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 June 30, 2008**

**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)

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

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

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of July 23, 2008.

| **Title of each class** | **Number of shares** |
|---|---|
| Common Stock, par value $0.001 per share | 161,210,390 |

**FAR EAST ENERGY CORPORATION**
**(A Development Stage Company)**
**TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

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

| | June 30, 2008 *(unaudited)* | December 31, 2007 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 20,301,000 | $ 16,906,000 |
| Inventory | 289,000 | 297,000 |
| Prepaid expenses | 135,000 | 149,000 |
| Deposits | 89,000 | 94,000 |
| Other current assets | 73,000 | 30,000 |
| Total current assets | 20,887,000 | 17,476,000 |
| Unevaluated oil and gas properties | 33,618,000 | 31,889,000 |
| Other fixed assets, net | 441,000 | 428,000 |
| Total assets | $ 54,946,000 | $ 49,793,000 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 1,425,000 | $ 1,243,000 |
| Accrued liabilities | 3,530,000 | 2,055,000 |
| Total current liabilities | 4,955,000 | 3,298,000 |
| 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, 161,210,390 and 137,005,294 issued and outstanding, respectively | 161,000 | 137,000 |
| Additional paid-in capital | 107,460,000 | 94,983,000 |
| Unearned compensation | (421,000) | (764,000) |
| Deficit accumulated during the development stage | (57,209,000) | (47,861,000) |
| Total stockholders' equity | 49,991,000 | 46,495,000 |
| Total liabilities and stockholders' equity | $ 54,946,000 | $ 49,793,000 |

See the accompanying notes to consolidated financial statements.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | | February 4, 2000 (Inception) through |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | June 30, 2008 |
| Operating revenues | $ - | $ - | $ - | $ - | $ - |
| Operating expenses: | | | | | |
| Exploration costs | 1,701,000 | 1,146,000 | 3,938,000 | 1,680,000 | 15,673,000 |
| Lease operating expense | 784,000 | 383,000 | 1,726,000 | 832,000 | 4,629,000 |
| General and administrative | 1,690,000 | 1,915,000 | 3,731,000 | 3,660,000 | 34,304,000 |
| Impairment loss | - | - | - | - | 3,778,000 |
| Loss on investment in joint venture | - | - | - | - | 22,000 |
| Amortization of contract rights | - | - | - | - | 81,000 |
| Total operating expenses | 4,175,000 | 3,444,000 | 9,395,000 | 6,172,000 | 58,487,000 |
| Operating loss | (4,175,000) | (3,444,000) | (9,395,000) | (6,172,000) | (58,487,000) |
| Other income (expense): | | | | | |
| Interest expense | - | - | - | - | (177,000) |
| Interest income | 68,000 | 127,000 | 161,000 | 332,000 | 1,771,000 |
| Gain on sale of assets | - | - | - | - | 8,000 |
| Foreign currency transaction losses | (115,000) | (30,000) | (114,000) | (36,000) | (324,000) |
| Total other income (expense) | (47,000) | 97,000 | 47,000 | 296,000 | 1,278,000 |
| Loss before income taxes | (4,222,000) | (3,347,000) | (9,348,000) | (5,876,000) | (57,209,000) |
| Income taxes | - | - | - | - | - |
| Net loss | $ (4,222,000) | $ (3,347,000) | $ (9,348,000) | $ (5,876,000) | $ (57,209,000) |
| Earnings per share: | | | | | |
| Basic and diluted | $ (0.03) | $ (0.03) | $ (0.07) | $ (0.05) | |
| Weighted average shares outstanding: | | | | | |
| Basic and diluted | 144,978,310 | 124,594,320 | 141,092,673 | 124,243,060 | |

See the accompanying notes to consolidated financial statements.

**FAR EAST ENERGY CORPORATION**
**(A Development Stage Company)**
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**
**(Unaudited)**

| | Common Stock Number of Shares | Common Stock Par Value | Additional Paid-In Capital | Unearned Compensation | Deficit Accumulated During the Development Stage | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| **For the Six Months Ended June 30, 2008** | | | | | | |
| Balance at December 31, 2007 | 137,005,294 | $ 137,000 | $ 94,983,000 | $ (764,000) | $ (47,861,000) | $ 46,495,000 |
| Net loss | - | - | - | - | (9,348,000) | (9,348,000) |
| Common stock issued | 24,000,000 | 24,000 | 11,778,000 | - | - | 11,802,000 |
| Shares issued to consulting firm | 20,000 | - | 14,000 | - | - | 14,000 |
| Nonvested shares issued | 443,500 | - | 295,000 | 343,000 | - | 638,000 |
| Nonvested shares withheld for taxes | (258,404) | - | (136,000) | - | - | (136,000) |
| Stock options issued | - | - | 526,000 | - | - | 526,000 |
| **Balance at June 30, 2008** | **161,210,390** | **$ 161,000** | **$ 107,460,000** | **$ (421,000)** | **$ (57,209,000)** | **$ 49,991,000** |
| **For the Six Months Ended June 30, 2007** | | | | | | |
| Balance at December 31, 2006 | 123,767,342 | $ 124,000 | $ 77,599,000 | $ - | $ (36,012,000) | $ 41,711,000 |
| Net loss | - | - | - | - | (5,876,000) | (5,876,000) |
| Nonvested shares issued | 600,000 | 1,000 | 472,000 | (435,000) | - | 38,000 |
| Shares issued to consulting firm | 25,000 | - | 23,000 | - | - | 23,000 |
| Stock options issued | - | - | 749,000 | - | - | 749,000 |
| Stock options exercised | 430,000 | - | 279,000 | - | - | 279,000 |
| **Balance at June 30, 2007** | **124,822,342** | **$ 125,000** | **$ 79,122,000** | **$ (435,000)** | **$ (41,888,000)** | **$ 36,924,000** |
| **Inception (February 4, 2000) through June 30, 2008** | | | | | | |
| Balance at February 4, 2000 | - | $ - | $ - | $ - | $ - | $ - |
| Net loss | - | - | - | - | (57,209,000) | (57,209,000) |
| Common shares issued | 150,426,187 | 151,000 | 90,595,000 | - | - | 90,746,000 |
| Shares issued to consulting firm | 231,259 | - | 297,000 | - | - | 297,000 |
| Nonvested shares issued | 1,475,792 | 1,000 | 1,217,000 | (421,000) | - | 797,000 |
| Nonvested shares withheld for taxes | (258,404) | - | (136,000) | - | - | (136,000) |
| Stock options issued | - | - | 6,011,000 | - | - | 6,011,000 |
| Stock options exercised | 1,410,000 | 1,000 | 915,000 | - | - | 916,000 |
| Warrants issued | - | - | 210,000 | - | - | 210,000 |
| Warrants exercised | 7,925,556 | 8,000 | 8,185,000 | - | - | 8,193,000 |
| Warrants redeemed unexercised | - | - | (2,000) | - | - | (2,000) |
| Debt issued with beneficial conversion feature | - | - | 168,000 | - | - | 168,000 |
| **Balance at June 30, 2008** | **161,210,390** | **$ 161,000** | **$ 107,460,000** | **$ (421,000)** | **$ (57,209,000)** | **$ 49,991,000** |

See the accompanying notes to consolidated financial statements.

