



FINANCIAL STATEMENTS

**FOR THE THREE MONTHS ENDED
MARCH 31, 2009 AND 2008
(UNAUDITED)**

**Suite 550 – 800 West Pender Street
Vancouver, British Columbia 6C 2V6
Ph# 604-689-0489 Fax# 604-681-5910**

FORM 51-102F1
COMPLIANCE ENERGY CORPORATION
(The “Company”)

MANAGEMENT'S DISCUSSION & ANALYSIS (“MD&A”) OF FINANCIAL CONDITION & THE RESULTS OF OPERATIONS FROM THE THREE MONTHS ENDED MARCH 31, 2009.

May 28, 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 three months ended March 31, 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 quarter the Company finalized the creation of a new joint venture, named the Comox Joint Venture (“CJV”), 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. (“the Parties”), to investigate the possibilities of developing the Raven Coal Project on Vancouver Island. In addition, further to the previously announced option agreement for the sale of the mining agreement to mine coal at the Basin Coal Mine, the Company received the \$1,000,000 option payment and 7,407,408 shares of Jameson Resources Limited (“JAL”) under the terms of the option agreement.

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

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 the Parties including: a) a lump sum payment to West Fraser Mills to complete the purchase of approximately 29,000 hectares of WFM’s freehold coal mineral interests on the east side of Vancouver Island, which was completed late last year; 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.

Initial work on the Raven Coal project will include an environmental baseline study, an exploration drilling program, and a bankable feasibility study. The environmental baseline study has commenced and planning is underway for the summer drilling exploration program. The bankable feasibility study will be initiated in the fourth quarter of 2009 once the results of the 2009 exploration program are received. The Comox Joint Venture is targeting to complete the bankable feasibility study and make a production decision, which will be subject to receipt of environmental and mining permits and approvals, by mid-year 2010. As at March 31, 2009 all of the freehold coal and mineral rights had been transferred into the names of the joint venture partners and all of the escrowed funds were released in accordance with the definitive agreements. A total of \$40,210 of expenditures on the property was deferred in the period.

ITOCHU Corporation is a major Japanese trading house and, among other things, has extensive experience in the development of coal mines and the marketing and sale of coal globally and has investments in coal mines in Australia and Indonesia. ITOCHU had annual revenues of \$29 billion

US and Net Income of \$2.2 billion in the fiscal year ended March 2008. LG International Corp. is a leading general trader in Korea with a worldwide overseas branch network and has abundant experience in coal mining development and the marketing and sales of coal worldwide. LG International Corp. has annual revenues of \$5.8 billion US and investments in coal mines in Russia, Australia, and Indonesia.

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. During the quarter the Company 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”) 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. During the quarter the Company deferred \$84,381 in costs on the project.

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, the Company has continued to have discussions with BC Hydro regarding switching the project to be fueled entirely with wood while keeping expenditures on this project to a minimum. The Company and BC Hydro have continued to have discussions regarding the issues surrounding the conversion of the project to a biomass plant. In 2008 the Company hired the Timberline Natural Resource Group (“Timberline”) to complete a wood fuel study for the Princeton region and Timberline’s study indicates that sufficient forest residuals and dead mountain pine beetle killed wood are forecasted to be available in the Princeton region to fuel the plant over its lifetime. Conversion to wood would enable the Project to meet Provincial objectives regarding greenhouse gas emissions and could make the output of the plant eligible to be classified as BC Clean Electricity under BC Government guidelines. The Company will continue to defer all costs associated with this project until discussions between BC Hydro, and the Company has concluded. A total of \$14,281 was incurred on this project during the quarter.

1.4 Results of Operations

For the Three Months Ended March 31, 2009

The Company recorded net income of \$5,293,591 or \$0.11 per share, for the three months ended March 31, 2009. This compares to income of \$472,322 or \$0.01 per share for the three months ended March 31, 2008. A majority of this income is non-cash in nature and is derived from the gain achieved by the Company on the creation of the Comox Joint Venture.

