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## **FORM 10-K/A**

**FAR EAST ENERGY CORP - FEEC**

**Filed: February 11, 2011 (period: December 31, 2009)**

Amendment to a previously filed 10-K

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

**FORM 10-K/A**  
**(Amendment No. 2)**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2009

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 0-32455

**Far East Energy Corporation**

(Exact Name of Registrant as Specified in Its Charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**88-0459590**

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

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

(Address of principal executive offices)

**77060**

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Exchange Act: **None**

Securities registered under 12(g) of the Exchange Act: **Common stock (par value \$0.001 per share)**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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 has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one):

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 Act). Yes  No

The aggregate market value of the voting common stock, par value \$0.001 per share, held by non-affiliates of the registrant was approximately \$49,963,000 as of June 30, 2009 (based on \$0.39 per share, the last price of the common stock as reported on the OTC Bulletin Board on such date). For purposes of the foregoing calculation only, all directors, executive officers and 10% beneficial owners have been deemed affiliates.

The number of shares of common stock, par value \$0.001 per share, outstanding as of March 12, 2010 was 185,463,128.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's proxy statement for the 2010 annual meeting of stockholders are incorporated by reference into Part III of this Form 10-K.

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## EXPLANATORY NOTE

This Amendment No. 2 on Form 10-K/A (this “Amendment”) amends the Annual Report on Form 10-K (the “Annual Report”) for the fiscal year ended December 31, 2009 of Far East Energy Corporation (the “Company”), originally filed on March 15, 2010 and amended by Amendment No. 1 on Form 10-K/A filed on April 21, 2010 (as previously amended, the “Original Filing”). We are filing this Amendment to correct the omission of dates on the audit reports received from the Company’s independent registered public accounting firm, JonesBaggett LLP. Accordingly, Item 8 of Part II of this filing has been amended to include the properly dated audit reports, and we have attached as an exhibit hereto an updated Consent of Independent Registered Public Accounting Firm. We have further amended Item 8 of Part II of this filing to make Management’s Report on Internal Control Over Financial Reporting included therein consistent with the properly dated audit reports. The pagination of the Original Filing has been retained. In addition, in connection with the filing of this Amendment and pursuant to the rules of the Securities and Exchange Commission, we are including with this Amendment certain currently dated certifications. Further, Item 15 of Part IV has also been amended to reflect the filing of these currently dated certifications and the corrected Consent of Independent Registered Public Accounting Firm.

Each amended item has been amended and restated in its entirety. Except as described above, no other changes have been made to the Original Filing. The Original Filing continues to speak as of the date of the Original Filing, and we have not updated the disclosures contained therein to reflect any events that occurred at a date subsequent to the filing of the Original Filing. Accordingly, this Amendment should be read in conjunction with our other filings made with the Securities and Exchange Commission subsequent to March 15, 2010, including any amendments to those filings, as information in such filings may update or supersede certain information contained in those filings as well as in this Amendment. In this Amendment, unless the context indicates otherwise, the terms “Company,” “we,” “us,” and “our” refer to Far East Energy Corporation and its subsidiaries.

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## PART II

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

#### Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is designed, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2009. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework*. Our management has concluded that, as of December 31, 2009, our internal control over financial reporting is effective based on these criteria.

Our independent registered public accounting firm, JonesBaggett LLP, that audited our consolidated financial statements included in this report, has issued an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2009, which is included on page 51 of this Annual Report on Form 10-K.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Far East Energy Corporation and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Far East Energy Corporation and Subsidiaries (a development stage company) (the "Company") as of December 31, 2009 and 2008 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2009 and for the period from the date of incorporation on February 4, 2000 to December 31, 2009. Our audits also included the financial statement schedule listed at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Far East Energy Corporation and Subsidiaries at December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 and for the period from the date of incorporation on February 4, 2000 to December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Far East Energy Corporation and Subsidiaries' internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2010, expressed an unqualified opinion thereon.

/s/ JonesBaggett LLP

JonesBaggett LLP (formerly Payne Smith & Jones, P.C.)

Dallas, Texas  
March 15, 2010

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Far East Energy Corporation and Subsidiaries:

We have audited Far East Energy Corporation and Subsidiaries' (a development stage company) (the "Company") internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Far East Energy Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Far East Energy Corporation and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Far East Energy Corporation and Subsidiaries, as of December 31, 2009 and 2008 and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009 and for the period from the date of incorporation on February 4, 2000 to December 31, 2009, and our report dated March 15, 2010 expressed an unqualified opinion thereon.

/s/ JonesBaggett LLP

JonesBaggett LLP (formerly Payne Smith & Jones, P.C.)

Dallas, Texas  
March 15, 2010

**FAR EAST ENERGY CORPORATION**  
**(A Development Stage Company)**  
**Consolidated Balance Sheets**  
**(In Thousands, Except Share Data)**

	<b>At December 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 5,567	\$ 7,880
Restricted cash	739	-
Inventory	225	188
Prepaid expenses	166	262
Deposits	346	124
Stock subscription receivable	275	-
Other current assets	16	46
Total current assets	7,334	8,500
Unevaluated oil and gas properties	34,421	30,837
Other fixed assets, net	480	546
Total property and equipment	34,901	31,383
Deferred financing costs	169	-
Total assets	\$ 42,404	\$ 39,883
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 3,098	\$ 2,249
Accrued liabilities	1,354	2,323
Total current liabilities	4,452	4,572
Exchangeable note payable	10,000	-
Discount on exchangeable note payable	(228)	-
Long-term debt	9,772	-
Accrued interest payable - noncurrent	171	-
Asset retirement and environmental obligation	339	-
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, 173,836,960 and 161,305,390 issued and outstanding, respectively	174	161
Additional paid-in capital	111,982	105,915
Unearned compensation	(279)	(313)
Deficit accumulated during the development stage	(84,207)	(70,452)
Total stockholders' equity	27,670	35,311
Total liabilities and stockholders' equity	\$ 42,404	\$ 39,883

See the accompanying notes to consolidated financial statements.

**FAR EAST ENERGY CORPORATION**  
**(A Development Stage Company)**  
**Consolidated Statements of Operations**  
**(In Thousands, Except Per Share Data)**

	Year ended December 31,			February 4, 2000 (Inception) through December 31, 2009
	2009	2008	2007	2009
Operating revenues	\$ -	\$ -	\$ -	\$ -
Operating expenses:				
Exploration costs	4,503	15,283	3,345	31,521
Lease operating expense	1,892	2,904	1,945	7,699
General and administrative	6,479	4,515	7,230	41,567
Impairment loss	-	-	-	3,778
Loss on investment in joint venture	-	-	-	22
Amortization of contract rights	-	-	-	81
Total operating expenses	<u>12,874</u>	<u>22,702</u>	<u>12,520</u>	<u>84,668</u>
Operating loss	(12,874)	(22,702)	(12,520)	(84,668)
Other income (expense):				
Interest expense	(863)	-	-	(1,040)
Interest income	5	260	721	1,875
Gain on sale of assets	(5)	-	-	3
Foreign currency transaction loss	(18)	(149)	(50)	(377)
Total other income	<u>(881)</u>	<u>111</u>	<u>671</u>	<u>461</u>
Loss before income taxes	(13,755)	(22,591)	(11,849)	(84,207)
Income taxes	-	-	-	-
Net loss	<u>\$ (13,755)</u>	<u>\$ (22,591)</u>	<u>\$ (11,849)</u>	<u>\$ (84,207)</u>
Comprehensive loss	<u>\$ (13,755)</u>	<u>\$ (22,591)</u>	<u>\$ (11,849)</u>	<u>\$ (84,207)</u>
Net loss per share:				
Basic and diluted	<u>\$ (0.08)</u>	<u>\$ (0.15)</u>	<u>\$ (0.09)</u>	
Weighted average shares outstanding:				
Basic and diluted	<u>162,251</u>	<u>151,231</u>	<u>128,631</u>	

See the accompanying notes to consolidated financial statements.

**FAR EAST ENERGY CORPORATION**  
**(A Development Stage Company)**  
**Consolidated Statements of Stockholders' Equity**  
**(In Thousands, Except Share Data)**