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

| | Six Months Ended June 30, 2008 | Six Months Ended June 30, 2007 | February 4, 2000 (Inception) through June 30, 2008 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Net loss | $ (9,348,000) | $ (5,876,000) | $ (57,209,000) |
| Adjustments to reconcile net loss to cash used in operating activities: | | | |
| Depreciation and amortization | 83,000 | 42,000 | 424,000 |
| Stock issued to pay expense | 14,000 | 23,000 | 297,000 |
| Share-based compensation | 1,164,000 | 788,000 | 6,808,000 |
| Prior period unevaluated exploratory well costs expensed | 1,415,000 | 64,000 | - |
| (Increase) decrease in inventory | 8,000 | (64,000) | (290,000) |
| (Increase) decrease in prepaids | 14,000 | 105,000 | (135,000) |
| (Increase) decrease in deposits | 5,000 | 262,000 | (89,000) |
| Increase in other current assets | (43,000) | - | (73,000) |
| Increase (decrease) in accounts payable and accrued liabilities | 1,134,000 | (58,000) | 4,432,000 |
| Impairment expense | - | - | 3,778,000 |
| Gain on sale of assets | - | - | (8,000) |
| Other, net | (136,000) | - | 242,000 |
| Net cash used in operating activities | (5,690,000) | (4,714,000) | (41,823,000) |
| Cash flows from investing activities | | | |
| Additions to unevaluated oil and gas properties in China | (2,621,000) | (5,390,000) | (33,095,000) |
| Other oil and gas investment | - | - | (1,278,000) |
| Additions to other fixed assets | (96,000) | (20,000) | (865,000) |
| Sale of oil and gas property | - | - | 1,108,000 |
| Net cash used in investing activities | (2,717,000) | (5,410,000) | (34,130,000) |
| Cash flows from financing activities | | | |
| Net proceeds from sale of common stock | 11,802,000 | - | 87,147,000 |
| Net proceeds from exercise of options | - | 279,000 | 916,000 |
| Net proceeds from exercise of warrants | - | - | 8,191,000 |
| Net cash provided by financing activities | 11,802,000 | 279,000 | 96,254,000 |
| Increase (decrease) in cash and cash equivalents | 3,395,000 | (9,845,000) | 20,301,000 |
| Cash and cash equivalents--beginning of period | 16,906,000 | 20,501,000 | - |
| Cash and cash equivalents--end of period | $ 20,301,000 | $ 10,656,000 | $ 20,301,000 |
| Supplemental Cash Flow Information | | | |
| Cash Paid for Interest expense | $ - | $ - | $ - |
| Cash Paid for Income taxes | $ - | $ - | $ - |

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.** 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 any revenues from operations 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 disclosures 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. The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires the Company's management to make estimates, judgments and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Management believes that the information and disclosures provided herein are adequate to present fairly the condensed consolidated financial position, results of operations and cash flows of the Company. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2007.

Prior period information presented in these financial statements includes reclassifications which were made to conform such information 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 six-month period ended June 30, 2007, we issued 25,000 shares of our common stock as payment of consulting fees, valued at approximately $23,000. During the first quarter of 2008, we issued 20,000 shares of our common stock as payment of consulting fees, valued at approximately $14,000. No shares were issued for this purpose after the first quarter of 2008 as the consulting agreement was modified to allow us to pay cash for the consulting services received.

**Recently Issued Accounting Standards and Developments.** There were no recent accounting pronouncements at June 30, 2008 that materially affected our company.

## 2. Liquidity and Realization of Assets

We have funded our exploration and development activities primarily through the sale and issuance of common stock. During the second quarter of 2008, we completed a transaction for the sale of 24 million shares of our common stock and warrants to purchase up to 8.4 million shares of our common stock for total net proceeds of $11.8 million. As of June 30, 2008, the amount available under our filed registration statement with the SEC for the offer and sale from time to time of our common stock, preferred stock, depositary shares, debt securities, warrants, stock purchase contracts and units totaled $87.1 million. We have not established a source of revenue and are not able to accurately predict the timing of our first revenue.

Following the completion of the second quarter 2008 stock offering, we have expanded our work plan for 2008 in an effort to accelerate our dewatering efforts at the Shouyang Block. Based on funds currently available to us, we believe that we have adequate cash resources to fund our required operations and exploration and development operations in China into early 2009. However, to continue to operate, explore and develop our projects in China, we will need to raise additional funds. We may seek to accelerate our capital raising plans for a variety of reasons, including but not limited to, the acceleration of dewatering efforts in the Shouyang Block, the production of significant quantities of gas, or a desire to accelerate drilling activities in the Shouyang or Qinnan Blocks.

As of June 30, 2008, we had unevaluated exploratory well costs totaling $33.3 million, of which $28.1 million have been capitalized for a period greater than one year. Such costs, which relate primarily to the Shouyang Block in Shanxi Province, were initially capitalized under successful efforts accounting, pending a determination of whether or not they have found sufficient quantities of economically recoverable proved reserves. We make periodic assessments of whether these costs qualify for continuing capitalization, based on whether we are making sufficient progress in assessing the reserves and determining the economic and operating viability of the project, as more fully discussed in note 3 to the consolidated financial statements.

In addition to these periodic assessments, we also assess whether we have a reasonable expectation of recovering these costs through future net cash flows from the project, if we are successful in establishing proved reserves. During the first quarter of 2008, we received the report of an independent engineering firm, which was commissioned to study the various technical aspects of the current pilot project in the Shouyang Block. The study indicated that significant gas content is present in the pilot area and that the coal in the area has relatively high permeability, based on production data available from the first seven wells (four horizontal and three vertical) drilled in the pilot area. The report also indicated that we have made progress in lowering the field pressure to a level which appears to be approaching the critical desorption pressure necessary for CBM gas production. Although there are many uncertainties associated with our exploration and dewatering efforts, we believe the results of the study provide the company with a reasonable basis for the long-term viability and economic success of this project, and support the continued capitalization of our unevaluated capitalized exploratory well costs in the project while we are continuing to evaluate the field.

