depends upon our ability to raise substantial funds for use in our development activities and upon the success of our planned exploration and development activities. There can be no guarantee of future fundraising success. The success of exploratory drilling is uncertain. However, management believes that we will continue to be successful in raising the funds necessary to explore for gas and, assuming success in those exploratory efforts, raising the funds necessary for production and development. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**Results of Operations.** The following review of operations for the three-month and nine-month periods ended September 30, 2007 and 2006 should be read in conjunction with the consolidated financial statements of FEEC and notes thereto included with this Quarterly Report on Form 10-Q.

*Three Months Ended September 30, 2007 vs. Three Months Ended September 30, 2006*

	<b>Three months ended September 30,</b>		<b>Percent change</b>
	<b>2007</b>	<b>2006</b>	
Exploration costs	\$ 678,000	\$ 502,000	35%
Lease operating expense	560,000	958,000	-42%
General and administrative	1,283,000	1,576,000	-19%
Total	<u>\$ 2,521,000</u>	<u>\$ 3,036,000</u>	-17%

Oil and gas exploration costs, other than the costs of drilling exploratory wells, are charged to expense as incurred. The costs of drilling exploratory wells are capitalized pending determination of whether they have discovered proved commercial reserves (see below “Capital Resources and Liquidity-Total Exploration Expenditures”). Expensed exploration costs for the three months ended September 30, 2007 were higher than the same prior year period primarily due to the inclusion of certain general and administrative expenses, which were identified as directly related to exploratory activities.

Lease operating expense (“LOE”) for the three months ended September 30, 2007 was comprised of costs pertaining to the dewatering efforts of four horizontal wells in the Shouyang Block in the Shanxi Province, which presently have sustained gas flows. To date, the production is not at commercial levels and the data obtained is not sufficient to project peak gas production. Recording of these costs related to the first two of the four horizontal wells as LOE began in July and October 2006, respectively. Recording of these costs related to the last two of the four horizontal wells as LOE began in May 2007. LOE for the three months ended September 30, 2007 decreased primarily due to decrease in dewatering cost per well. The decrease was also due to the inclusion in the third quarter of 2006 of costs incurred prior to the quarter as the decision to record the costs as LOE was made during the third quarter of 2006.



General and administrative expenses for the three months ended September 30, 2007 decreased primarily due to share-based compensation grants awarded in the first half of 2004 were completely amortized by the end of the second quarter of 2007, the reclassification of payroll expenses for previous quarters related to certain exploration personnel to exploration costs and costs incurred related to the proxy contest beginning in late third quarter of 2006. The decrease was partially offset by salary adjustments effective in the first quarter of 2007 and the cost for additional employees in China to support expanded operations.

*Nine Months Ended September 30, 2007 vs. Nine Months Ended September 30, 2006*

	<b>Nine months ended September 30,</b>		<b>Percent change</b>
	<b>2007</b>	<b>2006</b>	
Exploration costs	\$ 2,129,000	\$ 1,572,000	35%
Lease operating expense	1,392,000	958,000	45%
General and administrative	5,172,000	4,814,000	7%
Total	<u>\$ 8,693,000</u>	<u>\$ 7,344,000</u>	18%

Expensed exploration costs for the first nine months of 2007 was higher than the same prior year period primarily due to the expensing of exploration permit fees and inclusion of certain general and administrative expenses, which were identified as directly related to exploratory activities. The increase was partially offset by the costs recognized in the first quarter of 2006 related to two slim-hole vertical wells drilled in the Yunnan Province, which we determined to not develop further.

LOE for the first nine months of 2007 comprised of costs pertained to the dewatering efforts of four horizontal wells in the Shouyang Block in the Shanxi Province, which presently have small sustained gas flows. The production is currently small and the data obtained is not yet sufficient to project peak gas production. Recording of these costs related to the first two of the four horizontal wells as LOE began in July and October 2006, respectively. Recording of these costs related to the last two of the four horizontal wells as LOE began in May 2007. LOE for the first nine months of 2007 increased due to the higher costs related to the dewatering of four wells versus two in the same period a year ago.

General and administrative expenses for the nine months ended September 30, 2007 increased primarily due to salary adjustments effective in the first quarter of 2007 and higher professional service fees and costs related to additional employees in China to support expanded operations. The increase was partially offset by lower share-based compensation amortization as grants awarded in the first half of 2004 were completely amortized by the end of the second quarter of 2007, the reclassification of payroll expenses for previous quarters related to certain exploration personnel to exploration costs and the absence of costs incurred related to the proxy contest which began in late third quarter of 2006.

**Capital Resources and Liquidity.** We had no source of revenue or cash flow from operations during the first nine months of 2007. The sole source of income we have is interest income derived from the cash accounts at our banks. Our principal requirements for cash are exploration and development costs of our CBM properties in China.

In late August 2007, we entered into a stock subscription agreement with International Finance Corporation ("IFC") pursuant to which we issued to IFC 11,485,452 shares of our common stock, for aggregate gross proceeds to us of \$15 million. In conjunction with the transaction, we also issued to IFC warrants for the purchase of 4,019,908 shares of common stock at an exercise price of \$2.61 per share. No placement agent fee, finder fee or commission was paid in conjunction with the sale of the common stock or the warrants to IFC. Legal expenses and other direct costs related to the transaction totaled \$188,000.

Based on funds currently available to us and work programs designed to accelerate our drilling efforts, management believes that we have adequate cash resources to fund our operations and minimum contractual exploration and development obligations in China through early third quarter of 2008. To continue to operate and explore and develop our projects in China, we will need to raise funds in 2008. To obtain the funds for our planned exploration and development activities, we may seek to utilize any of several potential options, including the issuance of equity securities, the continued exercise of warrants issued to investors in conjunction with previous private offerings, entering into farmout agreements and other arrangements with strategic partners, debt financing, and potential sales of property interests, among other alternatives. No assurance can be given that we will be able to obtain financing on favorable terms, if at all.

*Cash Flow.* As of September 30, 2007, our cash and cash equivalents was \$20,369,000. Cash and cash equivalents was \$20,501,000 as of December 31, 2006.

Cash used in operating activities for the nine months ended September 30, 2007 was \$8,724,000 as compared to cash used in operating activities for the same period in 2006 of \$4,298,000. The increase was primarily due to a higher total cash outflow related to working capital items, higher exploration costs and increased consulting and professional services related to expanded organizational and administrative activities associated with the growth of our company. The increase was also due to the recording of LOE related to the dewatering efforts of four horizontal wells in the Shouyang Block in the Shanxi Province. Recording of these costs related to the first two of the four horizontal wells as LOE began in July and October 2006, respectively. Recording of these costs related to last two of the four horizontal wells as LOE began in May 2007.

