



**Third Quarter Report
2011**

**FORM 51-102F1
COMPLIANCE ENERGY CORPORATION**

**MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A") OF FINANCIAL CONDITION & THE
RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

1.1 November 14, 2011

Introduction

Management's discussion and analysis ("MD&A") focuses on significant factors that affected Compliance Energy Corporation's performance and factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the Company's audited consolidated financial statements and the related notes contained therein for the year ended December 31, 2010.

The Company has prepared its unaudited interim condensed consolidated financial statements for the period ended September 30, 2011 in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including IAS 34 "Interim Financial Reporting" and IFRS 1 "First-Time Adoption of IFRS". For comparative purposes all financial statement amounts related to the three months and nine months ended September 30, 2010 and the year ended December 31, 2010 have been restated in accordance with IFRS. All other periods remain unchanged from the numbers originally reported under Canadian generally accepted accounting principles (cGAAP). The Company files its financial statements with appropriate regulatory authorities in Canada and you can find more information about the Company on SEDAR at www.sedar.com.

Except for our adoption of IFRS, there have been no changes to the following since we published our 2010 MD&A: critical accounting estimates, financial related risks and other risks and uncertainties.

Forward-Looking Statements

The MD&A contains certain statements that may be deemed "forward-looking statements." All statements in this MD&A, other than statements of historical fact, that address exploration drilling, exploitation activities, and events or developments that the Company expects to occur, are forward-looking statements. Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the words "expects", "plans", "anticipates", "believes", "intends", "estimates", "projects", "potential", "targets" and similar expressions, or that events or conditions "will", "would", "may", "could", or "should" occur. Information inferred from the interpretation of drilling results and information concerning mineral resource estimates may also be deemed to be forward-looking statements, as it constitutes a prediction of what might be found to be present when and if a project is actually developed. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results may differ materially from those in the forward-looking statements. Factors that could cause the actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration successes, and continued availability of capital and financing, and general economic, government policy decisions, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. Forward-looking statements are based on the beliefs, estimates and opinions of the Company's management on the date the statements are made.

Cautionary Note to Investors Concerning Estimates of Measured and Indicated Resources

This discussion uses the terms 'measured resources' and indicated resources'. The Company advises investors that while those terms are recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize them. **Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves.**

Cautionary Note Investors Concerning Estimates of Inferred Resources

This discussion uses the term 'inferred resources'. The Company advises investors that while this term is recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize it. 'Inferred resources' have a great amount of uncertainty as to their existence, and as to their economic and legal feasibility. It cannot be assumed that all or any part of a mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of economic studies, except in rare cases. **Investors are cautioned not to assume that any part or all of an inferred resource exists, or is economically or legally mineable.**

1.2 Overview

The Company was incorporated under the provisions of the British Columbia *Company Act* on July 27, 2000 and on August 30, 2002 changed its name to Compliance Energy Corporation (“Compliance”). Compliance’s main projects are its freehold coal holdings on Vancouver Island, B.C. and 4 non-coal exploration properties on Vancouver Island. Compliance also holds an equity investment in Copper Mountain Mining Corporation. Compliance trades on the TSX Venture Exchange with the trading symbol CEC.

During the period, the Company continued to advance the Raven Underground Coal Project (“Raven Project”), which is part of the Company’s Comox Joint Venture (“CJV”), formed in 2009 with I-Comox Coal Inc. (a wholly owned subsidiary of ITOCHU Corporation) and LG International Investments (Canada) Ltd. (a wholly owned subsidiary of LG International Corp.)

1.21 Projects

Comox Joint Venture

During the nine months ended September 30, 2011, the Company, along with its consultants;

- continued to advance the feasibility study on the Raven Underground Coal Mine Project, culminating in the release of updated financial details from an updated 43-101 Technical Report published by its consultant, Pincock, Allen and Holt on June 8, 2011. (available on SEDAR) Summary financial results were distributed in a news release on May 9, 2011;
- continued to advance the environmental permitting process for the Raven Underground Coal Mine Project, and on May 11, 2011, the draft Application Information Requirements / Environmental Impact Statement Guidelines were published and the dates for public meetings were announced; and
- participated in three public meetings regarding the draft Application Information Requirements / Environmental Impact Statement Guidelines

Vancouver Island Exploration Properties

During the nine months ended September 30, 2011, the Company;

- announced a \$1.25 million exploration program for its Vancouver Island exploration assets, including 3,500 meters of diamond drilling at its Camp Lake Property and NIC Property; and
- began the permit application process necessary to conduct planned exploration drilling on these properties. The exploration permit for the Company’s New Island Copper Project was received July 21, 2011 and the exploration permit for the Company’s Camp Lake property was received September 7, 2011.

Basin Coal Mine

During the nine months ended September 30, 2011, the Company;

- Prepared and submitted a reclamation plan to the Provincial government; and
- Negotiated the return of the mine and mine permit with the company from which it was originally acquired.

In July 2011 the Company received notification that the mine permit transfer was completed.

Corporate Activities

During the nine months ended September 30, 2011, the Company;

- disposed of 80,000 Copper Mountain Mining shares, holding 2,230,000 shares at the end of the quarter;
- disposed of its entire position of Jameson Resource shares;
- raised approximately \$3.5 million from private placements of common shares and flow-through units; and
- Graduated to Tier 1 of the TSX Venture Exchange

1.3 Not Applicable for Quarterly MD&A

1.4 Results of Operations

For the Nine Months Ended September 30, 2011

The Company recorded a net income of \$425,000 or \$0.01 per share for the nine months ended September 30, 2011. This compares to a net loss of \$895,000 or \$0.02 per share for the nine months ended September 30, 2010 as shown in the table below:

<i>(in thousands of dollars)</i>	Nine months ended September 30,	
	2011	2010
Expenses		
Amortization	\$ 3	\$ 6
General and administration	401	348
Share-based payments	124	73
Wages and salaries	367	365
Loss from operating activities	895	792
Interest and other income	-	39
Write-down of Basin Coal Mine	-	(142)
Realized gain on sale of marketable securities, net of tax	1,320	-
Income (loss) for the period	425	(895)
Other comprehensive income, net of tax		
Unrealized gain on marketable securities	(5,241)	4,209
Total comprehensive income (loss)	\$ (4,816)	\$ 3,314
Basic and diluted income (loss) per common share	\$ 0.01	\$ (0.02)

The Company realized an after-tax gain in the nine months ended September 30, 2011 of \$1,320,000 from the sale of all of the Jameson shares the Company held and the sale of 80,000 Copper Mountain Mining shares.