The report noted that the initial seven pilot wells evaluated by the independent engineering firm had suffered varying degrees of wellbore damage while being drilled. Without taking into consideration future planned wells, the report also indicates that the seven pilot wells appear insufficient to properly confine the area for dewatering purposes. As such, the report indicates that we are unlikely to produce meaningful quantities of gas from these initial seven wells without drilling additional wells and/or conducting remedial activities on the seven wells. Subsequent to the drilling of the seven wells included in the report, we have drilled six additional vertical wells as of June 30, 2008. Our immediate plans for this area involve the drilling of one additional horizontal well and seven additional deviated or vertical wells as required. If these wells produce sufficient water and are cost effective, additional horizontal, deviated and/or vertical drilling efforts are likely. However, there are many risks and uncertainties involved in early stages of exploring and attempting to develop a new CBM gas field and we cannot make any assurances that our efforts will be successful in making the pilot area commercially viable. In the event we are not successful, we may be required to write off some or all of these unevaluated exploratory well costs.

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 or exploration success or that we will realize the value of our unevaluated exploratory well costs. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Management believes that we will continue to be successful in raising the funds necessary to continue as a going concern.

## 3. Unevaluated Oil and Gas Properties

Unevaluated oil and gas properties include the following:

| | At June 30, 2008 | At December 31, 2007 |
|---|---|---|
| Unproved leasehold costs | $ 350,000 | $ 350,000 |
| Unevaluated exploratory well costs | 33,268,000 | 31,539,000 |
| Unevaluated oil and gas properties | $ 33,618,000 | $ 31,889,000 |

At June 30, 2008, we have assessed and analyzed our current projects for unevaluated exploratory wells costs that have been capitalized beyond one year, according to SFAS No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies," as amended. We assess these unevaluated exploratory well costs each quarter to determine whether they should remain capitalized or should be charged to earnings. In the event that our assessment indicates that the work program is making sufficient continuing progress toward assessing the reserves, we will continue to capitalize the costs associated with that work program.

Our net changes in unevaluated exploratory well costs for the six months ended June 30, 2008 are presented below:

| | Six Months Ended June 30, 2008 |
|---|---|
| Beginning balance at December 31, 2007 | $ 31,539,000 |
| Additions to unevaluated exploratory well costs pending the determination of proved reserves | 3,144,000 |
| Reclassifications to wells, facilities, and equipment based on the determination of proved reserves | - |
| Unevaluated exploratory well costs charged to expense | (1,415,000) |
| Ending balance at June 30, 2008 | $ 33,268,000 |

During the first half of 2008, we determined that $1,415,000 of unevaluated exploratory well costs incurred previously in the Yunnan Province and the Qinnan Block in the Shanxi Province no longer met the requirements for continued capitalization. Accordingly, we charged this amount to exploration costs.

The following table provides an aging of unevaluated 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:

| | At June 30, 2008 |
|---|---|
| Unevaluated exploratory well costs that have been capitalized for a period of one year or less | $ 5,201,000 |
| Unevaluated exploratory well costs that have been capitalized for a period greater than one year | 28,067,000 (1) |
| Balance at June 30, 2008 | $ 33,268,000 |
| Number of projects that have exploratory well costs that have been capitalized for a period greater than one year | 2 |

(1) Costs related to our exploratory projects in the Shouyang and Qinnan Blocks in the Shanxi Province as of June 30, 2008. We are making sufficient continuing progress assessing the reserves and the economic and operating viability of the wells by, among other efforts, dedicating project personnel who have the appropriate skills and by funding and executing the necessary operating and evaluation activities.

## 4. Other Fixed Assets

Other fixed assets, net include the following:

| | At June 30, 2008 | At December 31, 2007 |
|---|---|---|
| Other fixed assets | $ 865,000 | $ 769,000 |
| Accumulated depreciation and amortization | (424,000) | (341,000) |
| Other fixed assets, net | $ 441,000 | $ 428,000 |

Other fixed assets include leasehold improvements, equipment and furniture. Depreciation expenses for the six-month periods ended June 30, 2008 and 2007 were $83,000 and $42,000, respectively. Depreciation expenses for the three-month periods ended June 30, 2008 and 2007 were $43,000 and $24,000, respectively.

## 5. 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 currently 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 current exploration period. The current exploration periods under each of the two Shanxi PSCs will expire on June 30, 2009, unless extended or otherwise amended. In addition, for each of the PSCs we must meet certain minimum exploration expenditure and work program requirements. Minimum exploration expenditure requirements are denominated in the Chinese currency, RMB, and therefore, are subject to fluctuations in the currency exchange rate between the U.S. Dollars and the Chinese RMB.

As of June 30, 2008, the sum of exploration expenditures incurred during the first six months of 2008 and the excess exploration expenditure amount carried forward from 2007 for the Shouyang PSC exceeded the minimum requirement for the entire year of 2008, which is approximately $2.9 million. We have incurred exploration expenditures for the Qinnan PSC of $1.3 million toward the satisfaction of the 2008 exploration expenditure requirement of $4.2 million. Under the Shanxi PSCs, we are required to pay certain fees totaling $1.0 million in 2008 which are counted toward the satisfaction of the 2008 minimum exploration expenditure requirements. These fees include assistance fees, training fees, fees for CBM exploration rights and salary and benefits.

Our exploration work commitment during the current exploration periods under the Shouyang and Qinnan PSCs consists of completing a total of 12,000 meters of horizontal drilling in coal by June 30, 2009, unless extended or otherwise amended. This work obligation can be met by performing the work commitment on either of the Shouyang and Qinnan PSC areas, effectively combining the work commitments and drilling results for both PSCs. For the Shouyang PSC, we have completed five wells which totaled approximately 8,805 meters of horizontal drilling in coal as of June 30, 2008. During the second quarter of 2008, we began drilling a short-reach horizontal well in the range of 500 to 700 meters in the coal as part of the current well pattern. To fulfill the 12,000-meter obligation, we are required to drill additional wells. The exploration work commitment is subject to modification as a result of future data obtained and subsequent discussions with China United Coalbed Methane Co. Ltd. ("CUCBM").

During the second quarter of 2007, we began drilling our first horizontal well in the Qinnan Block. The plan is to drill the well to approximately 3,000 meters (9,800 feet) in the coal. We have engaged a Chinese drilling company to drill the well under a turnkey contract. After encountering certain drilling difficulties, which led to a temporary suspension of operations during the first quarter of 2008 to evaluate available drilling approaches, the drilling company has resumed operations during the second quarter of 2008. We are not liable for payment of the cost of this well unless and until the drilling company successfully completes the drilling of 3,000 meters with at least 2,400 meters in the coal. As such, there is no current accrual for the estimated cost of approximately $1.2 million in our financial statements. We cannot predict when or if the drilling company will be able to successfully drill the well.

