



**FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED  
SEPTEMBER 30, 2009 AND 2008  
(UNAUDITED)**

**Suite 550 – 800 West Pender Street  
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**FORM 51-102F1**  
**COMPLIANCE ENERGY CORPORATION**  
**(The “Company”)**

**MANAGEMENT'S DISCUSSION & ANALYSIS (“MD&A”) OF FINANCIAL CONDITION & THE RESULTS OF OPERATIONS FROM THE NINE MONTHS ENDED SEPTEMBER 30, 2009.**

November 19, 2009

**Management Discussion and Analysis**

**Introduction**

*Management's discussion and analysis (“MD&A”) focuses on significant factors that affected Compliance Energy Corporation's 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 Company's consolidated financial statements and the related notes contained therein for the nine months ended September 30, 2009 and the Company's audited consolidated financial statements and the related notes contained therein for the year ended December 31, 2008. 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, 2008. The Company's financial statements and the management's discussion and analysis are intended to provide a reasonable base for the investor to evaluate the Company's exploration results and financial situation.*

**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 US 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; the operation of the Basin Coal Mine located near Princeton, BC which is currently on care and maintenance; and the development of a wood waste power project located near Princeton, BC.

During the period the Company completed the exploration program on the Raven Underground Coal Project (“Raven Project”), which is part of the Company’s Comox Joint Venture (“CJV”) formed this year 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. A total of 42 drill holes were successfully completed during the period, with core and bulk samples being sent for quality analyses. In addition, the Company continued to assist Jameson Resources Limited (“JAL”) with their due diligence requests on the Basin Coal Mine under the previously announced option agreement for the sale of the mining agreement to mine coal at the Basin Coal Mine.

The Company also continued to have discussions with BC Hydro regarding the Company’s proposed power project located near Princeton, BC for which the Company entered into a power purchase contract in 2006 with BC Hydro. Due to the BC government’s change in policy regarding the use of coal, the Company has been unable to move forward with the planned project.

### 1.21 Projects

#### **Comox Joint Venture**

The Comox Joint Venture was formed on February 20, 2009 to further explore the Vancouver Island Properties that the Company contributed to the venture. A total of \$11.25 million in funding was provided by I-Comox Coal Inc and LG International Investments (Canada) Ltd. The CJV owns approximately 29,000 hectares of freehold coal mineral interests on the east side of Vancouver Island, of which the Raven Project is the Joint Venture’s first priority and the Joint Venture is currently completing all of the activities necessary to reach a production decision on the Raven Project by mid next year.

Exploration permits were received for the Raven Project on May 19, 2009 and drilling contracts were signed shortly thereafter. Exploration drilling and geophysical logging commenced on May 25, 2009, with four drill rigs on site. There are two seams of economic interest, (1.5 metres or greater) Seam 1 and Seam 3, and they have been intercepted at various depths in thicknesses ranging from 1.0 to 7.4 meters for Seam 1 and 0.65 to 5.35 meters for Seam 3 excluding partings material. (Note: all thicknesses represent drill intersected thickness and have not been corrected to true thickness). All of the drill hole locations and results are shown in the Company’s press release dated October 13, 2009. The drilling and coal quality testing program is under the supervision of Owen R. Cullingham, P. Geo., who is the Independent Qualified Person for reporting purposes as defined in NI 43 – 101 Standards of Disclosure for Mineral Projects.

A total of 42 drill holes, including four six inch holes for bulk coal quality sampling purposes, totaling 9,899 meters have been completed with results meeting expectations. The drill program has been very successful and will allow the current measured and indicated resource of 39 million tonnes to be increased by upgrading a significant portion of the current inferred resource of 59

million tonnes to the measured or indicated resource category. In the 42 drill holes completed, coal was intersected in all but one of the 42 holes where the lower seams were displaced due to faulting. All core and the bulk samples from the four six inch holes are being sent to Calgary, Alberta for quality analyses and washability testing. Surface geological mapping has also been completed and surface geology maps are being compiled.

Pincock, Allen, and Holt were selected to conduct a bankable feasibility study on the Project which is expected to be completed in the first half of 2010. During the quarter, fieldwork for insitu stress testing program was completed and, the related analysis and laboratory work continue through year end. The geological modeling and the development of Basis Design framework for the feasibility study are also on-going. The evaluation of site layout and surface facility requirements continue, including a preliminary layout and design. The completion of the scoping study of the transportation options and port locations is ongoing and the Joint Venture plans on having this finalized by year end. Baseline field study for aquatics (including fisheries), wildlife, water quality and hydrology are ongoing. Four piezometers for the hydrogeology monitoring program have been installed and a 5<sup>th</sup> piezometer is planned. As soon as the decisions have been made on the preferred mine site location for surface facilities and on the preferred transportation route, an addendum to the current project description will be submitted to the BC Environmental Assessment Office (BCEAO) and the Canadian Environmental Assessment Agency (CEAA).

