



ANNUAL REPORT 2002



Highlights:

- *Company acquires rights to develop the Basin Coal Project.*
- *Nissho Iwai becomes joint venture partner.*
- *BC's newest mine brought into production in 2002.*
- *Company prepares for power plant feasibility study.*

Inside:

Chairman's Report	2
Compliance Basin Coal Joint Venture	3 -5
Power General	6
Management Discussion and Analysis	7
Financial Statements	8 -18
Corporate Information	19

Chairman's Report

The Company has managed a number of significant achievements during the past year. The first was the acquisition of Compliance Coal Corporation which holds the rights to develop the Basin Coal Project, located in southwestern B.C.. Simultaneously, in late August, we concluded the formation of a joint venture with Nissho Iwai Coal Development (Canada) Ltd.. This was followed very quickly by a production decision and the construction and development of the Compliance Basin Coal Joint Venture, BC's newest coal mine. The commissioning of the wash plant was completed in late November and trial coal shipments were made in early December. The construction was completed in four months from the date of the formation of the joint venture and a production decision to shipping coal from the site. An impressive accomplishment by our team of employees and contractors.

The coal project feasibility study was based on our ability to develop our coal sales over a four year period. We are optimistic that this projection is realistic. As a new producer we recognize the challenge of winning customer confidence in our product and our reliability to supply.

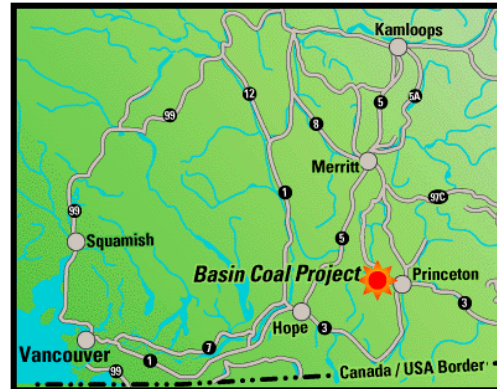
Late in the year we engaged Willis Energy Services to complete a preliminary assessment of our vision to develop a wood waste / coal fired power plant located near our newly developed coal mine. Their report was received early in 2003 and it indicated that such a plant would be viable and should be investigated further. Subsequent to year end, the Company engaged the services of Stothert Engineering to prepare a Pre-Feasibility Study to evaluate a wood waste / coal fired power plant. Management is looking forward to pursuing this exciting power option for the Company.

On behalf of the board, I would like to thank the our employees, contractors and suppliers for an outstanding job. We are also grateful to our shareholders of for their interest and support as we move this new energy Company forward.