**Yunnan Production Sharing Contract.** Under the Enhong-Laochang PSC in Yunnan Province, we must bear all exploration costs for discovering and evaluating CBM-bearing areas during the current exploration period. The current exploration period will expire on June 30, 2009, unless extended or otherwise amended. As of June 30, 2008, we have incurred exploration expenditures for the Enhong-Laochang PSC of $1 million toward satisfaction of the 2008 exploration expenditure requirement of approximately $1.7 million. The minimum exploration expenditure requirement is denominated in the Chinese currency, RMB, and therefore, is subject to fluctuations in the currency exchange rate between the U.S. Dollars and the Chinese RMB. Under the Enhong-Laochang PSC, we are required to pay certain fees totaling $0.4 million in 2008, which are counted toward the satisfaction of the 2008 minimum exploration expenditure requirements. These fees include assistance fees, training fees, fees for CBM exploration rights and salary and benefits.

Our exploration work requirement for the Enhong and Laochang areas was modified based on the geological and geophysical data collected to date. Instead of the previous requirement of drilling a horizontal well, we are now required to drill five vertical or deviated wells by December 31, 2008. During the first half of 2008, we spudded a vertical well in the Daobanfang sub-block of the Laochang area and completed drilling two deviated wells in the Yuwang sub-block of the Laochang area. We completed a third deviated well early in the third quarter of 2008 and are also drilling a fourth deviated well to fulfill our exploration work requirement for the year.

**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 PRC's Ministry of Commerce and Ministry of Land and Resources. 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 that differ from 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 determined to be necessary.

**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 laws promulgated by the local Chinese tax authorities, underpayments or overpayments may result. Management believes that the chance that such underpayments or overpayments will individually, or in the aggregate, have a material effect on our financial condition or results of operations is remote.

## 6. Common Stock

**Issuance of Shares and Warrants.** During the second quarter of 2008, we completed a transaction for the sale of 24 million shares of our common stock and warrants to purchase of up to 8.4 million shares of our common stock for total net proceeds of $11.8 million. The offering price for the transaction was $0.50 per share, with warrants equal to 35 percent of the shares issued at an exercise price of $1.00 per share. The warrants have a five-year term and may be called or redeemed after May 30, 2009 if the stock price has equaled or exceeded $2.00 per share over a specified period of time.

**Shares Withheld for Taxes.** During the six months ended June 30, 2008, we withheld 258,404 shares of our common stock from the vesting of nonvested shares (also commonly referred to as "restricted stock") granted to employees to satisfy tax withholding obligations of $136,000. Once withheld, the shares were canceled and removed from the number of outstanding shares. Accordingly, we reduced our common stock and our additional paid in capital on our consolidated balance sheet by an amount which equaled to the fair market value of the shares on the date of withholding and cancellation. We subsequently remitted the amount withheld to the tax authority.

**Outstanding Warrants.** A summary of warrants outstanding as of June 30, 2008 is as follows:

| Exercise Price / | Warrants | Expiration Date In | | | |
|---|---|---|---|---|---|
| Range | Outstanding | 2008 | 2010 | 2012 | 2013 |
| $0.80 - $0.90 | 290,877 | 150,000 | 140,877 | - | |
| $1.00 | 8,400,000 (1) | - | - | - | 8,400,000 |
| $1.50 | 20,562 | - | 20,562 | - | |
| $2.50 | 36,875 | - | 36,875 | - | |
| $2.61 | 4,019,908 (2) | - | - | 4,019,908 | |
| Total | 12,768,222 | 150,000 | 198,314 | 4,019,908 | 8,400,000 |

(1) Granted to investors in conjunction with their purchase of our common stock during the second quarter of 2008.
(2) Granted to the International Finance Corporation in conjunction with its purchase of our common stock during third quarter of 2007.

**7. Share-Based Compensation**

We grant nonvested shares of common stock and options to purchase common stock to employees, members of the board of directors and consultants under our shareholder-approved 2005 Stock Incentive Plan (the "2005 Plan"). Grants prior to the adoption of the 2005 Plan and inducement grants associated with hiring of new employees and appointment of new directors are issued outside of the 2005 Plan. The 2005 Plan was amended in 2007 to provide a total of 7,500,000 shares authorized for grants. As of June 30, 2008, we had 3,037,533 shares available for awards under the Plan, of which 1,526,000 shares could be issued as nonvested shares or other full-valued stock-based awards. During the first quarter of 2008, we issued 1,616,500 options awards under the 2005 Plan to employees, members of the board of directors and consultants. During the same period, we also awarded 688,000 inducement option grants outside the 2005 Plan to a new employee and a new director. We did not issue any share-based awards during the second quarter of 2008.

We account for share-based compensation expense under 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 based on the grant date fair value of those awards. We use the Black-Scholes option pricing model to determine the grant date fair value of options and the closing share price on date of grant to determine the grant date fair value of nonvested shares. We recognize the compensation expense over the period during which the grantee is required to provide service in exchange for the award.

The compensation expense is included in the Consolidated Statements of Operations as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| Exploration Costs | $ 108,000 | $ 10,000 | $ 226,000 | $ 52,000 |
| General and Administrative | 364,000 | 441,000 | 938,000 | 736,000 |
| | $ 472,000 | $ 451,000 | $ 1,164,000 | $ 788,000 |

The following table summarizes stock option transactions during the six-month period ended June 30, 2008:

| | **Options** | **Weighted Average Grant Price** |
|---|---|---|
| Outstanding at January 1, 2008 | 9,965,000 | $ 1.36 |
| Granted | 2,304,500 | 0.69 |
| Forfeited | (321,533) | 1.13 |
| Outstanding at June 30, 2008 | 11,947,967 | $ 1.27 |
| | | |
| Exercisable at June 30, 2008 | 8,368,522 | $ 1.38 |

At June 30, 2008, the weighted average remaining contractual life for the stock options outstanding and exercisable was 4.71 years and 2.77 years, respectively.

The following table summarizes nonvested share transactions during the six-month period ended June 30, 2008:

| | Nonvested Shares | Weighted Average Fair Value Per Share |
|---|---|---|
| Outstanding at January 1, 2008 | 1,032,292 | $ 0.91 |
| Granted | 443,500 | 0.67 |
| Vested | (473,888) | 0.94 |
| Withheld for Taxes | (258,404) | 0.53 |
| Outstanding at June 30, 2008 | 743,500 | $ 0.73 |

As of June 30, 2008, we had approximately $2,311,000 in total unrecognized compensation cost related to share-based compensation, of which $421,000 was related to nonvested share grants and was recorded in unearned compensation on our Consolidated Balance Sheets. This cost is expected to be recognized over a weighted average period of 2.90 years at June 30, 2008. This expected cost does not include the impact of any future share-based compensation awards.