All direct costs are being deferred on this project and during the quarter a total of \$1,570,745 of expenditures were deferred bringing the total to \$2,560,613 for the nine months ended September 30, 2009.

### **Basin Coal Mine**

The Basin Coal Mine is located 300 km east of Vancouver near the town of Princeton, BC. The mine remains on care and maintenance. The Company has received an option payment from NWPC Pty Ltd (“NWPC”) a private Australian company of \$1,000,000 in cash and 7,407,408 shares of Jameson Resources Ltd. (“JAL”) as outlined under the terms of the option agreement entered into last year by the Company. The shares of JAL trade on the Australian Stock Exchange and are subject to a one year escrow provision. The final option payment of \$3,100,000 in cash plus closing adjustments and 7,407,408 JAL shares is due on or before May 31, 2010 at which time the Company’s interest in the mining agreement would transfer. A final option payment of 7,407,408 shares is due on or before the earlier of commencement of coal production and May 31, 2012.

### **Princeton Power Project**

As a result of the province changing its direction on the acceptability of coal as a fuel for electricity production in BC this project has been delayed. The Company has continued to have discussions with BC Hydro regarding options for this project.

## **1.4 Results of Operations**

### **For the Nine Months Ended September 30, 2009**

The Company recorded net income of \$4,928,448 or \$0.10 per share, for the nine months ended September 30, 2009. This compares to income of \$219,547 or \$0.01 per share for the nine months ended September 30, 2008. A majority of this income is non-cash in nature and is derived from the accounting gain of \$4,614,593 achieved on the creation of the Comox Joint Venture.

General and Administrative expenses were \$260,377 for the nine months ended September 30, 2009 as compared to \$174,667 for the nine months ended September 30, 2008. General and Administrative expenses for the period ended September 30, 2009 included Office Wages of \$179,310, Office Rent of \$32,012, Printing & Stationary of \$4,696, Subscriptions of \$4,220, Office and Miscellaneous expenses of \$32,209, Bank Charges and Interest of \$3,879, and Computer and Website expenses of \$4,051. This compares to Office Wages of \$73,211, Office Rent of \$39,454, Printing and Stationary of \$8,732, Subscriptions of \$3,518, Office and Miscellaneous expenses of \$21,081, and Bank charges of \$28,671 for the nine months ended September 30, 2008. The increase in Office Wages is a result of the addition of staff to head office. The decrease in office rent is a result of an increase in shared occupancy of the current premises by another company. The decrease in interest and bank charges is a result of the Company paying off the loan from Copper Mountain Mining Corporation (“CMMC”) (See also 1.9 - Transactions with Related Parties). Professional fees, which include legal and accounting fees, were \$139,036 for the nine months ended September 30, 2009 as compared to \$64,974 for the nine months ended September 30, 2008. The Company also incurred stock-based compensation expense of \$27,798 as a result of repricing stock options issued to employees, consultants officers, and directors. The Company incurred \$19,049 in transfer agent fees and \$71,078 in shareholder communications fees during the nine months ended September 30 2009 as compared to \$22,236 and \$25,702, respectively for the same period last year. The increase in shareholders communication expenses is a result of the Company increasing its investor relations activities in the Company as a result of the commencement of exploration activities at the Comox Joint Venture in the early part of the second quarter.

**For the Three Months Ended September 30, 2009**

The Company recorded a loss of \$188,572 or \$0.00 per share, for the three months ended September 30, 2009. This compares to a loss of \$154,755 or \$0.00 per share for the three months ended September 30, 2008. General and Administrative expenses were \$103,031 for the three months ended September 30, 2009 as compared to \$54,731 for the three months ended September 30, 2008. General and Administrative expenses for the quarter included Office Wages of \$67,203, Office Rent of \$10,522, Office expenses of \$4,973, and Miscellaneous expenses of \$20,333. This compares to Office Wages of \$23,917, Office Rent of \$13,451, Office expenses of \$2,855, Bank charges of \$10,836 and Miscellaneous expenses of \$3,672 for the three months ended September 30, 2008. The increase in Office Wages is a result of the addition of additional people to head office. The decrease in office rent is a result of an increase in shared occupancy of the current premises by another company. The decrease in interest and bank charges is a result of the Company paying off the loan from Copper Mountain Mining Corporation (“CMMC”) (See also 1.9 - Transactions with Related Parties). Professional fees, which include legal and accounting fees, were \$36,325 for the three months ended September 30, 2009 as compared to \$22,840 for the three months ended September 30, 2008. This increase is mainly due to the formation and startup of activities of the Comox Joint Venture during the quarter. The Company also incurred consulting fees of \$7,968 in the quarter. The Company incurred stock-based compensation expenses of \$13,899 as a result of the repricing stock options issued to employees, consultants officers, and directors. The Company incurred \$5,119 in transfer agent fees and \$34,394 in shareholder communications fees during the three months ended September 30 2009 as compared to \$6,859 and \$8,263, respectively for the same period last year. The increase in shareholders communication expenses is a result of the Company hiring an in house investor relations person during the quarter and increasing its investor relations activities in the Company as a result of the commencement of exploration activities at the Comox Joint Venture in the early part of the second quarter.