James O'Rourke
Chief Executive Officer

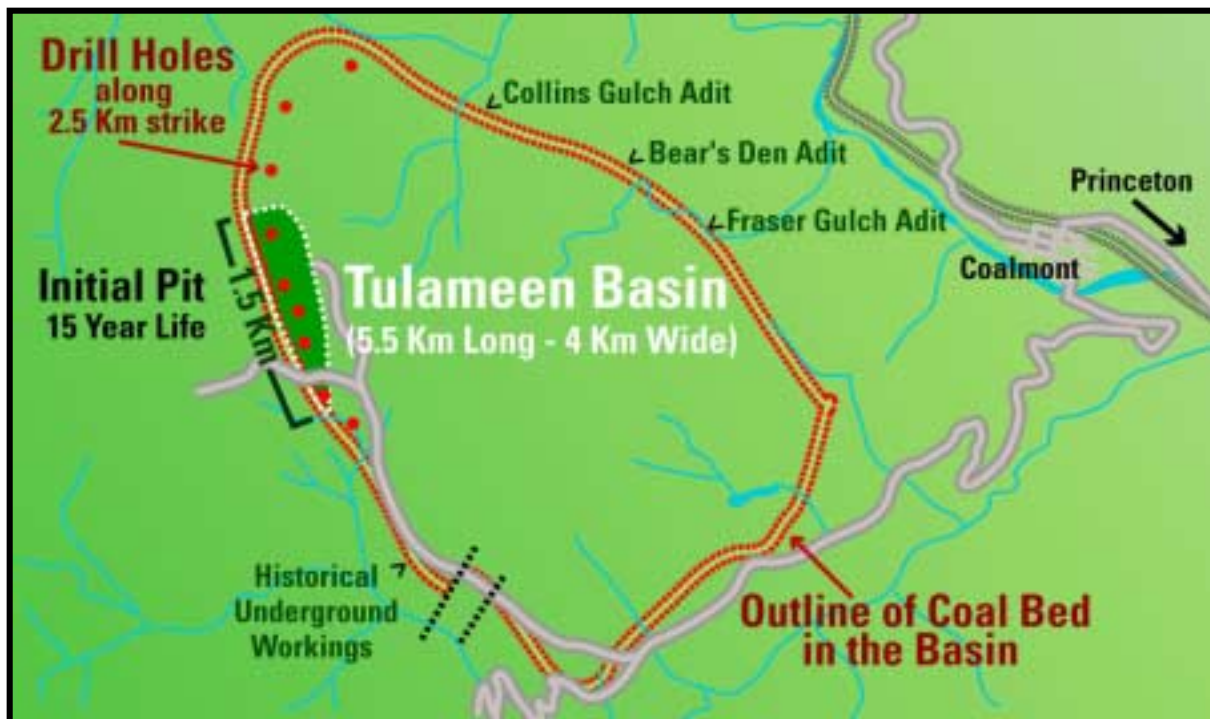
Compliance Basin Coal Joint Venture

The Compliance Basin Coal Joint Venture (“CBCJV”) project is located just outside of Princeton, British Columbia. The mine site is located 30 km northwest of Princeton, while the wash plant site is located 15 km west of Princeton at the old Similco mine site where the Company purchased a 13 acre fee simple site from Similco.



“Located just outside of Princeton, British Columbia”

The Company has the rights to mine coal from the Tulameen Coal Basin located west of Coalmont, British Columbia. The Basin is 4.0 km wide by 5.0 km long and, as reported by the BC government, hosts an estimated 240 million tonne resource of coal.



“B.C. Gov report 240 million tonne resource in the Tulameen Coal Basin”

The initial pit is designed to be 1.5 km long and is located on the western flank of the coal basin where the deposit has been drilled out over a 2.5 km strike length. Based on the Company’s feasibility study, this initial pit will supply sufficient coal for a 15 year life.

Compliance Basin Coal Joint Venture

The CBCJV mines the coal from an open pit mine that has coal outcropping along the basin rim, which provides for a favorable stripping ratio in the early years.

“Open pit along the outcrop provides a low strip ratio for coal release in the early years”

The deposit has two coal seams, The main seam is 23 to 34 meters thick while the lower seam is approximately 7 to 8 meters thick.



“Waste rock is broken with a D8 dozer equipped with a two tooth ripper. No drilling and blasting is required”

One of the main items confirmed during the test mining stage of the development was rock ripability. Waste rock mining is conducted using a Cat D8 dozer equipped with a rear claw ripper that breaks up the rock for removal with a dozer to expose the coal seam. There is no drilling and blasting required. Once exposed, the coal is selectively mined with an excavator and trucked to the wash plant with 42 tonne B-Train transport units.

“Raw coal is transported to the wash plant site with 42 tonne B-Train highway transport units”



Compliance Basin Coal Joint Venture

In order to meet the fast tracked construction schedule laid out by the Company, parts for the wash plant were required to be purchased in early July 2002. The heavy media wash plant was sourced out of Kentucky, USA and trucked to the 13 acre site west of Princeton, British Columbia. The balance of the wash plant equipment was secured and installed by the end of October 2002. Local contractors provided outstanding performance in completing the construction on time and below budget.



“Heavy media wash plant purchased in July 2002”



“13 acre site with buildings and infrastructure – Purchased in August”



“Washery Installation Began September 2002”



“Wash Plant completed and First Production in November 2002”