## 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, 2007 ("2007 Annual Report"), the financial statements and related notes in this Quarterly Report, the risk factors in our 2007 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.*

**Overview.** During the second quarter of 2008, we continued our efforts to explore and develop coalbed methane ("CBM") gas in Shanxi Province in northern People's Republic of China ("PRC" or "China") and in Yunnan Province in southern PRC. During the six months ended June 30, 2008, we incurred exploration expenditures of $5.1 million, of which $2.6 million were capitalized. Although we believe the results of our exploration activities in Shanxi and Yunnan Provinces have been favorable, we will need to complete more wells to achieve commercial viability in these provinces, which will require additional capital expenditures. There are many risks and uncertainties involved in early stages of exploring and attempting to develop a new CBM gas field and we cannot make any assurances that our efforts will be successful.

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

| | Six months ended June 30, | |
|---|---|---|
| | **2008** | **2007** |
| Additions to Unevaluated Oil and Gas Properties | | |
| Shanxi Province | $ 2,621,000 | $ 5,180,000 |
| Yunnan Province | - | 210,000 |
| | 2,621,000 | 5,390,000 |
| Exploration Costs (1) | 2,523,000 | 1,616,000 |
| | $ 5,144,000 | $ 7,006,000 |

(1) Exploration costs shown are different from those in the Consolidated Statements of Operations as they are net of prior year unevaluated exploratory well costs charged to expense of $1,415,000 and $64,000 for the six-month periods ended June 30, 2008 and 2007, respectively.

*Shouyang Block, Shanxi Province.* At this time, our goal for the pilot area of the Shouyang Block is to maximize water production to assure that critical desorption pressure is reached as soon as possible in order to achieve commercial quantities of gas production. During the second quarter of 2008, to enhance water production, we completed drilling one vertical well and conducted hydraulic fracturing operations on that well, as well as two existing wells. Hydraulic fracturing is a stimulation method used to improve wellbore productivity by providing a channel that extends beyond any damage done to the wellbore during the drilling process. This allows for water and gas to more easily flow to the wellbore and be produced. The fracturing operations on all three wells have resulted in increased volumes of water production providing support for permeability of the coal seam ranging between 80 to 120 millidarcies.

As we further dewater the pilot area of the Shouyang Block, we have gained additional knowledge of the coal seam in the area by employing different drilling, completion and production techniques. We have employed both cavitation and fracture stimulation. Based on the results from the three fractured wells, we have gained further insights as to situations where cavitation or fracture stimulation may improve our dewatering results. In addition, vertical wells that are fracture-stimulated can be completed relatively inexpensively.

During the second quarter, we also spudded a short-reach horizontal well, which we plan to drill to less than 1,000 meters in the coal seam. Based on our knowledge and experience in the area, we believe short-reach horizontal wells may further enhance water production of the area.

Using the knowledge gained, we also plan to drill three deviated wells in the third quarter of 2008 to continue our efforts to enhance water production with the objective of reaching critical desorption pressure. Once drilled to the coal seam, the wells will be fracture stimulated. These wells also represent another phase in the process of reducing costs. These are essentially vertical wells, but drilled at a very high angle from an existing well pad and location. Utilizing an existing well location allows more than one well to be drilled from the same pad; consequently, reducing land and pad construction costs, as well as reducing environmental impact.

*Qinnan Block, Shanxi Province.* During second quarter of 2008, we completed drilling two vertical parameter wells in the southern portion of the Qinnan Block in Shanxi Province. Parameter wells are designed primarily to obtain geologic data about the coal and are not necessarily intended for production. We plan to drill two additional parameter wells in the future. Together, the four wells should give us enough reservoir information in the area to determine whether or not we should drill a horizontal well or fracture and test-produce these vertical wells.

We began drilling our first horizontal well in the eastern portion of the Qinnan Block during the second quarter of 2007. The well was designed to drill horizontally approximately 3,000 meters, including at least 2,400 meters in the coal, to begin dewatering the area and obtain useful reservoir and production information. We engaged a Chinese drilling company to drill the well under a turnkey contract. After encountering drilling difficulties, which led to a temporary suspension of drilling operations during the first quarter of 2008 to evaluate available drilling approaches, the drilling company has resumed operations during the second quarter of 2008. We are not liable for payment of the costs of this well until the drilling company successfully drills 3,000 meters horizontally with at least 2,400 meters in the coal. We cannot predict when or if the drilling company will be able to successfully drill the well.

*Enhong-Laochang Area, Yunnan Province*. During the second quarter of 2008, we completed drilling two deviated wells in the Yuwang sub-block of the Laochang area. We completed a third deviated well early in the third quarter and are currently drilling a fourth deviated well. In addition, a vertical well was spudded in the first quarter in the Daobanfang sub-block of the Laochang area. We believe these wells will provide us with more geological and reservoir information about the area.

*Production Sharing Contracts.* Our operations in the Shouyang and Qinnan Blocks in Shanxi Province and the Enhong-Laochang area of Yunnan Province are conducted under three separate Production Sharing Contracts ("PSCs"). The two Shanxi PSCs and the Yunnan PSC will expire on July 1, 2032 and January 1, 2033, respectively, subject to the existence of commercially productive reserves and unless extended or otherwise amended. Our participating shares are 70% for the two Shanxi Province PSCs and 60% for the Yunnan PSC. China United Coalbed Methane Co. Ltd. ("CUCBM") is the participant of the remaining shares of the PSCs. The three PSCs are divided into three periods: exploration, development and production. All three PSCs are currently in the exploration period, which expires on June 30, 2009, unless extended or otherwise amended. During this period, all expenditures are funded by us. Expenditures in the development and production periods are funded in proportion to the respective participating share of the participants in the

PSC. Qualified project costs incurred by us can be recovered from the first 75% of gross production of CBM for the two Shanxi Province PSCs and 70% of gross production of CBM for the Yunnan PSC. Participants will pay their proportionate share of the value added tax of 5% and royalty to the Chinese government of up to 3%. For the Shouyang and Qinnan PSCs, our company must pay ConocoPhillips, Inc. 3.5% royalty on production.

**Results of Operations**

*Three Months Ended June 30, 2008 vs. Three Months Ended June 30, 2007*

| | Three months ended June 30, | |
|---|---|---|
| | **2008** | **2007** |
| Exploration costs | $ 1,701,000 | $ 1,146,000 |
| Lease operating expense | 784,000 | 383,000 |
| General and Administrative | 1,690,000 | 1,915,000 |
| Total | $ 4,175,000 | $ 3,444,000 |

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. For more information on capitalized drilling costs, see "Overview-Total Exploration Expenditures."

The table below sets out components of exploration costs for the three-month periods ended June 30, 2008 and June 30, 2007:

| | Three months ended June 30, | |
|---|---|---|
| | **2008** | **2007** |
| Capitalized well costs charged to expense | $ 43,000 | $ 64,000 |
| Technical personnel compensation | 204,000 | 90,000 |
| Contract drilling & related expenses | 1,454,000 | 992,000 |
| Total | $ 1,701,000 | $ 1,146,000 |

Exploration costs in the second quarter of 2008 increased due to higher contract drilling and related expenses of $462,000 as a result of increased drilling activities. The increase was also due to higher employee compensation of technical personnel of $114,000 consisting primarily of non-cash share-based compensation.

