



FINANCIAL STATEMENTS

**FOR THE THREE MONTHS ENDED
MARCH 31, 2005**

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**MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A") OF FINANCIAL
CONDITION & THE RESULTS OF OPERATIONS FOR THE THREE MONTHS
ENDED MARCH 31, 2005 (Form 51-102F1)**

May 30, 2005

Introduction

Management's discussion and analysis ("MD&A") focuses on significant factors that affected Compliance Energy Corporation performance and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the unaudited consolidated financial statements for the three months ended March 31, 2005 and the Company's 2004 audited consolidated financial statements and the related notes contained therein. The Company reports its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The Company's significant accounting policies are set out in Note 2 of the audited consolidated financial statements for the year ended December 31, 2004. Additional information on the Company is available in the Company's Annual Information Form, which can be found at www.sedar.com or www.complianceenergy.com.

Overall Performance

The Company recorded a loss of \$71,162 or nil per share for the three months ended March 31, 2005 as compared to a loss of \$40,974 or nil per share for the three months ended March 31, 2004. In order to better understand Compliance Energy's financial results for the three months ended in 2005, it is important to gain an understanding of the stage of development of the Company's main assets: (1) the Basin Coal Mine (formerly the Compliance Basin Coal Joint Venture) of which Compliance now holds a 100% interest and processes and sells thermal coal; (2) the Bear Metallurgical Coal Deposit which is currently being drilled and subject to a development evaluation; (3) Wolf Mountain Mine on Vancouver Island which is being evaluated for development; (4) the wood waste/coal power plant development near the Company's Basin Coal Mine; and (5) the coalbed methane rights in the area of the Basin Coal Mine.

Production recommenced at the Basin Coal Mine in mid April 2005 after the wash plant relocation was completed and as a result all expenses associated with the Basin Coal Mine have been deferred during the quarter. The Company is only expensing administrative expenses not related to the Basin Coal Mine that were incurred during the quarter. Once the Basin Coal Mine reaches commercial production, the Company will no longer defer start-up costs.

Professional fees were \$21,583 for the quarter ended March 31, 2005 as compared to \$21,000 for the period ended March 31, 2004. General and Administrative expenses were \$16,051 for the period as compared to \$5,911 for the same period last year. The Company incurred \$12,095 in transfer agent fees and \$21,326 in shareholder communications fees during the three months ended March 31, 2005 as compared to \$5,489 and \$9,548 respectively for the same period last year.

Selected Annual Information

Selected consolidated financial information of the Company for each of the last three completed financial years is detailed in the MD&A accompanying the Company's 2004 audited consolidated financial statements.

Liquidity and Capital Resources

As of March 31, 2005, the Company had working capital of \$5.3 million (comprised of \$5.9 million of cash, \$0.1 million of receivables and prepaid expenses, offset by \$0.7 million of liabilities) compared with a working capital of \$1.1 million (comprised of \$1.3 million of cash, \$1.0 million of receivables and prepaid expenses, offset by \$1.2 million of liabilities).

The increase in working capital between December 31, 2004 and March 31, 2005 was a result of the Company completing a 8.1 million common share brokered private placement to raise gross proceeds of \$6.1 million.

The following table is selected quarterly financial information derived from the Company's financial statements and should be read in conjunction with the consolidated quarterly financial statements and the audited financial statements for the year ended December 31, 2004.

Summary of Quarterly Results

Quarter	Revenue	Net Income (Loss)	Basic Earnings (Loss) per Share	Fully Diluted Earnings (Loss) Per Share
March 31, 2005	-	(\$71,162)	(\$0.00)	(\$0.00)
December 31, 2004	-	(\$193,177)	(\$0.01)	(\$0.01)
September 30, 2004	-	(\$92,073)	(\$0.00)	(\$0.00)
June 30, 2004	-	(\$73,063)	(\$0.00)	(\$0.00)
March 31, 2004	-	(\$40,974)	(\$0.00)	(\$0.00)
December 31, 2003	-	(\$230,128)	(\$0.01)	(\$0.01)
September 30, 2003	-	(\$26,567)	(\$0.00)	(\$0.00)
June 30, 2003	-	(\$34,406)	(\$0.00)	(\$0.00)