Cash used in investing activities for the nine months ended September 30, 2007 was \$6,499,000 as compared to \$9,864,000 for the same period in 2006. The decline was primarily due to a decline in additions to unproved oil and gas properties. Additions to unproved oil and gas properties for the nine months ended September 30, 2007 were \$6,246,000 compared to \$11,102,000 for the nine months ended September 30, 2006. Cash used in investing activities for the nine months ended September 30, 2006 was partially offset by \$1,250,000 of cash provided from the termination of an escrow agreement for the Shanxi Province.

Cash provided by financing transactions was \$15,091,000 for the nine months ended September 30, 2007 as compared to \$9,339,000 for the same period in 2006. Financing activities for first nine months of 2007 included net proceeds from the issuance of shares to IFC of \$14,812,000 pursuant to a stock subscription agreement and exercises of options. Financing activities for first nine months of 2006 included net proceeds from a private placement of shares of our common stock of \$8,308,000 and exercises of options and warrants.

*Total Exploration Expenditures.* The table below sets out components of total exploration and development expenditures, both capitalized and expensed:

	<b>Nine months ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
Additions to Unproved Oil and Gas Properties		
Yunnan Province	\$ 228,000	\$ 258,000
Shanxi Province	6,018,000	10,844,000
	<u>6,246,000</u>	<u>11,102,000</u>
Exploration Costs <sup>(1)</sup>	2,065,000	1,089,000
	<u>\$ 8,311,000</u>	<u>\$ 12,191,000</u>

(1) Exploration costs shown are net of prior year capitalized exploratory well costs charged to expense of \$64,000 and \$483,000 for the nine months ended September 30, 2007 and 2006, respectively.

Oil and gas exploration costs, other than the costs of drilling exploratory wells, are charged to expense as incurred. The costs of drilling exploratory wells are capitalized pending determination of whether they have discovered proved commercial reserves. We assess our capitalized exploratory well costs each quarter to determine whether costs should remain capitalized or should be charged to earnings. Our assessment indicated that our current work programs demonstrated our efforts in making sufficient continuing progress toward assessing the reserves. Therefore, we have continued to capitalize these costs. As of September 30, 2007, we had exploratory drilling costs that have been deferred for more than one year (see Note 5 to the Consolidated Financial Statements).

*Capital Resources and Requirements.* Our board of directors has the authority, without further action by the stockholders, to issue up to 500 million shares of preferred stock in one or more series and to designate the rights, preferences, privileges and restrictions of each series. We also have 500 million shares of common stock authorized under our charter documents, of which 136.2 million shares were issued and outstanding as of September 30, 2007. The issuance of preferred stock could have the effect of restricting dividends on the common stock or delaying or preventing our change of control without further action by the stockholders. While we have no present plans to issue any shares of preferred stock, we may need to do so in the future in connection with capital raising transactions. In addition, we may issue additional shares of common stock in connection with fundraising activities. The issuance of additional common stock would also have a dilutive impact on our stockholders' ownership interest in our company.

The exploration and development of CBM reserves requires substantial capital expenditures. In order to reduce our investment in a particular project, we may form joint ventures and seek joint venture partners to share the costs. We incurred \$2.1 million of costs related to exploration activities and \$6.2 million related to development activities for the nine months ended September 30, 2007.

In connection with the exploration period extensions for our PSCs, we have committed to satisfy certain annual minimum exploration expenditure requirements. The annual minimum exploration expenditure requirements for 2007 are prorated based on the date of the extension approval. As of September 30, 2007, we have incurred exploration expenditures for the Shouyang PSC which exceeds its prorated 2007 minimum requirement. For the Qinnan PSC, we have incurred exploration expenditures of \$0.2 million toward the satisfaction of the prorated 2007 exploration expenditure requirement of \$1.5 million. For the Enhong-Laochang PSC, we have incurred exploration expenditures of \$0.1 million toward satisfaction of the prorated 2007 exploration expenditure requirement of \$0.7 million. Taking into consideration the additional exploration expenditures associated with our work programs scheduled for the fourth quarter of 2007, we expect that these prorated 2007 minimum requirements will be satisfied.

The PSC's minimum exploration expenditure requirements are based on minimum exploration expenditure requirements of CUCBM established by the PRC's Ministry of Land and Resources ("MLR"). The MLR sets its requirements by applying a minimum expenditure per acre to the total acreage encompassed by each PSC. Under the PSC, the portion of the exploration expenditures which exceed the current year's minimum exploration expenditure requirement can be carried forward toward the satisfaction of the subsequent year's minimum exploration requirement. The resulting minimum expenditure requirement is a significant factor that influences the company's exploration work program.

We estimate our expenditures for the remainder of 2007 capital expenditure activities to be:

Yunnan Province	\$ 835,000
Shanxi Province	3,971,000
	<u>\$ 4,806,000</u>

If our operating requirements differ materially from those currently planned, we may require more funds to pay for capital expenditures than currently anticipated.

Our exploration and proposed production activities, including the administration and interpretation of our rights and obligations under the PSCs, are subject to the laws, decrees, regulations and standards promulgated or imposed by Chinese government authorities. Revised or additional laws and regulations or new applications of existing laws and regulations may result in additional expenditures which are unforeseen to us based on our current understanding of these laws and regulations. Further, it is possible that these governmental authorities could impose additional capital expenditure requirements or other obligations under the PSCs than what we agreed to with CUCBM. We endeavor to continuously monitor Chinese laws, decrees, regulations and standards to identify additional contingent expenditures and will include them in our capital expenditure planning accordingly.

We will also require additional capital resources to fund significant expenditures for exploration and development activities and to fund operating expenses in future periods. We do not anticipate recognizing meaningful revenues prior to the second half of 2008 and we are not able to accurately predict the timing of our first revenue. CBM projects traditionally require multiple wells to properly dewater the coal and generate predictable volumes of gas. It is not yet possible to predict volumes so decisions about marketing the CBM cannot yet be made. Currently, two pipelines traverse China in proximity to our Shanxi Province projects. However, to connect to these pipelines, we would need to construct two short pipelines with compression facilities. There are no pipelines in the vicinity of our Yunnan Province projects. Therefore, we would need to construct a pipeline and compression facilities from our project to the nearest large city, Kunming, for future gas production. A pipeline company, which currently plans to construct a pipeline in the Shanxi Province in relatively close proximity to our horizontal wells in the Shouyang Block and the Qinnan Block, has expressed interest in transporting our gas if we achieve commercial levels of production; however, to date no terms of any such arrangement have been negotiated. To generate revenue in China prior to the point at which production reaches pipeline quantities, we may elect to install compressors and produce compressed natural gas ("CNG"), which could be sold to local communities. We estimate that this alternative would cost approximately \$650,000 for each compressor facility, which is capable of processing two million cubic feet ("MMcf") of gas per day. We could also elect to construct LNG facilities on our properties. We estimate that a 100-ton per day LNG facility, which would liquefy approximately five MMcf of gas per day, would cost approximately \$10 to \$15 million to construct. We estimate that a 1,000-ton per day facility, which would liquefy approximately 50 MMcf of gas per day, would cost approximately \$75 million with construction time close to two years. Our current plan is to seek marketing alternatives that will permit us to sell our gas within the shortest possible timeframe and with the lowest reasonable capital investment to achieve this goal.