Lease operating expense ("LOE") for the second quarter of 2008 was comprised of costs pertaining to the dewatering efforts of 13 wells in the Shouyang Block in Shanxi Province, which presently have sustained low rates of small gas production. To date, the production is not at commercial levels and the data obtained is not sufficient to project when or if the wells will achieve commercial gas production rates and what those rates may be. LOE for the second quarter of 2008 increased primarily due to an increase in workovers of $168,000 and an increase in pumping related costs of $206,000. The table below sets out components of LOE expense for the three-month periods ended June 30, 2008 and June 30, 2007:

| | Three months ended June 30, | |
|---|---|---|
| | **2008** | **2007** |
| Workovers | $ 335,000 | $ 167,000 |
| Pumping Related Costs | 318,000 | 112,000 |
| Supervision | 131,000 | 104,000 |
| Total | $ 784,000 | $ 383,000 |

General and administrative ("G&A") expenses for the three months ended June 30, 2008 decreased $225,000 primarily due to a separation payment of $86,000 in the second quarter of 2007 to a former employee, lower legal expenses of $78,000 and lower non-cash share-based compensation of $67,000.

*Six Months Ended June 30, 2008 vs. Six Months Ended June 30, 2007*

| | **Six months ended June 30,** | |
|---|---|---|
| | **2008** | **2007** |
| Exploration costs | $ 3,938,000 | $ 1,680,000 |
| LOE | 1,726,000 | 832,000 |
| G&A | 3,731,000 | 3,660,000 |
| Total | $ 9,395,000 | $ 6,172,000 |

The table below sets out components of exploration costs for the six-month periods ended June 30, 2008 and June 30, 2007:

| | **Six months ended June 30,** | |
|---|---|---|
| | **2008** | **2007** |
| Capitalized well costs charged to expense | $ 1,415,000 | $ 64,000 |
| Seismic data acquisition | 84,000 | - |
| Technical personnel compensation | 416,000 | 212,000 |
| Contract drilling & related expenses | 2,023,000 | 1,404,000 |
| Total | $ 3,938,000 | $ 1,680,000 |

During the six months ended June 30, 2008, we determined that $1,415,000 of capitalized costs incurred previously in the Yunnan Province and the Qinnan Block in Shanxi Province no longer met the requirements for continued capitalization. Accordingly, we charged this amount to exploration costs. Comparable charges in the six months ended June 30, 2007 were $64,000. Exploration costs also increased due to acquisition of seismic data in the Qinnan Block of $84,000, higher contract drilling and related expenses of $619,000 as a result of increased drilling activities, and higher employee compensation of technical personnel of $204,000, consisting primarily of non-cash share-based compensation.

LOE for the six months ended June 30, 2008 was comprised of costs pertaining to the dewatering efforts in the Shouyang Block in Shanxi Province, which presently have sustained low rates of small gas production. To date, the production is not at commercial levels and the data obtained is not sufficient to project when or if the well will achieve commercial gas production rates and what those rates may be. LOE for the six months ended June 30, 2008 increased primarily due to an increase in workovers of $732,000 and an increase in pumping related costs of $123,000. The table below sets out components of LOE expense for the six-month periods ended June 30, 2008 and June 30, 2007:

| | **Six months ended June 30,** | |
|---|---|---|
| | **2008** | **2007** |
| Workovers | $ 1,052,000 | $ 320,000 |
| Pumping Related Costs | 461,000 | 338,000 |
| Supervision | 213,000 | 174,000 |
| Total | $ 1,726,000 | $ 832,000 |

G&A expenses for the first half of 2008 were not materially different compared to those expenses incurred in the same period a year ago.

**Capital Resources and Liquidity.** We have funded our exploration and development activities primarily through the sale and issuance of common stock. During the second quarter of 2008, we completed a transaction for the sale of 24 million shares of our common stock and warrants to purchase up to 8.4 million shares of our common stock for total net proceeds of $11.8 million. The offering price for the transaction was $0.50 per share, with warrants equal to 35 percent of the shares issued at an exercise price of $1.00 per share. The warrants have a five-year term and may be called or redeemed after May 30, 2009 if the stock price has equaled or exceeded $2.00 per share over a specified period of time. As of June 30, 2008, the amount available under our filed registration statement with the Securities and Exchange Commission ("SEC") for the offer and sale from time to time of our common stock, preferred stock, depositary shares, debt securities, warrants, stock purchase contracts and units totaled $87.1 million. We have not established a source of revenue and are not able to accurately predict the timing of our first revenue. The sole source of income we have is interest income derived our cash accounts at banks.

Following the completion of the second quarter of 2008 stock offering, we have expanded our work plan for 2008 in an effort to accelerate our dewatering efforts. Based on funds currently available to us, we believe that we have adequate cash resources to fund our required operations and exploration and development operations in China into early 2009 (see Note 5 to the Consolidated Financial Statements for a description of our commitments in 2008). However, to continue to operate, explore and develop our projects in China, we will need to raise additional funds. We may seek to accelerate our capital raising plans for a variety of reasons, including but not limited to, the acceleration of dewatering efforts in the Shouyang Block, the production of significant quantities of gas, or a desire to accelerate drilling activities in the Shouyang or Qinnan Blocks for strategic purposes. We may use a number of options to raise additional funds, 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 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.

As of June 30, 2008, we had unevaluated exploratory well costs totaling $33.3 million, of which $28.1 million have been capitalized for a period greater than one year. Such costs, which relate primarily to the Shouyang Block in Shanxi Province, were initially capitalized under successful efforts accounting, pending a determination of whether or not they have found sufficient quantities of economically recoverable proved reserves. We make periodic assessments of whether these costs qualify for continuing capitalization, based on whether we are making sufficient progress in assessing the reserves and determining the economic and operating viability of the project, as more fully discussed in note 3 to the consolidated financial statements.

In addition to these periodic assessments, we also assess whether we have a reasonable expectation of recovering these costs through future net cash flows from the project, if we are successful in establishing proved reserves. During the first quarter of 2008, we received the report of an independent engineering firm, which was commissioned to study the various technical aspects of the current pilot project in the Shouyang Block. The study indicated that significant gas content is present in the pilot area and that the coal in the area has relatively high permeability, based on production data available from the first seven wells (four horizontal and three vertical) drilled in the pilot area. The report also indicated that we have made progress in lowering the field pressure to a level which appears to be approaching the critical desorption pressure necessary for CBM gas production. Although there are many uncertainties associated with our exploration and dewatering efforts, we believe the results of the study provide the company with a reasonable basis for the long-term viability and economic success of this project, and support the continued capitalization of our unevaluated capitalized exploratory well costs in the project while we are continuing to evaluate the field.