	<u>Common Stock</u>				<u>Deficit</u>	
	<u>Number of</u>	<u>Par</u>	<u>Additional</u>	<u>Unearned</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Value</u>	<u>Paid-In</u>	<u>Compensation</u>	<u>During the</u>	<u>Stockholders'</u>
			<u>Capital</u>		<u>Development</u>	<u>Equity</u>
					<u>Stage</u>	
<b>For the Years Ended December 31,</b>						
<b>2007, 2008 and 2009</b>						
Balance at December 31, 2006	123,767,342	\$ 124	\$ 77,599	\$ -	\$ (36,012)	\$ 41,711
Net loss	-	-	-	-	(11,849)	(11,849)
Common shares issued	11,480,452	11	14,803	-	-	14,814
Shares issued to consulting firm	60,000	-	60	-	-	60
Nonvested shares issued	1,032,292	1	922	(764)	-	159
Stock options issued	-	-	1,171	-	-	1,171
Stock options exercised	660,000	1	428	-	-	429
Warrants exercised	5,208	-	-	-	-	-
<b>Balance at December 31, 2007</b>	<b>137,005,294</b>	<b>137</b>	<b>94,983</b>	<b>(764)</b>	<b>(47,861)</b>	<b>46,495</b>
Net loss	-	-	-	-	(22,591)	(22,591)
Common stock issued	24,000,000	24	11,784	-	-	11,808
Shares issued to consulting firm	20,000	-	14	-	-	14
Nonvested shares issued	538,500	-	325	451	-	776
Nonvested shares withheld for taxes	(258,404)	-	(136)	-	-	(136)
Stock options issued	-	-	(1,055)	-	-	(1,055)
<b>Balance at December 31, 2008</b>	<b>161,305,390</b>	<b>161</b>	<b>105,915</b>	<b>(313)</b>	<b>(70,452)</b>	<b>35,311</b>
Net loss	-	-	-	-	(13,755)	(13,755)
Common stock issued	11,558,645	11	4,349	-	-	4,360
Shares issued to consulting firm	-	-	-	-	-	-
Nonvested shares issued	990,000	2	285	34	-	321
Nonvested shares withheld for taxes	(17,075)	-	(5)	-	-	(5)
Stock options issued	-	-	844	-	-	844
Warrants issued	-	-	594	-	-	594
<b>Balance at December 31, 2009</b>	<b>173,836,960</b>	<b>\$ 174</b>	<b>\$ 111,982</b>	<b>\$ (279)</b>	<b>\$ (84,207)</b>	<b>\$ 27,670</b>
<b>Inception (February 4, 2000) through</b>						
<b>December 31, 2009</b>						
Balance at February 4, 2000	-	\$ -	\$ -	\$ -	\$ -	\$ -
Net loss	-	-	-	-	(84,207)	(84,207)
Common shares issued						
- Placements	160,384,832	159	91,352	-	-	91,511
- Newark Valley Oil & Gas Inc. acquisition	1,600,000	2	3,598	-	-	3,600
Shares issued to consulting firm	231,259	-	297	-	-	297
Nonvested shares issued	2,560,792	4	1,532	(279)	-	1,257
Nonvested shares withheld for taxes	(275,479)	-	(141)	-	-	(141)
Stock options issued	-	-	5,274	-	-	5,274
Stock options exercised	1,410,000	1	915	-	-	916
Warrants issued	-	-	804	-	-	804
Warrants exercised	7,925,556	8	8,185	-	-	8,193
Warrants redeemed unexercised	-	-	(2)	-	-	(2)
Debt issued with beneficial conversion feature	-	-	168	-	-	168
<b>Balance at December 31, 2009</b>	<b>173,836,960</b>	<b>\$ 174</b>	<b>\$ 111,982</b>	<b>\$ (279)</b>	<b>\$ (84,207)</b>	<b>\$ 27,670</b>

See the accompanying notes to consolidated financial statements.

**FAR EAST ENERGY CORPORATION**  
**(A Development Stage Company)**  
**Consolidated Statements of Cash Flows**  
**(In Thousands)**

	<u>For the Years Ended December 31,</u>			<b>February 4,</b>
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<b>2000</b>
				<b>(Inception)</b>
				<b>through</b>
				<b>December 31,</b>
				<b>2009</b>
<b>Cash flows from operating activities</b>				
Net loss	\$ (13,755)	\$ (22,591)	\$ (11,849)	\$ (84,207)
Adjustments to reconcile net loss to cash used in operating activities:				
Depreciation and amortization	182	171	88	694
Amortization of deferred financing costs	863	-	-	863
Prior period capitalized exploratory well costs expensed	-	7,907	157	-
Stock issued to pay expense	-	14	61	297
Share-based compensation	1,165	(279)	1,330	6,530
Changes in components of working capital and asset retirement and environmental obligations				
Restricted cash	(739)	-	-	(739)
Inventory	(37)	109	(241)	(226)
Prepaid expenses	96	(113)	68	(166)
Deposits	(222)	(30)	269	(346)
Stock subscription receivable	(245)	-	-	(245)
Other current assets	-	(16)	(21)	(46)
Accounts payable and accrued liabilities	(133)	1,687	(645)	4,854
Asset retirement and environmental obligations	156	-	-	156
Impairment expense	-	-	-	3,778
Loss (gain) on sale of assets	5	-	-	(3)
Other, net	(5)	(136)	-	237
Net cash used in operating activities	<u>(12,669)</u>	<u>(13,277)</u>	<u>(10,783)</u>	<u>(68,569)</u>
<b>Cash flows from investing activities</b>				
Additions to unproved oil and gas properties in China	(3,388)	(7,343)	(7,657)	(34,713)
Other oil and gas investment	-	-	-	(1,278)
Additions to other properties	(123)	(214)	(398)	(1,106)
Sale of oil and gas properties	-	-	-	1,108
Sale of other fixed assets	2	-	-	2
Net cash used in investing activities	<u>(3,509)</u>	<u>(7,557)</u>	<u>(8,055)</u>	<u>(35,987)</u>
<b>Cash flows from financing activities</b>				
Net proceeds from exchangeable note	10,000	-	-	10,000
Net proceeds from sale of common stock	4,360	11,808	14,814	91,511
Net proceeds from exercise of options	-	-	429	916
Net proceeds from exercise of warrants	-	-	-	8,191
Deferred financing costs	(495)	-	-	(495)
Net cash provided by financing activities	<u>13,865</u>	<u>11,808</u>	<u>15,243</u>	<u>110,123</u>
(Decrease) increase in cash and cash equivalents	(2,313)	(9,026)	(3,595)	5,567
Cash and cash equivalents—beginning of period	7,880	16,906	20,501	-
Cash and cash equivalents—end of period	<u>\$ 5,567</u>	<u>\$ 7,880</u>	<u>\$ 16,906</u>	<u>\$ 5,567</u>

See the accompanying notes to consolidated financial statements.

**FAR EAST ENERGY CORPORATION**  
**(A Development Stage Company)**  
**Notes to Consolidated Financial Statements**

**1. Summary of Significant Accounting Policies**

**Business.** We were incorporated in the state of Nevada on February 4, 2000, and on January 10, 2002, we changed our name to Far East Energy Corporation. The terms “we,” “us,” “our,” “FEEC” and “our company” refer to Far East Energy Corporation. 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 (“PRC”). We are a development stage company, and our activities have been limited to organizational activities, including developing a strategic operating plan, capital funding, hiring personnel, entering into contracts acquiring rights to explore for, develop, produce and sell oil and gas or coalbed methane, and drilling, testing and completion of exploratory wells.

**Principles of Consolidation.** Our consolidated financial statements include the accounts of our wholly-owned subsidiaries after the elimination of all intercompany accounts and transactions.

**Use of Estimates.** The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities that exist at the date of the financial statements. While we believe our estimates are appropriate, actual results can, and often do, differ from those estimates.

**Cash and Cash Equivalents.** We consider short-term investments with little risk of change in value because of changes in interest rates and purchased with an original maturity of three months or less to be cash equivalents.

**Restricted Cash.** Restricted cash represents the amount of cash which is restricted by legal or contractual requirements. Of the \$10 million proceeds from the issuance of an exchangeable note (the “Exchangeable Note”) to Arrow Energy International Pte Ltd (“Arrow”), \$2 million of the proceeds was set aside to be used exclusively to satisfy of FEEB existing exploration and development commitments in connection with the Qinnan production sharing contract (“PSC”). The restricted cash balance is reduced as the related expenditures are incurred. As of December 31, 2009, our balance in restricted cash was \$0.7 million.

**Inventory.** Inventory consists primarily of tubular goods and drilling equipment used in our operations and is carried at cost with adjustments made from time to time to recognize any reductions in value.

**Unevaluated Oil and Gas Property.** We use the successful efforts method of accounting for our oil and gas properties. Under this method, oil and gas lease acquisition costs and intangible drilling costs associated with exploration efforts that result in the discovery of proved reserves and costs associated with development drilling, whether or not successful, are capitalized when incurred. If proved commercial reserves are not discovered, such drilling costs are expensed. In some circumstances, it may be uncertain whether proved commercial reserves have been found when drilling has been completed. Under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 932, Extractive Activities – Oil and Gas (“ASC 932”), such exploratory well drilling costs may continue to be capitalized if the reserve quantity is sufficient to justify its completion as a producing well and sufficient progress in assessing the reserves and the economic and operating viability of the project is being made. We assess our capitalized exploratory wells pending evaluation each quarter to determine whether costs should remain capitalized or should be charged to earnings. Other exploration costs, including geological and geophysical costs, are expensed as incurred. We recognize gain or loss on the sale of properties on a field basis.

Unproved property costs are capitalized and reviewed periodically for impairment on a property-by-property basis, considering factors such as drilling and exploitation plans and lease terms. The estimated fair value of unproved leasehold costs includes the present value of probable reserves discounted at rates commensurate with the risks involved in each classification of reserve. Costs related to impaired prospects are charged to expense. An impairment expense could result if oil and gas prices decline in the future or if downward reserves revisions are recorded, as it may not be economical to develop some of these unproved properties. We also evaluate current drilling results, lease expiration dates, current oil and gas industry conditions, international economic conditions, capital availability, foreign currency exchange rates, political stability in the countries in which the Company has an investment, and available geological and geophysical information. Any impairment assessed is charged to expense.

**Estimates of future dismantlement, restoration, and abandonment costs.** The accounting for future development and abandonment costs is determined by FASB ASC Topic 410, Asset Retirement and Environmental Obligations, which requires the fair value of a liability for an asset retirement obligation to be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The accrual is based on estimates of these costs for each of our properties based upon the type of production structure, reservoir characteristics, depth of the reservoir, market demand for equipment, currently available procedures and consultations with construction and engineering consultants. Based on our experience and technical and financial data collected from managing our projects over the years, we were able to record the costs related to our asset retirement and environmental obligations in our financial statements beginning the fourth quarter of 2009. Because these costs typically extend many years into the future, estimating these future costs is difficult and requires management to make estimates and judgments that are subject to future revisions based on numerous factors, including changing technology, the political and regulatory environment, estimates as to the proper discount rate to use and timing of abandonment.