We do not currently have the funds to complete our current and proposed business operations in China. To develop our projects in China over the long term, we need to obtain project funding to satisfy significant expenditures for

exploration and development of those projects, if they are successful. To obtain the funds for our planned exploration and development activities, we may seek to utilize any of several potential options, including the issuance of equity securities, the continued exercise of warrants issued to investors in conjunction with previous private offerings, entering into farmout agreements and other arrangements with strategic partners, debt financing, and potential sales of property interests, among other alternatives. No assurance can be given that we will be able to obtain financing on favorable terms, if at all.

## **PART 1. FINANCIAL INFORMATION**

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

In addition to the U.S. dollar, we conduct business in Chinese Yuan and therefore are subject to foreign currency exchange risk on cash flows related to expenses and investing transactions. We do not expect to generate meaningful revenue from activities in China prior to second half of 2008 and we are not able to accurately predict the timing of our first revenue. In July 2005, the Chinese government began to permit the Chinese Yuan to float against the U.S. dollar. All of our costs to operate our Chinese offices are paid in Chinese Yuan. Our exploration costs in China may be incurred under contracts denominated in Chinese Yuan or U.S. dollars. To date we have not engaged in hedging activities to hedge our foreign currency exposure. In the future, we may enter into hedging instruments to manage our foreign currency exchange risk or continue to be subject to exchange rate risk.

### **ITEM 4. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures.** We carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) of the Exchange Act, as amended, as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

**Internal Control Over Financial Reporting.** There were no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **FAR EAST ENERGY CORPORATION**

#### **ITEM 1. LEGAL PROCEEDINGS**

On October 31, 2007, we were orally notified that the SEC is closing their investigation that they initiated on November 25, 2003. We learned that we and/or certain stockholders were the subject of that investigation. We believe the SEC was investigating whether anyone had issued false or misleading statements in connection with purchases and sales of our common stock, whether anyone has profited from selling stock at artificially high prices due to the manipulative statements, and whether any individual or group has failed to file ownership reports with the SEC as required for 10% or more beneficial owners under Section 16 of the Exchange Act, or failed to file ownership reports with the SEC as required for 5% or more beneficial owners under Section 13 of the Exchange Act.

#### **ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our 2006 Annual Report, which could materially affect our business, financial condition, or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and /or operating results. There have been no material changes from the risk factors previously disclosed in 2006 our Annual Report.

#### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

During the third quarter of 2007, we issued 15,000 shares of our common stock to a consultant in consideration for investor relations and consulting services. We valued the services based on the closing price per share of the common stock on the last trading day of the month the shares were awarded. The securities, which were taken for investment and were subject to appropriate transfer restrictions, were issued without registration under the Securities Act upon the exemption provided in Section 4(2) of the Securities Act.

#### **ITEM 6. EXHIBITS**

Exhibits required to be attached by Item 601 of Regulation S-K are listed in the Index to Exhibits beginning on page 25 of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

## SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Far East Energy Corporation

/s/ Michael R. McElwrath

Michael R. McElwrath  
Chief Executive Officer and President  
*(Principal Executive Officer)*

/s/ Randall D. Keys

Randall D. Keys  
Chief Financial Officer  
*(Principal Financial and Accounting Officer)*

Date: November 7, 2007



## INDEX OF EXHIBITS

Exhibit Number	Description
3.1	Articles of Incorporation of the Company, as amended (filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, which was filed on March 15, 2005, and incorporated herein by reference).
3.2	Amended and Restated Bylaws of the Company (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on March 17, 2005, and incorporated herein by reference).
4.1	Articles of Incorporation of the Company, as amended (included as Exhibit 3.1).
4.2	Amended and Restated Bylaws of the Company (included as Exhibit 3.2).
4.3	Specimen stock certificate (filed as Exhibit 4.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005, which was filed on March 15, 2005, and incorporated herein by reference).
4.4	Form of Warrant (filed as Exhibit 4.1 to the Company's Current Report in Form 8-K filed on August 27, 2007, and incorporated herein by reference).
4.5	Warrant Agreement, dated August 27, 2007, between the Company and Continental Stock Transfer & Trust Company (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K filed on August 27, 2007, and incorporated herein by reference).
10.1*	Amended and Restated Employment Agreement, dated December 23, 2004, by and between the Company and Michael R. McElwrath (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 23, 2004, and incorporated herein by reference).
10.2*	Amended and Restated Employment Agreement, dated December 23, 2004, by and between the Company and Bruce N. Huff (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 23, 2004, and incorporated herein by reference).
10.3*	Employment Agreement, dated February 1, 2004, by and between the Company and Garry R. Ward (filed as Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, which was filed on March 15, 2005 and incorporated herein by reference).
10.4*	Employment Agreement, dated November 1, 2003, by and between the Company and Zhendong "Alex" Yang (filed as Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, which was filed on March 15, 2005, and incorporated herein by reference).
10.5*	Amended and Restated Nonqualified Stock Option Agreement, dated December 23, 2004, by and between the Company and Michael R. McElwrath (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on December 28, 2004, and incorporated herein by reference).
10.6*	Amended and Restated Nonqualified Stock Option Agreement, dated December 23, 2004, by and between the Company and Michael R. McElwrath (filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed on December 28, 2004, and incorporated herein by reference).
10.7*	Amended and Restated Nonqualified Stock Option Agreement, dated December 23, 2004, by and between the Company and Bruce N. Huff (filed as Exhibit 10.5 to the Company's Current Report on Form 8-K filed on December 28, 2004, and incorporated herein by reference).
10.8*	Nonqualified Stock Option Agreement, dated December 23, 2004, by and between the Company and Michael R. McElwrath (filed as Exhibit 10.6 to the Company's Current Report on Form 8-K filed on December 28, 2004, and incorporated herein by reference).
10.9*	Nonqualified Stock Option Agreement, dated December 23, 2004, by and between the Company and Bruce N. Huff (filed as Exhibit 10.7 to the Company's Current Report on Form 8-K filed on December 28, 2004, and incorporated herein by reference).
10.10*	Nonqualified Stock Option Agreement, dated December 23, 2004, by and between the Company and Garry Ward (filed as Exhibit 10.9 to the Company's Current Report on Form 8-K filed on December 28, 2004, and incorporated herein by reference).
10.11*	Stock Option Agreement, dated May 18, 2004 by and between the Company and Donald Juckett (filed as Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, which was filed on March 15, 2005, and incorporated herein by reference).
10.12*	Stock Option Agreement, dated June 18, 2004 by and between the Company and Randall D. Keys (filed as Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, which was filed on March 15, 2005, and incorporated herein by reference).
10.13*	Stock Option Agreement, dated May 24, 2004 by and between the Company and John C. Mihm (filed as Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, which was filed on March 15, 2005, and incorporated herein by reference).