## 1.5 Summary of Quarterly Results

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.

### Summary of Quarterly Results

Quarter	Revenue	Net Income (Loss)	Basic Income (Loss) per Share	Fully Diluted Income (Loss) Per Share
September 30, 2009	-	(188,572)	(\$0.00)	(\$0.00)
June 30, 2009	-	(\$176,572)	(\$0.00)	(\$0.00)
March 31, 2009	-	\$5,293,592	\$0.11	\$0.11
December 31, 2008	-	\$126,371	\$0.00	\$0.00
September 30, 2008	-	(\$154,755)	\$0.00	\$0.00
June 30, 2008	-	(\$98,020)	\$0.00	\$0.00
March 31, 2008	-	\$472,322	\$0.01	\$0.01
December 31, 2007	-	(\$227,642)	(\$0.03)	\$(0.03)

The Company's quarterly results are fairly consistent over the last eight quarters with the exception of the first quarter in 2009. During the first quarter of 2009, the Company realized a gain from the formation of the Comox Joint Venture of \$4,614,593.

## 1.6 Liquidity and Capital Resources

As at September 30, 2009, the Company had working capital of \$5,890,965 (comprised of \$2,923,924 cash, \$195,402 of receivables and prepaid expenses, and \$3,349,500 of investments and marketable securities, offset by \$577,861 of accounts payable and accrued liabilities. This compared with working capital of \$1,517,474 (comprised of \$840,773 of cash, \$52,362 of receivables, prepaid expenses and \$1,293,600 of investments and marketable securities and offset by \$669,261 of liabilities) at December 31, 2008. The increase in working capital is primarily attributable to the receipt of a \$1.0 million option payment for the Basin Coal Mine and the receipt of \$7 million by the Comox Joint Venture on the formation of the joint venture, of which the Company proportionate consolidates 60% of the Comox Joint Venture assets.

The current cash requirements of the Company for the year will mainly come from activities on the Comox Joint Venture to fund the environmental baseline study, completion of the exploration activities, and continuation of the bankable feasibility study activities as well as general and administrative expenses of the Company. Funding requirements in excess of these activities will require additional sources of money, however, this is not anticipated to be required until some time in mid 2010. 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**

The Company's current cash requirements on the Company's projects will not require additional sources of money at this time. It is anticipated that if additional sources of money were required it would come from either the Comox Joint Venture partners for expenditures on the Comox Joint Venture, or for other Company expenditures it would come from; the sale of marketable securities that the Company holds for investment purposes, from the sale proceeds from the Basin Coal Mine, or from additional debt and equity. Other than those obligations disclosed in the notes to its audited financial statements for the year ended December 31, 2008, the Company had no material commitments for material capital expenditures as of September 30, 2009.

### **1.8 Off-Balance Sheet Arrangements**

None

### **1.9 Transactions with Related Parties**

During the period, 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 year, the Company paid management and administration fees aggregating \$45,225 to a private company controlled by a director and officer of the Company.

On February 12, 2009 the Company repaid the demand loan held by Copper Mountain Mining Corporation. The payment totaled \$441,803 and included \$400,000 of principal and \$41,803 of interest. All interest was accrued to February 13, 2009. The loan was secured by the equivalent value of common shares of CMMC owned by the Company, with the loan bearing an interest rate of prime plus 1%.

### **1.10 Fourth Quarter**

Not applicable

### **1.11 Proposed Transactions**

None

### **1.12 Critical Accounting Estimates**

The Company's significant accounting policies are presented in note 2 of the audited consolidated financial statements for the year ended December 31, 2008. 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 property, plant and equipment,
- rates of amortization of property, plant and equipment,
- the carrying values of the reclamation liability,
- the valuation allowances for future income taxes
- the assumptions used in determining the reclamation obligation, and
- the valuation of stock-based compensation expense.