**Convertible Debts and Warrants.** We applied FASB ASC Topic 815, Derivatives and Hedging (“ASC 815”) and FASB ASC Topic 470, Debt (“ASC 470”), in recording the Exchangeable Note and warrants issued to Arrow in conjunction with a strategic alliance between the parties. Derivative financial instruments, as defined in ASC 815, consist of financial instruments or other contracts that contain a notional amount and one or more underlying, require no initial net investment and permit net settlement. Derivative financial instruments may be free-standing or embedded in other financial instruments. Further, derivative financial instruments are initially, and subsequently, measured at fair value and recorded as liabilities or, in rare instances, assets. Convertible debt, as defined in ASC 470, generally includes an interest rate which is lower than the issuer could establish for nonconvertible debt, an initial conversion price which is greater than the market value of the common stock at the time of issuance, and a conversion price which does not decrease except pursuant to anti-dilution provisions. Also, under ASC 470, the portion of the proceeds from the issuance of the debt which is allocable to the warrant should be accounted for as additional paid-in capital. The allocation should be based on the relative fair values of the two securities at time of issuance.

**Income Taxes.** Deferred income taxes are accounted for under the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statements carrying amounts and the tax basis of existing assets and liabilities. The effect on deferred taxes of a change in tax rate is recognized in income in the period the change occurs. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

**Environmental Matters.** Environmental expenditures are expensed or capitalized depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations, and do not contribute to current or future revenue generation are expensed. Liabilities are recorded when assessments and/or remediation are deemed probable and the costs can be reasonably estimated.

**Net Loss Per Share.** We apply FASB ASC Topic 260, Earnings Per Share (“ASC 260”) for the calculation of basic and diluted earnings per share. Basic earnings per share includes no dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution of securities that could share in our earnings.

**Share-based Compensation.** We measure the cost of employee services received in exchange for stock options based on the grant date fair value of the awarded options under FASB ASC Topic 718, Compensation – Stock Compensation (“ASC 718”). We determine the fair value of stock option grants using the Black-Scholes option pricing model. We determine the fair value of shares of nonvested stock (also commonly referred to as restricted stock) based on the last quoted price of our stock on the OTC Bulletin Board on the date of the share grant. The fair value determined represents the cost for the award and is recognized over the vesting period during which an employee is required to provide service in exchange for the award. As share-based compensation expense is recognized based on awards ultimately expected to vest, we have reduced the expense for estimated forfeitures based on historical forfeiture rates. Previously recognized compensation costs may be adjusted to reflect the actual forfeiture rate for the entire award at the end of the vesting period. Excess tax benefits, as defined in ASC 718, if any, are recognized as an addition to paid-in capital.

**Foreign Currency Transactions.** Periodically, we assess the functional currencies of our Chinese subsidiaries to ensure that the appropriate currency is utilized in accordance with the guidance in FASB ASC Topic 830, Foreign Currency Matters (“ASC 830”). During the fourth quarter of 2006, we determined that the functional currency for our Chinese operations was U.S. Dollars, instead of the Chinese Renminbi (“RMB”) as previously reported and utilized. Foreign currency transaction gains or losses, which resulted from transactions denominated in the Chinese RMB, were recorded in the Consolidated Statement of Operations.

**Fair Values of Financial Instruments.** Our company’s financial instruments consist primarily of cash and cash equivalents, payables, and accrued payables. The carrying values of these financial instruments approximate their respective fair values as they are short-term in nature.

**Credit Concentration.** We had deposited with one financial institution approximately \$5.9 million in cash at December 31, 2009, which exceeded the limit of the Federal Deposit Insurance Corporation. The funds were deposited in U.S. government agency supported funds. We did not require collateral from the financial institutions on these deposits.

**Adoption of New Accounting Pronouncement.** In June 2009, the FASB issued authoritative accounting guidance which established the FASB Accounting Standards Codification (Codification or ASC) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities and stated that all guidance contained in the Codification carries an equal level of authority. The authoritative accounting guidance recognized that rules and interpretive releases of the SEC under federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. The Company adopted the provisions of the authoritative accounting guidance during 2009, the adoption of which did not have a material effect on the Company’s consolidated financial statements.

## 2. Liquidity and Realization of Assets

We have not established a source of revenue and are not able to accurately predict the timing of our first revenue. 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 under our shelf registration in effect at that time. That shelf registration expired in March 2009. In September 2009, the Company filed with the SEC a shelf registration statement on Form S-3 for the offer and sale from time to time of up to \$75 million of the Company’s debt and equity securities. In December 2009, we completed a transaction for the sale of 11.6 million shares of our common stock and warrants to purchase up to 4.6 million shares of our common stock for total net proceeds of \$4.3 million under our shelf registration. On March 11, 2010, we completed a transaction for the sale of 11.7 million shares of our common stock and warrants to purchase up to 4.7 million shares of our common stock for total net proceeds of \$4.6 million under our shelf registration. The amount available under the registration statement at March 12, 2010 was approximately \$65.1 million.

On March 13, 2009, we formed a strategic alliance related to our Qinnan Block with Arrow Energy International Pte Ltd, the Singapore-based subsidiary of Arrow Energy Limited, a large Australian CBM producer. Assuming that we obtain approval from our Chinese partner company and the MOC, and satisfy the other conditions under the Farmout Agreement with Arrow, then the additional payment due upon the occurrence of these events from Arrow together with funds currently available should provide sufficient working capital to meet our currently planned work programs through 2010. Our current work programs would satisfy the minimum exploration expenditures for all three of our PSCs for 2010. Management will continue to seek to raise additional capital to continue operations and to meet future expenditure requirements necessary to retain our rights under the PSCs. Management intends to seek to obtain funds by entering into a strategic relationship or transaction, such as a joint venture or farmout, and/or obtaining debt or equity financing. The global financial crisis has created liquidity problems for many companies and financial institutions and international capital markets have stagnated, especially in the United States and Europe. A continuing downturn in these markets could impair our ability to obtain, or may increase our costs associated with obtaining, additional funds through the sale of our securities. While we will continue to seek to raise funds, there can be no assurance that we will be able to enter any strategic relationship or transaction or that we will be successful in obtaining funds through debt or equity financing. Under certain circumstances, the structure of a strategic transaction may require the approval of the Chinese authorities, which could delay closing or make the consummation of a transaction more difficult. There can be no assurance that the Chinese authorities will provide the approvals necessary for a transaction or transfer. In addition, the terms and conditions of any potential strategic relationship or transaction or of any debt or equity financing are uncertain and we cannot predict the timing, structure or other terms and conditions of any such arrangements. There can be no guarantee of future fundraising or exploration success or that we will realize the value of our unevaluated exploratory well costs. Management believes that we will continue to be successful in obtaining the funds necessary to continue as a going concern.

As of December 31, 2009, we had unevaluated exploratory well costs totaling \$34.0 million, of which \$30.6 million have been capitalized for a period greater than one year. Such costs, which related to the Shouyang Block in Shanxi Province, were initially capitalized under successful efforts accounting, pending a determination of whether sufficient quantities of economically recoverable proved reserves are found. 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 5.

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 (three horizontal and four 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 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 additional 3 horizontal, 15 vertical and 7 deviated wells as of December 31, 2009 in the 1H Pilot Area. The unevaluated exploratory well costs at December 31, 2009 comprised of exploratory drilling and related costs for 31 wells in the 1H Pilot Area. During the fourth quarter of 2008, we expensed the previously capitalized costs related to one of the seven pilot wells, FCC-HZ02, pursuant to FSP No. 19-1, as more fully discussed in Note 5. We also planned to drill additional wells in the near future to further explore and assess the potential of the property. 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.

### 3. Strategic Alliance with Arrow

On March 13, 2009, we formed a strategic alliance related to our Qinnan Block with Arrow. In conjunction with the strategic alliance, one of our wholly owned subsidiaries, FEEB, and Arrow entered into a Farmout Agreement (the "Farmout Agreement") under which, subject to certain conditions, FEEB will assign to Arrow 75.25% of its rights in the Qinnan PSC in Shanxi Province (the "Assignment"). The Farmout Agreement conditions the Assignment on, among other things, the receipt of required approvals from the government of the PRC on or prior to December 19, 2009 or such later date as we may agree upon. The terms of the Farmout Agreement were subsequently amended in November 2009 to provide, among other things, that requisite approvals from Chinese authorities must be received and other conditions must be satisfied by December 16, 2009 rather than by November 20, 2009 (the "Amendment"). In conjunction with the Amendment, FEEB and Arrow also agreed that interest on the Exchangeable Note would begin to accrue as originally scheduled on October 16, 2009. Since December 19, 2009, each of the Company and Arrow has had the right to terminate the Farmout Agreement at any time, though neither party has elected to exercise that right and the parties are continuing to use efforts to satisfy the conditions contemplated by the Farmout Agreement.

Upon satisfaction of the conditions, Arrow will make an initial payment of \$8 million to us, and, subject to certain conditions, will fund all exploration costs associated with the Qinnan PSC, up to a maximum of \$30 million. In addition, under the Farmout Agreement, if we obtain Chinese governmental approval of an overall development program for the Qinnan area, Arrow will pay FEEB an additional \$8 million in cash as a bonus. If the conditions under the Farmout Agreement are not satisfied prior to November 20, 2009, then either party has the right to terminate the agreement by delivering notice of such termination to the other party. Additionally, on March 13, 2009, (i) we entered into a securities purchase agreement with Arrow ("Securities Purchase Agreement"); (ii) FEEB issued the Exchangeable Note, \$10 million principal amount, to Arrow for \$10 million in cash; (iii) we issued a warrant to Arrow for 7,420,000 shares of our common stock, at an exercise price of \$1.00 per share ("Warrant"); and (iv) the Company and Arrow entered into a registration rights agreement.