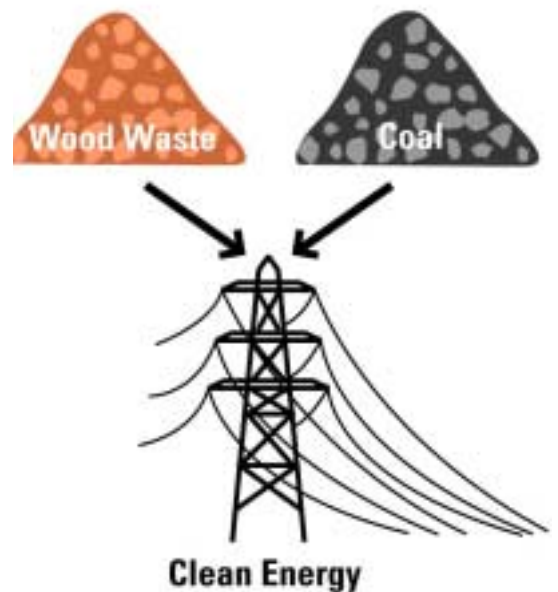
Focus on the Future – Power Generation

The Canadian Coal Association reports that there is more stored energy in Canada’s coal resources than all of the country’s oil, natural gas, and oil sands resources combined. Electricity generation from coal is now 8 times more efficient than at the turn of the last century. Worldwide, more electricity is generated from coal than any other source. Our neighbour, Alberta, generates over 50% of the provinces electricity from coal. In the United States there was a total of 3,779 billion kilowatt-hours (Kwh) of electricity generated in 2001, of which coal generated electricity accounted for 60%. Coal has become a major resource for electrical power generation.

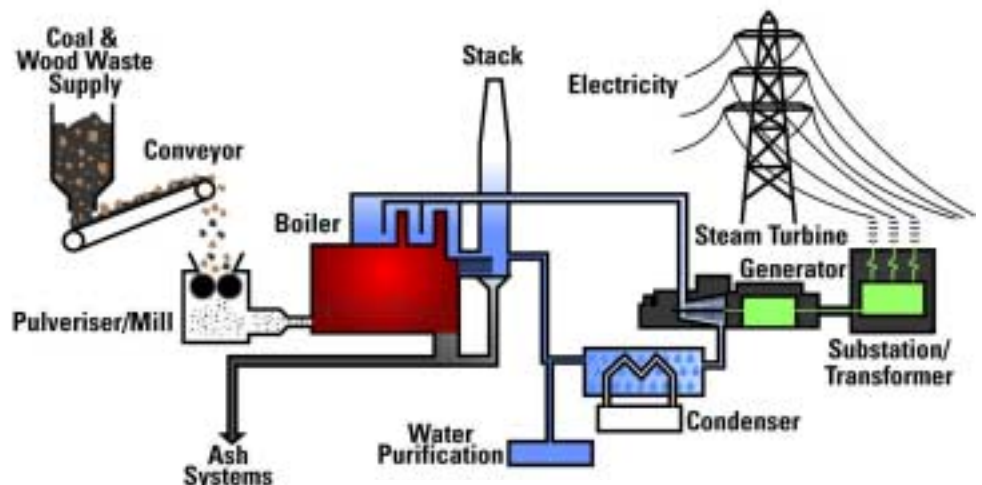
Coal has been burned for centuries as a source of heat and energy. Compliances’ coal is low in sulphur. Today’s advanced technology provides the assurances that coal can be utilized to provide a clean and efficient power source which meets ridged environmental regulations.

Compliance Energy is focused on addressing the growing need for independent power projects in British Columbia. Under the provincial government of British Columbia’s recently released energy policy, the province is promoting independent power projects including coal. Compliance Energy is investigating the possibilities of utilizing wood waste from the forestry industry and combining it with coal from the Company’s new mine to produce electricity that meets the classification of “Clean Energy”.

Shortly before year end, the Company engaged Willis Energy Services to complete a study that indicated a wood waste / coal fired power plant located near our mine site would be economical and should be investigated further. After receiving the Willis Report, the Company engaged the services of Stothert Engineering Ltd. to prepare a more detailed evaluation of the potential project. This Pre Feasibility Study is scheduled to be completed early in the third quarter 2003.



“Compliances idea of combining wood waste / coal to produce a clean energy is being well received”



Schematic of a Wood waste / Coal fired power plant.

Management Discussion and Analysis

The Company recorded a loss of \$35,146 or nil per share for the year ended December 31, 2002 as compared to a loss of \$29,704 or nil per share for the period from March 19, 2001 to December 31, 2001. As a majority of expenses associated with the development of the Compliance Basin Coal Joint Venture (“CBCJV”) have been deferred during the year, the Company is only expensing some administrative expenses incurred during the year, which do not differ materially from the previous period. Once the CBCJV reaches commercial production, the Company will no longer defer start-up costs.