General and Administrative expenses were \$70,046 for the three months ended March 31, 2009 as compared to \$60,558 for the three months ended March 31, 2008. General and Administrative expenses for the period ended March 31, 2009 included Office Wages of \$45,430, Office Rent of \$10,969, Printing & Stationary of \$2,425, Subscription of \$3,400, Office and Miscellaneous expenses of \$4,776, Bank Charges and interest of \$2,490, and Computer and Website expenses of \$556. This compares to Office Wages of \$25,476, Office Rent of \$13,197, Printing and Stationary of \$2,870, Subscriptions of \$2,917, Office and Miscellaneous expenses of \$7,411, and Computer

and Website expenses of \$429 for the three months ended March 31, 2008. The increase in Office Wages is a result of the formation of the Comox Joint Venture. The decrease in office rent is a result of an increase in shared occupancy of the current premises by another company. Professional fees, which include legal and accounting fees, were \$20,075 for the three months ended March 31, 2009 as compared to \$21,297 for the three months ended March 31, 2008. The Company incurred \$8,801 in transfer agent fees and \$1,864 in shareholder communications fees during the three months ended March 31, 2009 as compared to \$7,733 and \$7,148, respectively for the same period last year. The decrease in shareholders communication expenses is a result of the Company decreasing its investor relations activities in the Company until the Comox Joint Venture agreement was finalized.

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 |
|--------------------|---------|-------------------|-------------------------------|---------------------------------------|
| March 31, 2009 | - | \$5,293,591 | \$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) |
| September 30, 2007 | - | (\$90,188) | \$0.00 | \$0.00 |
| June 30, 2007 | - | \$438,402 | \$0.01 | \$0.01 |

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 March 31, 2009, the Company had working capital of \$6,117,813 (comprised of \$5,048,153 cash, \$66,196 of receivables and prepaid expenses, and \$1,178,100 of investments and marketable securities, offset by \$174,636 of accounts payable 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 \$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 be generated from activities on the Comox Joint Venture to fund the environmental baseline study, an exploration drilling

program, and a bankable feasibility study and general and administrative expenses of the Company. Funding of the Comox Joint Venture activities is already in place as part of the initial funding by the Parties on the creation of the Comox Joint Venture. A total of \$7 million was contributed to the Comox Joint Venture by the Parties on the formation of the Joint Venture. Funding requirements in excess of these activities will require additional sources of money, however, this is not anticipated until some time in mid 2010. It is anticipated that these additional sources of money would come from the joint venture partners.

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 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.

The Company could potentially require additional funds for the Basin Coal Mine and the Princeton Power Project depending whether or not the Basin Coal Mine is sold as anticipated and depending on if the Company comes to terms with BC Hydro on the development of the Princeton Power Project. 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 its 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 the Comox Joint Venture partners for expenditures on the Comox Joint Venture, and for Company expenditures it would come from the sale marketable securities that the Company holds for investment purposes, from sale proceeds from the Basin Coal Mine, and from additional debt and equity financed specific to each project. Other than those obligations disclosed in the notes to its audited financial statements for the year ended March 31, 2009, the Company had no material commitments for material capital expenditures as of March 31, 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 \$15,075 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:

- mineral resources and reserves,
- the carrying value of mineral 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

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

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.

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 copper, gold and silver 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 Copper Mountain 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 March 31, 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

COMPLIANCE ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS
AS AT MARCH 31, 2009

| | (Unaudited) March 31, 2009 | (Audited) December 31, 2008 |
|--|----------------------------------|-----------------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash | \$ 5,048,153 | \$ 840,773 |
| Accounts receivable | 44,808 | 30,974 |
| Investments and marketable securities (note 2) | 1,178,100 | 1,293,600 |
| Prepaid expenses | 21,388 | 21,388 |
| | 6,292,449 | 2,186,735 |
| Reclamation bonding | 145,000 | 145,000 |
| Property, plant, and equipment (note 4) | 426,664 | 435,204 |
| Resource property (note 5) | 8,925,278 | 10,168,987 |
| | \$ 15,789,391 | \$ 12,935,926 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable | \$ 174,636 | \$ 231,074 |
| Due to related party (note 8) | - | 438,187 |
| | 174,636 | 669,261 |
| Long-term debt (note 6) | 280,000 | 2,110,000 |
| | 454,636 | 2,779,261 |
| SHAREHOLDERS' EQUITY | | |
| Share Capital (note 7b) | 16,930,649 | 16,930,649 |
| Contributed surplus | 1,104,035 | 1,104,035 |
| Deficit | (3,825,652) | (9,119,243) |
| Accumulated comprehensive income | 1,125,723 | 1,241,224 |
| | 15,334,755 | 10,156,665 |
| | \$ 15,789,391 | \$ 12,935,926 |