Under the Securities Purchase Agreement, the Company issued the Warrant to Arrow and FEEB issued the Exchangeable Note to Arrow for \$10 million in cash, of which \$2 million was to be set aside to be used exclusively to satisfy FEEB's existing exploration and development commitments in connection with the Qinnan PSC. This restricted portion of the proceeds was recorded as restricted cash on the consolidated balance sheet. During the period from the formation of the strategic alliance to the year ended December 31, 2009, we used approximately \$1.3 million of the \$2 million for exploration expenditures related to the Qinnan PSC. See Note 1 – "Summary of Significant Accounting Policies – Restricted Cash."

The Exchangeable Note has an initial principal amount of \$10 million. If the Chinese government does not approve the Assignment, the Exchangeable Note bears interest at a rate of 8% per annum, which began to accrue on October 16, 2009, and principal and interest is due and payable on the maturity date of March 13, 2011. Arrow has the right at any time to exchange the Exchangeable Note in whole or in part for shares of common stock at an exchange rate of 21,052.63 shares per \$10,000, or \$0.475 per share (the "Exchange Rate"), of principal and interest. If the Chinese government approves the Assignment on or before November 20, 2009, the entire principal amount of the Exchangeable Note will automatically be exchanged for shares of common stock at the Exchange Rate.

The Exchangeable Note contains certain restrictive covenants applicable to the Company and FEEB, including, among others, restrictions on the incurrence of indebtedness that ranks senior to or *pari passu* with the Exchangeable Note and restrictions on FEEB's ability to sell all of its rights under the Shouyang PSC. The Company has guaranteed FEEB's payment obligations under the Exchangeable Note.

The Warrant entitled Arrow to purchase 7,420,000 shares of common stock at an exercise price of \$1.00 per share, subject to certain equitable adjustment mechanisms in the event of a sale of the Company, stock split or similar occurrence. The Warrant expired in December 2009.

For additional information on the strategic alliance, see Item 1 – “Business” of our 2008 Annual Report.

We applied ASC 815 and ASC 470 in the recording of the transaction with Arrow. According to ASC 815, the Exchangeable Note and the Warrant were afforded the exemption from derivative accounting treatment as they were not derivative instruments because (i) their conversion features were indexed to the Company’s stock, and (ii) the Warrant is and, in the case of the Exchangeable Note, the conversion feature standalone would be classified in stockholders’ equity in the balance sheet. Pursuant to ASC 470, no portion of the proceeds from the issuance of the Exchangeable Note should be accounted for as attributable to the conversion feature due to the inseparability of the debt and the conversion option. Also, under ASC 470, the portion of the proceeds from the issuance of the Exchangeable Note which is allocable to the Warrant should be accounted for as paid-in capital. The allocation should be based on the relative fair values of the two securities at time of issuance. We determined the fair value of the Warrant using a combination of the Black-Scholes-Merton valuation technique and a Monte Carlo simulation.

The significant assumptions used in the valuation were as follows:

	Black-Scholes -Merton	Monte Carlo Simulation
Volatility	124.60%	110.16%
Risk free interest rate	0.67%	0.83%
Expected dividend yield	-	-
Expected term	0.99 year	1.51 years

Based on the combination of the Black-Scholes-Merton valuation technique and the Monte Carlo simulation, the Warrant was valued at \$624,612 at time of issuance. The amount was recorded as a debt discount to the Exchangeable Note in the liabilities section and as additional paid-in capital in the equity section of the balance sheet. The debt discount is accreted as interest expense periodically over the term of the Exchangeable Note. We have recorded an accretion amount of \$396,593 from the issuance date to December 31, 2009.

The Company incurred approximately \$0.5 million in direct costs in connection with the formation of the strategic alliance. These direct costs were allocated between the Exchangeable Note and the Warrant in proportion to their respective fair values at time of issuance. The costs related to the Warrant were recorded as an offset to the value of the Warrant in paid-in capital. The costs related to the Exchangeable Note were capitalized as deferred financing costs and amortized based on the effective interest method over the term of the Exchangeable Note. The objective of that method is to arrive at a periodic interest cost which represents a level effective rate over the term of the Exchangeable Note on its face amount reduced by the unamortized discount and expense at the beginning of the period. The effective interest rate for the Exchangeable Note as calculated is 11.64% per annum. We have recorded an amortization amount of \$294,682 for the period from the issuance date to end of the fourth quarter of 2009.

#### 4. Statements of Cash Flows

We use the indirect method to present cash flows from operating activities. Cash paid for interest expense and income taxes for 2009, 2008, and 2007 was zero. Other supplemental cash flow information for 2009, 2008 and 2007, is presented as follows (in thousands):

	2009	2008	2007
<b>Non-cash transactions:</b>			
Non-cash interest expense	\$ 863	\$ -	\$ -
Issuance of common stock to pay consulting expenses	-	14	61
Non-cash Share-based compensation	1,165	(279)	1,330

## 5. Unevaluated Oil and Gas Properties

The costs associated with our unevaluated oil and gas properties include the following (in thousands):

	<u>At December 31,</u>	
	<u>2009</u>	<u>2008</u>
Unproved leasehold costs	\$ 275	\$ 275
Unevaluated exploratory well costs	34,146	30,562
	<u>\$ 34,421</u>	<u>\$ 30,837</u>

**Unproved property Costs.** Unproved leasehold costs are composed of amounts we paid to the PRC's Ministry of Commerce ("MOC") and the China United Coalbed Methane Corporation ("CUCBM") pursuant to a PSC we entered into in 2002 with CUCBM to acquire the mineral rights in the Enhong and Laochang areas in Yunnan Province.

**Unevaluated Wells Costs.** Unevaluated well costs include only suspended well costs which are direct exploratory well costs pending determination of whether proved reserves have been discovered. Accounting guidance regarding capitalization of suspended well costs is provided by FASB ASC Topic 932. FASB ASC 932 addresses whether there are circumstances under the successful efforts method of accounting for oil and gas producing activities that would permit the continued capitalization of exploratory well costs beyond one year, other than when additional exploration wells are necessary to justify major capital expenditures and those wells are under way or firmly planned for the near future. Capitalization of costs should be continued beyond one year in cases where reserves for the project are not yet proven, but the Company demonstrates sufficient continuing progress toward assessing those reserves. For the capitalized costs at December 31, 2009, our assessment indicated that our current work programs demonstrated our efforts in making sufficient continuing progress toward assessing the reserves in the areas for which the costs were incurred. Therefore, we have continued to capitalize these costs.

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

	<u>At December 31,</u>	
	<u>2009</u>	<u>2008</u>
Unevaluated exploratory well costs that have been capitalized for a period of one year or less	\$ 3,584	\$ 6,993
Unevaluated exploratory well costs that have been capitalized for a period greater than one year <sup>(1)</sup>	30,562	23,569
Total unevaluated exploratory well costs	<u>\$ 34,146</u>	<u>\$ 30,562</u>
Number of projects that have exploratory well costs that have been capitalized for a period greater than one year	<u>1</u>	<u>1</u>

(1) Costs related to our exploratory project in the Shouyang Block in the Shanxi Province.

The following table reflects the net changes in capitalized exploratory well costs during 2009, 2008 and 2007 (in thousands):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Beginning balance at January 1	\$ 30,562	\$ 31,539	\$ 24,039
Additions to unevaluated exploratory well costs pending the determination of proved reserves	3,584	6,930	7,657
Reclassifications to wells, facilities, and equipment based on the determination of proved reserves	-	-	-
Unevaluated exploratory well costs charged to expense	-	(7,907) <sup>(1)</sup>	(157)
Ending balance at December 31	<u>\$ 34,146</u>	<u>\$ 30,562</u>	<u>\$ 31,539</u>

- (1) During 2008, we determined that \$7.9 million of unevaluated exploratory well costs incurred previously no longer met the requirements for continued capitalization. Accordingly, we charged this amount to exploration costs. The amount includes \$7.0 million related to the FCC-HZ02 well in the Shouyang project.

## 6. Asset Retirement and Environmental Obligations

*Estimates of future dismantlement, restoration, and abandonment costs.* The accounting for future development and abandonment costs is determined by FASB ASC Topic 410, Asset Retirement and Environmental Obligations, which requires the fair value of a liability for an asset retirement obligation to be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The accrual is based on estimates of these costs for each of our properties based upon the type of production structure, reservoir characteristics, depth of the reservoir, market demand for equipment, currently available procedures and consultations with construction and engineering consultants. Based on our experience and technical and financial data collected from managing our projects over the years, we were able to record the costs related to our asset retirement and environmental obligations in our financial statements as of December 31, 2009. Because these costs typically extend many years into the future, estimating these future costs is difficult and requires management to make estimates and judgments that are subject to future revisions based on numerous factors, including changing technology, the political and regulatory environment, estimates as to the proper discount rate to use and timing of abandonment.

The following table presents the reconciliation of the beginning and ending aggregate carrying amounts of short-term and long-term legal obligations associated with the retirement of property, plant and equipment for the years ended December 31, 2009 and 2008 (in thousands):

	<u>2009</u>	<u>2008</u>
Carrying amount at beginning of period	\$ -	\$ -
Liabilities incurred	339	-
Liabilities settled	-	-
Accretion	-	-
Revisions	-	-
Foreign currency translations	-	-
Carrying amount at end of period	<u>\$ 339</u>	<u>\$ -</u>
Current portion	<u>\$ -</u>	<u>\$ -</u>
Noncurrent portion	<u>\$ 339</u>	<u>\$ -</u>

## 7. Other Fixed Assets

Other fixed assets, net include the following (in thousands):

	At December 31,	
	2009	2008
Other fixed assets	\$ 984	\$ 919
Accumulated depreciation	(504)	(373)
Other fixed assets, net	\$ 480	\$ 546

Other fixed assets include leasehold improvements, equipment and furniture. Depreciation expense for the years ended December 31, 2009, 2008, and 2007 was approximately \$182,000, \$171,000, and \$88,000, respectively.