General and administration expenses for the period are detailed in the table below:

<i>(in thousands of dollars)</i>	Nine months ended September 30,	
	2011	2010
Consulting Fees	\$ 16	\$ 48
Professional Fees	68	37
Transfer Agent Fees & Filing Fees	21	17
Shareholder communications	142	113
Travel	7	21
Office and other expenses	147	112
General and administrative	\$ 401	\$ 348

For the Three Months Ended September 30, 2011

The Company recorded a net loss of \$297,000 or \$0.00 per share for the three months ended September 30, 2011. This compares to a net loss of \$237,000 or \$0.00 per share for the three months ended September 30, 2010 as shown in the table below:

<i>(in thousands of dollars)</i>	Three months ended September 30,	
	2011	2010
Expenses		
Amortization	\$ 1	\$ 2
General and administrative	135	112
Share-based compensation	40	24
Wages and salaries	121	108
Loss from operating activities	297	246
Interest and other income	-	9
Write-down of Basin Coal Mine	-	-
Income (loss) for the period	(297)	(237)
Other comprehensive income, net of tax		
Unrealized gain (loss) on marketable securities	(7,426)	4,093
Total comprehensive loss	\$ (7,723)	\$ 3,856
Basic and diluted loss per common share	\$ (0.00)	\$ (0.00)

General and administration expenses for the period are detailed in the table below:

<i>(in thousands of dollars)</i>	Three months ended September 30,	
	2011	2010
Consulting Fees	\$ 4	\$ 10
Professional Fees	37	15
Transfer Agent Fees & Filing Fees	4	3
Shareholder communications	40	36
Travel	2	16
Office and other expenses	48	32
General and administrative	\$ 135	\$ 112

1.5 Summary of Quarterly Results

The following table is selected quarterly financial information derived from the Company's unaudited interim condensed consolidated financial statements and should be read in conjunction therewith.

<i>(in \$000s except per share amounts)</i>	Revenue	Net Income (Loss)	Basic and diluted income(loss) per common share
September 30, 2011	-	\$ (297)	\$ (0.00)
June 30, 2011	-	\$ (328)	\$ (0.01)
March 31, 2011	-	\$ 1,049	\$ 0.02
December 31, 2010	-	\$ (851)	\$ (0.01)
September 30, 2010	-	\$ (237)	\$ (0.00)
June 30, 2010	-	\$ (384)	\$ (0.01)
March 31, 2010	-	\$ (274)	\$ (0.01)
December 31, 2009*	-	\$ (1,535)	\$ (0.04)

* Information for 2009 is presented in accordance with Canadian GAAP and has not been restated to IFRS.

In the quarter ended March 31, 2011 the Company realized a gain of \$1,320,000 from combined sale of all of its Jameson shares and the sale of 80,000 Copper Mountain Mining shares.

During the quarter ended December 31, 2010, the Company reduced the carrying value of its Basin Coal Mine and accrued a \$350,000 provision for reclamation.

During the quarter ended December 31, 2009, the Company wrote-down the carrying value of its Princeton Power Project by \$ 1,063,699.

1.6 Liquidity and Capital Resources

As at September 30, 2011, the Company had working capital of \$10,191,000 compared with working capital of \$15,643,000 as at December 31, 2010.

<i>(in \$000s)</i>	September 30, 2011	December 31, 2010
Cash and equivalents	\$ 1,280	\$ 287
Accounts receivable and prepayments	200	67
Marketable securities	9,232	15,529
	10,712	15,884
Less: Current liabilities	521	241
Working Capital	\$ 10,191	\$ 15,643

The decrease in working capital is attributable to a decrease in the market price of shares of Copper Mountain Mining owned by the Company, offset by the sale of 80,000 Copper Mountain shares and all of the Jameson shares and by the March 2011 private placement which raised gross proceeds of \$3.5 million.

The current cash and working capital resources of the Company for next year will mainly fund:

- Activities on the Comox Joint Venture: funding the continuation of the environmental assessment process, bankable feasibility study and other project development activities. Funding requirements in excess of these activities will require additional sources of cash. Significant additional funding requirements will be required upon a positive production decision on the Raven Project;
- Exploration expenditures on the Company's Vancouver Island exploration properties; and
- General and administrative expenses of the Company.

The Company's ability to continue as a going concern is dependent upon management's ability to sufficiently fund the Company's development program, manage its foreign currency exposures, and develop a project on time and on budget that allows it to generate positive cash flows from future operations.

These additional funds, if required, could potentially come from equity and debt financing. There can be no assurance that financing, whether debt or equity, will always be available to the Company in the amount required at any particular time. Management is of the opinion that sufficient working capital will be obtained from external financing sources to meet the Company's liabilities as they come due. Should this going-concern assumption not be appropriate, values and classifications of assets and liabilities could change and those changes could be material. It is not possible to predict the outcome of those matters at this time.

1.7 Capital Resources

Other than those obligations disclosed in the notes to its audited financial statements for the year ended September 30, 2011, the Company had no material commitments for material capital expenditures as of September 30, 2011.

1.8 Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

1.9 Transactions with Related Parties

During the quarter, all transactions with related parties have occurred in the normal course of the Company's operations and have been measured at their fair value as determined by management. During the nine months ended September 30, 2011, the Company paid \$39,000 to private companies controlled by an employee for advance royalties on resource properties.

1.10 Fourth Quarter

Not applicable to quarterly MD&A.

1.11 Proposed Transactions

There are no Proposed Transactions.

1.12 Critical Accounting Estimates

The Company's significant accounting policies are presented in Note 3 of the unaudited interim condensed consolidated financial statements for the nine months ended September 30, 2011. The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to select accounting policies and make estimates. Such estimates may have a significant impact on the consolidated financial statements. These estimates include:

- coal resources and reserves,
- the carrying value of resource properties,
- the carrying value of marketable securities;
- the carrying value of property, plant and equipment,
- rates of amortization of property, plant and equipment,
- the carrying values of the asset retirement obligations,
- the valuation allowances for future income taxes;
- the determination of stock-based compensation expense.

Actual amounts could differ from the estimates used and, accordingly, affect the results of operations.

1.13 Adoption of IFRS

Effective January 1, 2011 Canadian publicly listed entities were required to prepare their financial statements in accordance with IFRS. Due to the requirement to present comparative financial information, the effective transition date is January 1, 2010. The unaudited condensed consolidated interim financial statements for the three months ended March 31, 2011 were the Company's first reporting period under IFRS. Full disclosure of the Company's accounting policies in accordance with IFRS can be found in Notes 2 and 3 to the unaudited

condensed consolidated interim financial statements. The quarterly financial statements for 2011 also include, as required, reconciliations of the previously disclosed comparative periods financial statements prepared in accordance with cGAAP to IFRS as set out in Note 15.

1.14 Financial Instruments and Other Instruments

Not applicable

1.15 Other MD&A Requirements

Additional information relating to the Company is available on SEDAR at www.sedar.com.