Actual amounts could differ from the estimates used and, accordingly, affect the results of operations once the mine is back in production.

### **1.13 Change in Accounting Policies including Initial Adoption**

Effective January 1, 2011, Canadian publicly listed entities will be required to prepare their financial statements in accordance with International Financial Reporting Standards (“IFRS”), instead of current Canadian GAAP. This mandate is first applicable to interim reporting periods in 2011 and includes the requirement to present comparative financial information for the 2010 year, also based on IFRS. Accordingly, although we will first report our result under IFRS in 2011, the underlying conversion will be based on an effective transition date of January 1, 2010.

In mid 2009, management began reviewing IFRS material as a first step in developing an IFRS conversion plan for the transition from Canadian GAAP to IFRS. Management has initially identified four phases to a potential conversion: scoping and planning, detailed assessment, implementation and post implementation.

The scoping and planning phase involves establishing a project team and organizational structure, including oversight of the process by the audit committee; this phase also entails an initial assessment of the key areas where IFRS transition may have a significant impact and present significant challenges. This scoping and planning phase has just begun and this work will continue throughout the remainder of the year. The second phase, detailed assessment, involves in-depth technical analysis that will result in understanding potential impacts, decisions on accounting policy choices and the drafting of accounting policies and preparing a detailed transition plan, as well as identifying any potential IT system requirements. This phase is expected to be complete in the first quarter of 2010. During the implementation phase, management will identify and carry out the implementation requirements to effect management’s accounting choices, develop sample financial statements, implement business and internal control requirements, calculate the opening balance sheet at January 1, 2010 and other transitional reconciliations and disclosure requirements. The implementation phase of the conversion will continue through 2010. The last phase of post implementation will involve continuous monitoring through 2011 of changes in IFRS throughout the implementation process.

## **1.14 Financial Instruments and Other Instruments**

Please refer to note 2 of the audited financial statements for the year ended December 31, 2008.

## **1.15 Other MD&A Requirements**

Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at [www.sedar.com](http://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, 2009. 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.

The Company's internet web site is [www.complianceenergy.com](http://www.complianceenergy.com)

**COMPLIANCE ENERGY CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT SEPTEMBER 30, 2009**

	(Unaudited) September 30, 2009	(Audited) December 31, 2008
<b>ASSETS</b>		
Current Assets		
Cash	\$ 2,923,924	\$ 840,773
Accounts receivable	159,016	30,974
Investments and marketable securities (note 2)	3,349,500	1,293,600
Prepaid expenses	36,386	21,388
	<u>6,468,826</u>	<u>2,186,735</u>
Reclamation bonding	166,000	145,000
Property, plant, and equipment (note 4)	391,856	435,204
Resource property (note 5)	10,999,989	10,168,987
	<u>\$ 18,026,671</u>	<u>\$ 12,935,926</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	\$ 577,861	\$ 231,074
Due to related party (note 8)	-	438,187
	<u>577,861</u>	<u>669,261</u>
Long-term debt (note 6)	280,000	2,110,000
	<u>857,861</u>	<u>2,779,261</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 7b)	16,930,649	16,930,649
Contributed surplus	1,131,833	1,104,035
Deficit	(4,190,795)	(9,119,243)
Accumulated comprehensive income	3,297,123	1,241,224
	<u>17,168,810</u>	<u>10,156,665</u>
	<u>\$ 18,026,671</u>	<u>\$ 12,935,926</u>

Interim Financial Statements (Note 1)

Approved by:

"Jamieson Merritt" Director  
**Jamieson Merritt**

"Jim O'Rourke" Director  
**Jim O'Rourke**

The accompanying notes are an integral part of this financial statement

**COMPLIANCE ENERGY CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008 (Unaudited)**

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
<b>Revenue</b>				
Excess recoveries recorded in operation	2,068	-	779,458	-
Future income tax recovery	-	-	-	-
Gain on JV creation	-	-	4,614,593	-
Gain on sale of investments	-	(59,616)	-	509,848
Interest & other income	14,191	700	74,464	4,144
	16,259	(58,916)	5,468,515	513,992
<b>Expenses:</b>				
Amortization expense	2,426	1,337	5,995	4,011
General & admin	103,031	54,731	260,377	174,667
Professional fees	36,325	22,840	139,036	64,974
Consulting fees	7,968	-	12,750	-
Transfer agent & filing fees	5,119	6,859	19,049	22,236
Shareholder communications	34,394	8,263	71,078	25,702
Travel	1,669	1,809	3,984	2,855
Stock based compensation	13,899	-	27,798	-
<b>TOTAL EXPENSES</b>	204,831	95,839	540,067	294,445
<b>NET INCOME (LOSS) FOR THE PERIOD</b>	(188,572)	(154,755)	4,928,448	219,547
<b>RETAINED EARNINGS (DEFICIT), BEGINNING OF PERIOD</b>	(4,002,223)	(9,090,859)	(9,119,243)	(9,465,161)
<b>RETAINED EARNINGS (DEFICIT), END OF PERIOD</b>	\$ (4,190,795)	\$ (9,245,614)	\$ (4,190,795)	\$ (9,245,614)
<b>INCOME (LOSS) PER SHARE, BASIC</b>	\$ (0.00)	\$ (0.00)	\$ 0.10	\$ 0.01
<b>INCOME (LOSS) PER SHARE, DILUTED</b>	\$ (0.00)	\$ (0.00)	\$ 0.10	\$ 0.01
<b>SHARES OUTSTANDING, BASIC</b>	47,466,783	47,466,783	47,446,783	47,466,783
<b>SHARES OUTSTANDING, DILUTED</b>	50,305,059	47,466,783	50,305,059	47,466,783

**COMPLIANCE ENERGY CORPORATION**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)**

	Share Capital		Deficit	Contributed Surplus	Accumulated Other Comprehensive Income	Total Shareholder's Equity
	No. of Shares	Amount				
	(Note 7(b))			(Note 7(b))		
<b>Balance December 31, 2007</b>	<b>47,446,783</b>	<b>\$ 16,930,649</b>	<b>\$ (9,465,161)</b>	<b>\$ 1,057,916</b>	<b>\$ 552,000</b>	<b>\$ 9,075,404</b>
Net income for the year	-	-	345,918	-	-	345,918
Other comprehensive income:						
Unrealized gains on marketable securities	-	-	-	-	1,489,449	
Realized gains on marketable securities	-	-	-	-	(800,225)	689,224
Comprehensive income						1,035,142
Stock-based compensation				46,119		46,119
	-	-	345,918	-	689,224	-
<b>Balance, December 31, 2008</b>	<b>47,446,783</b>	<b>\$ 16,930,649</b>	<b>\$ (9,119,243)</b>	<b>\$ 1,104,035</b>	<b>\$ 1,241,224</b>	<b>\$ 10,156,665</b>
Net income for the period	-	-	4,928,448	-	-	4,928,448
Other comprehensive income:						
Unrealized gains (loss) on marketable securities	-	-	-	-	2,055,899	
Realized gains on marketable securities					-	2,055,899
Comprehensive income						2,055,899
Stock-based compensation				27,798		27,798
	-	-	4,928,448	-	2,055,899	-
<b>Balance September 30, 2009</b>	<b>47,446,783</b>	<b>\$ 16,930,649</b>	<b>\$ (4,190,795)</b>	<b>\$ 1,131,833</b>	<b>\$ 3,297,123</b>	<b>\$ 17,168,810</b>
			(A)		(A)	

(A) Total deficit and accumulated other comprehensive income at September 30, 2009 was \$(893,672).

The accompanying notes are an integral part of these financial statements

**COMPLIANCE ENERGY CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008 (Unaudited)**

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
<b>INCOME (LOSS) FOR THE PERIOD</b>	\$ (188,572)	\$ (154,755)	\$ 4,928,448	\$ 219,547
Non cash items	-	-	-	-
Amortization	2,426	1,337	5,994	4,011
Gain on sale of marketable securities	-	59,616	-	(509,848)
Gain on JV formation	-	-	(4,614,593)	-
	(186,146)	(93,802)	319,849	(286,290)
Future income tax recovery	-	-	-	-
Change in non cash working capital	(126,002)	163,232	823,179	150,864
	(312,148)	69,430	1,143,028	(135,426)
<b>INVESTING ACTIVITIES</b>				
Redemption (purchase) of reclamation bond	-	-	(21,000)	50,000
Proceeds on sale of marketable securities	-	210,385	-	782,849
Property option payment	-	-	-	(600,000)
Redemption of performance security	-	-	-	-
Sale (purchase) of capital assets	-	-	(37,872)	-
Resource property costs	(1,544,673)	138,412	(1,932,818)	(237,780)
	(1,544,673)	348,797	(1,991,690)	(4,931)
<b>FINANCING ACTIVITIES</b>				
Advance (re-payment) of demand loan	-	-	-	-
(Repayment) of long term debt	-	-	(1,830,000)	-
(Repayment) of related party loan	-	-	(438,187)	-
Shares issued for cash (net)	-	-	-	-
Option payments received	-	-	1,000,000	600,000
Cash received on JV formation	-	-	4,200,000	-
Issuance of share capital, (net)	-	-	-	-
	-	-	2,931,813	600,000
<b>CHANGE IN CASH</b>	(1,856,821)	418,227	2,083,151	459,643
<b>CASH, BEGINNING OF PERIOD</b>	4,780,745	120,506	840,773	79,090
<b>CASH, END OF PERIOD</b>	\$ 2,923,924	\$ 538,733	\$ 2,923,924	\$ 538,733