Professional fees were \$25,646 for the year ended December 31, 2002 as compared to \$20,256 for the period ended December 31, 2001. General and Administrative expenses were \$2,877 for the year as compared to \$10,317 for the ten months ended December 31, 2001.

As of December 31, 2002, the Company had working capital of \$259,390 (comprised of \$441,317 of cash, \$139,138 of receivables and prepaid expenses, offset by \$321,065 of liabilities) compared with a working capital deficit of \$107,028 (comprised of \$1,614 of cash, \$15,714 of receivables and prepaid expenses), offset by \$124,356 of liabilities at December 31, 2001.

The increase in working capital between December 31, 2002 and December 31, 2001 was principally the result of the Company completing the acquisition of Compliance

Coal Corporation and an equity financing for the development of the new coal mine, located near Princeton BC. This included money received via the initial joint venture cash calls that were funded by co-venturers to the issuing of share capital for cash.

The Company completed a non-brokered private placement to raise gross proceeds of \$461,250 during the year and had its initial cash calls of \$933,333 on the CBCJV funded by the co-venturer. No stock options were exercised during the year.

The Company plans an additional equity capital financing in 2003 to fund future projects, such as power generation.

The Company’s success depends on a number of factors, some of which are beyond the control of the Company. Typical risk factors include coal price fluctuations and operating uncertainties encountered in the mining business. Competition for the limited Pacific Northwest thermal coal market may make it difficult to penetrate the market. Future government, legal or regulatory changes could affect any aspect of the Company’s business, including, among other things, environmental permitting and taxation costs. These risks and uncertainties are managed, in part by experienced managers, by maintaining adequate liquidity and by cost control initiatives.

Investor Relations

The Company continued with its investor relations activities in the normal course of business. The Company’s internet Web site is provided under the accompanying logo.

Web Page:
www.complianceenergy.com



Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Compliance Energy Corporation and its subsidiary have been prepared in accordance with Canadian generally accepted accounting principals. Financial information presented throughout the Annual Report is consistent with that shown in the consolidated financial statements.

Management is responsible for the integrity of the consolidated financial statements. Systems of internal control are designed and maintained by management to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee of the Board. This Committee meets with management and external auditors to satisfy itself that management's responsibilities are properly discharged and to review the consolidated financial statements before they are presented to the Board of Directors for approval.

Compliance Energy Corporation

James C. O'Rourke
Chairman & Chief Executive Officer

Rodney A. Shier
Chief Financial Officer

Vancouver, B.C.
May 14, 2003

AUDITORS' REPORT

To the Shareholders, of
Compliance Energy Corporation:

We have audited the consolidated balance sheets of Compliance Energy Corporation as at December 31, 2002 and 2001 and the consolidated statements of operations and deficit and cash flows for the year ended December 31, 2002 and for the period from March 19, 2001 to December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance 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.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the year ended December 31, 2002 and for the period from March 19, 2001 to December 31, 2001 in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

"De Visser Gray"

Chartered Accountants

Vancouver, B.C.
May 14, 2003

COMPLIANCE ENERGY CORPORATION

CONSOLIDATED BALANCE SHEETS

	As at December 31,	
	2002	2001
<u>ASSETS</u>		
Current Assets		
Cash	\$ 441,317	\$ 1,614
Amounts receivable	136,119	15,714
Prepaid expenses	3,019	-
	580,455	17,328
Reclamation bonding	65,000	50,000
Resource property (note 6)	732,397	283,710
Capital assets (note 5)	599,749	-
	\$ 1,977,601	\$ 351,038
<u>LIABILITIES</u>		
Current Liabilities		
Accounts payable	\$ 321,065	\$ 44,356
Demand loan	-	80,000
	321,065	124,356
Deferred Gain on Joint Venture Formation (note 7)	772,471	-
<u>SHAREHOLDERS' EQUITY</u>		
Share Capital (note 8)	920,665	256,386
Obligation to issue shares (note 9)	28,250	-
Deficit	(64,850)	(29,704)
	884,065	226,682
	\$ 1,977,601	\$ 351,038

Continuance of operations (Note 1)

Approved by:

"James C. O'Rourke" Director
 James C. O'Rourke

"Rodney A. Shier" Director
 Rodney A. Shier

The accompanying notes are an integral part of this financial statement

COMPLIANCE ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

	Year ended December 31, 2002	Period from March 19, 2001 to December 31, 2001
EXPENSES		
Professional fees	\$ 25,646	\$ 20,256
General & admin	2,877	10,317
Transfer agent & filing fees	4,684	-
Shareholder communications	139	-
Due diligence costs	4,900	-
Net loss before other item	38,246	30,573
Other item:		
Interest income	(3,100)	(869)
NET LOSS FOR THE PERIOD	(35,146)	(29,704)
DEFICIT, BEGINNING OF PERIOD	(29,704)	-
DEFICIT, END OF PERIOD	\$ (64,850)	\$ (29,704)
LOSS PER SHARE	\$ (0.00)	\$ (0.00)

The accompanying notes are an integral part of this financial statement

COMPLIANCE ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2002	Period from March 19, 2001 to December 31, 2001
OPERATING ACTIVITIES		
Net loss for the period	(35,146)	(29,704)
Items not involving cash:		
Net change in non-cash working capital items	203,344	28,642
Company's interest in shares it issued for a joint venture land purchase	(32,500)	-
	135,698	(1,062)
INVESTING ACTIVITIES		
Deposit for reclamation bonds	(15,000)	(50,000)
Purchase of capital assets	(567,249)	-
Resource property costs	(559,548)	(283,710)
	(1,141,797)	(333,710)
FINANCING ACTIVITIES		
Initial joint venture cash calls funded by co-venturers	933,333	-
Demand loan (repaid)	(80,000)	80,000
Shares issued for cash	567,610	256,386
Cash acquired on business combination	24,859	-
	1,445,802	336,386
INCREASE IN CASH	439,703	1,614
CASH, BEGINNING OF PERIOD	1,614	-
CASH, END OF PERIOD	441,317	1,614

Supplemental Disclosure of Non-Cash Investing and Financing Activities

During the current year, the Company issued 142,857 common shares at \$0.35 per share to acquire a land interest. The Company also completed a reverse take-over business combination and contributed a resource property to a joint venture in consideration for an interest in that joint venture.

Refer also to notes 3, 4, 8 and 9.

The accompanying notes are an integral part of this financial statement

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company was incorporated under the provisions of the British Columbia Company Act on July 6, 2000 as 610230 B.C. Ltd. and changed its name to Beanstalk Capital Corporation on July 27, 2000. On August 30, 2002 the Company acquired all of the issued and outstanding common shares of Compliance Coal Corporation ("Coal"), a private company also incorporated in British Columbia. This transaction was accounted for as a reverse take-over, with Coal identified as the purchaser and parent company for accounting purposes, and the Company as the acquired entity. As part of the transaction the Company also changed its name to Compliance Energy Corporation. Refer to note 3.

These consolidated financial statements include all of the accounts of the Company and Coal, its wholly-owned legal subsidiary. Comparative figures, as well as the share capital and deficit amounts disclosed in these financial statements, are those of Coal from the date of inception of that company on March 19, 2001. The continuity of common shares issued and outstanding remains that of the Company. All significant intercompany balances and transactions have been eliminated on consolidation. Coal's main asset is its 65% interest in the Compliance Basin Coal Joint Venture ("CBCJV"), of which it is Operator. Refer to note 4.

These consolidated financial statements have been prepared on a going concern basis, which assumes the ongoing capacity of the Company to realize on its assets and discharge of liabilities in the normal course of business. The Company's status as a going concern is dependent on its ability to generate future profitable operations and to receive continued financial support from its lenders and shareholders. Management is of the opinion that sufficient working capital will be obtained from operations and external financing to meet the Company's liabilities and commitments as they become due. Should the going concern assumption not be appropriate, the carrying values and classifications of assets and liabilities would change and those changes could be material. It is not possible to predict the outcome of those matters at this time.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates.

(b) Loss Per Share

Loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted loss per share is not presented because it is anti-dilutive. In terms of disclosing loss per share for comparative purposes, the business combination described at note 3 has been considered to have occurred on March 19, 2001.

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Deferred Expenditures

Deferred expenditures are comprised of the Company's proportionate share of the carrying value of the coal property and related assets on the books of the CBCJV, net of the Company's proportionate share of any gain or loss realized on its contribution of the property to the CBCJV upon the formation of the joint venture. The carrying costs of deferred expenditures on the books of the CBCJV are inclusive of the deemed value of Coal's initial vend-in of the coal property and related assets, plus all subsequent cash costs incurred on property development. Sundry initial revenue amounts from coal sales are offset against costs deferred to date. These costs will be amortized on a units-of-production basis upon the commencement of commercial production.