Risks and Uncertainties

The Company's success depends on a number of factors, some of which are beyond the control of the Company. Typical risk factors include commodity price fluctuations and operating uncertainties encountered in the mining business. Future government, legal or regulatory changes could affect any aspect of the Company's business, including, among other things, environmental permitting and taxation costs which could impact the ability of the Company to develop the Raven Project. These risks and uncertainties are managed in part, by experienced managers, advisors and consultants, maintaining adequate liquidity, and by cost control initiatives.

Disclosure Controls

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to permit timely discussions regarding public disclosures. Management, including the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2011.

Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures, as defined in National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*, are effective to ensure that information required to be disclosed in reports that we file or submit under Canadian securities legislation are recorded, processed and reported within the time period specified in those rules.

The Company's internet web site is www.complianceenergy.com



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2011**

(Expressed in thousands of Canadian Dollars)

(Unaudited)

These financial statements have not been reviewed by the Company's auditors

COMPLIANCE ENERGY CORPORATION
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited - Expressed in thousands of Canadian Dollars, except per share information)

	Note	As at September 30, 2011	As at December 31, 2010
ASSETS			
			(Note 15)
Current assets			
Cash and equivalents	4	\$ 1,280	\$ 287
Accounts receivable and prepayments		200	68
Marketable securities	5	9,232	15,529
		10,712	15,884
Non-current assets			
Asset retirement bonding	7	333	322
Property, plant, and equipment	6	30	36
Resource properties	7	10,436	7,518
Total assets		\$ 21,511	\$ 23,760
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		\$ 521	\$ 241
Non-current liabilities			
Asset retirement obligations	7	215	350
Long-term debt	8	-	-
		736	591
EQUITY			
Attributable to the shareholders of the Company:			
Share capital		22,570	19,379
Reserves		11,137	17,146
Deficit		(12,932)	(13,356)
		20,775	23,169
Total equity and liabilities		\$ 21,511	\$ 23,760

Approved by the Board:

"Jamieson Merritt" Director
Jamieson Merritt

"Paul Willis" Director
Paul Willis

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

COMPLIANCE ENERGY CORPORATION
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited - Expressed in thousands of Canadian Dollars, except per share information)

		Three months ended September 30,		Nine months ended September 30,	
	Note	2011	2010	2011	2010
			(Note 15)		(Note 15)
Expenses					
Amortization		\$ 1	\$ 2	\$ 3	\$ 6
General and administration		135	112	401	348
Share-based payments		40	24	124	73
Wages and salaries		121	108	367	365
Loss from operating activities		297	246	895	792
Interest and other income		-	9	-	39
Write-down of Basin Coal Mine		-	-	-	(142)
Realized gain on sale of marketable securities, net of tax	5	-	-	1,320	-
Income (loss) for the period		(297)	(237)	425	(895)
Other comprehensive income					
Unrealized gain (loss) on marketable securities, net of tax		(7,426)	4,093	(5,241)	4,209
Total comprehensive income (loss)		\$ (7,723)	\$ 3,856	\$ (4,816)	\$ 3,314
Basic and diluted income (loss) per common share	10	\$ (0.00)	\$ (0.00)	\$ 0.01	\$ (0.02)

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

COMPLIANCE ENERGY CORPORATION
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited - Expressed in thousands of Canadian Dollars)

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2011	2010	2011	2010
Cash flows from operating activities				
(Loss) income for the period	\$ (297)	\$ (237)	\$ 425	\$ (895)
Items not involving cash:				
Amortization	1	2	3	6
Share-based payments	39	16	124	49
Write-down of Basin Coal Mine	-	-	-	142
	(257)	(219)	552	(698)
Changes in non-cash working capital items				
Accounts receivable and prepayments	(113)	(15)	(132)	(46)
Accounts payable and accrued liabilities	231	14	280	404
	118	(1)	148	358
Net cash provided by (used in) operating activities	(139)	(220)	700	(340)
Cash flows from investing activities				
Reclamation bonding	-	-	(11)	(157)
Purchase of property, plant and equipment	-	-	-	(2)
Resource property costs, net of recoveries	(1,401)	(1,089)	(2,915)	(1,696)
Asset retirement obligations	(20)	-	(135)	-
	(1,421)	(1,089)	(3,061)	(1,855)
Cash flows from financing activities				
Long term debt	-	-	-	(280)
Common shares issued for cash, net of costs	-	19	3,354	60
	-	19	3,354	(220)
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(1,560)	(1,290)	993	(2,415)
CASH AND EQUIVALENTS, BEGINNING OF PERIOD	2,840	2,150	287	3,275
CASH AND EQUIVALENTS, END OF PERIOD	\$ 1,280	\$ 860	\$ 1,280	\$ 860

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

COMPLIANCE ENERGY CORPORATION
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
(Unaudited - Expressed in thousands of Canadian Dollars)

	Share Capital		Reserves			Deficit	Total	
	Note	Number of Shares	Amount	Equity settled employee benefits	Warrants			Available-for-sale financial assets
Balance January 1, 2011		53,281,783	\$ 19,379	\$ 1,400	\$ 270	\$ 15,476	\$ (13,356)	\$ 23,169
Options exercised		75,000	14	-	-	-	-	14
Warrants exercised		3,500	2	-	-	-	-	2
Share-based payments		-	-	65	-	-	-	65
Private placements, net of costs		9,554,000	3,175	-	170	-	-	3,345
Total income for the period		-	-	-	-	-	424	424
Unrealized gain (loss) on marketable securities		-	-	-	-	(4,924)	-	(4,924)
Realized gain on marketable securities, net of tax		-	-	-	-	(1,320)	-	(1,320)
Balance September 30, 2011		62,914,283	\$ 22,570	\$ 1,465	\$ 440	\$ 9,232	\$ (12,932)	\$ 20,775
Balance January 1, 2010		52,846,783	\$ 18,033	\$ 1,324	\$ 270	\$ 4,752	\$ (10,340)	\$ 14,039
Options exercised		335,000	60	-	-	-	-	60
Share-based payments		-	-	49	-	-	-	49
Total loss for the period		-	-	-	-	-	(895)	(895)
Unrealized gain on marketable securities		-	-	-	-	4,209	-	4,209
Balance September 30, 2010		53,181,783	\$ 18,093	\$ 1,373	\$ 270	\$ 8,961	\$ (11,235)	\$ 17,462

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

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

(Unaudited - Expressed in thousands of Canadian Dollars, unless otherwise stated)

1. NATURE OF OPERATIONS AND CONTINUANCE OF OPERATIONS

Compliance Energy Corporation (the "Company") is incorporated under the laws of the Province of British Columbia, Canada, and its principal business activity is the exploration and development of resource properties. The address of the Company's head office is 550 – 800 West Pender Street, Vancouver, British Columbia, Canada V6C 2V6.