## 8. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the recorded amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities as of December 31, 2009 and 2008 are as follows (in thousands):

	2009	2008
Deferred tax assets:		
Net operating loss	\$ 3,210	\$ 2,024
Accrued expense and other	-	31
Stock-based compensation	529	381
Total deferred tax assets	3,739	2,436
Total deferred tax liabilities	(12)	-
Net deferred tax assets	\$ 3,727	\$ 2,436
Net deferred tax assets	\$ 3,727	\$ 2,436
Less: valuation allowance	(3,727)	(2,436)
	\$ -	\$ -

Net operating loss, which can be carried forward for federal income tax purposes, was estimated to be approximately \$9.4 million at December 31, 2009. We had net operating loss for federal income tax purposes of approximately \$6.0 million at December 31, 2008. The net operating loss will begin to expire in 2016. At December 31, 2009 and 2008, management believed that the above indicated valuation allowance was necessary in order to comply with the provisions of FASB ASC Topic 740, Income Taxes ("ASC 740").

Income taxes for financial reporting purposes differed from the amounts computed by applying the statutory federal income tax rates because Bermuda has no income tax that would apply to FEEB, and because of our recording of the valuation allowance for the losses generated by us. The net increase in the valuation allowance for the year ended December 31, 2009 was \$1.3 million. This increase was primarily attributable to the net operating loss generated during 2009. The net decrease in the valuation allowance for the year ended December 31, 2008 was \$0.4 million. This decrease was primarily attributable to the reversal of temporary timing differences related to stock-based compensation.

ASC 740 prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We recognize interest and penalties related to unrecognized tax benefits within the provision for income taxes on continuing operations in our consolidated statements of income. There were no unrecognized tax benefits as of the date of adoption. There are no unrecognized tax benefits that if recognized would affect the tax rate for the year ended December 31, 2009. There is no interest or penalties recognized as of the date of adoption or for the year ended December 31, 2009.

## 9. Commitments and Contingencies

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

**Shouyang and Qinnan Production Sharing Contracts.** We are the operator under two separate PSCs with CUCBM to develop the Shouyang and Qinnan Blocks in the Shanxi Province. The term of each of the Shouyang and Qinnan PSCs consists of an exploration period, a development period and a production period. During the exploration period, we hold a 100% participating interest in the properties, and we must bear all exploration costs for discovering and evaluating CBM-bearing areas. If any CBM field is discovered, the development costs for that CBM field will be borne by us and CUCBM in proportion to the respective participating interests. The exploration period is divided into three phases called Phase I, Phase II and Phase III. We have completed our Phase I and Phase II obligations under the PSCs, and elected to enter into Phase III. Our work commitment to complete Phase III consists of furthering the horizontal drilling in the coal seam begun in Phase II to a total of 12,000 meters. We completed eight horizontal wells which totaled approximately 12,058 meters of horizontal drilling in coal for the Shouyang PSC and Qinnan PSC together in 2009. Therefore, we have satisfied the exploration work commitment. During the third quarter of 2009, the MOC approved a modification agreement to extend Phase III of the exploration period for the Shouyang PSC to June 30, 2011 from June 30, 2009. With regard to the Qinnan PSC, CNPC has recently replaced CUCBM as our Chinese partner company. For many months CNPC has been awaiting authorization from the Chinese government allowing it to deal with foreign partners on CBM projects. On March 7, 2010, several major news outlets reported that CNPC stated that it has been authorized to jointly develop coalbed methane projects with foreign partners, but we have not yet obtained official confirmation of this. There can be no assurance that CNPC will approve an extension of the exploration period or approve the Farmout Agreement with Arrow. We have had discussions with CNPC regarding the extension of the exploration period, which expired on June 30, 2009. At CNPC's request, we have provided certain operational and financial information about our Company to assist them in the decision making process. There can be no assurance that we will be successful in extending the Qinnan PSC.

Under the PSCs, we have committed to satisfy certain annual minimum exploration expenditure requirements for each PSC. Our minimum exploration expenditure requirement for each block is based on the minimum exploration expenditure requirements of CUCBM established by the Ministry of Land and Resources ("MLR"). The MLR sets its requirements by applying a minimum expenditure per acre to the total acreage encompassed by each PSC. The annual minimum exploration expenditure requirement is approximately \$2.9 million and \$3.4 million, for the Shouyang PSC and the Qinnan PSC, respectively, based on the currency exchange rate between the U.S. Dollar and the Chinese RMB as of December 31, 2009. For 2009, our exploration expenditure at Shouyang Block exceeded minimum requirement. Pursuant to the 2009 Shouyang PSC Modification Agreement, the portion of the exploration expenditures which exceeds the current year's minimum exploration expenditure requirement can no longer be carried forward toward the satisfaction of the subsequent year's minimum requirement. These expenditure requirements are denominated in the RMB and therefore, are subject to fluctuations in the currency exchange rate between the U.S. Dollar and the Chinese RMB. Assuming that we obtain approval from our Chinese partner company and the MOC, and satisfy the other conditions under the Farmout Agreement with Arrow, then the additional payment due upon the occurrence of these events from Arrow together with funds currently available should provide sufficient working capital to meet our currently planned work programs through 2010. Our current work programs would satisfy the minimum exploration expenditures for all three of our PSCs for 2010. The MLR minimum expenditure requirements are a significant factor that influences the Company's exploration work program.

Under the PSCs, we are required to make the following yearly payments to our Chinese partner companies. As indicated below, certain amounts may change from year to year.

	<u>Shouyang PSC</u>	<u>Qinnan PSC</u>
<b>Exploration Period</b>		
Salary and Benefit		
2009	\$ 162,200	\$ 143,100
2010	195,900 <sup>(1)</sup>	143,100 <sup>(2)</sup>
Exploration Permit Fee		
2009	140,136	165,529
2010	143,622	169,693 <sup>(2)</sup>
Training Fee	60,000	60,000
Assistance Fee	50,000	50,000
<b>Development &amp; Production Period</b>		
Signature Fee <sup>(3)</sup>	150,000	150,000
Training Fee	150,000	150,000
Assistance Fee	120,000	120,000

(1) The increase from 2009 to 2010 is due to the increase of standard amount of the CUCBM's professionals' salary and benefit under the amended Shouyang PSC. The salary and benefits for CUCBM professionals during the development and production periods is to be determined by negotiation with CUCBM.

(2) The increase from 2009 to 2010 is due to the phaseout of a discount on exploration permit fee pursuant to MLR's regulations.

(3) Due within 30 days after first approval of the ODP following the exploration period.

**Yunnan Production Sharing Contract.** We are the operator under one PSC with CUCBM to develop two areas in the Yunnan Province: Enhong and Laochang. The term of the PSC consists of an exploration period, a development period and a production period. The exploration period is divided into two phases, Phase I and Phase II. We have completed Phase I and are operating in Phase II. During the third quarter of 2009, the MOC approved a modification agreement to extend Phase II of the exploration period for the Enhong-Laochang PSC to June 30, 2011 from June 30, 2009.

During the exploration period, we must bear all exploration costs for discovering and evaluating CBM-bearing areas. Our work commitment to complete Phase II consists of drilling at least one horizontal well with a minimum of two laterals. We are reviewing the data collected from the vertical wells we drilled and other wells drilled by the Chinese coal industry to plan for the drilling of the horizontal well.

Under the Yunnan PSC, we have committed to satisfy certain annual minimum exploration expenditure requirements. Our minimum exploration expenditure requirements for the blocks subject to the PSC are based on the minimum exploration expenditure requirements of CUCBM established by the MLR. The MLR sets its requirements by applying a minimum expenditure per acre to the total acreage encompassed by the PSC. The annual minimum exploration expenditure requirement is approximately \$1.6 million, based on the currency exchange rate between the U.S. Dollar and the Chinese RMB as of December 31, 2009. Pursuant to the 2009 Yunnan PSC Modification Agreement, the portion of the exploration expenditures which exceeds the current year's minimum exploration expenditure requirement can no longer be carried forward toward the satisfaction of the subsequent year's minimum requirement. Our 2009 exploration expenditure and the cumulative amount carried forward from 2008 amounted to approximately \$1.5 million. Therefore we were approximately \$0.1 million short of the requirement. The shortage will be discussed in the next joint management committee meeting currently scheduled in late March. Based on previous experience and the shortage being immaterial, we are hopeful that permission will be granted from CUCBM to add the underage to the 2010 requirement. These requirements are denominated in the RMB, and therefore, are subject to fluctuations in the currency exchange rate between the U.S. Dollar and the Chinese RMB. The MLR minimum expenditure requirements are a significant factor that influences the Company's exploration work program.

Pursuant to the terms of the Yunnan PSC, we have paid CUCBM signature fees totaling \$350,000. Under the PSC, we are required to make certain payments to CUCBM, including: (1) CUCBM assistance fees for Chinese personnel totaling \$45,000 per year during the exploration phase and \$80,000 per year during the development and production periods; (2) training fees for Chinese personnel working on the projects of \$45,000 per year during the exploration period and \$80,000 per year during the development and production periods; (3) reimbursement to CUCBM for government-imposed fees for CBM exploration rights during the exploration period, which were \$74,000 in 2009 and are estimated to be approximately \$79,000 in 2010, and in proportion to our participating interest in the development and production periods; and (4) salary and benefits paid to CUCBM professionals during the exploration period, which was approximately \$210,000 in 2009 and are estimated to be approximately \$257,000 in 2010. This increase is due to the increase of standard amount of CUCBM's professionals salary and benefit under the extended Yunnan PSC. The allocation of salary and benefits for CUCBM professionals during the development and production periods are to be determined by negotiation with CUCBM.