- 10.14\* Stock Option Agreement, dated February 24, 2004 by and between the Company and Thomas Williams (filed as Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, which was filed on March 15, 2005, and incorporated herein by reference).
- 10.15\* Stock Option Agreement, dated February 1, 2004 by and between the Company and Garry Ward (filed as Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, which was filed on March 15, 2005, and incorporated herein by reference).
- 10.16\* Stock Option Agreement, dated December 1, 2003 by and between the Company and Zhendong "Alex" Yang (filed as Exhibit 10.19 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, which was filed on March 15, 2005, and incorporated herein by reference).
- 10.17 Production Sharing Contract for Exploitation of Coalbed Methane Resources in Enhong and Laochang, Yunnan Province, the People's Republic of China, dated January 25, 2002, by and between China United Coalbed Methane Corp. Ltd. and the Company (filed as Exhibit 2(i) to the Company's Current Report on Form 8-K filed on February 11, 2002, and incorporated herein by reference).
- 10.18 Modification Agreement for Product Sharing Contract for Exploitation of Coalbed Methane Resources in Enhong and Laochang, Yunnan Province, the People's Republic of China, dated October 20, 2005, between China United Coalbed Methane Corporation Ltd. and the Company (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 26, 2005, and incorporated herein by reference).
- 10.19 Production Sharing Contract for Exploitation of Coalbed Methane Resources for the Qinnan Area in Shanxi Province, Qinshui Basin, the People's Republic of China, dated April 16, 2002, by and between China United Coalbed Methane Corporation Ltd. and the Phillips China Inc. (filed as Exhibit 10.21 to the Company's Current Report on Form 8-K filed on October 26, 2005, and incorporated herein by reference).
- 10.20 Application for the Extension of Phase Two of the Exploration Period under the Qinnan PSC, dated December 2, 2005, by and between the Company and China United Coalbed Methane Corporation Ltd. (filed as Exhibit 10.20 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005, which was filed on March 14, 2006, and incorporated herein by reference).
- 10.21 Application for the Extension of Phase Two of the Exploration Period under the Qinnan PSC, dated March 16, 2006, by and between the Company and China United Coalbed Methane Corporation Ltd. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 17, 2006, and incorporated herein by reference).
- 10.22 Approval Certificate from the Ministry of Foreign Trade and Economic Cooperation dated December 30, 2002 (filed as Exhibit 2(i) to the Company's Current Report on Form 8-K filed on January 13, 2003, and incorporated herein by reference).
- 10.23 Memorandum of Understanding, dated March 18, 2003, by and between Phillips China Inc. and the Company (filed as Exhibit 10.1 to the Company's Amendment No. 1 to its Quarterly Report on Form 10-QSB/A for the quarter ended June 30, 2003, which was filed on December 24, 2003, and incorporated herein by reference).
- 10.24 Farmout Agreement—Qinnan PSC, dated June 17, 2003, by and between Phillips China Inc. and the Company (filed as Exhibit 10.2 to the Company's Amendment No. 1 to its Quarterly Report on Form 10-QSB/A for the quarter ended June 30, 2003, which was filed on December 24, 2003, and incorporated herein by reference).
- 10.25 First Amendment to Farmout Agreement—Qinnan PSC, dated December 15, 2003, by and between Phillips China Inc. and the Company (filed as Exhibit 10.26 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, which was filed on March 15, 2005, and incorporated herein by reference).
- 10.26 Second Amendment to Farmout Agreement—Qinnan PSC, dated December 17, 2004, by and between Phillips China Inc. and the Company (filed as Exhibit 10.01 to the Company's Current Report on Form 8-K filed on December 23, 2004, and incorporated herein by reference).
- 10.27 Third Amendment to Farmout Agreement—Qinnan PSC, dated December 19, 2005, by and between ConocoPhillips China Inc. and the Company (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 21, 2005, and incorporated herein by reference).
- 10.28 Assignment Agreement—Qinnan PSC, dated June 17, 2003, by and between Phillips China Inc. and the Company (filed as Exhibit 10.4 to the Company's Amendment No. 1 to its Quarterly Report on Form 10-QSB/A for the quarter ended June 30, 2003, which was filed on December 24, 2003, and incorporated herein by reference).

- 10.29 Farmout Agreement—Shouyang PSC, dated June 17, 2003, by and between Phillips China Inc. and the Company (filed as Exhibit 10.3 to the Company’s Amendment No. 1 to its Quarterly Report on Form 10-QSB/A for the quarter ended June 30, 2003, which was filed on December 24, 2003, and incorporated herein by reference).
- 10.30 First Amendment to Farmout Agreement—Shouyang PSC, dated December 15, 2003, by and between Phillips China Inc. and the Company (filed as Exhibit 10.30 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2004, which was filed on March 15, 2005, and incorporated herein by reference).
- 10.31 Second Amendment to Farmout Agreement—Shouyang PSC, dated December 17, 2004, by and between Phillips China Inc. and the Company (filed as Exhibit 10.02 to the Company’s Current Report on Form 8-K filed on December 23, 2004, and incorporated herein by reference).
- 10.32 Third Amendment to Farmout Agreement—Shouyang PSC, dated December 19, 2005, by and between ConocoPhillips China Inc. and the Company (filed as Exhibit 10.2 to the Company’s Current Report on Form 8-K filed on December 21, 2005, and incorporated herein by reference).
- 10.33 Assignment Agreement—Shouyang PSC, dated June 17, 2003, by and between Phillips China Inc. and the Company (filed as Exhibit 10.5 to the Company’s Amendment No. 1 to its Quarterly Report on Form 10-QSB/A for the quarter ended June 30, 2003, which was filed on December 24, 2003, and incorporated herein by reference).
- 10.34 Stock Subscription Agreement, dated December 21, 2004, by and between Sofaer Capital Global Fund, Sofaer Capital Asian Fund, Restructuring Investors Limited, Persistency, and Passlake Limited, Tim Whyte and the Company (filed as Exhibit 10.34 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2004, which was filed on March 15, 2005, and incorporated herein by reference).
- 10.35 Application for the Extension of Phase Two of the Exploration Period under the Shouyang PSC, dated December 2, 2005, by and between the Company and China United Coalbed Methane Corporation Ltd. (filed as Exhibit 10.46 to Company’s Annual Report on Form 10-K for the year ended December 31, 2005, which was filed on March 14, 2006, and incorporated herein by a reference).
- 10.36 Application for the Extension of Phase Two of the Exploration Period under the Shouyang PSC, dated March 16, 2006, by and between the Company and China United Coalbed Methane Corporation Ltd. (filed as Exhibit 10.2 to the Company’s Current Report on Form 8-K filed on March 17, 2006, and incorporated herein by reference).
- 10.37\* Far East Energy Corporation 2005 Stock Incentive Plan (filed as Exhibit 10.2 to the Company’s Current Report on Form 8-K filed on June 2, 2005, and incorporated herein by reference).
- 10.38 Registration Rights Agreement, dated September 20, 2005, by and among Morgan Keegan & Company, Inc. and the Company (filed as Exhibit 10.47 to the Company’s Registration Statement on Form S-2 (File No. 333-129309) filed on October 28, 2005, and incorporated herein by reference).
- 10.39 Registration Rights Agreement, dated October 6, 2005, by and among Sofaer Capital Global Fund, Sofaer Capital Asian Fund, Restructuring Investors Limited, Persistency, Passlake Limited and the Company (filed as Exhibit 10.48 to the Company’s Registration Statement on Form S-2 (File No.333-129309) filed on October 28, 2005, and incorporated herein by reference).
- 10.40\* Form of Restricted Stock Agreement for Far East Energy Corporation 2005 Stock Incentive Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 21, 2007, and incorporated herein by reference.)
- 10.41\* Form of Non-Qualified Stock Option Agreement for Far East Energy Corporation 2005 Stock Incentive Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 19, 2007, and incorporated herein by reference).
- 10.42\* Form of Incentive Stock Option Agreement for Far East Energy Corporation 2005 Stock Incentive Plan (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on April 19, 2007, and incorporated herein by reference).
- 10.43\* Form of Letter Agreement with Zhendong “Alex” Yang, Garry R. Ward and Jeffrey R. Brown for Far East Energy Corporation 2005 Stock Incentive Plan (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on April 19, 2007, and incorporated herein by reference).