The Company is an exploration and development company working on resource properties it has staked or acquired, principally on Vancouver Island. The Company defers all acquisition, exploration and development costs related to the properties on which it is conducting exploration and predevelopment. The recoverability of these amounts is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of the interests, and future profitable production, or alternatively, upon the Company's ability to dispose of its interests on a profitable basis.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern, which assume that the Company will realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred losses from inception and does not currently have any revenue generating operations. The Company's ability to continue as a going concern is dependent upon its ability in the future to achieve profitable operations and, in the meantime, to obtain the necessary financing to meet its obligations and repay its liabilities when they become due. External financing, predominantly by the issuance of equity to the public, will be sought to finance the operations of the Company.

2. BASIS OF PRESENTATION

(a) Statement of compliance and conversion to International Financial Reporting Standards

These condensed consolidated interim financial statements ("Interim Financial Statements") are unaudited and have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

(b) Basis of preparation

These Interim Financial Statements have been prepared on a historical cost basis except for marketable securities which have been measured at their fair value. In addition these Interim Financial Statements have been prepared using the accrual basis of accounting, except for cash flow information. The comparative figures presented in these Interim Financial Statements are in accordance with IFRS and have not been audited.

The preparation of interim financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. These Interim Financial Statements do not include all of the information required for full annual financial statements

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

(Unaudited - Expressed in thousands of Canadian Dollars, unless otherwise stated)

2. BASIS OF PRESENTATION (Continued)

These Interim Financial Statements, including comparatives, have been prepared on the basis of IFRS standards that are effective or available for early adoption on December 31, 2011, the Company's first annual reporting date. The standards that will be effective or available for voluntary early adoption in the annual financial statements for the year ending December 31, 2011 are subject to change and maybe affected by additional interpretation(s). Accordingly, the accounting policies for the annual period that are relevant to these Interim Financial Statements will be determined only when the first IFRS financial statements are prepared for the year ending December 31, 2011.

The preparation of these Interim Financial Statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under GAAP. The accounting policies set out below have been applied consistently to all periods presented in these Interim Financial Statements. They also have been applied in preparing an opening IFRS balance sheet at January 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1, *First Time Adoption of International Financial Reporting Standards* (IFRS 1). The impact of the transition from GAAP to IFRS is explained in Note 15.

The Company's disclosures in these Interim Financial Statements may exceed the minimum requirements under IAS 34. In subsequent quarters in 2011 and beyond, the Company may not provide the same amount of disclosure in the Company's Interim Financial Statements under IFRS as the reader will be able to rely on the annual consolidated financial statements which will be prepared in accordance with IFRS.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Consolidation

These condensed consolidated interim financial statements include the accounts of the Company and all its subsidiaries (Note 12). Inter-company balances and transactions, including any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the Interim Financial Statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Interest in Joint Ventures

A joint venture can take the form of a jointly controlled entity, jointly controlled operation or jointly controlled asset. All joint ventures involve a contractual arrangement that establishes joint control. A jointly controlled entity is an entity in which the Company shares joint control over the strategic, financial and operating decisions with one or more venturers through the establishment of a corporation, partnership or other entity. A jointly controlled operation involves the use of the assets and resources of the venturers rather than the establishment of a corporation, partnership or other entity. The operation incurs its own expenses and liabilities and raises its own finances. A jointly controlled asset involves joint control of one or more of the assets acquired or contributed for the purpose of the joint venture. Each venturer takes on a share of the output from the assets and bears an agreed share of the expenses. All joint ventures are accounted for using the proportionate consolidation method. Our proportionate share of the assets, liabilities, revenues, expenses, and cash flows of the joint venture are included in our consolidated financial statements.

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

(Unaudited - Expressed in thousands of Canadian Dollars, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company has determined that its interest in the Comox Joint Venture is categorized as jointly controlled assets in accordance with IAS 31, Interests in Joint Ventures, as the venturers own proportionate legal titles to the mineral properties that form the basis of the Comox Joint Venture. The Company thus recognizes in its consolidated financial statements:

- Its share of the jointly controlled assets, classified according to the nature of the assets;
- Any liabilities that it has incurred;
- Its share of any liabilities incurred jointly with the other venturers in relation to the joint venture;
- Any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and
- Any expenses that it has incurred in respect of its interest in the joint venture.

The assets, liabilities, expenses and income are included on a line-by-line basis according to their nature and in accordance with other IFRS requirements.

(c) Foreign Currencies

The functional and presentation currency of the Company and each of its subsidiaries is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(d) Financial Instruments

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Cash and cash equivalents - Cash and cash equivalents comprise cash at banks and on hand, and short term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash. The Company's cash and cash equivalents are invested with major financial institutions in business accounts, bankers' acceptances, and guaranteed investment certificates and/or in government treasury bills which are available on demand by the Company for its activities.

Accounts receivable and prepayments - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Marketable securities – Marketable securities are designated as available-for-sale and recorded at fair value. Fair values are determined by reference to quoted market prices at the statement of financial position date. Unrealized gains and losses on marketable securities are recognized in other comprehensive income until they are disposed of or when there is objective evidence of impairment in value. Investment transactions are recognized on the trade settlement date with transaction costs included in the underlying balance. At each statement of financial position date, the Company assesses any objective evidence of impairment in value on the marketable securities and records such impairments in earnings for the period.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the balance sheet at fair value with changes in fair value recognized in the income statement.

Other financial liabilities - This category includes accounts payables and accrued liabilities, all of which are recognized at amortized cost.

(e) Property, Plant and Equipment

Property, plant and equipment ("PPE") are stated at cost, less accumulated depreciation and accumulated impairment losses. The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Depreciation is provided at rates calculated to write off the cost of property, plant and equipment using the declining balance method at various rates ranging from 4% - 30% per annum.

An item of PPE is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statement of comprehensive income or loss.

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for PPE and any changes arising from the assessment are applied prospectively.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Resource Properties

The Company is in the exploration stage with respect to its mineral properties and in the predevelopment stage with respect to its Raven Underground Coal Project. The Company capitalizes all costs on a property by property basis relating to the acquisition of, exploration for and development of resource claims and credits all revenues received against the cost of the related claims. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and sampling, feasibility studies and environmental assessments. The recoverability of amounts shown for resource properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on mineable reserves. The aggregate costs related to abandoned mineral claims are charged to operations at the time of any abandonment or when it has been determined that there is evidence of a permanent impairment.

All capitalized resource properties amounts are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that exploration expenditure is not expected to be recovered, it is charged to the results of operations. Exploration areas where reserves have been discovered, but require major capital expenditure before production can begin, are continually evaluated to ensure that commercial quantities of reserves exist or to ensure that additional exploration work is underway as planned.