Supplementary disclosures

During the nine months ended September 30, 2009, the Company:

- Deferred \$75,224 in amortization expenses
- \$591,634 of accounts payable relates to resource property

During the nine months ended September 30, 2008, the Company:

- Deferred \$141,045 in amortization expenses
- \$168,806 of accounts payable relates to resource property
- Accrued interest expenses of \$27,538 in connection with a demand loan from a related party.

The accompanying notes are an integral part of these financial statements

**COMPLIANCE ENERGY CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008 (UNAUDITED)**

**1. NATURE AND CONTINUANCE OF OPERATIONS**

The Company is incorporated under the provisions of the British Columbia *Company Act*. These consolidated financial statements include all of the accounts of the Company and its wholly-owned legal subsidiaries. All significant inter-company balances and transactions have been eliminated on consolidation.

These interim consolidated financial statements have been prepared on a going-concern basis, which assumes the ongoing ability of the Company to realize its assets and discharge its liabilities in the normal course of business. The Company's status as a going-concern is dependent upon its ability to generate future profitable operations and to receive continued financial support from its lenders and shareholders. For the period ended September 30, 2009, the Company reported income of \$4,928,448 and an accumulated deficit of \$4,190,795 at that date. In addition to its ongoing working capital requirements, the Company must secure sufficient funding for existing and future commitments for the development of its projects.

In recognition of these circumstances, early in 2009 the Company secured funding in the amount of \$7 million by way of the creation of the Comox Joint Venture ("CJV"), which enabled the Company to continue to fund site development activities for the Raven Coal Project on Vancouver Island. This arrangement, while significant, is not sufficient in itself to enable the Company to fund all aspects of its obligations to develop the Raven Coal Project and, accordingly, management will need to pursue other financing alternatives to fund the Company's share of development costs for the Raven Coal Project once a production decision or suffer project dilution. Management plans to secure the necessary financing through a combination of debt and equity when these funds are required in the future. Nevertheless, there is no assurance that these initiatives will be successful.

The Company's ability to continue as a going concern is dependent upon management's ability to sufficiently fund the Company's development programs, manage its foreign currency exposures, and develop the Raven Coal Project on time and on budget that allows it to generate positive cash flows from future operations. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations.

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.

**2. INVESTMENTS AND MARKETABLE SECURITIES**

Investments and marketable securities consist of shares of Copper Mountain Mining Corp. (TSX: CUM) ("Copper Mountain"). As at September 30, 2009, the Company owned 2,310,000 common shares of Copper Mountain (2008 – 2,310,000), all of which are free trading and recorded at their market value of \$1.45 per share, or an aggregate of \$3,349,500. In addition, the Company held 7,407,408 shares of Jameson Resources Ltd. ("JAL") The shares of JAL trade on the Australian Stock Exchange and are subject to a one year escrow provision and therefore have no market value at this time.

	September 30, 2009	December 31, 2008
	\$	\$
Investment in Copper Mountain	3,349,500	1,293,600
	\$	\$
Total	3,349,500	1,293,600

**COMPLIANCE ENERGY CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**3. JOINT VENTURE INTEREST**

The Comox Joint Venture (“CJV”) was formed on February 20, 2009 for the purpose of developing and subsequently operating as a commercial coal field the Raven Coal Project (“the Property”) located within the Comox Coal Basin near Comox B.C. The Company’s initial contribution to the CBCJV consisted of its pre-existing interest in the Property, which had a cost amount on the Company’s accounts of \$5,338,517; however, the Company’s 60% joint venture interest was valued at \$16.875 million based on the Parties \$11.25 million cash contribution for a 40% interest. As required under Canadian GAAP, the gain of \$4,614,593 recognized currently by the Company is based on the increase in value of the Company’s investment to the extent of the 40% minority partners’ interest. The Company’s proportionate interest in the assets and liabilities of the CJV at September 30, 2009, consolidated within these financial statements, is as follows:

Cash	\$ 2,206,052
Receivables	100,498
Resource property costs	15,092,900
Property, plant and equipment	14,175
Liabilities	(574,625)
Net investment	<u>\$ 16,839,000</u>