The report noted that the initial seven pilot wells evaluated by the independent engineering firm had suffered varying degrees of wellbore damage while being drilled. Without taking into consideration future planned wells, the report also indicates that the seven pilot wells appear insufficient to properly confine the area for dewatering purposes. As such, the report indicates that we are unlikely to produce meaningful quantities of gas from these initial seven wells without drilling additional wells and/or conducting remedial activities on the seven wells. Subsequent to the drilling of the seven wells included in the report, we have drilled six additional vertical wells as of June 30, 2008. Our immediate plans for this area involve the drilling of one additional horizontal well and seven additional deviated or vertical wells. If these wells produce sufficient water and are cost effective, additional horizontal, deviated and/or vertical drilling efforts are likely. However, there are many risks and uncertainties involved in early stages of exploring and attempting to develop a new CBM gas field and we cannot make any assurances that our efforts will be successful in making the pilot area commercially viable. In the event we are not successful, we may be required to write off some or all of these unevaluated exploratory well costs.

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 or exploration success or that we will realize the value of our unevaluated exploratory well costs. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Management believes that we will continue to be successful in raising the funds necessary to continue as a going concern.

Our capital resources and planning can be impacted by fluctuations in the U.S. Dollar and China RMB exchange rate as well as inflations in these countries. For further discussion of these risks, see "Part II Item 3. Quantitative and Qualitative Disclosures About Market Risk."

*Cash Flow.* As of June 30, 2008, the balance in cash and cash equivalents was $20.3 million, an increase of $3.4 million from the balance of $16.9 million as of December 31, 2007, reflecting a cash inflow of $11.8 million from the second quarter 2008 offering of shares of our common stock and cash outflows related to field operations of approximately $5.7 million and G&A expenditures of approximately $2.7 million.

Cash used in operating activities for the six months ended June 30, 2008 was $5,690,000 as compared to cash used in operating activities for the same period in 2007 of $4,714,000. The increase in cash used in operating activities was due primarily to higher cash exploration costs of $907,000, LOE of $894,000, partially offset by a favorable change in working capital of $1,199,000.

Cash used in investing activities for the six months ended June 30, 2008 was $2,717,000 as compared to $5,410,000 for the same period in 2007. The decline was primarily due to a decrease in additions to unevaluated oil and gas properties of $2,769,000.

Cash provided by financing activities for the six months ended June 30, 2008 was $11,802,000 as a result of the sale of 24 million shares of our common stock and warrants to the purchase of up to 8.4 million shares of our common stock. Cash provided by financing activities for the six months ended June 30, 2007 was $279,000, which were proceeds from the exercises of options.

**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. 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 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 2007 Annual Report and subsequent filings with the SEC.

When you consider these forward-looking statements, you should keep in mind these factors, the risk factors set forth in our 2007 Annual Report under "Item 1A. Risk Factors" and in other filings with the SEC and the other cautionary statements in this Quarterly Report 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.

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

In addition to the U.S. Dollar, we conduct our business in Chinese Yuan and, therefore, are subject to foreign currency exchange risk on cash flows related to expenses and investing transactions. Prior to July 2005, the exchange rate between U.S. Dollars and Chinese Yuan was fixed, and, consequently, we experienced no fluctuations in the value of goods and services we purchased in China because of currency exchange. 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. During the first six months of 2008, the U.S. Dollar ($) to Chinese Yuan (¥) changed from $1 to ¥7.31 at the beginning of the period to ¥6.87 at the end of the period, a depreciation of the U.S. Dollar of 6%. If the Chinese Yuan continues to appreciate with respect to the U.S. Dollar, our costs in China may increase. 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.

Although inflation has not materially impacted our operations in the recent past, increased inflation in China or the U.S. could have a negative impact on our operating and general and administrative expenses, as these costs could increase. China has recently experienced inflationary pressures, which could increase our costs associated with our operations in China. In May 2008, the inflation rate was approximately 7.7%, according to National Bureau of Statistics of China. In recent months, the Company has increased its use of Chinese suppliers, including drilling contractors that are paid in Yuan. In the future, inflation in China may result in higher minimum expenditure requirements under our PSCs if CUCBM adjusts these requirements for inflation. The actual inflationary impact on the company may also be exacerbated by the increasing demand for goods and services in the oil and gas industry. A material increase in these costs as a result could adversely affect our operations and, if there are material changes in our costs, we may seek to raise additional funds earlier than anticipated.

## 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 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 2007 Annual Report, which could materially affect our business, financial condition, or future results. The risks described in our 2007 Annual Report 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 our 2007 Annual Report.

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

**Issuer Withholdings and Subsequent Cancellations of Equity Securities.** Column (a) in the tabulation below indicates shares which were withheld by us to satisfy tax withholding obligations that arose upon the vesting of nonvested shares during the second quarter of 2008. Once withheld, these shares were cancelled and removed from the number of outstanding shares. Currently, the Company does not have a share repurchase plan.

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid Per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plan or Programs | (d) Maximum Number of Shares that May Yet Be Purchased Under The Plans or Programs |
|---|---|---|---|---|
| April 2008 | 123,154 | $ 0.52 | - | - |
| May 2008 | 65,150 | 0.54 | - | - |
| June 2008 | - | - | - | - |
| Total | 188,304 | $ 0.53 | - | - |

### 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: August 6, 2008

## 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). |
| 4.6 | Form of Warrant (filed as Exhibit 4.1 to the Company's Current Report in Form 8-K filed on May 30, 2008, and incorporated herein by reference). |
| 4.7 | Warrant Agreement, dated May 30, 2008, between the Company and Continental Stock Transfer & Trust Company (filed as Exhibit 4.2 to the Company's Current Report in Form 8-K filed on May 30, 2008, 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* | 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). |
| 10.3* | 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). |
| 10.4* | 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). |
| 10.5* | Amended and Restated Nonqualified Stock Option Agreement, dated December 23, 2004, by and between the Company and Michael R. McElwrath (filed as Exhibit 10.5 to the Company's Current Report on Form 8-K filed on December 28, 2004, and incorporated herein by reference). |
| 10.6* | 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). |
| 10.7* | 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). |
| 10.8* | 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). |
| 10.9* | 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). |
| 10.10* | 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). |
| 10.11* | 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). |