(d) Capital Assets

Capital assets are recorded at cost and amortization will be charged upon the commencement of commercial production.

(e) Financial Instruments

The Company's financial instruments consist of cash, short-term cash investments, goods and services tax receivable and accounts payable. The fair values of these financial instruments approximate their carrying values due to the short-term nature of the items.

(f) Income Taxes

The Company accounts for and measures future tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized. Such an allowance would apply fully to all potential income tax assets of the Company.

The Company's accounting policy for future income taxes currently has no effect on the financial statements of either of the fiscal years presented.

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002

(g) Share Capital

Common shares issued for non-monetary consideration are recorded at their fair market value based upon the lower of the trading price of the Company's shares on the TSX Venture Exchange on the date of the agreement to issue the shares and the date of share issuance.

(h) Stock-based Compensation

The Company follows the intrinsic value method of accounting for stock options granted to directors and employees. Under this method, no compensation expense is recorded when stock options are granted to directors and employees if the exercise price of the stock options granted is at or above the current market value. Any consideration paid by directors and employees on the exercise of stock options is credited to share capital. The effects of accounting for stock-based compensation to directors and employees as a compensation expense, using the fair value method, is disclosed as pro-forma information.

The company records stock options granted to consultants using the fair value method and records the expense in the period the options are vested.

The adoption of the accounting policy for stock-based compensation has been applied prospectively to all stock options granted subsequent to January 1, 2002. No stock options were granted during 2002.

3. BUSINESS COMBINATION

The Company consolidated its issued share capital on a 2 for 1 basis and then issued 1.23 shares for every one outstanding common share of Coal in a business combination that resulted, for accounting purposes, in the purchase of the Company's net assets by Coal for proceeds equal to the aggregate fair value of those net assets. As the fair values of the Company's assets and liabilities were considered to approximate their carrying values, the deemed purchase price of \$46,669 was equal to the book value of the Company as at August 30, 2002, and was allocated to the Company's identifiable net assets as follows:

	\$
Cash	24,859
Other net working capital	21,810
	<u>46,669</u>

Prior to the completion of the business combination, the Company and Coal were under common management control.

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002

4. JOINT VENTURE INTEREST

The CBCJV was formed on August 30, 2002 for the purpose of developing and subsequently operating as a commercial coal field the Basin Coal Property (“the Property”) located within the Tulameen Coal Basin near Coalmont B.C. The Company’s initial contribution to the CBCJV consisted of its pre-existing interest in the Property in the ascribed amount of \$1,733,333. Subsequently, the first \$933,333 of its cash calls to the CBCJV were funded by its co-venturers, increasing the aggregate ascribed value of the Company’s CBCJV contribution to \$2,666,666 as at December 31, 2002. Pursuant to the terms of the agreement between the co-venturers (the other venturers being Nissho Iwai Coal Development Corporation and 4056345 Canada Inc., with interests of 30% and 5%, respectively), CBCJV costs and expenses incurred to date have been funded on a cash call basis in proportion to the respective interests of the venturers. Future revenues from coal production will be distributed in cash to the venturers as it is received, and also in strict proportion to their respective joint venture interests.

The Company’s interest in the assets and liabilities of the joint venture have been included in these statements using the accounting method of proportionate consolidation. Current aggregate charges for rent and management services by the Company to the CBCJV of \$46,000 have been recognized to the extent of the co-venturers’ 35% interest only, and are offset against project costs. The CBCJV assets and liabilities included in these financial statements, after the reduction of deferred property costs by Coal’s portion of the gain it realized on the formation of the joint venture, are as follows:

Cash	\$ 249,374
Receivables	48,891
Reclamation bonding	65,000
Deferred costs	732,397
Capital assets	599,749
Accounts payable	(192,054)
Net equity of Coal in the CBCJV, December 31, 2002	\$ 1,503,357

Refer also to notes 5, 6 and 7.

