



FINANCIAL STATEMENTS

**FOR THE THREE MONTHS ENDED
MARCH 31, 2006**

**Suite 584 – 885 Dunsmuir Street
Vancouver, British Columbia V6C 1N5
Ph# 604-689-0489 Fax# 604-681-5910**

MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A") OF FINANCIAL CONDITION & THE RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2006

May 30, 2006

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, 2006 and the Company's 2005 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, 2005. Additional information on the Company is available can be found at www.sedar.com or www.complianceenergy.com.

Overall Performance

The Company recorded a loss of \$126,159 or nil per share for the three months ended March 31, 2006 as compared to a loss of \$71,162 or nil per share for the three months ended March 31, 2005. In order to better understand Compliance Energy's financial results for the three months ended in 2006, it is important to gain an understanding of the stage of development of the Company's main assets: (1) the Basin Coal Mine of which Compliance holds a 100% interest and processes and sells thermal coal; (2) the Raven and Bear Metallurgical Coal Deposits which are currently undergoing a development evaluation; (3) the wood waste and coal power plant development near the Company's Basin Coal Mine that has been registered for the 2006 BC Hydro Open Call For Power.

Operations at the Basin Coal Mine continued during the first quarter of 2006 with the mining fleet concentrating on waste rock removal in preparation for scheduled start up of the wash plant and clean coal production in April 2006. As a result \$1.3 million of 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 which is expected in the second quarter of 2006, the Company will no longer defer start-up costs.

Professional fees were \$25,339 for the quarter ended March 31, 2006 as compared to \$21,583 for the period ended March 31, 2005. General and Administrative expenses were \$69,417 for the period as compared to \$16,051. The increase in General & Administrative charges is a result of incurring additional head office costs to support the increased activity levels on the Vancouver Island project and the Company now treating the CEO's salary as an expense in G&A as opposed to allocating out part of the expense to the individual projects.

The Company incurred \$12,814 in transfer agent fees and \$18,432 in shareholder communications fees during the three months ended March 31, 2006 as compared to \$12,095 and \$21,326 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 2005 audited consolidated financial statements.

Liquidity and Capital Resources

As of March 31, 2006, the Company had working capital of \$3.9 million (comprised of \$4.5 million of cash, \$0.1 million of receivables and prepaid expenses, offset by \$0.7 million of liabilities) compared with a working capital of \$5.3 million (comprised of \$5.9 million of cash, \$0.1 million of receivables, prepaid expenses and inventory offset by \$0.6 million of liabilities) at December 31, 2005.

The decrease in working capital between December 31, 2005 and March 31, 2006 was a result of the Company continuing to operate the mining activities at the Basin Coal Mine instead of shutting down during the winter months like the Company did the previous year. As a result of keeping the mining activities ongoing during the quarter, with limited sales from inventory, cash resources were reduced. Sales revenues will commence during the second quarter of this year with the planned start-up of the wash plant in April 2006.

The Company currently has 6 million warrants outstanding that if exercised would generate approximately \$6.4 million dollars of new equity money for the Company. These warrants have an exercise price ranging from \$0.95 per share to \$1.25 per share. If these options are not exercised, the Company would need to complete another financing at some point during the next year in order to meet its general cash requirements. In addition, with the advancement of the Raven Metallurgical Coal Deposit on Vancouver Island, and the potential cash requirements if the Company is successful on its BC Hydro Power bid, additional sources of money will be required. It is anticipated that these additional sources of money would take the form of debt and equity, financed specific to each project.

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, 2005.

Summary of Quarterly Results

Quarter	Revenue	Net Loss	Basic Loss per Share	Fully Diluted Loss Per Share
March 31, 2006	-	\$126,159	\$0.00	\$0.00
December 31, 2005	-	\$499,432	\$0.01	\$0.01
September 30, 2005	-	\$95,410	\$0.00	\$0.00
June 30, 2005	-	\$127,195	\$0.00	\$0.00
March 31, 2005	-	\$71,162	\$0.00	\$0.00
December 31, 2004	-	\$155,186	\$0.01	\$0.01
September 30, 2004	-	\$92,073	\$0.00	\$0.00
June 30, 2004	-	\$73,063	\$0.00	\$0.00

The Company's quarterly results are fairly consistent over the last eight quarters with the exception of the last quarter in the year ending 2005. There was an increase in expenditures during the last quarter of 2005 as there were stock options issued to directors and employees during the quarter, which were valued using the Black-Scholes Option Pricing Model. As a result the Company recorded a \$370,000 charge in 2005 to stock compensation expense as required under the fair value method of accounting for stock options.