- 10.44\* Form of Letter Agreement with the Company's non-employee directors (filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed on April 19, 2007, and incorporated herein by reference).
- 10.45\* First Amendment to Amended and Restated Employment Agreement dated April 16, 2007 between the Company and Michael R. McElwrath (filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed on April 19, 2007, and incorporated herein by reference).
- 10.46\* First Amendment to Amended and Restated Employment Agreement dated April 16, 2007 between the Company and Bruce N. Huff (filed as Exhibit 10.5 to the Company's Current Report on Form 8-K filed on April 19, 2007, and incorporated herein by reference).
- 10.47 Modification Agreement dated April 24, 2007 for Production Sharing Contract for Exploitation of Coalbed Methane Resources for the Shouyang Area in Shanxi Province, Qinshui Basin, the People's Republic of China, dated April 16, 2002, by and among China United Coalbed Methane Corporation Ltd., ConocoPhillips China Inc. and Far East Energy (Bermuda), Ltd. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 27, 2007, and incorporated herein by reference).
- 10.48 Modification Agreement dated April 24, 2007 for Production Sharing Contract for Exploitation of Coalbed Methane Resources for the Quinnan Area in Shanxi Province, Qinshui Basin, the People's Republic of China, dated April 16, 2002, by and among China United Coalbed Methane Corporation Ltd., ConocoPhillips China Inc. and Far East Energy (Bermuda), Ltd. (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on April 19, 2007, and incorporated herein by reference).
- 10.49 Modification Agreement dated April 24, 2007 for Production Sharing Contract for Exploitation of Coalbed Methane Resources for the Enhong and Laochang Area in Yunnan Province, the People's Republic of China, dated December 3, 2002, between China United Coalbed Methane Corporation Ltd. and Far East Energy (Bermuda), Ltd. (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on April 19, 2007, and incorporated herein by reference).
- 10.50\* Release Agreement dated May 17, 2007 among the Company, and Far East Energy (Bermuda), Ltd. and Jeffrey R. Brown (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 22, 2007, and incorporated herein by reference).
- 10.51\* Stock Subscription Agreement dated August 24, 2007 between the Company and International Finance Corporation (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 27, 2007, and incorporated herein by reference).
- 10.52\*† Non-Qualified Stock Option Agreement, dated October 1, 2007, by and between the Company and William A. Anderson.
- 31.1 † Certification of Chief Executive Officer of the Company under Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 † Certification of Chief Financial Officer of the Company under Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 † Certification of Chief Executive Officer of the Company Pursuant to 18 U.S.C. § 1350.
- 32.2 † Certification of Chief Financial Officer of the Company Pursuant to 18 U.S.C. § 1350.

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\* Management contract or compensatory plan arrangement.

† Filed herewith.

## FAR EAST ENERGY CORPORATION

## NON-QUALIFIED STOCK OPTION AGREEMENT

FOR GOOD AND VALUABLE CONSIDERATION, receipt of which is hereby acknowledged, Far East Energy Corporation (the "Company"), a Nevada corporation, hereby grants to William A. Anderson (the "Option Holder"), the option to purchase shares of the common stock, \$0.001 par value per share, of the Company ("Shares"), upon the terms set forth in this stock option agreement (this "Agreement");

WHEREAS, the Option Holder has been granted the following award in connection with his or her retention to provide services to the Company;

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein, the parties hereto agree as follows.

1. Grant. The Option Holder is hereby granted an option (the "Option") to purchase 210,000 Shares (the "Option Shares"). The Option is granted as of October 1, 2007 (the "Date of Grant"). This Option shall not be treated as an "incentive stock option" as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

2. Status of Option Shares. The Option Shares shall upon issue rank equally in all respects with the other Shares.

3. Option Price. The purchase price for the Option Shares shall be, except as herein provided, \$1.05 per Option Share, hereinafter sometimes referred to as the "Option Price," payable immediately in full upon the exercise of the Option.

4. Term of Option. The Option may be exercised only during the period (the "Option Period") set forth in Section 6 below and shall remain exercisable until the tenth anniversary of the Date of Grant. Thereafter, the Option Holder shall cease to have any rights in respect thereof.