The Company's quarterly results are fairly consistent over the last eight quarters with the exception of the last quarter of 2004 and 2003. There was an increase in expenditures during the last quarter of 2004 and 2003 as there were 180,000 stock options issued to directors and employees during the quarter (675,000 stock options issued 2003), which were valued using the Black-Scholes Option Pricing Model. As a result the Company recorded a \$57,000 (2003 - \$80,500) charge to stock compensation expense as required under the fair value method of accounting for stock options. Also, during the last quarter of 2003 the Company decided to expense all of its costs associated with the investigation of the wood waste / coal power plant and as a result \$62,695 of expenses were charged to the income statement as a project investigation expense. In addition, the Company increased its investor relation's activity during the last quarter of 2003 and incurred additional travel costs as the Company was in the process of getting ready to raise financing by year end December 31, 2003.

Project Review

Efforts at the Basin Coal Mine in the first quarter of 2005 were concentrated on completing the wash plant relocation to the mine site, initiating some pre stripping activities with the Company's newly acquired fleet of mining equipment, and finishing construction on some of the

other site facilities. Therefore, all costs associated with the Basin Coal Mine have been deferred for the quarter. Marketing efforts continued during the quarter to attract new customers.

During the quarter the Company also continued to advance its development of its proposed wood waste/coal power plant that is to be located near the Basin Coal Mine. The Company completed numerous studies on the plant project during the 2004 year and signed a letter of intent to acquire land near Princeton, BC sufficient in size to develop a 49 MW wood waste /coal power plant. The selected site has extensive existing infrastructure, including one large building that could house the boiler and turbine for the development. A 138 KV power line extends onto the site which has the capacity to deliver the power to the B.C. power grid. During the quarter the Company completed an interconnection study with the British Columbia Transmission Corporation that confirmed that the projected interconnection costs associated with this line are less than \$500,000. The Company has engaged consultants to evaluate the air emission considerations and is proceeding with studies required under the Environmental Management Act. The Company continues to investigate potential power sales contracts, including bidding on the 2005 BC Hydro energy call. A total of \$16,565 of power plant project costs was deferred during the quarter.

During the quarter the Company also commenced permitting activities for its exploration program on the Bear Metallurgical coal deposit. The permit was received after the end of the quarter and exploration activities commenced shortly thereafter. A total of \$15,185 of costs was deferred during the quarter relating to the Bear project.

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 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 and the ability of the Company to develop an independent power project. These risks and uncertainties are managed in part, by experienced managers, advisors and consultants, maintaining adequate liquidity, and by cost control initiatives.

COMPLIANCE ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS

	March 31, 2005	December 31, 2004
ASSETS		
Current Assets		
Cash	\$ 5,946,686	\$ 1,327,437
Amounts receivable	116,694	990,694
Prepaid expenses	8,014	8,014
	6,071,394	2,326,145
Reclamation bonding	123,500	120,000
Resource property (note 4)	1,366,945	1,096,918
Capital assets (note 3)	4,395,153	3,487,705
	\$ 11,956,992	\$ 7,030,768
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 674,976	\$ 1,206,686
	674,976	1,206,686
Non-current Liability		
Deferred Gain on Joint Venture Formation	705,643	725,395
	1,380,619	1,932,081
SHAREHOLDERS' EQUITY		
Share Capital (note 5)	11,254,519	5,705,671
Contributed surplus	137,500	137,500
Deficit	(815,646)	(744,484)
	10,576,373	5,098,687
	\$ 11,956,992	\$ 7,030,768

Interim Financial Statements (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
FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004