(g) Provisions

Provisions are liabilities that are uncertain in timing or amount. The Company records a provision when and only when:

- The Company has a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the obligation.

Constructive obligations are obligations that derive from the Company's actions where:

- By an established pattern of past practice, published policies or a sufficiently specific current statement, the Company has indicated to other parties that it will accept certain responsibilities; and
- As a result, the Company has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Provisions are reviewed at the end of each reporting period and adjusted to reflect management's current best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. Provisions are reduced by actual expenditures for which the provision was originally recognized. Where discounting has been used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase (accretion expense) is included the net loss for the period in the consolidated statements of comprehensive income (loss).

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Share Capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity.

Share-based payment transactions

The share option plan allows the Company's employees, directors and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based payment with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. Where awards are forfeited because non-market based vesting conditions are not satisfied, the expense previously recognized is proportionately reversed in the period the forfeiture occurs.

(i) Flow-through shares

The Company finances a portion of its exploration activities through financings in which flow-through common shares are issued. These shares transfer the tax deductibility of qualifying resource expenditures to investors. While IFRS contains no specific guidance on accounting for flow-through shares, the Company has chosen to adopt the following accounting policy.

When a financing involves the issuance of flow-through shares, the Company allocates the gross proceeds received as follows:

- Warrant reserve – if warrants are being issued, warrant allocation derived using the Black-Scholes option-pricing model;
- Flow-through share premium – recorded as a liability and equal to the estimated premium, if any, investors pay for the flow-through feature; and
- Share capital – the residual balance.

Thereafter, as qualifying resource expenditures are incurred, these costs are capitalized to resource properties. At the end of each reporting period, the Company reviews its tax position and records an adjustment to its deferred tax expense/liability accounts for taxable temporary differences, including those arising from the transfer of tax benefits to investors through flow-through shares. For this adjustment, the Company considers the tax benefits (of qualifying resource expenditures already incurred) to have been effectively transferred, if it has formally renounced those expenditures at any time (before or after the end of the reporting period). Additionally, the Company reverses the liability for the flow-through share premium to income, on a proportionate basis, as an offset to deferred tax expense. To the extent that the Company has deferred tax assets in the form of tax loss carry-forwards and other unused tax credits as at the end of the reporting period, the Company may use them to reduce its deferred tax liability relating to tax benefits transferred through flow-through shares.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Asset Retirement Obligations

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a resource property interest. Such costs arising for the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying value of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight line method. The related liability is adjusted for each period for the unwinding of the time value and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

The Company has posted reclamation deposits should any asset retirement obligation arise from its obligations to undertake site reclamation and remediation in connection with its operating activities in British Columbia. The Company has accrued a reclamation provision for its Basin Coal Mine, which is on care and maintenance. In July 2011, the Basin Coal Mine Permit was transferred to an unrelated party and the funds held under safekeeping returned to the Company and replaced by a standby letter of credit.

(k) Income Taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable loss; nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Income (Loss) per Share

The Company presents basic and diluted income (loss) per share data for its common shares, calculated by dividing the income (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is determined by adjusting the income (loss) attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

(m) Significant Accounting Judgments and Estimates

The preparation of these Interim Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These Interim Financial Statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the Interim Financial Statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the date of the statement of financial position, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- the recoverability of amounts receivable and prepayments which are included in the condensed consolidated interim statement of financial position;
- the carrying value of the marketable securities and the recoverability of the carrying value which are included in the condensed consolidated interim statement of financial position;
- the estimated useful lives of property, plant and equipment which are included in the condensed consolidated interim statement of financial position and the related depreciation included in the consolidated statement of comprehensive income (loss) for the period;
- the carrying value of the resource properties and the recoverability of the carrying value which are included in the condensed consolidated interim statement of financial position;
- the inputs used in accounting for share purchase option expense in the condensed consolidated interim statement of comprehensive income (loss);
- the nil provision for income taxes which is included in the condensed consolidated interim statements of comprehensive loss and composition of deferred income tax assets and liabilities included in the condensed consolidated interim statement of financial position;
- the inputs used in determining the net present value of the liabilities for asset retirement obligations included in the condensed consolidated interim statement of financial position; and

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- the inputs used in determining the various commitments and contingencies accrued in the condensed consolidated interim statement of financial position

(n) Adoption of New and Revised Standards and Interpretations

These condensed Interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those expected to be applicable for the Company's December 31, 2011 consolidated annual financial statements. The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. These include:

The Company will be required to adopt IFRS 9 *Financial Instruments*, which replaces the current standard, IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard replaces the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value, and is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IFRS 10 *Consolidated Financial Statements* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements; (ii) defines the principle of control, and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities* and is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IFRS 11 *Joint Arrangements* establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IFRS 12 *Disclosure of Involvement with Other Entities* requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IFRS 13 *Fair Value Measurement* defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 *Share-based Payment*; leasing transactions within the scope of IAS 17 *Leases*; measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

4. CASH AND CASH EQUIVALENTS

	September 30, 2011	December 31, 2010	January 1, 2010
Cash at bank	\$ 730	\$ 287	\$ 3,275
Short-term deposits	550	-	-
	<u>\$ 1,280</u>	<u>\$ 287</u>	<u>\$ 3,275</u>

5. MARKETABLE SECURITIES

Marketable securities consist of equity securities over which the Company does not have control or significant influence. Marketable securities are designated as available for sale and valued at fair value. Unrealized gains and losses due to period end revaluation to fair value are recorded as other comprehensive income or loss.

During the nine months ended September 30, 2011 the Company sold 80,000 Copper Mountain Mining shares and its entire Jameson holdings, realizing a gain on sale net of tax of \$1,320.

At September 30, 2011, the Company held 2,230,000 shares of Copper Mountain Mining (2,310,000 as at December 31, 2010 and January 31, 2010).