Project Reviews

Basin Coal Mine

During the quarter, mining activities continued at the Basin Coal Mine. Late in 2005 the wash plant crew were cross trained on the mining equipment, and this enabled the Company to keep most of the mining and wash plant crew team employed during the winter months, and therefore, ensured that the Company would have an experienced wash plant crew ready for start-up of the wash plant in April 2006. During the quarter the mining fleet concentrated on waste rock removal and a total of 354,000 bank cubic meters of waste material was mined, exposing in pit coal reserves of 100,000 tonnes. Maintenance crews on the wash plant were occupied by rebuilding various pumps and components, to ensure a smooth start-up come April. Therefore, all costs associated with the Basin Coal Mine have been deferred for the quarter.

A total of \$1.3 million in expenditures have been deferred during the quarter. Marketing efforts continued on the Basin during the quarter to attract new customers.

Raven and Bear Metallurgical Coal Project

Exploration activities for the Raven and the Bear Metallurgical Coal deposits concentrated on collecting and reviewing all available data on the projects. The 2006 exploration program will be focused on the Raven and will consist of rotary and core hole drilling and geological seismic surveys to help confirm coal continuity and structure. In addition, baseline environmental studies will be started and bulk samples for metallurgical testing are planned. The Raven has a 38.5 million tonne good quality coking coal resource as reported by Gardner Exploration Consultants Ltd in their technical report dated July 2001 and has also been subject to a pre-feasibility study. The Bear has a 5.0 million tonne open pitable resource that needs to be upgraded to a 43-101 classification and readers are cautioned that this resource should not be relied upon. A total of \$85,883 in expenditures was spent preparing for the exploration field program that will start in the second quarter once the exploration permit is received.

Princeton Power Project

During the quarter the Company also continued to advance its development of its proposed wood waste and coal power plant that is to be located near the Basin Coal Mine. The Company registered the net 49 MW project for the 2006 BC Hydro Open Call for Power early in January 2006. While the project's original concept was to be a 50-50 joint venture with Northland Power Inc, the Company determined during the quarter that it would be in the Company's best interest's if the Company was able to retain more of the project for shareholders. At the end of the quarter the Company signed a Cooperative Working Agreement with the Upper Similkameen Indian Band ("USIB") which provided for the USIB to become an initial 10% equity interest partner in the project, which could be increased to a 15% interest under certain circumstances. In addition, the Company retained Northland's representative consultant as a consultant directly to the Company on this project. Throughout the quarter the Company continued to prepare its bid for the 2006 BC Hydro Open Call for Power which was submitted on April 7, 2006. BC Hydro will now be reviewing all of the submitted bids and are scheduled to announce the successful bidders in early August 2006. A total of \$145,822 was incurred on this project during the quarter. All of these costs have been deferred.

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.

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, have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2005. 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 Multilateral 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.

COMPLIANCE ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS

	March 31, 2006	December 31, 2005
ASSETS		
Current Assets		
Cash	\$ 4,481,766	\$ 5,853,682
Amounts receivable	106,248	140,541
Investments	37,500	37,500
Prepaid expenses	8,014	8,014
	4,633,528	6,039,737
Reclamation bonding	173,500	173,500
Resource property (note 4)	7,146,591	5,808,815
Capital assets (note 3)	5,087,559	5,151,105
	\$ 17,041,178	\$ 17,173,157
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 697,829	\$ 658,586
	697,829	658,586
Non-current Liability		
Deferred Gain on Joint Venture Formation	879,072	903,137
	1,576,901	1,561,723
SHAREHOLDERS' EQUITY		
Share Capital (note 5)	16,438,051	16,459,050
Contributed surplus	690,067	690,067
Deficit	(1,663,841)	(1,537,683)
	15,464,277	15,611,434
	\$ 17,041,178	\$ 17,173,157

