

June 5, 2007

Mr. Garry Ward  
Far East Energy Corporation  
Suite 380  
363 North Sam Houston Parkway East  
Houston, Texas 77060

Dear Mr. Ward:

In accordance with your request, we have conducted a technical review of certain coalbed methane (CBM) properties located in the Shouyang Block, onshore China. The purpose of our review was to analyze the data presented and provide an opinion as to (1) the permeability of Coal Seam 15 that is currently in the dewatering phase, (2) the likelihood that Coal Seam 15 will produce commercial gas, and (3) the potential gas recovery of individual wells producing from Coal Seam 15 in the Shouyang Block.

## FIELD OVERVIEW

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The Shouyang Block is located within the Shanxi Province approximately 300 miles southwest of the city of Beijing. Far East Energy Corporation (FEEC) has drilled five horizontal and three vertical wells within the block all targeting Coal Seam 15. In addition, there were a number of exploration wells drilled and produced within the block prior to FEEC's participation. The Coal Seam 15 is the lowermost coal of the Taiyuan Formation of Upper Carboniferous age located within the Qinshui Basin. The coal was deposited in a back barrier lagoon and tidal flat setting and is extensive across the basin. The seam is mined along the edges of the basin and is penetrated by multiple wells in deeper parts of the basin. In the north part of the basin, Coal Seam 15 can reach up to 8 meters in thickness while to the south the coal thins to an average of 4 to 4.5 meters within the Shouyang Block.

In December 2005, FEEC began dewatering the field and has since produced approximately 300 thousand barrels of water and 1,335 thousand cubic feet of gas. As of May 2007, approximately 900 barrels of water per day and 18 thousand cubic feet of gas per day (MCFD) was being produced from the FEEC Shouyang Block wells. At that time, the 1H was contributing 40 percent of the total daily water production.

## RESERVOIR PERMEABILITY

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Well deliverability and pressure data were reviewed in order to qualitatively estimate the permeability of Coal Seam 15. In our opinion, Coal Seam 15 contains high permeability, on the order of 100 millidarcies, based on the following indicators:

- High well productivity indexes observed in the China United CBM SY002 and SY004 vertical wells, drilled in 1998 on the Shouyang Block
- Low pressure gradients between wells within the reservoir
- High permeability required for FEEC to history match water production with fluid level measurements using numeric simulation of the 1H well and Coal Seam 15

Because of the high permeability of Coal Seam 15, it is necessary to produce large volumes of water in order to reach the critical desorption pressure. Moreover, minimizing shut-in wells and water curtailment is necessary to maintain continuous water production which is essential to depleting the reservoir. Fluid measurements and infill drilling indicate that the reservoir pressure in the production area has been reduced. While Coal Seam 15 reservoir pressure is depleting, there is still some risk that high permeability fractures within the reservoir may provide conduits for water migration thereby increasing the time required for FEEC to lower reservoir pressure. Generally, CBM reservoirs with higher permeability have the ability to outperform CBM reservoirs with lower permeability if the coal can be adequately dewatered. Higher permeability allows wells to maintain their production rates for longer time periods enabling higher gas recoveries from wider spaced wells in shorter periods of time.

## GAS PRODUCIBILITY \_\_\_\_\_

Core analysis was used to estimate the likelihood that commercial gas will be produced from the Shouyang Block. The gas storage capacity of Coal Seam 15 and the initial gas content of the producing wells were estimated from cores. Initial gas content data indicates that the coal is an undersaturated reservoir with a high likelihood of producing commercial gas once reservoir pressure falls below the critical desorption pressure. The dependency on the rate and continuity of water production as a result of high permeability make it difficult to estimate the timing of commercial gas. Variances in the initial gas content from approximately 400 to 600 standard cubic feet per ton were observed in the desorption data taken on a number of wells drilled by FEEC. These variances may be the result of non-optimum testing processes or may indicate heterogeneity within the reservoir. Commercial gas production is likely even at the lower end of this initial gas content range. Furthermore, the gas content of the Coal Seam 15 in the Shouyang Block is on the high end of CBM fields.