	September 30, 2011	December 31, 2010	January 1, 2010
Copper Mountain Mining Corporation	\$ 9,232	\$ 14,992	\$ 4,805
Jameson Resources Limited	-	537	-
	<u>\$ 9,232</u>	<u>\$ 15,529</u>	<u>\$ 4,805</u>

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6. PROPERTY, PLANT AND EQUIPMENT

	Land and Building	Mining and Processing Equipment	Vehicles	Office and Equipment	Total
Cost					
Balance as at January 1, 2010	\$ 83	\$ 1,050	\$ 16	\$ 54	\$ 1,203
Assets acquired	-	-	-	2	2
Impairment adjustment	(83)	(1,050)	-	-	(1,133)
Balance as at December 31, 2010	-	-	16	56	72
Assets Acquired	-	-	-	-	-
Balance as at September 30, 2011	\$ -	\$ -	\$ 16	\$ 56	\$ 72

	Land and Building	Mining and Processing Equipment	Vehicles	Office and Equipment	Total
Accumulated depreciation					
Balance as at January 1, 2010	\$ 17	\$ 793	\$ 3	\$ 23	\$ 836
Depreciation for the period	-	-	3	7	10
Impairment adjustment	(17)	(793)	-	-	(810)
Balance as at December 31, 2010	-	-	6	30	36
Depreciation for the period	-	-	3	3	6
Balance as at September 30, 2011	\$ -	\$ -	\$ 9	\$ 33	\$ 42

	Land and Building	Mining and Processing Equipment	Vehicles	Office and Equipment	Total
Carrying Amounts					
Balance as at January 1, 2010	\$ 66	\$ 257	\$ 13	\$ 31	\$ 367
Balance as at December 31, 2010	\$ -	\$ -	\$ 10	\$ 26	\$ 36
Balance as at September 30, 2011	\$ -	\$ -	\$ 7	\$ 23	\$ 30

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7. RESOURCE PROPERTIES

	Balance January 1, 2010	Expenditures 2010	Recoveries/ Impairments 2010	Balance December 31 2010	Expenditures January- September 2011	Recoveries/ Impairments 2011	Balance September 30, 2011
a) Comox Joint Venture							
Formation costs and advance royalties capitalized	\$ 1,279	\$ -	\$ -	\$ 1,279	\$ -	\$ -	\$ 1,279
Capitalized costs	3,026	2,349	-	5,375	2,169	-	7,544
b) Other Coal Assets							
Acquisition	73	-	(10)	63	-	-	63
Capitalized costs	19	35	(10)	44	24	-	68
c) Vancouver Island Exploration Properties							
<i>NIC</i>							
Capitalized costs	-	235	-	235	646	-	881
<i>Camp Lake</i>							
Acquisition	-	60	-	60	-	-	60
Advance royalties	-	9	-	9	6	-	15
Capitalized costs	-	59	-	59	66	-	125
<i>Hisnit</i>							
Acquisition	-	70	-	70	-	-	70
Advance royalties	-	9	-	9	-	-	9
Capitalized costs	-	96	-	96	3	-	99
<i>Tower</i>							
Acquisition	-	70	-	70	-	-	70
Advance royalties	-	9	-	9	-	-	9
Capitalized costs	-	140	-	140	4	-	144
d) Basin Coal Mine							
Capitalized costs	199	-	(199)	-	-	-	-
e) Power Project							
Capitalized costs	1,298	-	(1,298)	-	-	-	-
Total Resource Properties	\$ 5,894	\$ 3,141	(\$ 1,517)	\$ 7,518	\$ 2,918	-	\$ 10,436

a) Comox Joint Venture

In 2008, the Company signed a Sale and Purchase Agreement (“SPA”) with I-Comox Coal Inc., a wholly owned subsidiary of ITOCHU Corporation; and LG International Investments (Canada) Ltd., a wholly owned subsidiary of LG International Corporation (the “Parties”). Under the terms of the SPA, the Company and the Parties formed a joint venture and the Parties funded a total of \$11.25 million which included: a) a lump sum payment of \$3.05 million to complete the purchase of approximately 29,000 hectares of freehold coal, mineral and gas interests on Vancouver Island; b) a refund to the Company of \$1.2 million for two prior option payments made; and c) a lump sum payment of \$7.0 million to the Comox Joint Venture to fund exploration and development activities. Through their funding payments, the Parties earned a 40% interest in the undersurface rights, excluding gas interests, and a 40% interest in the Company’s crown coal licences at the Bear and Raven Coal Projects (“Comox Basin Holdings”).

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7. RESOURCE PROPERTIES (Continued)

The Parties executed a joint venture agreement, a management and operations services agreement, and a marketing services agreement in February 2009. These provide for the Company or its subsidiaries to be the Manager and the Operator of any joint venture mining project located within the Comox Basin Holdings and for the Parties to have exclusive global marketing rights to sell coal from the Comox Basin Holdings.

The CJV properties are subject to a \$0.50 per tonne royalty once production is achieved up to a maximum of \$4,000. These future royalty payments would be the responsibility of the created joint venture with the Parties.

In May 2010, the Parties contributed an additional \$1,279 to the joint venture to fund additional public consultation and environmental studies and scope changes to feasibility studies. These funds were fully expended in August 2010 and the co-venturers are in discussions to determine how to fund remaining forecast expenditures. Currently, the Company is providing 100% of the funding.

The Bear Coal Deposit consists of 8 coal licenses totaling 2,046 hectares. During 2005, the Company exercised its option to acquire coal leases that cover 100% of the Bear Coal Deposit. Under the terms of the agreement, the Company paid a total of \$215 and granted a royalty of 2.5% of the coal sales, freight on board ("FOB") mine site.

The CJV has \$35 in asset retirement bonding held in safekeeping at a bank for reclamation (\$35 as at December 31, 2010).

b) Other Coal Assets

During 2005, the Company entered into an agreement to acquire 100% of the crown coal rights application that cover approximately 1,938 acres on Vancouver Island, known as the Anderson Lake Coal Deposit. Under the terms of the agreement, the Company has paid a total of \$50. The property is not subject to a royalty.

The Company has incurred certain deferred costs related to the Raven Coal Project which were not directly related to the Comox Joint Venture. These costs are included as part of Other Coal Assets.

c) Vancouver Island Exploration Properties

During 2010 the Company acquired mineral tenures to five separate exploration properties on Vancouver Island, British Columbia including the Camp Lake property near Campbell River, the Hisnit property near Tahsis, the Tower property near Sayward, and the NIC property near Port Alice.

The Camp Lake, Hisnit, and Tower Properties were acquired for total cash consideration of \$200 and future royalty payments. The Company has also acquired mineral tenures to the NIC property. No additional purchase consideration or royalty payments are required on the NIC property.

The Company has \$35 in asset retirement bonding held in safekeeping at a bank for reclamation (\$25 as at December 31, 2010).

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7. RESOURCE PROPERTIES (Continued)

d) Basin Coal Mine

The Company held the Basin Coal Mine under a mining agreement with Pacific West Coal Ltd., a private company. On August 5, 2010 the Company gave notice to terminate the mining agreement with Pacific West Coal Ltd. The Company remains responsible for certain costs under the mining agreement. During the year ended December 31, 2010, management estimated future additional costs and reclamation as at December 31, 2010 at \$350. The Company has \$276 in asset retirement bonding held in safekeeping at a bank for reclamation (\$276 as at December 31, 2010). Management has prepared a reclamation plan and has given notice of termination of the mining agreement. During the nine months ended September 30, 2011 the Company spent \$115 on Basin. In July 2011, the Basin Coal Mine Permit was transferred to an unrelated party and the funds held under safekeeping returned to the Company and replaced by a standby letter of credit.

e) Power Project

Effective March 15, 2010, the Company entered into a confidential settlement agreement regarding its investment in this project and has received, in cash, the carrying value of the property.