5. Exercisability. Subject to the Option Holder's continued service with the Company and the terms and conditions of this Agreement, the Option will vest and become exercisable with respect to 25% of the Option Shares on the Date of Grant and with respect to an additional 25% of the Option Shares on each of the first, second and third anniversaries of the Date of Grant, so that the Option will be 100% vested and exercisable after the third anniversary of the Date of Grant, as set forth in the following schedule:

<b>Timeframe from Date of Grant (Vesting Date)</b>	<b>Vesting</b>	<b>Cumulative Vesting</b>
October 1, 2007 (Date of Grant)	25%	25%
October 1, 2008 (1 year)	25%	50%
October 1, 2009 (2 years)	25%	75%
October 1, 2010 (3 years)	25%	100%

6. Exercise of Option. The Option may be exercised for all, or from time to time any part, of the Option Shares for which it is then exercisable. The exercise date shall be the date the Company receives a written notice of exercise signed by the Option Holder, specifying the whole number of Option Shares in respect of which the Option is being exercised, accompanied by (a) full payment for the Option Shares with respect to which the Option is exercised, in a manner acceptable to the Company (which, at the discretion of the Company, shall include a broker assisted exercise arrangement), of the Option Price for the Option Shares for which the Option is being exercised and (b) payment by the Option Holder of all payroll, withholding or income taxes incurred in connection with the Option exercise (or arrangements for the collection or payment of such tax satisfactory to the Compensation Committee of the Board of Directors of the Company (or if there is no such committee, then the Board of Directors of the Company) (the "Committee") are made). The purchase price for the Shares as to which the Option is exercised shall be paid to the Company in full at the time of exercise at the election of the Option Holder (i) in cash, (ii) in Shares having a Fair Market Value (as defined below) equal to the aggregate Option Price for the Shares being purchased and satisfying such other requirements as may be imposed by the Committee; provided, that, such Shares have been held by the Option Holder for no less than six months, (iii) partly in cash and partly in such Shares, or (iv) through the delivery of irrevocable instructions to a broker to deliver promptly to the Company an amount equal to the aggregate Option Price for the Shares being purchased. Anything to the contrary herein notwithstanding, the Company shall not be obligated to issue any Option Shares hereunder if the issuance of the Option Shares would violate the provision of any applicable law, in which event the Company shall, as soon as practicable, take whatever action it reasonably can so that the Option Shares may be issued without resulting in such violations of law.

For purposes of this Agreement, "Fair Market Value" shall mean, on a given date, the arithmetic mean of the high and low prices of the Shares as reported on such date on the Composite Tape of the principal national securities exchange on which such Shares are listed or admitted to trading, or, if no Composite Tape exists for such national securities exchange on such date, then on the principal national securities exchange on which such Shares are listed or admitted to trading, or, if the Shares are not listed or admitted on a national securities exchange, the arithmetic mean of the per Share closing bid price and per Share closing asked price on such date as quoted on the National Association of Securities Dealers Automated Quotation System (or such market in which such prices are regularly quoted), or, if there is no market on which the Shares are regularly quoted, the Fair Market Value shall be the value established by the Committee in good faith. If no sale of Shares shall have been reported on such Composite Tape or such national securities exchange on such date or quoted on the National Association of Securities Dealers Automated Quotation System on such date, then the immediately preceding date on which sales of the Shares have been so reported or quoted shall be used.

7. Exercisability Upon Termination of Service by Death or Disability. Upon a Termination of Service (as defined below) by reason of death or Disability (as defined below), the Option may be exercised within 180 days following the date of death or Termination of Service due to Disability (subject to any earlier termination of the Option as provided herein), by the Option Holder in the case of Disability, or in the case of death, by the Option Holder's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but in any case only to the extent the Option Holder was entitled to exercise the Option on the date of his or her Termination of Service by death or Disability. To the extent that the Option Holder was not entitled to exercise the Option at the date of his or her Termination of Service by death or Disability, or if he or she does not exercise the Option (which he or she was entitled to exercise) within the time specified herein, the Option shall terminate. Notwithstanding anything to the contrary herein, the Committee may at any time and from time to time prior to the termination of the Option, with the consent of the Option Holder, extend the period of time during which the Option Holder may exercise his or her Option following the date of Termination of Service due to death or Disability; provided, however, that the maximum period of time during which the Option shall be exercisable following the date of Termination of Service due to death or Disability shall not exceed the original term of the Option and that notwithstanding any extension of time during which the Option may be exercised, the Option, unless otherwise amended by the Committee, shall only be exercisable to the extent the Option Holder was entitled to exercise the Option on the date of Termination of Service due to death or Disability. Any such extension shall be designed to conform to the requirements of Section 409A of the Code so as to avoid the imposition of the additional income tax. For purposes of this Agreement, "Termination of Service" shall mean a Option Holder's termination of service with the Company, its Subsidiaries (as defined in Section 424(f) of the Code or any successor section thereto) and Affiliates (as defined below). A Termination of Service of an employee of the Company or any Subsidiary shall not be deemed to have occurred in the case of sick leave, military leave or any other leave of absence, in each case approved by the Committee or in the case of transfers between locations of the Company or its Subsidiaries. In the case of "specified employees" (as described in Section 409A of the Code), distributions may not be made before the date which is six months after the date of termination of service (or, if earlier, the date of death of the Option Holder). A specified employee is a "key employee" as defined in Section 416(i) of the Code without regard to Paragraph (5), but only if the Company has any stock which is publicly traded on an established securities market or otherwise. For purposes of this Agreement, "Disability" shall mean inability to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment which can be expected to result in death, or can be expected to last for a continuous period of not less than 12 months. The determination whether the Option Holder has suffered a Disability shall be made by the Committee based upon such evidence as it deems necessary and appropriate. An Option Holder shall not be considered disabled unless he or she furnishes such medical or other evidence of the existence of the Disability as the Committee, in its sole discretion, may require. For purposes of this Agreement, "Affiliate" shall mean any entity (i) 20% or more the voting equity of which is owned or controlled directly or indirectly by the Company, or (ii) that had been a business, division or subsidiary of the Company, the equity of which has been distributed to the Company's stockholders, even if the Company thereafter owns less than 20% of the voting equity.

8. Effect of Other Termination of Service. Upon a Termination of Service for any reason (other than death or Disability), the unexercised Option may thereafter be exercised during the period ending 90 days after the date of such Termination of Service, but only to the extent to which the Option was vested and exercisable at the time of such Termination of Service. Notwithstanding the foregoing, the Committee may, in its sole discretion, either by prior written agreement with the Option Holder or upon the occurrence of a Termination of Service, accelerate the vesting of unvested Options held by the Option Holder if the Option Holder's Termination of Service is without "cause" (as such term is defined by the Committee in its sole discretion) by the Company.

9. Effect of Change of Control. Subject to the terms of this Section 9 and the other terms of this Agreement, if, upon or within 24 months following the occurrence of a Change of Control (as defined below), a Termination of Service of the

Option Holder occurs in the Option Holder's capacity as a director of the Company, then the unvested Option Shares subject to the Option shall become immediately vested in full on the date of such Termination of Service.