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, 2006 AND 2005

	March 31, 2006	March 31, 2005
REVENUES		
Interest Income	\$ 11,259	\$ 8,682
	11,259	8,682
EXPENSES		
Professional fees	25,339	21,583
General & admin	69,417	16,051
Consulting	-	7,500
Transfer agent & filing fees	12,814	12,095
Shareholder communications	18,432	21,326
Travel	11,416	1,289
Net loss before other item	137,418	79,844
NET LOSS FOR THE PERIOD	126,159	71,162
DEFICIT, BEGINNING OF PERIOD	1,537,682	744,484
DEFICIT, END OF PERIOD	\$ 1,663,841	\$ 815,646
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, 2006 AND 2005

	March 31, 2006	March 31, 2005
OPERATING ACTIVITIES		
Net income (loss) for the period	\$ (126,159)	\$ (71,162)
Items not involving cash:		
Net change in non-cash working capital items	73,537	342,290
	(52,622)	271,128
INVESTING ACTIVITIES		
Deposit for reclamation bonds	-	(3,500)
Purchase of property, plant and equipment	(75,831)	(907,448)
Resource property costs	(1,198,399)	(270,027)
	(1,274,230)	(1,180,975)
FINANCING ACTIVITIES		
Long term debt (repaid)	(24,065)	(19,752)
Shares issued for cash (net)	(20,999)	5,548,848
	(45,064)	5,529,096
INCREASE IN CASH	(1,371,916)	4,619,249
CASH, BEGINNING OF PERIOD	5,853,682	1,327,437
CASH, END OF PERIOD	4,481,766	5,946,686

The accompanying notes are an integral part of this financial statement

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2006

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, 2005.

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. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2006	December 31, 2005
Land	\$ 50,000	\$ 50,000
Building	298,195	278,283
Equipment – other	142,284	104,652
Equipment – wash plant	2,971,506	2,780,145
Equipment – mining	2,286,979	2,460,053
	<hr/> 5,748,964	<hr/> 5,673,133
Accumulated Depreciation	(687,215)	(547,838)
Office equipment	25,810	25,810
	<hr/> \$ 5,087,559	<hr/> \$ 5,151,105

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2006

4. RESOURCE PROPERTY

a) Basin Coal Mine

The Basin Coal Mine consists of 9 coal licenses covering 8,295 acres, and the mining rights were acquired pursuant to a Mining Agreement dated August 30, 2002. Under this agreement, the Company 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. The property is subject to a royalty of \$1.50 per tonne on all washed coal sold.

b) Bear Metallurgical Coal Deposit

The Bear Metallurgical Coal Deposit consists of 6 coal licenses totaling 4,325 acres. During the year the Company exercised its option to acquire coal leases that cover 100% of the Bear Metallurgical Coal Deposit on Vancouver Island. Under the terms of the agreement, the Company paid a total of \$215,000 and granted a royalty of 2.5% of the coal sales, FOB mine site.

c) Raven Metallurgical Coal Deposit

During the year the Company entered into an agreement to acquire coal rights that cover approximately 82,000 acres on Vancouver Island, including 100% of the Raven Metallurgical Coal Deposit on Vancouver Island. Under the terms of the agreement, the Company has made an initial \$100,000 option payment and must make an additional payment of \$2,900,000 on or before June 30, 2006; \$2,000,000 in four equal payments over the next four years based on development milestones; and \$4,000,000 by way of a \$0.50 per tonne royalty once production is achieved. The property is subject to no other royalties. In addition, the Company paid a total of \$175,000 to an independent third party on the acquisition of ground contiguous to the Raven property.

d) Anderson Lake Coal Deposit

During the year the Company entered into an agreement to acquire 100% of the coal rights that cover approximately 1,938 acres on Vancouver Island. Under the terms of the agreement, the Company paid \$50,000 during the year. The property is not subject to a royalty.

e) Wolf Mountain Mine

During 2004 the Company entered into an agreement to acquire 100% of the common shares of a private company that holds the coal licenses, permits and physical assets of the Wolf Mountain Mine located on Vancouver Island. Under the terms of the agreement, the Company has made an initial \$50,000 option payment and must make an additional payment of \$200,000 on or before December 24, 2009.

f) CEC Power Project

The Company has an option to purchase the former Similco mine where the Company is proposing to build a wood waste, supplemented with coal, 49MW (net) power plant. Under the term of the agreement the Company has the option to purchase the entire 18,000 acre site for \$1.0 million. The option expires on December 31, 2006. Costs incurred to date on the power plant project have been deferred.