Shouyang Block well production histories were reviewed in order to indicate gas deliverability after the reservoir has dewatered. In general, the flow potentials of the horizontal wells appear to be reduced by large mechanical skin damage as compared to the SY002 and SY004 vertical wells. Since commercial gas has not been established from Coal Seam 15 in this area, there is some uncertainty with respect to the flow potentials of FEEC's wells in the Shouyang Block. However, the high permeability of the coal will likely enable appreciable amounts of gas to be produced. Our preliminary estimates of 1H peak gas rates are 300 to 600 MCFD and are based on the well's current high mechanical skin damage and location in an unconfined pilot project. Higher gas rates of 1,000 to 2,000 MCFD are possible in future horizontal wells developed in a multi-well pattern with full lateral contribution, low water rates, and low mechanical skin damage.

## GAS RECOVERY \_\_\_\_\_

Within the Shouyang Block, Coal Seam 15 is a thick, extensive coal reservoir with a high gas content. Volumetrically, these characteristics lead to large in-place gas resources. However, per well gas recovery estimates are difficult to quantify with certainty at this time because of the lack of significant gas production. High permeability associated with Coal Seam 15 may allow for high recovery efficiencies and relatively large drainage areas per well. In order to maximize gas recovery, FEEC must maintain water production at levels necessary to deplete the reservoir, improve drilling and completion practices in order to minimize mechanical skin damage, and adjust the development plan as necessary to compensate for reservoir heterogeneity.

Since commercial production has not been established from Coal Seam 15 in the Shouyang Block, estimates of recoverable gas volumes are considered prospective resources at this time. Because of the limited amount of production data currently available, the aforementioned production and reservoir characteristics, and the range of performances of other CBM basins, there is a wide range of potential individual well recoveries from Coal Seam 15 in the Shouyang Block. Our preliminary estimates of prospective resources range from 0.3 to 4.1 billion cubic feet (BCF) per well, with a most likely and mean recovery estimate of 1.1 BCF and 1.8 BCF, respectively.

It should be understood that the prospective resources discussed are those undiscovered, highly speculative resources estimated beyond proved, probable, and possible reserves or contingent resources where geological and geophysical data suggest the potential for discovery of gas but where the level of proof is insufficient for classification as reserves or contingent resources. The unrisks prospective resources are those volumes that could reasonably be expected to be recovered upon the successful exploration and development of this play.

#### OTHER CONSIDERATIONS \_\_\_\_\_

In evaluating the information at our disposal concerning this review, we have excluded from our consideration all matters as to which the controlling interpretation may be political, socioeconomic, legal, or accounting, rather than engineering and geologic. As in all aspects of oil and gas evaluation, there are uncertainties inherent in the interpretation of engineering and geologic data; therefore, our conclusions necessarily represent only informed professional judgment. The opinions expressed in this review letter are based on a limited amount of engineering and geologic data; therefore, it may be necessary to revise them as additional performance data become available.

The contractual rights to the properties have not been reviewed by Netherland, Sewell & Associates, Inc. nor has the actual degree or type of interest owned been independently confirmed. The data used in our review were obtained from Far East Energy Corporation and the nonconfidential files of Netherland, Sewell & Associates, Inc. and were accepted as accurate. Supporting geologic, field performance, and work data are on file in our office. We are independent petroleum engineers, geologists, geophysicists, and petrophysicists; we do not own an interest in these properties and are not employed on a contingent basis.

Sincerely,

**NETHERLAND, SEWELL & ASSOCIATES, INC.**

/s/ Frederic D. Sewell, P.E.

By:

Frederic D. Sewell, P.E.  
Chairman and Chief Executive Officer

/s/ David E. Nice, P.G.

By:

David E. Nice, P.G.  
Vice President

Date Signed: June 5, 2007

BPL:BMG

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