**Minimum Commitments.** At December 31, 2009, total minimum commitments from long-term non-cancelable operating leases and other purchase obligations are as follows (in thousands):

	Amount
2010	\$ 9,370
2011 - 2012	15,244
2013 - 2014	-
2015 and beyond	339
<b>Total minimum commitments</b>	<b>\$ 24,953</b>

## 10. Employee Savings Plan

At December 31, 2009, we maintained a defined contribution plan covering all of our U.S. employees. Employees participating in the plan may select from several investment options. We match the participant's contribution up to a maximum of four percent of the participant's salary. The amounts contributed by the participants and us vest immediately. We expensed \$40,000, \$48,000, and \$41,000 under this plan for 2009, 2008 and 2007, respectively.

## 11. Share-Based Compensation

We grant shares of nonvested stock 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"). Options granted under the 2005 Plan must carry an exercise price equal to or above the market value of the stock at the grant date, and a term of no greater than ten years. The 2005 Plan provides that, unless otherwise agreed, shares of nonvested stock granted under the 2005 Plan must be forfeited upon termination of service. We issue new shares when options are exercised or shares are granted. Our option grants under the 2005 Plan to date have generally utilized these terms: exercise price above or equal to average market price on the date of the grant; vesting periods up to four years from date of grant; term of up to ten years; and forfeiture of unexercised vested options after 60-90 days after termination of employment with the Company. Our shares of nonvested stock granted under the 2005 Plan to date have utilized vesting periods of up to three years.

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. These grants of options included varying terms, some differing from the above.

During the first half of 2009, we awarded options to purchase up to 1,686,000 shares of our common stock and 1,190,000 shares of nonvested stock under the 2005 Plan to employees and members of the board of directors, and options to purchase up to 220,000 shares of our common stock and 100,000 shares of nonvested stock outside the 2005 Plan to a new employee and consultants. At the annual general meeting of stockholders of the Company held on July 15, 2009, the Company's stockholders approved an amendment to the 2005 Plan which increased the number of shares of common stock issuable from 7,500,000 shares to 12,500,000 shares and increased the number of shares of common stock that may be granted as restricted stock (shares of nonvested stock), restricted stock units or any other stock-based awards from 2,400,000 to 3,900,000 shares. Since the amendments were approved, we have not awarded any options to purchase our common stock or any share of nonvested stock or other full-valued stock-based award. As of December 31, 2009, we had 5,752,333 shares available for awards under the 2005 Plan, of which 1,921,500 shares could be issued as shares of nonvested stock or other full-valued stock-based awards.

In the fourth quarter of 2008, we reviewed the data we utilized to determine our estimated forfeiture rates for the share based awards. The estimated forfeiture rates were used in the calculations of the share based compensation costs. The data indicated that most of the estimated forfeiture rates should be increased. Consequently, we adjusted certain previously recognized compensation costs to reflect the higher estimated forfeiture rates. As a result, we reduced the compensation costs by approximately \$2.1 million. The following table summarizes share based compensation costs recognized under ASC 718 for 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
General and administrative	\$ 930	\$ (621)	\$ 1,242
Exploration Costs	235	342	69
Tax benefit	-	-	-
Total share-based compensation costs, net of tax	<u>\$ 1,165</u>	<u>\$ (279)</u>	<u>\$ 1,311</u>

We utilized certain assumptions in determining the fair value of options using the Black-Scholes option pricing model. We calculated the estimated volatility for grants of options made in 2006 and 2007 by averaging the historical daily price intervals for our common stock for the portion of the expected life that our shares were publicly traded and the historical daily price intervals of similar peer companies for the remaining period. As of the first quarter of 2008, expected volatility is based completely on the Company's own historical volatility since we have sufficient data to determine the 6-year volatility. The risk-free interest rate is based on observed U.S. Treasury rates at date of grant, appropriate for the expected lives of the options. The expected life of options granted during 2006 and 2007 was determined based on the method provided in Staff Accounting Bulletin No. 107, as we do not have an adequate exercise history to determine the average life for the options with the characteristics of those granted in 2007 and 2006.

Compensation expenses for the stock option grants determined under ASC 718 for 2008, 2007 and 2006 were calculated using the Black-Scholes option pricing model with the following assumptions:

	Actual 2009	Actual 2008	Actual 2007
Dividend yield	0%	0%	0%
Expected volatility	85 - 89%	77 - 82%	82 - 84%
Risk-free interest rate	1.5 - 1.7%	2.5 - 3.1%	4.2 - 4.9%
Expected life of options (years)	5.5 - 6	5.5 - 6	5.5 - 6
Weighted average fair value per share at grant date	\$ 0.17	\$ 0.44	\$ 0.71

The following table summarizes stock option transactions for 2009:

	2009			Aggregate Intrinsic Value
	Shares Underlying Options	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)	
Outstanding at beginning of year	11,320,500	\$ 1.25		
Granted	1,906,000	0.40		
Exercised	-	-		
Canceled	-	-		
Forfeited	(433,333)	0.54		
Expired	(2,841,000)	1.16		
Outstanding at end of year	<u>9,952,167</u>	<u>1.14</u>	<u>6.32</u>	<u>\$ -</u>
Options exercisable at end of year	<u>6,636,167</u>	<u>\$ 1.41</u>	<u>5.19</u>	<u>\$ -</u>

No options were exercised during 2009 and 2008. The total intrinsic value of options exercised during 2007 was \$383,000.

A summary of options outstanding as of December 31, 2009 is as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	
\$0.28 to \$0.45	1,496,000	9.18	\$ 0.28	166,667	\$ 0.31	
\$0.46 to \$0.70	3,248,167	7.14	0.67	1,723,833	0.66	
\$0.71 to \$0.99	823,000	7.32	0.81	574,667	0.80	
\$1.00 to \$1.99	1,000,000	5.69	1.18	915,000	1.19	
\$2.00 to \$2.37	<u>3,385,000</u>	<u>4.22</u>	<u>2.04</u>	<u>3,256,000</u>	<u>2.04</u>	
	<u>9,952,167</u>	<u>6.32</u>	<u>1.14</u>	<u>6,636,167</u>	<u>1.41</u>	

The following table summarizes activity in shares of nonvested stock for 2009:

	Shares of Nonvested Stock	Weighted Average Grant Date Fair Value
Outstanding at beginning of year	703,500	\$ 0.70
Granted	1,290,000	0.28
Vested	(322,425)	0.66
Forfeited	(300,000)	0.28
Withheld for Taxes	(17,075)	0.60
Outstanding at end of year	<u>1,354,000</u>	<u>0.40</u>

At December 31, 2009, we had approximately \$0.9 million in total unrecognized compensation cost related to share-based compensation, of which \$0.3 million was related to shares of nonvested stock 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 1.54 years at December 31, 2009.

## 12. Stockholders' Equity

**Common Stock.** Holders of our common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders and do not have cumulative voting rights. Accordingly, holders of a majority of the shares of common stock entitled to vote in any election of directors may elect all other directors standing for election. Holders of common stock are entitled to receive proportionately any dividends that may be declared by our board of directors, subject to any preferential rights of outstanding preferred stock. In the event of our liquidation, dissolution or winding up, holders of common stock will be entitled to receive proportionately any of our assets remaining after the payment of liabilities and subject to the prior rights of any outstanding preferred stock. Holders of common stock have no preemptive, subscription, redemption or conversion rights.

**Shelf Registration.** In September 2009, we filed with the SEC a shelf registration statement on Form S-3 for the offer and sale from time to time up to \$75 million of our debt and equity securities. The amount available under the registration statement at March 12, 2010 was approximately \$65.1 million.

**Issuances of Common Stock and Warrants.** The table below summarizes placements of our shares of common stock and warrants since the inception of the Company and warrants outstanding at December 31, 2009:

	Shares		Proceeds		Warrants Outstanding at December 31, 2009		
	Common Stock	Warrant	Gross	Net	Amount	Exercise Price	Expiration
Company Formation	40,500,000	-	\$ 53,000	\$ 53,000	-	-	-
Shares issued							
2002	5,250,500	-	3,413,000	3,051,000	-	-	-
2003	10,595,961	8,903,270	6,607,000	5,382,000	-	-	-
2004	18,186,471	11,042,215	15,962,000	14,621,000	198,314	\$0.80 - \$2.50	Jan 2010
2005	14,893,292	150,000	13,404,000	12,469,000	-	-	-
2006	25,514,511	-	25,881,000	24,953,000	-	-	-
2007 (1)	11,485,452	4,019,908	15,000,000	14,814,000	4,019,908	\$ 2.61	Aug 2012
2008 (2)	24,000,000	8,400,000	12,000,000	11,808,000	8,400,000	\$ 1.00	May 2013
2009 (3)	11,558,645	12,043,458	14,900,855	13,898,173	4,623,458	\$ 1.25	Dec. 2014
	<u>161,984,832</u>	<u>44,558,851</u>	<u>107,220,855</u>	<u>101,049,173</u>	<u>17,241,680</u>		

- (1) Registered offering completed in August 2007. The warrants will terminate on the earlier of expiration date indicated or the date fixed for redemption under the warrant agreement. We may redeem the warrants if the shares of the Company's common stock trade at a price equal to or in excess of \$3.92 per share for fifteen or more consecutive trading days.
- (2) Registered offering completed in the second quarter of 2008. The warrants will terminate on the earlier of expiration date indicated or the date fixed for redemption under the warrant agreement. We may redeem the warrants if the shares of the Company's common stock trade at a price equal to or in excess of \$2 per share for fifteen or more consecutive trading days.
- (3) On March 13, 2009, FEEB issued an Exchangeable Note, \$10 million principal amount, to Arrow for \$10 million cash. In addition, Arrow received warrants to purchase 7,420,000 shares of common stock, which expired in December 2009. A registered offering was completed in the fourth quarter of 2009. The warrants will terminate on the earlier of expiration date indicated or the date fixed for redemption under the warrant agreement. We may redeem the warrants if the shares of the Company's common stock trade at a price equal to or in excess of \$1.875 per share for fifteen or more consecutive trading days.