8. LONG TERM DEBT

The long term debt was to be paid out of 50% of the Company's net cash flow from the Basin Coal Mine after capital requirements. In 2010, the Company decided to dispose of the Basin Coal mine and the long term debt was thus defeased.

9. CAPITAL AND RESERVES

(a) Authorized Share Capital

The authorized share capital is 1,000,000,000 common shares without par value and 20,000,000 preferred shares without par value.

(b) 2011 Private Placements

The Company issued 6,429,000 common shares on March 11, 2011 on a private placement basis at a price of \$0.35 per common share for gross proceeds of \$2,250.

The Company issued 3,125,000 units on March 14, 2011 on a private placement basis at a price of \$0.40 per common share for gross proceeds of \$1,250. Each unit consists of one common flow-through share and one-half of a non-flow-through warrant with each whole warrant entitling the holder to purchase one additional common share at a price of \$0.60 per share until March 14, 2012 and then \$0.75 per share until March 14, 2013. Finder's warrants entitling the finder to purchase 301,280 units at \$0.40 per unit until March 14, 2013 were issued to a finder in respect of this placement. Issuance costs of \$154 including finder's fees for the above private placements were allocated to share capital.

The fair value of the warrants issued as part of the private placement of \$170 was determined on the date of issuance using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 1.69%; expected life of 2 years; expected volatility of 85%; and expected dividends of \$Nil.

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9. CAPITAL AND RESERVES (Continued)

(c) Warrants

The continuity of warrants for the period ended September 30, 2011 is as follows:

Expiry date	Exercise Price	December 31, 2010	Granted	Exercised	Expired/Cancelled	September 30, 2011
December 23, 2011	\$0.50	5,778,000	-	3,500	-	5,774,500
March 14, 2012/13	\$0.60/\$0.70	-	1,713,140	-	-	1,713,140
March 14, 2013	\$0.40	-	301,280	-	-	301,280
		5,778,000	2,014,420	3,500	-	7,788,920
Weighted average exercise price		\$ 0.50	\$ 0.57	\$ 0.50	-	\$ 0.52

The fair value of the warrants issued was estimated using the Black-Scholes option pricing model and the following assumptions:

Expiry date	Risk Free Interest Rate	Life Expectancy	Dividend Rate	Volatility	Fair Value
December 23, 2011	1.37%	2 years	Nil	50%	\$ 270
March 14, 2012/13	1.69%	2 years	Nil	85%	\$ 170

(d) Share purchase option compensation plan

The Company has a share option plan approved by the shareholders that allows it to grant options, subject to regulatory terms and approval, to its officers, directors, employees, and service providers. The share option plan (the "2003 Rolling Option Plan") is based on the maximum number of eligible shares equalling a rolling percentage of up to 10% of the Company's outstanding common shares, calculated from time to time. Pursuant to the 2003 Rolling Option Plan, if outstanding options are exercised, or expire, and/or the number of issued and outstanding common shares of the Company increases, then the options available to grant under the plan increase proportionately. The exercise price of each option is set by the Board of Directors at the time of grant but cannot be less than the market price (less permissible discounts). Vesting of options is at the discretion of the Board of Directors at the time the options are granted. The share option plan is subject to annual ratification at the Company's annual general meeting of shareholders.

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(Unaudited - Expressed in thousands of Canadian Dollars, unless otherwise stated)

9. CAPITAL AND RESERVES (Continued)

The continuity of share purchase options for the period ended September 30, 2011 is as follows:

Expiry date	Exercise Price	December 31, 2010	Granted	Exercised	Expired/Cancelled	September 30, 2011
February 10, 2013	\$ 0.11	330,000	-	-	-	330,000
March 25, 2013	\$ 0.11	25,000	-	-	-	25,000
November 2, 2013	\$ 0.11	1,500,000	-	-	-	1,500,000
November 25, 2013	\$ 0.11	725,000	-	(50,000)	-	675,000
March 1, 2014	\$ 0.36	-	75,000	-	-	75,000
March 25, 2014	\$ 0.11	740,000	-	-	-	740,000
May 1, 2014	\$ 0.11	50,000	-	(25,000)	-	25,000
January 11, 2015	\$ 0.29	100,000	-	-	-	100,000
February 24, 2015	\$ 0.11	800,000	-	-	-	800,000
March 1, 2015	\$ 0.28	500,000	-	-	-	500,000
June 23, 2015	\$ 0.25	150,000	-	-	-	150,000
April 20, 2016	\$ 0.49	-	470,000	-	-	470,000
Options outstanding and exercisable		4,920,000	545,000	(75,000)	-	5,390,000
Weighted average exercise price		\$ 0.14	\$ 0.47	\$ 0.11	-	\$ 0.17

The weighted average grant date fair value of 75,000 options granted on March 1, 2011 was \$14. The fair value of these options was determined on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 1.69%; expected life of 3 years; expected volatility of 85%; and expected dividends of \$Nil. The weighted average grant date fair value of 470,000 options granted on April 20, 2011 was \$155. The fair value of these options was determined on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 1.77%; expected life of 5 years; expected volatility of 85%; and expected dividends of \$Nil. Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable measure of the fair value of the Company's share purchase options.

10. LOSS (INCOME) PER SHARE

The calculation of basic and diluted loss per share for the three months ended September 30, 2011 was based upon the loss (income) attributable to common shareholders of and a weighted average number of common shares outstanding of 60,437,846 (2010 – 53,029,577).

11. RELATED PARTY TRANSACTIONS

All transactions with related parties have occurred in the normal course of the Company's operations and have been measured at their fair value as determined by management. During the nine months ended September 30, 2011, the Company paid \$39 to private companies controlled by an employee for royalties on resource properties.

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12. CONTINGENT LIABILITIES

The Company is committed to incur \$1,250 in qualifying resource expenditures pursuant to the March 2011 private placement for which flow-through proceeds have been received. As at September 30, 2011, the Company had incurred \$676 in qualifying resource expenditures but has not yet filed any renunciation forms. The Company must incur \$1,250 in qualifying resource expenditures before January 1, 2013. If the Company does not spend these funds in compliance with the flow-through share regulations, it may be subject to litigation from various counterparties. The Company intends to fulfill its flow-through commitments within the given time constraints.

13. SUBSIDIARIES

Name of Subsidiary	Place of Incorporation	Ownership Interest	Principal Activity
Compliance Coal Corporation	British Columbia, Canada	100%	Coal resource exploration and development
0696030 BC Ltd.	British Columbia, Canada	100%	Not active
0913459 BC Ltd.	British Columbia, Canada	100%	Not active

14. APPROVAL OF FINANCIAL STATEMENTS

These condensed consolidated interim financial statements for the three and nine months ended September 30, 2011 were approved and authorized for issue by the Audit Committee on November 14, 2011.

15. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The accounting policies in Note 3 have been applied in preparing the condensed consolidated interim financial statements for the nine months ended September 30, 2011, the comparative information for the nine months ended September 30, 2010, the financial statements for the year ended December 31, 2010.

In preparing its opening IFRS statement of financial position, comparative information for the nine months ended September 30, 2010 and financial statements for the year ended December 31, 2010, the Company has adjusted amounts reported previously in financial statements prepared in accordance with GAAP.

An explanation of how the transition from previous GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables.

The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. In preparing these financial statements, the Company has elected to apply the following transitional arrangements:

(a) Business combinations

IFRS1 indicates that a first-time adopter may elect not to apply IFRS 3 Business Combinations retrospectively to business combinations that occurred before the date of transition to IFRS. The Company takes advantage of this election and applies IFRS 3 to business combinations that occurred on or after January 1, 2010. There is no adjustment required to the January 1, 2010 statement of financial position on the transition date.

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15. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

(b) Share-based payments

Under GAAP, the Company measured share-based compensation related to share purchase options at the fair value of the options granted using the Black-Scholes option pricing formula and recognized this expense over the vesting period of the options. For the purpose of accounting for share based payment transactions an individual is classified as an employee when the individual is consistently represented to be an employee under law. The fair value of the options granted to employees is measured on the date of grant. The fair value of options granted to contractors and consultants are measured on the date the services are completed. Forfeitures are recognized as they occur.

IFRS 2, similar to GAAP, requires the Company to measure share-based compensation related to share purchase options granted to employees at the fair value of the options on the date of grant and to recognize such expense over the vesting period of the options. However, for options granted to non-employees, IFRS requires that share-based compensation be measured at the fair value of the services received unless the fair value cannot be reliably measured.

For the purpose of accounting for share based payment transactions an individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. This definition of an employee is broader than that previously applied by the Company and resulted in certain contractors and consultants being classified as employees under IFRS.

For the share purchase options granted to the individuals reclassified, changes in fair value after the grant date previously recognized for GAAP purposes have been adjusted. The adjustments were calculated only for unvested options issued and outstanding as of and after the Transition Date.

The Company has elected to apply the exemption provided under IFRS 1 and applied IFRS 2 'Share Based Payments' ("IFRS 2") to only those equity instruments which had not vested at January 1, 2010.

(c) Consolidated and Separate Financial Statements

In accordance with IFRS 1, if a company elects to apply IFRS 3 Business Combinations retrospectively, IAS 27 Consolidated and Separate Financial Statements must also be applied retrospectively. As the Company elected to apply IFRS 3 prospectively, the Company has also elected to apply IAS 27 prospectively.

(d) Interest in Joint Ventures

IFRS and GAAP have different guidance on recognizing gains and losses from contributing assets to joint ventures. Under IFRS, unrealized gains and losses on non-monetary assets contributed to proportionately consolidated jointly controlled entities are eliminated against the underlying assets. Under GAAP, such gains are deferred and amortized to income in a rational and systematic manner over the life of the contributed assets.

Effective at the Transition Date, the Company eliminated the \$4,615 deferred gain it had recorded under GAAP on the formation of the Comox Joint Venture.

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15. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

(e) Flow-through shares

Flow-through shares are a Canadian tax incentive which is the subject of specific guidance under GAAP however there is no equivalent IFRS guidance. Upon transition to IFRS, the Company will account for flow-through shares such that amounts resulting from the renunciation of flow-through expenditures will no longer be reflected as a reduction of share capital. The Company had calculated an adjustment of \$1,270 upon transition to IFRS, adjusted as increases in both share capital and deficit.

(f) Statement of Equity

IFRS requires an entity to present for each component of equity reconciliation between the carrying amount at the beginning and end of the period, separately disclosing each change. IFRS uses different terminology than GAAP. On transition to IFRS, the Company examined its “contributed surplus” account and concluded that as at the Transition Date this amount was “Equity settled employee benefits” under IFRS terminology. In addition, the Company examined its “accumulated other comprehensive income” account and concluded that as at the Transition Date this amount was “Reserves – Available-for-sale financial assets” under IFRS terminology.

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15. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Reconciliation of Assets, Liabilities and Equity (Continued)

	As at September 30, 2010		
	GAAP	Effect of transition to IFRS	IFRS
ASSETS			
Current assets			
Cash and cash equivalents	\$ 860		\$ 860
Accounts receivable and prepayments	161		161
Marketable securities	9,294		9,294
	<u>10,315</u>		<u>10,315</u>
Non-current assets			
Reclamation bonding	322		322
Property, plant, and equipment	37		37
Resource properties	11,794	(d) \$ (4,615)	7,179
Total assets	<u>\$ 22,468</u>		<u>\$ 17,853</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	\$ 390		\$ 390
Non-current liabilities			
Deferred gain	4,615	(d) \$ (4,615)	-
	<u>5,005</u>		<u>390</u>
EQUITY			
Share capital	18,094	(e) \$ 1,270	19,364
Reserves	10,604		10,604
Deficit	(11,235)	(e) \$ (1,270)	(12,505)
	<u>17,463</u>		<u>17,463</u>
Total equity and liabilities	<u>\$ 22,468</u>		<u>\$ 17,853</u>

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15. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Reconciliation of Loss and Comprehensive Income

	Three months ended September 30, 2010			Nine months ended September 30, 2010		
	GAAP	Effect of transition to IFRS	IFRS	GAAP	Effect of transition to IFRS	IFRS
Expenses						
Amortization	\$ 2	-	\$ 2	\$ 6	-	\$ 6
General and administration	112	-	112	348	-	348
Share-based payments	24	-	24	73	-	73
Wages and salaries	108	-	108	365	-	365
Loss from operating activities	246	-	246	792	-	792
Interest and other income	9	-	9	39	-	39
Write-down of Basin Coal Mine	-	-	-	(142)	-	(142)
Income (loss) for the period	(237)	-	(237)	(895)	-	(895)
Other comprehensive income:						
Unrealized gain (loss) on marketable securities, net of tax	4,093	-	4,093	4,209	-	4,209
Total comprehensive income	\$ 3,856	-	\$ 3,856	\$ 3,314	-	\$ 3,314

DIRECTORS AND MANAGEMENT

John A. Tapics
Director, President & CEO

Jim Defer, CA • CBV
Chief Financial Officer

J.C. (Jim) O'Rourke, P.Eng.
Chairman and Director

Rodney A. Shier, CA
Director

Jamieson Merritt, B.Comm, LLB
Director

Paul Willis, P.Eng.
Director

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