5. CAPITAL ASSETS

The details of the Company’s proportionate interest in the capital assets of the CBCJV are as follows:

	Cost
Land	\$ 32,500
Building	147,574
Equipment	419,675
	\$ 599,749

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2002

6. RESOURCE PROPERTY

The Property consists of 9 coal licenses covering 2,172 hectares, and was acquired by the CBCJV pursuant to a Mining Agreement dated August 30, 2002. Under this agreement, the CBCJV acquired working rights to the Property and a Right of First Offer in respect to any future disposition of the mineral tenures and related royalty comprising the Property. In consideration, the CBCJV granted a royalty of 3% on gross coal revenue from the Property prior to December 31, 2004, and of \$1.50 per tonne on all coal production thereafter.

The details of the carrying amount of the Company's resource property costs are as follows:

Proportionate share of deferred costs incurred by the CBCJV:		
Mining	\$ 169,274	
Processing	53,079	
Development	159,424	
Marketing	19,615	
Environmental	41,064	
	<u>442,456</u>	
Less: start-up Coal Revenue	<u>(8,803)</u>	\$ 433,653
Deemed project value		*1,733,333
Less: the Company's interest in the aggregate gain realized to December 31, 2002 on its vend-in to the CBCJV.		<u>(1,434,589)</u>
		<u>\$ 732,397</u>

* Aggregate value ascribed to the Coal Project at the outset of Compliance's vend-in to the CBCJV.

Refer also to note 7.

7. DEFERRED GAIN ON JOINT VENTURE FORMATION

The Company recognized a deferred gain on the participation of the co-venturers' interest in the joint venture to the extent of their value ascribed to its aggregate contribution to the CBCJV in excess of the carrying cost of the coal project on the books of Coal immediately prior to the formation of the CBCJV.

Upon the commencement of commercial production This gain, which will be amortized to operations in a manner consistent with the amortization of the deferred costs to which it applies.

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002

7. DEFERRED GAIN ON JOINT VENTURE FORMATION (cont'd)

This gain was determined as follows:

	\$
Aggregate ascribed contribution of the Company to the CBCJV to December 31, 2002	2,666,666
Deferred project costs in Coal, August 30, 2002 (December 31, 2001 - \$333,710)	<u>(459,606)</u>
Gross gain to the Company	2,207,060
less: 65% thereof offset against deferred property costs	<u>(1,434,589)</u>
Deferred gain to the extent of the interests of the Company's co-venturers	<u>772,471</u>

8. CAPITAL STOCK

- (a) Authorized
1,000,000,000 Common shares without par value
20,000,000 Preferred shares without par value

- (b) Issued

	Common Shares	Amount
• Seed shares issued at incorporation	1,350,000	\$ 101,250
• Initial public offering	1,350,000	202,500
• Share issue costs	-	(45,962)
Issued at December 31, 2001	2,700,000	257,788
• Share consolidation pursuant to a the terms of the business combination	(1,350,000)	-
• Elimination of the Company's historical share capital account balance pursuant to the acquisition of the Company by Coal for accounting purposes	-	(257,788)
• Establishment of Coal's December 31, 2001 share capital balance upon Coal's purchase of the Company for accounting purposes	-	256,386
• Shares issued on the Company's acquisition of Coal	14,837,500	*614,279
• Shares issued to acquire land	142,857	50,000
Issued at December 31, 2002	16,330,357	920,665

* Inclusive of \$46,669 representing the cost of acquiring, for accounting purposes, the net assets of the legal parent company at August 30, 2002. The remaining \$567,610 is comprised of funds raised by private placement in Coal prior to and in anticipation of this acquisition.

- (c) Escrowed Shares

Pursuant to the terms of the business combination completed during the year, at December 31, 2002 there are 11,548,684 common shares held in escrow. These shares

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002

8. CAPITAL STOCK (cont'd)

are subject to a six year hold period and their release from escrow is subject to the terms of an agreement between the shareholders, the Company, and the transfer agent, Computershare Investor Services Inc.

(d) Stock Options

The Company has reserved stock options to directors and officers enabling them to acquire up to 135,000 common shares of the Company at an exercise price of \$0.30 per share. The options are exercisable for a period of five years and expire on September 8, 2005.

9. OBLIGATION TO ISSUE SHARES

At December 31, 2002 the Company had agreed to settle debt owing to an officer of \$28,250 by the issuance of 94,167 common shares. These shares were issued subsequent to year end.

10. RELATED PARTY TRANSACTIONS

All transactions with related parties have occurred in the normal course of the Company's operations and have been measured at the exchange amount, which is that amount of consideration established and agreed to by the related parties.