Registered offering completed in March 2010. Warrants to purchase up to 4.7 million shares of common stock were issued. The warrants issued to the investors in the offering expire on March 11, 2015 and the warrants issued to the placement agent expire on November 4, 2014. See Note 13 – “Subsequent Event.”

**Basic and Diluted Shares Outstanding.** Our basic and diluted numbers of shares outstanding in each of the three years presented were the same because we had net losses. There were (1) 9,952,167, 11,320,500, and 9,965,000 options as of December 31, 2009, 2008 and 2007, respectively; and (2) 17,241,680, 12,618,222, and 4,368,222 warrants as of December 31, 2009, 2008 and 2007, respectively.

**Resale Restrictions.** On December 31, 2009, we had 173,836,960 shares of common stock outstanding, of which 6,085,533 shares, or 3.5%, were subject to resale restrictions.

**Preferred Stock.** Our board of directors has the authority, without further action by the stockholders, to issue up to 500,000,000 shares of preferred stock in one or more series and to designate the rights, preferences, privileges and restrictions of each series. The issuance of preferred stock could have the effect of restricting dividends on the common stock, diluting the voting power of the common stock, impairing the liquidation rights of the common stock or delaying or preventing our change in control without further action by the stockholders. We have no present plans to issue any shares of preferred stock.

**Stock Subscription Receivable.** In December 2009, we completed a transaction for the sale of 11.6 million shares of our common stock and warrants to purchase up to 4.6 million shares of our common stock for total net proceeds of \$4.3 million under our shelf registration. Stock subscription receivable at December 31, 2009 was \$275,000, which was paid on January 5, 2010.

**Warrants.** The following table summarizes warrant transactions for the years ended December 31, 2009, 2008 and 2007.

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Outstanding at beginning of year	12,618,222	4,368,222	8,661,589
Issued related to			
Current year’s share placements	12,043,458	8,400,000	4,019,908
Prior year’s share placements	-	-	-
Exercised	-	-	(12,650)
Expired	(7,420,000)	(150,000)	(8,300,625)
Outstanding at end of year (1)	<u>17,241,680</u>	<u>12,618,222</u>	<u>4,368,222</u>

(1) The same amount of shares of our common stock authorized was reserved for the exercise of the warrants.

**Stock Options.** In May 2005, our stockholders approved the 2005 Plan, which permits the granting of incentive stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards to employees, consultants and members of the board of directors. At the annual general meeting of stockholders of the Company held on July 15, 2009, the Company’s stockholders approved an amendment to the 2005 Plan which increased the number of shares of common stock issuable from 7,500,000 shares to 12,500,000 shares and increased the number of shares of common stock that may be granted as nonvested stock, nonvested stock units or any other stock-based awards from 2,400,000 to 3,900,000 shares. Since the amendments were approved, we have not awarded any options to purchase our common stock or any shares of nonvested stock or other full-valued stock-based award. Our shareholders voted in December 2007 to add 4,000,000 shares of common stock to the 2005 Plan.

During the first half of 2009, we awarded options to purchase up to 1,686,000 shares of our common stock and 1,190,000 shares of nonvested stock under the 2005 Plan to employees and members of the board of directors, and options to purchase up to 220,000 shares of our common stock and 100,000 shares of nonvested stock outside the 2005 Plan to a new employee and consultants.

The following table summarizes stock option transactions for the years ended December 31, 2009, 2008 and 2007:

	2009		2008		2007	
	Shares Underlying Options	Weighted Average Exercise Price	Shares Underlying Options	Weighted Average Exercise Price	Shares Underlying Options	Weighted Average Exercise Price
Outstanding at beginning of year	11,320,500	\$ 1.25	9,965,000	\$ 1.36	10,203,000	\$ 1.44
Granted	1,906,000	0.40	2,604,500	0.65	3,581,000	1.16
Exercised	-	-	-	-	(660,000)	0.65
Canceled	-	-	(125,133)	1.04	(1,840,000)	1.09
Forfeited	(433,333)	0.54	(543,867)	1.09	(1,219,000)	2.00
Expired	(2,841,000)	1.16	(580,000)	0.65	(100,000)	3.85
Outstanding at end of year	9,952,167	1.14	11,320,500	1.25	9,965,000	1.36
Options exercisable at end of year	6,636,167	1.41	8,085,467	1.43	7,176,200	\$ 1.47

### 13. Subsequent Event

On March 11, 2010, we completed a transaction for the sale of 11.7 million shares of our common stock and warrants to purchase up to 4.7 million shares of our common stock for total net proceeds of \$4.6 million under our shelf registration. The amount available under the registration statement at March 12, 2010 was approximately \$65.1 million.

**SUPPLEMENTAL INFORMATION TO CONSOLIDATED FINANCIAL STATEMENTS**

Unaudited Quarterly Financial Information (In Thousands, Except Per Share Data):

	Quarter Ended				Year
	March 31	June 30	September 30	December 31	
<b>2009</b>					
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
Total expenses	3,109	3,506	3,343	2,916	12,874
Net loss	(3,161)	(3,775)	(3,627)	(3,192)	(13,755)
Basic and diluted					
- Earnings per share	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.08)
- Weighted average shares outstanding	161,301	162,370	162,582	162,730	162,251
<b>2008</b>					
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
Total expenses	5,220	4,175	4,369	8,938	22,702
Net loss	(5,126)	(4,222)	(4,335)	(8,908)	(22,591)
Basic and diluted					
- Earnings per share	\$ (0.04)	\$ (0.03)	\$ (0.03)	\$ (0.06)	\$ (0.15)
- Weighted average shares outstanding	137,207	144,978	161,213	161,305	151,231

**SCHEDULE II**

**FAR EAST ENERGY CORPORATION  
VALUATION AND QUALIFYING ACCOUNTS**

For Years Ended December 31, 2009, 2008 and 2007  
(In thousands)

Description	Balance at Beginning of Period	Additions		Deductions	Balance at End of Period
		Charged to Cost and Expense	Charged to Other Accounts		
2009 deferred tax valuation allowance	\$ 2,436	\$ 1,291	\$ -	\$ -	\$ 3,727
2008 deferred tax valuation allowance	2,789	(353)	-	-	2,436
2007 deferred tax valuation allowance	1,950	839	-	-	2,789

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

#### 1. Financial Statements.

**Our consolidated financial statements are included in Part II, Item 8 of this report:**

	Page
Report of Independent Registered Public Accounting Firm	50
Consolidated Balance Sheets	52
Consolidated Statements of Operations	53
Consolidated Statements of Stockholders' Equity	54
Consolidated Statements of Cash Flows	55
Notes to the Consolidated Financial Statements	56

#### 2. Financial statement schedules and supplementary information required to be submitted.

Schedule II — Valuation and qualifying accounts.	74
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Schedules other than that listed above are omitted because they are not applicable.

#### 3. Exhibits

A list of the exhibits filed or furnished with this report on Form 10-K/A (or incorporated by reference to exhibits previously filed or furnished by us) is provided in the Exhibit Index beginning on page 79 of this report. Those exhibits incorporated by reference herein are indicated as such by the information supplied in the parenthetical thereafter. Otherwise, the exhibits are filed herewith.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on February 11, 2011.

FAR EAST ENERGY CORPORATION

By: /s/ Michael R. McElwrath  
Michael R. McElwrath  
*Chief Executive Officer*

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## 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, 2004, 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 on 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 on 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 on Form 8-K filed on May 30, 2008, and incorporated herein by reference).
4.8	Warrant, dated March 13, 2009, issued to Arrow Energy International Pte Ltd. (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K filed on March 16, 2009, and incorporated herein by reference).
4.9	Exchangeable Note, dated March 13, 2009, by Far East Energy (Bermuda), Ltd. for the benefit of Arrow Energy International Pte Ltd. (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on March 16, 2009, and incorporated herein by reference).
4.10	Registration Rights Agreement, dated March 13, 2009, between the Company and Arrow Energy International Pte Ltd. (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K filed on March 16, 2009, and incorporated herein by reference).
4.11	Warrant Agreement between the Company and Continental Stock Transfer & Trust Company (including the form of warrant) (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on December 22, 2009, and incorporated herein by reference).
4.12	Form of Warrant (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on March 9, 2010, and incorporated herein by reference).
4.13	Form of Securities Purchase Agreement (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 9, 2010, 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 28, 2004, and incorporated herein by reference).
10.2*	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).
10.3*	Amended and Restated Nonqualified Stock Option Agreement, dated December 23, 2004, by and between the Company and Michael R. McElwrath (filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed on December 28, 2004, and incorporated herein by reference).
10.4*	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).
10.5*	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).
10.6*	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).

