



**FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED
JUNE 30, 2003**

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COMPLIANCE ENERGY CORPORATION
FINANCIAL STATEMENTS
For The Six Months Ended June 30, 2003

President's Report

During the quarter, the Company's main focus was the advancement of the Company's wood waste / coal fired power plant project. Early in the quarter the Company announced the positive scoping study results completed by Willis Energy Services of Vancouver. The study indicates viability for the development of a 48 MW wood waste/coal fired power plant near Princeton, British Columbia.

The scoping study's objectives were two fold; first was to provide a preliminary financial assessment of a wood waste/coal fired power plant near Princeton using coal from Compliance's new mine, and second was to identify key factors that would effect the optimization of the power plant.

By using wood waste from the area the project would have positive environmental attributes and would fit the provincial governments recently released Energy Policy that supports the use of coal as an energy source for power generation. The study also noted that new power projects would be required in the Pacific Northwest within the next five years and that wood waste/coal supply costs can be calculated to provide a predictable fuel price as compared to natural gas. By using wood waste from the area the project would have positive environmental attributes and would meet the classification of "Clean Energy" under the provincial governments recently released Energy Policy, while the utilization of Compliance's new coal mine located near Princeton, BC is a natural fit.

Late in the quarter the Company awarded the next phase of the wood waste / coal fired power plant project to Stothert Engineering Ltd. ("Stothert") of Vancouver. Stothert has been engaged to prepare a pre-feasibility study on the wood waste / coal fired power plant project. The Study is expected to be completed early this fall, which will then lead into a bankable feasibility study that will provide the essential framework to allow the Company to obtain financing for the project.

The Company recorded a loss of \$34,406 or nil per share for the three months ended June 30, 2003 as compared to a loss of \$1,571 or nil per share for the three months ended June 30, 2002. As a majority of expenses associated with the development of the Compliance Basin Coal Joint Venture ("CBCJV") have been deferred during the quarter, the Company is only expensing some administrative expenses incurred during the year. The increase in administrative expenses is a function of the Company's increased activity relating to the development of the new mine and to the advancement of the wood waste / coal fired power plant.

Professional fees were \$22,984 for the quarter ended June 30, 2003 as compared to nil expenses for the period ended June 30, 2002. General and Administrative expenses were \$11,758 for the period as compared to \$1,309 for the same period last year. The Company incurred \$5,780 in transfer agent fees and \$4,790 in shareholder communications fees during the three months

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ended June 30, 2003. Minimal expenses were incurred last year as the Company was still looking for it qualifying transactions at that point.

As of June 30, 2003, the Company had working capital of \$130,596 (comprised of \$196,975 of cash, \$117,480 of receivables and prepaid expenses, offset by \$183,859 of liabilities) compared with a working capital of \$259,390 (comprised of \$441,317 of cash, \$139,138 of receivables and prepaid expenses, offset by \$321,065 of liabilities).

The decrease in working capital between December 31, 2002 and June 30, 2003 was principally the result of the Company continuing to develop the Compliance Basin Coal Joint Venture. During the quarter, the Company arranged a 1.55 million unit brokered private placement to raise gross proceeds of \$466,500. Each unit consisted of a common share and one-half of a share purchase warrant, with each full warrant exercisable to acquire an additional common share at a price of \$0.45 per share for one year.

No stock options were exercised during the quarter. The Company plans an additional equity capital financing in 2003 to fund future projects, such as the wood waste / coal fired power plant project.

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. The Company continued with its investor relations activities in the normal course of business.

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

Sincerely,

Jim O'Rourke
Chief Executive Officer
August 29, 2003

COMPLIANCE ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS
AS AT JUNE 30, 2003 AND 2002

	June 30, 2003	December 31, 2002
ASSETS		
Current Assets		
Cash	\$ 196,975	\$ 441,317
Amounts receivable	114,461	136,119
Prepaid expenses	3,019	3,019
	<u>314,455</u>	<u>580,455</u>
Reclamation bonding	65,000	65,000
Resource property	1,061,615	732,397
Capital assets	799,372	599,749
	<u>\$ 2,240,442</u>	<u>\$ 1,977,601</u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 183,859	\$ 321,065
	<u>183,859</u>	<u>321,065</u>
Non-current Liability		
Deferred Gain on Joint Venture Formation	772,471	772,471
SHAREHOLDERS' EQUITY		
Share Capital	1,410,604	920,665
Obligation to issue shares	-	28,250
Deficit	(126,492)	(64,850)
	<u>1,284,112</u>	<u>884,065</u>
	<u>\$ 2,240,442</u>	<u>\$ 1,977,601</u>

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 SIX MONTHS ENDED JUNE 30, 2003 AND 2002

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
REVENUES				
Management fees	\$ 10,500	\$ -	\$ 21,000	\$ -
Interest Income	406	-	406	93
	10,906	-	21,406	93
EXPENSES				
Professional fees	22,984	-	40,484	5,377
General & admin	11,758	1,309	18,527	3,021
Transfer agent & filing fees	5,780	-	11,184	-
Shareholder communications	4,790	262	12,854	262
Net loss before other item	45,312	1,571	83,049	8,660
NET LOSS FOR THE PERIOD	34,406	1,571	61,643	8,567
DEFICIT (RETAINED EARNINGS), BEGINNING OF PERIOD	92,086	(8,434)	64,849	(15,430)
DEFICIT (RETAINED EARNINGS), END OF PERIOD	\$ 126,492	\$ (6,863)	\$ 126,492	\$ (6,863)
LOSS PER SHARE	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

The accompanying notes are an integral part of this financial statement

COMPLIANCE ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
OPERATING ACTIVITIES				
Net loss for the period	\$ (34,406)	\$ (1,571)	\$ (61,643)	\$ (8,567)
Items not involving cash:				
Net change in non-cash working capital items	(38,839)	-	(115,547)	2,630
	(73,245)	(1,571)	(177,190)	(5,937)
INVESTING ACTIVITIES				
Purchase of capital assets	(157,943)	-	(199,623)	
Resource property costs	(224,429)	-	(329,218)	(35,494)
	(382,372)	-	(528,841)	(35,494)
FINANCING ACTIVITIES				
Demand loan (repaid)	-	-	-	20,000
Shares issued for cash	461,689	-	461,689	20,000
	461,689	-	461,689	40,000
INCREASE IN CASH	6,072	(1,571)	(244,342)	(1,431)
CASH, BEGINNING OF PERIOD	190,903	1,754	441,317	1,614
CASH, END OF PERIOD	\$ 196,975	\$ 183	\$ 196,975	\$ 183

The accompanying notes are an integral part of this financial statement

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2003

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. Except as disclosed in note 2, 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, 2002.

These interim period statements 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
Balance at December 31, 2002	16,330,357	\$ 920,665
Shares issued for debt	94,167	28,250
Shares issued for cash	1,555,000	461,689
Issued at June 30, 2003	17,979,524	\$ 1,410,604

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3. CAPITAL STOCK (cont'd)

(c) 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.

(d) Warrants

The Company issued 777,500 share purchase warrants that are exercisable at \$0.45 per share until May 20, 2004 and 300,000 share purchase warrants that are exercisable at \$0.40 per share until February 28, 2004.

(e) Escrowed Shares

Pursuant to the terms of the business combination completed during the year, at March 31, 2003 there are 10,971,248 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.