**4. PROPERTY, PLANT AND EQUIPMENT**

	September 30, 2009	December 31, 2008
Land	\$ 50,000	\$ 50,000
Building	33,000	33,000
Equipment – wash plant	850,937	850,937
Equipment – mining	199,204	199,204
Vehicles	15,936	-
	<u>1,149,077</u>	<u>1,133,341</u>
Office equipment	52,136	30,200
Accumulated depreciation	(809,357)	(728,137)
	<u>\$ 391,856</u>	<u>\$ 435,204</u>

**5. RESOURCE PROPERTY**

**a) Raven Coal Deposit**

During 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 funded a total of \$11.25 million which includes: a) a lump sum payment to West Fraser Mills (“WFM”) to complete the purchase of approximately 29,000 hectares of WFM’s freehold coal, mineral and gas interests on Vancouver Island; b) a refund to the Company for two prior option payments made to WFM; and c) a lump sum payment of \$7.0 million to the Comox Joint Venture to fund all of the activities necessary to reach a production decision on the Raven Coal Project. Through this funding, 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”).

**COMPLIANCE ENERGY CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008 (UNAUDITED)**

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**5. RESOURCE PROPERTY (continued)**

The terms of the Joint Venture Agreement (“JVA”) provides 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 Parties are responsible for arranging debt financing for the development of the Raven Coal Project.

Under the terms of the agreement with WFM, the Vancouver Island properties are subject to a \$0.50 per tonne royalty once production is achieved up to a maximum of \$4,000,000. These future royalty payments would be the responsibility of the created joint venture with the Parties. In addition, the Company paid a total of \$175,000 to an independent third party for the acquisition of ground contiguous to the Raven property.

**b) Bear Coal Deposit**

The Bear Coal Deposit consists of 8 coal licenses totaling 2,046 hectares. During 2005, the Company exercised its option to acquire the coal licences that cover 100% of the Bear Coal Deposit. 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. During the quarter, this project was contributed to the Comox Joint Venture. (see also note 3)

**c) Anderson Lake Coal Deposit**

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. Under the terms of the agreement, the Company has paid a total of \$50,000. The property is not subject to a royalty.

**d) 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.

**e) Basin Coal Mine**

The Basin Coal Mine consists of 9 coal licenses covering 2,172 hectares, 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 on all coal sold.

During 2008, the company signed a definitive option agreement (“Agreement”) for consideration of cash and shares totaling Cdn \$8.25 million. Under the terms of the Agreement, NWPC Pty Ltd (“NWPC”), a private Australian company, has agreed to an option to purchase the Company’s interest in the mining agreement under which the Company has the right to mine coal at the Basin Coal Mine as well as all remaining assets of the Mine including the 400,000 tonne per year wash plant for \$4.25 million in cash and 22,222,224 shares of a public Australian Company as follows:

**COMPLIANCE ENERGY CORPORATION**  
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**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008 (UNAUDITED)**

**5. RESOURCE PROPERTY (Continued)**

- a) An option payment of \$150,000 in cash by December 15, 2008 which has been paid.
- b) An option payment of \$1,000,000 in cash and 7,407,408 shares on or before February 6, 2009 which has been paid.
- c) An option exercise payment of \$3,100,000 in cash plus closing adjustments and 7,407,408 shares on or before May 31, 2010 at which time the Company's interest in the mining agreement would transfer.
- d) 7,407,408 shares on or before the earlier of commencement of coal production and May 31, 2012.

NWPC has identified the public Australian Company as Jameson Resources Limited ("Jameson") of Western Australia. Jameson's shares trade on the Australian Exchange under the symbol JAL. The shares of Jameson may be subject to escrow provision as required by the Australian Exchange.

**f) CEC Power Project**

During 2006 the Company has an option to purchase or lease 94 hectares of the former Similco mine where the Company is proposing to build a 56 megawatt power plant on a portion of the leased land ("Core Area") from Copper Mountain Mining Corporation ("CMMC"). Under the terms of the agreement the Company has the option to purchase or lease the Core Area from CMMC for \$1 to July 31, 2011. Also during 2006 the Company entered into a power purchase agreement with BC Hydro regarding the supply of power from a to-be-built 56 MW power plant. The Company and BC Hydro have continued to have discussions regarding the issues surrounding the conversion of the project to a biomass plant.