For purposes of this Agreement, "Change of Control" shall mean the occurrence of any of the following events:

(i) any Person (as used for purposes of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (or any successor rule thereto)) becomes the Beneficial Owner (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended (or any successor rule thereto)), directly or indirectly, of more than forty percent (40%) of the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that the following acquisitions shall not constitute a Change of Control: (A) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (B) any acquisition by an entity pursuant to a reorganization, merger or consolidation, unless such reorganization, merger or consolidation constitutes a Change of Control under clause (ii) of this Section 9;

(ii) the consummation of a reorganization, merger or consolidation, unless following such reorganization, merger or consolidation sixty percent (60%) or more of the combined voting power of the then-outstanding voting securities of the entity resulting from such reorganization, merger or consolidation entitled to vote generally in the election of directors is then Beneficially Owned, directly or indirectly, by all or substantially all of the individuals and entities who were the Beneficial Owners, respectively, of the Outstanding Company Voting Securities immediately prior to such reorganization, merger or consolidation;

(iii) the (i) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company or (ii) sale or other disposition (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company and its Subsidiaries, unless the successor entity existing immediately after such sale or disposition is then Beneficially Owned, directly or indirectly, by all or substantially all of the individuals and entities who were the Beneficial Owners, respectively, of the Outstanding Company Voting Securities immediately prior to such sale or disposition;

(iv) during any period of twenty-four months, individuals who at the beginning of such period constitute the Board of Directors of the Company (the "Board"), and any new director (other than (A) a director nominated by a Person who has entered into an agreement with the Company to effect a transaction described in clauses (i), (ii) or (iii) of this Sections 9, (B) a director whose initial assumption of office occurs as a result of either an actual or threatened election contest subject to Rule 14a-11 of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended (or any successor rule thereto), or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board or (C) a director designated by any Person who is the Beneficial Owner, directly or indirectly, of securities of the Company representing 10% or more of the Outstanding Company Voting Securities) whose election by the Board or nomination for election by the Company's stockholders was approved in advance by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority thereof; or

(v) the Board adopts a resolution to the effect that, for purposes hereof, a Change of Control has occurred.

Notwithstanding the foregoing, if the award under this Agreement consists of deferred compensation subject to Section 409A of the Code, the definition of Change of Control shall be deemed modified to the extent necessary to comply with Section 409A of the Code.

10. Adjustment Upon Certain Events.

(i) The number and type of Shares which have been authorized for issuance under this Agreement as well as the exercise or purchase price per Share, as applicable, covered by this Agreement, shall be proportionately adjusted for any increase or decrease in the number of issued Shares resulting from a stock split, reverse stock split or combination or the payment of a stock dividend (but only on the Company's common stock) or reclassification of the Company's common stock or any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company. Any such adjustment shall be determined in good faith by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under this Agreement, and the Committee's determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to this Agreement.

(ii) In the event of a Change of Control (other than pursuant to Section 11 or 12), if the Committee makes no provision for the assumption of this Agreement by the successor corporation, then the Committee shall determine whether (i) none, all or a portion of the Option shall vest, (ii) the Option shall terminate as of a date fixed by the Committee which is at least 30 days after the notice thereof to the Option Holder and shall give each Option Holder the right to exercise his or her Option as to all or any part of the Shares, including Shares as to which the Option would not otherwise be exercisable, or (iii) cause the Option, as of the effective date of any such event, to be cancelled in consideration of a cash payment or grant of an alternative option or award (whether by the Company or any entity that is a party to the transaction), or a combination thereof, to the holder of the cancelled Option, provided that such payment and/or grant are substantially equivalent in value to the fair market value of the cancelled Option as determined by the Committee.

11. Liquidation. In the event of the dissolution or liquidation of the Company, other than pursuant to Section 12 in connection with a Reorganization (as defined below), the Option shall terminate as of a date to be fixed by the Committee, provided that not less than 30 days written notice of the date so fixed shall be given to the Option Holder and the Option Holder shall have the right during such period to exercise the Option as to all or any part of the Option Shares covered hereby as to which the Option would then be exercisable.

12. Reorganization. In the event of a Reorganization in which the Company is not the surviving or acquiring company, or in which the Company is or becomes a wholly-owned subsidiary of another company or entity after the effective date of the Reorganization, then (i) if there is no plan or agreement respecting the Reorganization ("Reorganization Agreement") or if the Reorganization Agreement does not specifically provide for the change, conversion or exchange of the Option Shares under outstanding unexercised Options for securities of another corporation, then the Option shall terminate as of a date to be fixed by the Committee, provided that not less than 30 days written notice of the date so fixed shall be given to the Option Holder and the Option Holder shall have the right during such period to exercise the Option as to all or any part of the Option Shares covered hereby; or (ii) if there is a Reorganization Agreement and if the Reorganization Agreement specifically provides for the change, conversion or exchange of the Option Shares under outstanding or unexercised options for securities, cash or property of another corporation or entity, then the Committee shall adjust the Option Shares under such outstanding unexercised Options (and shall adjust the Option Shares which are then available to be optioned, if the Reorganization Agreement makes specific provisions therefor) in a manner not inconsistent with the provisions of the Reorganization Agreement for the adjustment, change, conversion or exchange of such stock and such options. The term "Reorganization" as used in this Section 12 shall mean any merger, consolidation, sale of all or substantially all of the assets of the Company, or sale, pursuant to an agreement with the Company, of securities of the Company pursuant to which the Company is or becomes a wholly-owned subsidiary of another company or entity after the effective date of the Reorganization.

13. Lock Up Agreement. The Option Holder agrees that upon request of the Company or the underwriters managing any underwritten offering of the Company's securities, the Option Holder shall agree in writing that for a period of time (not to exceed 180 days) from the effective date of any registration of securities of the Company, the Option Holder will not sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any Option Shares issued pursuant to the exercise of the Option, without the prior written consent of the Company or such underwriters, as the case may be.

14. Transfer of Shares. The Option, the Option Shares, or any interest in either, may be sold, assigned, pledged, hypothecated, encumbered, or transferred or disposed of in any other manner, in whole or in part, only in compliance with the terms, conditions and restrictions as set forth in the governing instruments of the Company, applicable United States federal and state securities laws and the terms and conditions this Agreement. Except as set forth in this Section 14, the Option shall not be transferable by the Option Holder otherwise than by will or by the laws of descent and distribution, and during the lifetime of the Option Holder the Option shall be exercisable only by the Option Holder. If the Option is exercisable after the death of the Option Holder or a transferee pursuant to the following sentence, the Option may be exercised by the legatees, personal representatives or distributees of the Option Holder or such transferee. The Option Holder may irrevocable transfer the Option for no consideration to any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law, including adoptive relationships, of the Option Holder, any trust in which these persons have more than 50% of the beneficial interest, any foundation in which these persons (or the Option Holder) control the management of assets, and any other entity in which these persons (or the Option Holder) own more than 50% of the voting interests ("Eligible Transferees"), provided that subsequent transfers of transferred Options shall be prohibited except those in accordance with the first sentence of this Section 14. The Committee may, in its discretion, amend the definition of Eligible Transferees to conform to the coverage rules of Form S-8 under the Securities Act of 1933 (or any comparable or successor registration statement) from time to time in effect. Following transfer, any such Options shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer. The events of Termination of Service of Section 8 hereof shall continue to be applied with respect to the original Option Holder, following which the options shall be exercisable by the transferee only to the extent, and



for the periods specified, in Section 8.