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2006

4. RESOURCE PROPERTY *(continued)*

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

	Cumulative to	
	March 31, 2006	December 31, 2005
Basin Coal Mine		
Mining	\$ 4,760,883	\$ 4,025,491
Processing	2,292,781	2,124,220
Development	4,154,437	3,897,913
Marketing	273,334	273,998
Environmental	271,208	277,721
Legal	52,508	52,508
	<u>11,805,151</u>	<u>10,651,851</u>
Less: start-up Coal Revenue	(4,476,724)	(4,421,336)
	<u>\$ 7,328,427</u>	<u>\$ 6,530,515</u>
Valuation adjustment on purchase of remaining 35% interest in the CBCJV	(2,332,639)	(2,332,639)
Other deferred costs:		
Bear Coal Deposit		
Acquisition	215,000	215,000
Deferred Costs	761,078	752,919
Raven Coal Deposit		
Acquisition	275,000	275,000
Deferred Costs	85,883	-
Wolf Mountain Mine		
Acquisition	50,000	50,000
Deferred Costs	17,406	17,406
Other Coal Assets		
Acquisition	240,000	240,000
Deferred Costs	4,500	4,500
CEC Power Project		
Acquisition	60,000	60,000
Deferred Costs	441,936	296,114
	<u>\$ 7,146,591</u>	<u>\$ 5,808,815</u>

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2006

5. 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, 2005	43,8839,091	\$ 16,641,617
• Shares issued for cash (net of costs)	-	(20,999)
Issued at March 31, 2006	43,8839,091	\$ 16,620,618

- (c) Escrowed Shares

Pursuant to the terms of the business combination completed during the year, at March 31, 2006 there are 5,774,349 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, 2006, the Company has reserved stock options to directors and officers enabling them to acquire up to 3,025,000 common shares of the Company as follows:

Options Outstanding	2006		2005	
	Number of shares	Weighted average exercise price Cdn. \$	Number of shares	Weighted average exercise price Cdn. \$
Beginning of period	3,025,000	0.68	940,000	0.34
Granted during period	-	-	2,280,000	0.85
Exercised during the period	-	-	(195,000)	0.34
End of period	<u>3,025,000</u>	0.68	<u>3,025,000</u>	0.68

The weighted-average remaining life of options outstanding at March 31, 2006 is 3.82 years.

- (e) Warrants

As at March 31, 2006 6,093,678 warrants are outstanding entitling the holders to acquire shares of the Company at prices ranging between \$0.95 and \$1.05 per share exercisable at various dates ranging up until August 10, 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2006

5. CAPITAL STOCK *(continued)*

(f) Broker Warrants

As at March 31, 2006 921,029 broker warrants are outstanding entitling the holders to acquire shares of the Company at prices ranging between \$0.75 and \$0.95 per share exercisable at various dates ranging up until December 22, 2006.

6. 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, 2006 (period ended March 31, 2005 - \$21,000).
- The Company paid one of its directors, management consulting fees aggregating \$7,088 during the period ended March 31, 2006 (period ended March 31, 2005 - \$8,000).

Corporate Information

Head Office

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

Tel: (604) 689-0489

Fax: (604) 681-5910



Mine Office

Compliance Coal Corporation
DBA e Basin Coal Mine
PO Box 1400
Princeton, British Columbia
Canada, V0X 1W0

Tel: (250) 295-5026

Fax: (250) 295-5028

Registrar and Transfer Agent

Computershare Trust Corporation of Canada
Vancouver, British Columbia

Exchange Listing

TSX Venture Exchange
"CEC"

Notice of Annual General Meeting

June 22, 2006 @ 2:00 p.m. (Vancouver Time)

**The Four Seasons Hotel
791 West Georgia Street
Vancouver, B.C.**