- (a) The Company paid two of its officers legal, management and administration fees aggregating \$53,250 during the year ended December 31, 2002 (period ended December 31, 2001 - \$Nil).
- (b) The Company incurred consulting fees for project development costs of \$93,400 for the year ended December 31, 2002 (period ended December 31, 2001-Nil) with a private company controlled by the family of a director and officer.

These amounts have been included within the balance of deferred resource property costs as at December 31, 2002.

Refer also to notes 3, 8 and 9.

11. SUBSEQUENT EVENT

In addition to any other items disclosed elsewhere in these notes, the following occurred during the period subsequent to December 31, 2002:

- (a) The Company announced that, subject to regulatory consent, it had arranged a 1.55 million unit brokered private placement to raise gross proceeds of \$466,500. Each unit will consist of a common share and one-half of a share purchase

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002

11. SUBSEQUENT EVENT (cont'd)

warrant, with each full warrant exercisable to acquire an additional common share at a price of \$0.45 for one year. The Company has also agreed to issue 300,000 Broker's Warrants, with each warrant exercisable to acquire an additional common share at \$0.40 per share until February 28, 2004.

Corporate Information

Head Office

Compliance Energy Corp
Suite 584
885 Dunsmuir Street
Vancouver, British Columbia
Canada, V6C 1N5

Tel: (604) 689-0489
Fax: (604) 681-5910

Mine Office

Compliance Coal Corp
DBA Compliance Basin Coal JV
PO Box 1400
Princeton, British Columbia
Canada, V0X 1W0

Tel: (250) 295-0479
Fax: (250) 295-0476

Registrar and Transfer Agent

Computershare Trust Corporation
of Canada
Vancouver, British Columbia

Exchange Listing

TSX Venture Exchange
“CEC”

Notice of Annual General Meeting

10:00 a.m. June 26, 2003
Suite 584 – 885 Dunsmuir St
Vancouver, British Columbia

Directors & Management

Jim O’Rourke, P.Eng.

Director, Chairman & CEO
Mr. O’Rourke is a mining executive with over 30 years experience in mine evaluations, feasibility studies, financing, development and operations. Jim has had hands on experience with more than 5 major mine start-ups and in 1995-1996 was responsible for the financing and development of a \$140 million open pit copper mine which was completed on schedule and budget.

Directors & Management

Jamieson Merritt, B.Comm, LLB Director

Mr. Merritt graduated from the University of British Columbia with a B. Comm and a LLB degree in 1990 and was called to the Bar of the Province of BC in 1991. Mr. Merritt operates his own construction company

Rod Shier, C.A..

Director & CFO
Mr. Shier has over 10 years experience in corporate finance and accounting in the mining industry. Rod is experienced in all aspects of corporate finance including over \$150 million of equity and debt financings, merger and acquisition structuring, negotiation of joint ventures, and commodity and foreign exchange hedging.

Michael Varabioff, LLB.,LL.M

Corporate Secretary
Mr Varabioff is Counsel at the law firm Catalyst Corporate Finance Lawyers,, a boutique law firm specializing in corporate securities law. In recent years Mike has served as a director and officer of numerous public companies.

Larry Belik

Site Manager
Mr Belik has over 30 years of hands on coal mine operation experience. He has extensive open pit mining experience in multi coal seam deposits. Prior to joining Compliance, Mr. Belik was Senior Production Foreman for Fording Coal Ltd. for 5 years. Mr. Belik has obtained his Open Pit Shiftboss Certificate, Blasting Certificate, and Surface Mine Rescue Certificate from the Province of British Columbia, Ministry of Energy, Mines & Petroleum Resources.

Advisors

Russell Hallbauer, P.Eng.

Advisor
Mr. Hallbauer has over 22 years of successful mining experience in the Canadian mining industry. Mr. Hallbauer was responsible for Teck’s Bullmoose and Elkview mining operations that produce approximately 7 million tones of coal annually. Mr. Hallbauer presently holds the position of General Manager Base Metal Joint Ventures for Teck Corporation.

Al Cloke,

Advisor
Mr. Cloke has over 30 years of successful experience in the Canadian mining industry. Mr. Cloke is currently President of Bucyrus Canada Ltd. a large mining supply company with revenues of \$100 million annually. Mr. Cloke is a former director of the Coal Association of Canada.