	March 31, 2005	March 31, 2004
REVENUES		
Interest Income	\$ 8,682	\$ 974
	8,682	974
EXPENSES		
Professional fees	21,583	21,000
General & admin	16,051	5,911
Consulting	7,500	-
Transfer agent & filing fees	12,095	5,489
Shareholder communications	21,326	9,548
Travel	1,289	-
Net loss before other item	79,844	41,948
NET LOSS FOR THE PERIOD	71,162	40,974
DEFICIT, BEGINNING OF PERIOD	744,484	383,188
DEFICIT, END OF PERIOD	\$ 815,646	\$ 424,162
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 FLOW
FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004

	March 31, 2005	March 31, 2004
OPERATING ACTIVITIES		
Net income (loss) for the period	\$ (71,162)	\$ (40,974)
Items not involving cash:		
Net change in non-cash working capital items	342,290	95,493
	271,128	54,519
INVESTING ACTIVITIES		
Deposit for reclamation bonds	(3,500)	-
Purchase of property, plant and equipment	(907,448)	(103,441)
Resource property costs	(270,027)	(230,953)
	(1,180,975)	(334,394)
FINANCING ACTIVITIES		
Long term debt (repaid)	(19,752)	-
Shares issued for cash	5,548,848	2,086,215
	5,529,096	2,086,215
INCREASE IN CASH	4,619,249	1,806,340
CASH, BEGINNING OF PERIOD	1,327,437	1,056,081
CASH, END OF PERIOD	5,946,686	2,862,421

The accompanying notes are an integral part of this financial statement

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2005

1. BASIS OF PRESENTATION

These interim period consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles (“GAAP”) with respect to the preparation of interim financial information. Accordingly, they do not include all of the information and disclosures required by Canadian GAAP in the preparation of our annual consolidated financial statements. Certain information and footnote disclosure normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted. The accounting policies used in preparation of the accompanying unaudited interim consolidated financial statements are the same as those described in our annual consolidated financial statements and the notes thereto for the two years ended December 31, 2004.

These interim period statements have not been reviewed by the Company’s auditors and should be read together with the audited consolidated financial statements and the accompanying notes included in the Company’s latest annual report.

2. CONTINUANCE OF OPERATIONS

These interim 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.

3. 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
Issued at December 31, 2004	29,146,796	\$ 5,705,671
• Shares issued for cash (net of costs)	8,153,863	5,548,848
Issued at March 31, 2005	37,300,659	\$ 11,254,519

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2005

3. CAPITAL STOCK (Cont'd)

(c) Escrowed Shares

Pursuant to the terms of the business combination completed during the year, at March 31, 2005 there are 8,661,504 common shares held in escrow. These shares 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

As at March 31, 2005, the Company has reserved stock options to directors and officers enabling them to acquire up to 1,770,000 common shares of the Company as follows:

Options Outstanding	2005		2004	
	Number of shares	Weighted average exercise price Cdn. \$	Number of shares	Weighted average exercise price Cdn. \$
Beginning of period	940,000	0.34	810,000	0.30
Granted during period	830,000	0.84	50,000	-
Exercised during the period	-	-	180,000	.50
End of period	<u>1,770,000</u>	0.57	<u>940,000</u>	0.34

The weighted-average remaining life of options outstanding at March 31, 2005 is 3.62 years.

(e) Warrants

As at March 31, 2005 4,165,732 warrants are outstanding entitling the holders to acquire shares of the Company at prices ranging between \$0.45 and \$0.95 per share exercisable at various dates ranging up until August 10, 2006.

4. 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. The year end balances payable are non-interest bearing and have no fixed terms for repayment.

- The Company paid one of its officers legal, management and administration fees aggregating \$21,000 during the period ended March 31, 2005 (period ended March 31, 2004 - \$21,000).
- The Company incurred consulting fees for project development costs of \$15,000 for the period ended March 31, 2005 (period ended March 31, 2004-\$15,000) with a private company controlled
- by the family of a director and officer.

Corporate Information

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Registrar and Transfer Agent

Computershare Trust Corporation of Canada
Vancouver, British Columbia

Exchange Listing

TSX Venture Exchange
"CEC"

Notice of Annual General Meeting

2:00 p.m. June 14, 2005
Suite 584 – 885 Dunsmuir St
Vancouver, British Columbia