



**FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2003**

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COMPLIANCE ENERGY CORPORATION
FINANCIAL STATEMENTS
For The Nine Months Ended September 30, 2003

President's Report

During the quarter, the Company continued with the advancement of the Company's wood waste / coal fired power plant project. Early in the year the Company announced the positive scoping study results completed by Willis Energy Services of Vancouver. The study indicated the viability of the development of a 50 MW wood waste/coal fired power plant near Princeton, British Columbia.

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.

During the second quarter the Company engaged Stothert Engineering Ltd. ("Stothert") of Vancouver to prepare with management a pre-feasibility study on the wood waste / coal fired power plant project. The 50 MW power plant would be located close to Compliance's existing coal mining operation near Princeton, BC. This study was completed shortly after the end of the quarter and the Compliance is now moving forward with the next stage of the project which includes: the commencement of permitting, additional investigations regarding capital cost, confirming fuel supplies, and further refinements to certain aspects of the pre-feasibility study that will enable the Company to negotiate potential power sales contracts including bidding on the 2004 BC Hydro energy call.

The Company recorded a loss of \$26,567 or nil per share for the three months ended September 30, 2003 and a loss of \$88,210 or \$0.01 per share for the nine months ended September 30, 2003. This compares to a net income of \$1,571 or nil per share for the three months ended September 30, 2002 and a net income of \$8,567 or nil per share for the nine months ended September 30, 2002. 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 \$21,001 for the quarter ended September 30, 2003 and \$61,485 for the nine months ended September 30, 2003. This compares to nil expenses for the quarter ended September 30, 2002 and \$5,377 for the nine months ended September 30, 2002. General and Administrative expenses were \$1,104 for the quarter ended September 30, 2003 and \$19,631 for

the nine months ended September 30, 2003 as compared to \$1,309 for the quarter ended September 30, 2002 and \$3,021 for the nine months ended September 30, 2002. The Company incurred \$5,269 in transfer agent fees and \$9,693 in shareholder communications fees during the three months ended September 30, 2003 and \$16,453 and \$22,547 respectively for the nine months ended September 30, 2003. This compares to the minimal expenses were incurred last year as the Company was still looking for it qualifying transactions at that point.

As of September 30, 2003, the Company had working capital of \$177,564 (comprised of \$288,320 of cash, \$106,911 of receivables and prepaid expenses, offset by \$217,667 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) at December 31, 2002.

The decrease in working capital between December 31, 2002 and September 30, 2003 was principally the result of the Company continuing to develop the Compliance Basin Coal Joint Venture and the advancement of its wood waste / coal power project. During the quarter, the Company arranged a 1.43 million flow-through common share non-brokered private placement to raise gross proceeds of \$500,000.

No stock options were exercised during the quarter and the Company issued 575,000 stock options to officers and directors of the Company. The Company plans an additional equity capital financing in the near future 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 coal sales by a new producer in the Pacific Northwest thermal coal market may make it difficult to secure the desired sales volumes. 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 of for their interest and support as we move this new energy Company forward.

Sincerely,

Jim O'Rourke
Chief Executive Officer
November 28, 2003

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

	September 30, 2003	December 31, 2002
ASSETS		
Current Assets		
Cash	\$ 288,320	\$ 441,317
Amounts receivable	103,892	136,119
Prepaid expenses	3,019	3,019
	<u>395,231</u>	<u>580,455</u>
Reclamation bonding	65,000	65,000
Resource property	1,366,123	732,397
Capital assets	883,329	599,749
	<u>\$ 2,709,683</u>	<u>\$ 1,977,601</u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 217,667	\$ 321,065
	<u>217,667</u>	<u>321,065</u>
Non-current Liability		
Deferred Gain on Joint Venture Formation	772,471	772,471
SHAREHOLDERS' EQUITY		
Share Capital	1,872,604	920,665
Obligation to issue shares	-	28,250
Deficit	(153,059)	(64,850)
	<u>1,719,545</u>	<u>884,065</u>
	<u>\$ 2,709,683</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 NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
REVENUES				
Management fees	\$ 10,500	\$ -	\$ 31,500	\$ -
Interest Income	-	-	406	93
	10,500	-	31,906	93
EXPENSES				
Professional fees	21,001	-	61,485	5,377
General & admin	1,104	1,309	19,631	3,021
Transfer agent & filing fees	5,269	-	16,453	-
Shareholder communications	9,693	262	22,547	262
Net loss before other item	37,067	1,571	120,116	8,660
NET INCOME (LOSS) FOR THE PERIOD	(26,567)	1,571	(88,210)	8,567
DEFICIT (RETAINED EARNINGS), BEGINNING OF PERIOD	126,492	(8,434)	64,849	(15,430)
DEFICIT (RETAINED EARNINGS), END OF PERIOD	\$ 153,059	\$ (6,863)	\$ 153,059	\$ (6,863)
LOSS PER SHARE	\$ 0.00	\$ 0.00	(\$ 0.01)	\$ 0.00

The accompanying notes are an integral part of this financial statement

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

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
OPERATING ACTIVITIES				
Net loss for the period	\$ (26,567)	\$ (1,571)	\$ (88,210)	\$ (8,567)
Items not involving cash:				
Net change in non-cash working capital items	44,376	-	(71,170)	2,630
	17,809	(1,571)	(159,380)	(5,937)
INVESTING ACTIVITIES				
Purchase of capital assets	(83,957)	-	(283,580)	
Resource property costs	(304,508)	-	(633,726)	(35,494)
	(388,465)	-	(917,306)	(35,494)
FINANCING ACTIVITIES				
Demand loan (repaid)	-	-	-	20,000
Shares issued for cash	462,000	-	923,689	20,000
	462,000	-	923,689	40,000
INCREASE IN CASH	91,344	(1,571)	(152,997)	(1,431)
CASH, BEGINNING OF PERIOD	196,976	1,754	441,317	1,614
CASH, END OF PERIOD	\$ 288,320	\$ 183	\$ 288,320	\$ 183

The accompanying notes are an integral part of this financial statement

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 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	2,983,572	923,689
Issued at September 30, 2003	19,408,096	\$ 1,872,604

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

3. CAPITAL STOCK (cont'd)

(c) Stock Options

The Company has reserved stock options to directors and officers enabling them to acquire up to 710,000 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 or before September 29, 2008.

(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 September 30, 2003 there are 10,393,812 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.