15. Expenses of Issuance of Option Shares. The issuance of stock certificates upon the exercise of the Option in whole or in part, shall be without charge to the Option Holder. The Company shall pay, and indemnify the Option Holder from and against any issuance, stamp or documentary taxes (other than transfer taxes) or charges imposed by any governmental body, agency or official (other than income taxes) by reason of the exercise of the Option in whole or in part or the resulting issuance of the Option Shares.

16. Withholding. No later than the date of transfer of the Shares pursuant to the exercise of the Option granted hereunder (and in any event no later than three days after Option exercise), the Option Holder shall pay to the Company or make arrangements satisfactory to the Committee regarding payment of any federal, state or local taxes of any kind required by law to be withheld upon the exercise of the Option and the Company shall, to the extent permitted or required by law, have the right to deduct from any payment of any kind otherwise due to the Option Holder, federal, state and local taxes of any kind required by law to be withheld upon the exercise of the Option. With the approval of the Committee, the Option Holder may elect to pay a portion or all of such withholding taxes by (i) delivery of Shares or (ii) having Shares withheld by the Company from any Shares that would have otherwise been received by the Option Holder. The number of Shares so delivered or withheld shall have an aggregate Fair Market Value on the date of the exercise sufficient to satisfy the applicable withholding taxes. In addition, with the approval of the Committee, the Option Holder may satisfy any additional tax that the Option Holder elects to have the Company withhold by delivering to the Company or its designated representative Shares already owned by the Option Holder or, in the case of Shares acquired through an employee benefit plan sponsored by the Company or its Subsidiaries, Shares held by the Option Holder for more than six months.

17. No Right to Continued Employment of Service. This Agreement shall not impose any obligation on the Company, its Subsidiaries or its affiliates to continue the service of the Option Holder or lessen the Company's, Subsidiary's or affiliate's right to terminate the service of the Option Holder.

18. Not Compensation for Benefit Plans. This Agreement shall be deemed salary or compensation for the purpose of computing benefits under any benefit plan or other arrangement of the Company for the benefit of its employees or directors unless the Company shall determine otherwise.

19. No Rights to Awards; No Stockholder Rights. No Option Holder shall have any claim to be granted any Option, and there is no obligation for uniformity of treatment of Option Holders. No Award shall confer on the Option Holder any rights to dividends or other rights of a stockholder with respect to Shares subject to this Agreement unless and until Shares are duly issued or transferred to the Option Holder in accordance with the terms of this Agreement and, if applicable, the satisfaction of any other conditions imposed by the Committee.

20. No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to this Agreement. The Committee shall determine, in its discretion, whether cash, other options, stock appreciation rights or other stock based awards, scrip certificates (which shall be in a form and have such terms and conditions as the Committee in its discretion shall prescribe) or other property shall be issued or paid in lieu of such fractional Shares or whether such fractional Shares or any rights thereto shall be forfeited or otherwise eliminated.

21. Severability. The provisions of this Agreement shall be deemed severable, and the invalidity or unenforceability of any one or more of the provisions hereof shall not affect the validity and enforceability of the other provisions hereof. The Option Holder agrees that the breach or alleged breach by the Company of (a) any covenant contained in another agreement (if any) between the Company and the Option Holder or (b) any obligation owed to the Option Holder by the Company, shall not affect the validity or enforceability of the covenants and agreements of the Option Holder set forth herein.

22. References. References herein to rights and obligations of the Option Holder shall apply, where appropriate, to the Option Holder's legal representative or estate without regard to whether specific reference to such legal representative or estate is contained in a particular provision of this Option.

23. Headings. The headings and other captions in this Agreement are for convenience of reference only and shall not be used in interpreting, construing or enforcing any of the provisions of this Agreement.

24. Notices. Any notice required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been given when delivered personally or by courier, or sent by certified or registered mail, postage prepaid, return receipt requested, duly addressed to the party concerned at the address indicated below or to such changed address as such party may subsequently by similar process give notice of:

If to the Company:

Far East Energy Corporation  
363 N Sam Houston Parkway East  
Suite 380  
Houston, Texas 77060  
Attn.: Secretary

If to the Option Holder:

William A. Anderson  
c/o 363 N Sam Houston Parkway East  
Suite 380  
Houston, Texas 77060

25. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas applicable to contracts made and to be performed in the State of Texas without regard to conflict of laws principles.

26. Entire Agreement. This Agreement constitutes the entire agreement among the parties relating to the subject matter hereof, and any previous agreement or understanding among the parties with respect thereto is superseded by this Agreement.

27. Modifications. No change or modification, other than adjustment of the exercise or purchase price or the number of shares of common stock purchasable pursuant to this Agreement, of this Agreement shall be valid unless the same is in writing and signed by the parties hereto; provided, however that the Option Holder hereby covenants and agrees to execute any amendment of this Agreement which shall be required or desirable (in the opinion of the Company or its counsel) in order to comply with any rule or regulation promulgated or proposed under the Code.

28. Counterparts. This Agreement may be executed in two counterparts, each of which shall constitute one and the same instrument.

29. Conflict. To the extent the provisions of this Agreement conflicts with the terms and conditions of any written agreement between the Company and the Option Holder, the terms and conditions of such agreement shall control.

IN WITNESS WHEREOF, the undersigned have executed this Agreement effective as of the Date of Grant.

FAR EAST ENERGY CORPORATION

By: /s/ Michael R. McElwrath  
Name: Michael R. McElwrath  
Title: Chief Executive Officer

/s/ William A. Anderson  
William A. Anderson

**CERTIFICATION**

I, Michael R. McElwrath, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, of Far East Energy Corporation;
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 effect, 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 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: November 7, 2007

/s/ Michael R. McElwrath

Michael R. McElwrath  
Chief Executive Officer

## CERTIFICATION

I, Randall D. Keys, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 of Far East Energy Corporation;
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 effect, 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 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: November 7, 2007

/s/ Randall D. Keys  
Randall D. Keys  
Chief Financial Officer

**CERTIFICATION 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 on Form 10-Q of Far East Energy Corporation (the Company) for the period ended September 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the Report), the undersigned, Michael R. McElwrath, the Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. section 1350, that:

(a) to my knowledge the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2007

/s/ Michael R. McElwrath  
Michael R. McElwrath  
Chief Executive Officer

**CERTIFICATION 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 on Form 10-Q of Far East Energy Corporation (the Company) for the period ended September 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the Report), the undersigned, Randall D. Keys, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. section 1350, that:

(a) to my knowledge the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2007

/s/ Randall D. Keys  
Randall D. Keys  
Chief Financial Officer