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| 10.12* | 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). |
| 10.13* | 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). |
| 10.14 | 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). |
| 10.15 | 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). |
| 10.16 | 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 between China United Coalbed Methane Corporation Ltd. and the Phillips China Inc. (filed as Exhibit 10.21 to the Company's Annual Report on Form 10-K filed on March 15, 2005, and incorporated herein by reference). |
| 10.17 | Application for the Extension of Phase Two of the Exploration Period under the Quinnan 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). |
| 10.18 | Application for the Extension of Phase Two of the Exploration Period under the Quinnan 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). |
| 10.19 | 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). |
| 10.20 | 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). |
| 10.21 | Farmout Agreement Quinnan 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). |
| 10.22 | First Amendment to Farmout Agreement Quinnan 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). |
| 10.23 | Second Amendment to Farmout Agreement Quinnan 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). |
| 10.24 | Third Amendment to Farmout Agreement Quinnan 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). |
| 10.25 | Assignment Agreement Quinnan 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). |
| 10.26 | 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). |

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| 10.27 | 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). |
| 10.28 | 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). |
| 10.29 | 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). |
| 10.30 | 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). |
| 10.31 | 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). |
| 10.32 | 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). |
| 10.33* | Far East Energy Corporation 2005 Stock Incentive Plan (filed as Exhibit 10.1 to the Company's Registration Statement on Form S-8 (File No. 333-148361) filed on December 27, 2007, and incorporated herein by reference). |
| 10.34 | 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). |
| 10.35* | 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.) |
| 10.36* | 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). |
| 10.37* | 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). |
| 10.38* | 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). |
| 10.39* | 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). |
| 10.40* | 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). |
| 10.41 | 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). |
| 10.42 | 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). |
| 10.43 | 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).

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| 10.44* | 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). |
| 10.45* | Employment Agreement, dated May 16, 2007, between Far East Energy (Bermuda), Ltd. and Don Duttlinger (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 17, 2007, and incorporated herein by reference). |
| 10.46* | 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). |
| 10.47* | First Amendment to Employment Agreement, dated September 14, 2007, between Far East Energy (Bermuda), Ltd. and Don Duttlinger (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 20, 2007, and incorporated herein by reference). |
| 10.48* | Non-Qualified Stock Option Agreement, dated October 1, 2007, by and between the Company and William A. Anderson (filed as Exhibit 10.52 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, which was filed on November 7, 2007, and incorporated herein by reference). |
| 10.49* | Second Amendment to Amended and Restated Employment Agreement, dated November 26, 2007, between the Company and Michael R. McElwrath (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 27, 2007, and incorporated herein by reference). |
| 10.50* | Form of Restricted Stock Agreement (filed as Exhibit 4.4 to the Company's Registration Statement on Form S-8 (File No. 333-148363) filed on December 27, 2007, and incorporated herein by reference). |
| 10.51* | Form of Non-Qualified Stock Option Agreement (filed as Exhibit 10.54 to the Company's Annual Report on Form 10-K for the year ended December 31, 2007, which was filed on March 13, 2008, and incorporated herein by reference). |
| 10.52* | Restricted Stock Agreement, dated December 27, 2007, between the Company and Michael R. McElwrath (filed as Exhibit 10.55 to the Company's Annual Report on Form 10-K for the year ended December 31, 2007, which was filed on March 13, 2008, and incorporated herein by reference). |
| 10.53* | Restricted Stock Agreement, dated December 27, 2007, between the Company and Thomas E. Williams (filed as Exhibit 10.56 to the Company's Annual Report on Form 10-K for the year ended December 31, 2007, which was filed on March 13, 2008, and incorporated herein by reference). |
| 10.54* | Restricted Stock Agreement, dated December 27, 2007, between the Company and Garry R. Ward (filed as Exhibit 10.57 to the Company's Annual Report on Form 10-K for the year ended December 31, 2007, which was filed on March 13, 2008, and incorporated herein by reference). |
| 10.55* | Non-Qualified Stock Option Agreement, dated January 9, 2008, between the Company and Lucian L. Morrison (filed as Exhibit 10.58 to the Company's Annual Report on Form 10-K for the year ended December 31, 2007, which was filed on March 13, 2008, and incorporated herein by reference). |
| 10.56* | Employment Agreement, dated March 12, 2008, between Far East Energy (Bermuda), Ltd. and Phil Christian (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 12, 2008, and incorporated herein by reference). |
| 10.57* | Non-Qualified Stock Option Agreement, dated March 12, 2008, between the Company and Phil Christian (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on March 12, 2008, and incorporated herein by reference). |
| 10.58* | Amended and Restated Nonqualified Stock Option Agreement, dated December 27, 2007, by and between the Company and Thomas Williams (filed as Exhibit 10.61 to the Company's Annual Report on Form 10-K for the year ended December 31, 2007, which was filed on March 13, 2008, and incorporated herein by reference). |
| 10.59* | Amended and Restated Nonqualified Stock Option Agreement, dated December 27, 2007, by and between the Company and Garry Ward (filed as Exhibit 10.62 to the Company's Annual Report on Form 10-K for the year ended December 31, 2007, which was filed on March 13, 2008, and incorporated herein by reference). |
| 10.60* | Amended and Restated Nonqualified Stock Option Agreement, dated December 27, 2007, by and between the Company and Zhendong "Alex" Yang (filed as Exhibit 10.63 to the Company's Annual Report on Form 10-K for the year ended December 31, 2007, which was filed on March 13, 2008, and incorporated herein by reference). |

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| 10.61* | Second Amended and Restated Nonqualified Stock Option Agreement, dated December 27, 2007, by and between the Company and Michael McElwrath (filed as Exhibit 10.64 to the Company's Annual Report on Form 10-K for the year ended December 31, 2007, which was filed on March 13, 2008, and incorporated herein by reference). The original option agreement was entered into on January 29, 2002. |
| 10.62* | Second Amended and Restated Nonqualified Stock Option Agreement, dated December 27, 2007, by and between the Company and Michael McElwrath (filed as Exhibit 10.65 to the Company's Annual Report on Form 10-K for the year ended December 31, 2007, which was filed on March 13, 2008, and incorporated herein by reference). The original option agreement was entered into on October 13, 2003. |
| 10.63* | Third Amendment to Amended and Restated Employment Agreement, dated March 7, 2008, between the Company and Michael R. McElwrath (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on March 12, 2008, and incorporated herein by reference). |
| 10.64† | Stock Subscription Agreement, dated June 2, 2008, between the Company and International Finance Corporation. |
| 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. Sec. 1350. |
| 32.2 † | Certification of Chief Financial Officer of the Company Pursuant to 18 U.S.C. Sec. 1350. |

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* Management contract or compensatory plan arrangement.
† Filed herewith.

**EXHIBIT 31.1**

CERTIFICATION

I, Michael R. McElwrath, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended June 30, 2008, 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: August 6, 2008

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

**EXHIBIT 31.2**

CERTIFICATION

I, Randall D. Keys, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended June 30, 2008 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 Rules13a-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: August 6, 2008

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

**EXHIBIT 32.1**

**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 June 30, 2008 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: August 6, 2008

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

**EXHIBIT 32.2**

**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 June 30, 2008 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: August 6, 2008

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