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

	September 30, 2009	Cumulative to December 31, 2008
Comox Joint Venture		
Formation of joint venture (including valuation adjustment)	\$ 5,893,110	\$ -
Deferred costs	2,560,613	-
 Bear Coal Deposit		
Acquisition	-	215,000
Deferred costs	-	938,087
 Raven Coal Deposit		
Acquisition	-	3,711,200
Deferred costs (net of option payments received)	-	2,449,408
 Wolf Mountain Mine		
Acquisition	50,000	50,000
Deferred costs	36,830	36,518

**COMPLIANCE ENERGY CORPORATION**  
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**FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2009 AND 2008 (UNAUDITED)**

**5. RESOURCE PROPERTY (Continued)**

	Cumulative to	
	September 30,	December 31,
Other Coal Assets		
Acquisition	\$ 50,000	\$ 252,765
Deferred costs	31,897	23,615
Basin Coal Mine		
Deferred costs (net of valuation adjustment)	8,431,897	8,341,763
Less: start-up coal revenue	(7,911,355)	(7,911,355)
Less: option payments received	(1,300,000)	(300,000)
Excess recoveries recorded in operations	779,458	-
CEC Power Project		
Acquisition	-	-
Deferred costs	2,377,539	2,361,986
	\$ 10,999,989	\$ 10,168,987

**6. LONG TERM DEBT**

- (a) On December 31, 2004, the Company purchased the joint venture interests of Sojitz Coal Development Corporation and 4056345 Canada Inc for \$700,000. Under the terms of the agreement, \$420,000 was due immediately and of this amount \$60,000 was paid and \$360,000 was deemed paid during 2005. The remaining \$280,000 is included within long term debt and is non-interest bearing and due to be paid out of 50% of the net cash flow of the Basin Coal Mine after capital requirements, the mine is currently on care and maintenance.
- (b) On November 30, 2008 the Company was advanced \$1,830,000 from the funds placed in escrow during the year by ITOCHU Corporation and LG International Investments (Canada) Ltd in connection with the Company's purchase of approximately 29,000 hectares of WFM's freehold coal, mineral and gas interests on Vancouver Island. Under the terms of the agreement, the funds were advanced interest free and in the event that not all of the titles were transferred to the Comox Joint Venture by March 31, 2009 the Company would be obligated to repay the \$1,830,000 on demand. During the six months ended June 30, 2009 the Company completed the transfer of titles as required under the agreement which eliminated the Company's obligation to repay \$1,830,000. (See also note 5(a).

**7. CAPITAL STOCK**

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

**COMPLIANCE ENERGY CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008 (UNAUDITED)**

**7. CAPITAL STOCK (Continued)**

(b) Issued

	Common Shares	Amount	Contributed Surplus
Issued at December 31, 2008	47,446,783	\$ 16,930,649	\$ 1,104,035
Non-Cash items:			
Stock-based compensation	-	-	27,798
Shares issued for cash	-	-	-
Issued at September 30, 2009	47,446,783	\$ 16,930,649	\$ 1,131,833

(c) Stock Options

As at September 30, 2009, the Company has reserved stock options to directors, officers and employees enabling them to acquire up to 4,605,000 common shares as follows:

	September 30, 2009		December 31, 2008	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
<b>Options outstanding</b>				
Beginning of period	4,480,000	\$ 0.65	4,660,000	\$ 0.70
Granted during year	225,000	\$ 0.11	800,000	0.11
Expired during year	(100,000)	0.84	(980,000)	0.44
End of year	<u>4,605,000</u>	\$ 0.11	<u>4,480,000</u>	\$ 0.65

The weighted-average remaining life of options outstanding at September 30, 2009 is 3.43 years.

Options		
Expiry	Outstanding	Price
Mar-14	775,000	0.11
Feb-13	505,000	0.11
Nov-13	1,500,000	0.11
Feb-15	800,000	0.11
Nov-13	800,000	0.11
Mar - 15	75,000	0.11
May-15	100,000	0.11
May-14	50,000	0.11
	<u>4,605,000</u>	

On April 7, 2009 the Company proposed to extend all of the outstanding options, except for 800,000 options granted November 25, 2008 at an exercise price of \$0.11 per share, by three years and amended the outstanding options exercise prices to \$0.11 per share from prices ranging from \$0.40 to \$0.95 per share. The closing price of the Company's shares on April 6, 2009 was \$0.095 per share. This action was approved by the shareholders at the Company's June 23, 2009 annual general meeting.

**COMPLIANCE ENERGY CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008 (UNAUDITED)**

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**8. 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.

- (a) During the nine months ended September 30, 2009, the Company paid one of its officers management and administration fees aggregating \$45,225 during the period ended September 30, 2009 (period ended September 30, 2008 - \$47,486).
- (b) During the year, the Company repaid the demand loan held by Copper Mountain Mining Corporation. The payment totaled \$441,803 and included \$400,000 of principal and \$41,803 of interest. All interest was accrued to February 13, 2009. The loan was secured by the equivalent value of common shares of CMMC owned by the Company, with the loan bearing an interest rate of prime plus 1%.