- 10.7\* 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).
- 10.8\* Stock Option Agreement, dated February 24, 2004, by and between the Company and Thomas Williams (filed as Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, which was filed on March 15, 2005, and incorporated herein by reference).
- 10.9 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).
- 10.10 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).
- 10.11 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).
- 10.12 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).
- 10.13 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).
- 10.14 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).
- 10.15 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).
- 10.16 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).
- 10.17 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).
- 10.18 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).
- 10.19 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).
- 10.20 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).
- 10.21 Farmout Agreement Shouyang PSC, dated June 17, 2003, by and between Phillips China Inc. and the Company (filed as Exhibit 10.3 to the Company's Amendment No. 1 to its Quarterly Report on Form 10-QSB/A for the quarter ended June 30, 2003, which was filed on December 24, 2003, and incorporated herein by reference).
- 10.22 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).

- 10.23 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).
- 10.24 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).
- 10.25 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).
- 10.26 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).
- 10.27 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).
- 10.28\* Far East Energy Corporation 2005 Stock Incentive Plan (filed as Exhibit 10.28 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, which was filed on August 10, 2009, and incorporated herein by reference).
- 10.29\* 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 23, 2007, and incorporated herein by reference).
- 10.30\* 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).
- 10.31\* 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).
- 10.32\* 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).
- 10.33\* First Amendment to Amended and Restated Employment Agreement, dated April 16, 2007, between the Company and Michael R. McElwrath (filed as Exhibit 10.5 to the Company's Current Report on Form 8-K filed on April 19, 2007, and incorporated herein by reference).
- 10.34 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).
- 10.35 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 27, 2007, and incorporated herein by reference).
- 10.36 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 27, 2007, and incorporated herein by reference).
- 10.37 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).
- 10.38\* 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).

- 10.39\* 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).
- 10.40\* 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).
- 10.41\* 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).
- 10.42\* 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).
- 10.43\* 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).
- 10.44\* 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).
- 10.45\* 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 13, 2008, and incorporated herein by reference).
- 10.46\* 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 13, 2008, and incorporated herein by reference).
- 10.47\* 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).
- 10.48\* 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.
- 10.49\* 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.
- 10.50\* 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 13, 2008, and incorporated herein by reference).
- 10.51 Stock Subscription Agreement, dated June 2, 2008, between the Company and International Finance Corporation (filed as Exhibit 10.64 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, which was filed on August 6, 2008, and incorporated herein by reference).
- 10.52\* Amended and Restated Employment Agreement, dated October 1, 2008, by and between the Company and Andrew Lai (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K/A filed on October 6, 2008, and incorporated herein by reference).
- 10.53\* First Amendment to Non-Qualified Stock Option Agreement, dated December 19, 2008, between the Company and Michael McElwrath (filed as Exhibit 10.63 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, which was filed on March 30, 2009, and incorporated herein by reference). The original option agreement was entered into on February 2, 2006.
- 10.54\* Second Amended and Restated Nonqualified Stock Option Agreement, dated January 14, 2009, 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, 2008, which was filed on March 30, 2009, and incorporated herein by reference). The original option agreement was entered into on January 29, 2002.

- 10.55\* Second Amended and Restated Nonqualified Stock Option Agreement, dated January 14, 2009, between the Company and Thomas Williams (filed as Exhibit 10.65 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, which was filed on March 30, 2009, and incorporated herein by reference). This Agreement amended 100,000 options, which vested on or prior to December 31, 2004, of the original option agreement dated February 24, 2004.
- 10.56\* Third Amended and Restated Nonqualified Stock Option Agreement, dated January 14, 2009, between the Company and Thomas Williams (filed as Exhibit 10.66 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, which was filed on March 30, 2009, and incorporated herein by reference). This Agreement amended 300,000 options, which vested on or after January 1, 2005, of the original option agreement dated February 24, 2004.
- 10.57\* Amended and Restated Nonqualified Stock Option Agreement, dated January 14, 2009, between the Company and John Mihm (filed as Exhibit 10.67 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, which was filed on March 30, 2009, and incorporated herein by reference). The original option agreement was entered into on May 24, 2004.
- 10.58\* Amended and Restated Nonqualified Stock Option Agreement, dated January 14, 2009, between the Company and Don Juckett (filed as Exhibit 10.68 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, which was filed on March 30, 2009, and incorporated herein by reference). The original option agreement was entered into on May 18, 2004.
- 10.59\* First Amendment to Employment Agreement, dated December 19, 2008, between the Company and Phil Christian (filed as Exhibit 10.69 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, which was filed on March 30, 2009, and incorporated herein by reference).
- 10.60\* Second Amendment to Employment Agreement, dated December 31, 2008, between the Company and Phil Christian (filed as Exhibit 10.70 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, which was filed on March 30, 2009, and incorporated herein by reference).
- 10.61\* First Amendment to Amended and Restated Employment Agreement, dated December 19, 2008, between the Company and Andrew Lai (filed as Exhibit 10.71 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, which was filed on March 30, 2009, and incorporated herein by reference).
- 10.62\* Fourth Amendment to Amended and Restated Employment Agreement, dated December 19, 2008, between the Company and Michael McElwrath (filed as Exhibit 10.72 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, which was filed on March 30, 2009, and incorporated herein by reference).
- 10.63\* Form of Nonqualified Stock Option Agreement for Far East Energy Corporation 2005 Stock Incentive Plan (filed as Exhibit 10.73 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, which was filed on March 30, 2009, and incorporated herein by reference).
- 10.64 Securities Purchase Agreement, dated March 13, 2009, among the Company, Far East Energy (Bermuda), Ltd., and Arrow Energy International Pte Ltd. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 16, 2008, and incorporated herein by reference).
- 10.65 Farmout Agreement, dated March 13, 2009, between the Company, Far East Energy (Bermuda), Ltd., and Arrow Energy International Pte Ltd. (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on March 16, 2008, and incorporated herein by reference).
- 10.66\* Fifth Amendment to Amended and Restated Employment Agreement, dated May 18, 2009, between the Company and Michael R. McElwrath (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 18, 2009, and incorporated herein by reference).
- 10.67 Modification Agreement 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 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 27, 2009, and incorporated herein by reference).
- 10.68 Modification Agreement for Production Sharing Contract for Exploitation of Coalbed Methane Resources in Enhong and Laochang Area, Yunnan Province, The People's Republic of China (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on August 27, 2009, and incorporated herein by reference).
- 10.69 Agreement, dated October 6, 2009, between Far East Energy (Bermuda), Ltd. and Arrow Energy International Ltd (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 7, 2009, and incorporated herein by reference).
- 10.70\* Release of Claims, dated October 6, 2009, by and among Phil Christian, the Company, and Far East Energy (Bermuda), Ltd. (filed as Exhibit 10.70 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, and incorporated herein by reference).

- 10.71 Agreement, dated November 20, 2009, between Far East Energy (Bermuda), Ltd. and Arrow Energy International Ltd (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 23, 2009, and incorporated herein by reference).
- 10.72 Placement Agent Agreement between the Company and Pritchard Capital Partners, LLP (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 22, 2009, and incorporated herein by reference).
- 21.1 List of Subsidiaries of Far East Energy Corporation (filed as Exhibit 21.1 to the Company's Annual Report on Form 10-K filed on March 15, 2010, and incorporated herein by reference).
- 23.1 † Consent of JonesBaggett LLP.
- 24.1 Powers of Attorney (filed as Exhibit 24.1 to the Company's Annual Report on Form 10-K filed on March 15, 2010, and incorporated herein by reference).
- 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

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders  
Far East Energy Corporation and Subsidiaries:

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-136032, 333-132631 and 333-162019), Form S-1 (333-159905) and Form S-8 (Nos. 333-148361, 333-148363, 333-126994, 333-129169, 333-134600, 333-164316 and 333-164462) of Far East Energy Corporation and Subsidiaries (a development stage company), of our reports dated March 15, 2010, relating to the consolidated financial statements and the financial statement schedule included in Item 15(a)(2) and the effectiveness of internal control over financial reporting as of December 31, 2009, which reports appear in this Form 10-K/A.

/s/ JonesBaggett LLP

JonesBaggett LLP (formerly Payne Smith & Jones, P.C.)  
Dallas, Texas

March 15, 2010

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## CERTIFICATION BY CHIEF EXECUTIVE OFFICER

I, Michael R. McElwrath, certify that:

1. I have reviewed this Annual Report on Form 10-K/A for the fiscal year ended December 31, 2009, 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 officers 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 Rule 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers 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 registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 11, 2011

/s/ Michael R. McElwrath

Michael R. McElwrath  
Chief Executive Officer

## CERTIFICATION BY CHIEF FINANCIAL OFFICER

I, Bruce N. Huff, certify that:

1. I have reviewed this Annual Report on Form 10-K/A for the fiscal year ended December 31, 2009, 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 officers 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 Rule 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers 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 registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 11, 2011

/s/ Bruce N. Huff

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Bruce N. Huff  
Chief Financial Officer

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

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Far East Energy Corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

(a) the Annual Report on Form 10-K/A for the year ended December 31, 2009 (the "Form 10-K/A") of the Company 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 Form 10-K/A fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 11, 2011

/s/ Michael R. McElwrath

Michael R. McElwrath  
Chief Executive Officer

This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent as shall be expressly set forth by specific reference in such filing.

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CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. § 1350 ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Far East Energy Corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

(a) the Annual Report on Form 10-K/A for the year ended December 31, 2009 (the "Form 10-K/A") of the Company 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 Form 10-K/A fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 11, 2011

/s/ Bruce N. Huff

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Bruce N. Huff  
Chief Financial Officer

This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent as shall be expressly set forth by specific reference in such filing.

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