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 THREE MONTHS ENDED MARCH 31, 2009 AND 2008

| | (Unaudited) March 31, 2009 | (Unaudited) March 31, 2008 |
|--|----------------------------------|----------------------------------|
| EXPENSES | | |
| Amortization | \$ 1,899 | \$ 1,337 |
| Professional fees | 20,075 | 21,297 |
| General & admin | 70,046 | 60,558 |
| Shareholder communications | 1,864 | 7,148 |
| Transfer agent & filing fees | 8,801 | 7,733 |
| Travel | 236 | 615 |
| Loss before other items | 102,921 | 98,688 |
| Other items: | | |
| Interest income | 4,529 | 1,546 |
| Excess recoveries recorded in operations | 777,390 | - |
| Valuation gain on formation of Comox Joint Venture | 4,614,593 | - |
| Gain on sale of investments | - | 569,464 |
| Total Other items | 5,396,512 | 571,010 |
| NET INCOME FOR THE PERIOD | 5,293,591 | 472,322 |
| (DEFICIT), BEGINNING OF PERIOD | (9,119,243) | (9,465,161) |
| (DEFICIT), END OF PERIOD | \$ (3,825,652) | \$ (8,992,839) |
| INCOME PER SHARE | \$ 0.11 | \$ 0.01 |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | 47,466,783 | 47,446,783 |

The accompanying notes are an integral part of this financial statement

COMPLIANCE ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| | Share Capital | | Deficit | Contributed Surplus | Accumulated Other Comprehensive Income | Total Shareholder's Equity |
|--|-------------------|----------------------|-----------------------|------------------------|---|----------------------------------|
| | No. of Shares | Amount | | | | |
| | (Note 9(b)) | | | (Note 9(b)) | (Note 3) | |
| Balance December 31, 2007 | 47,446,783 | \$ 16,930,649 | \$ (9,465,161) | \$ 1,057,916 | \$ 552,000 | \$ 9,075,404 |
| 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 | - |
| Balance, December 31, 2008 | 47,446,783 | \$ 16,930,649 | \$ (9,119,243) | \$ 1,104,035 | \$ 1,241,224 | \$ 10,156,665 |
| Net income for the period | - | - | 5,293,591 | - | - | 5,293,591 |
| Other comprehensive income: | | | | | | |
| Unrealized gains (loss) on marketable securities | - | - | - | - | (115,501) | |
| Realized gains on marketable securities | | | | | - | (115,501) |
| Comprehensive income | | | | | | 5,178,090 |
| Stock-based compensation | | | | - | | - |
| | - | - | 5,293,591 | - | (115,501) | - |
| Balance March 31, 2009 | 47,446,783 | \$ 16,930,649 | \$ (3,825,652) | \$ 1,104,035 | \$ 1,125,723 | \$ 15,334,755 |
| | | | (A) | | (A) | |

(A) Total deficit and accumulated other comprehensive income at March 31, 2008 was \$(8,265,781).

The accompanying notes are an integral part of these financial statements

COMPLIANCE ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008

| | (Unaudited) | (Unaudited) |
|--|-------------------|-------------------|
| | March 31, 2009 | March 31, 2008 |
| OPERATING ACTIVITIES | | |
| Net income (loss) for the period | \$ 5,293,591 | \$ 472,322 |
| Items not involving cash: | | |
| Amortization | 1,899 | 1,337 |
| Gain on sale of marketable securities | - | (569,464) |
| Gain on creation of JV | (4,614,593) | - |
| Net change in non-cash working capital items | (207,200) | 1,711 |
| | 473,698 | (94,094) |
| INVESTING ACTIVITIES | | |
| Redemption of reclamation bond | - | 50,000 |
| Resource property option payment | - | (600,000) |
| Proceeds on sale of marketable securities (net) | - | 572,464 |
| Sale (purchase) of property, plant and equipment | (18,901) | - |
| Resource property costs (net) | 820,770 | (168,498) |
| | 801,869 | (146,034) |
| FINANCING ACTIVITIES | | |
| Option payment received | 1,000,000 | 600,000 |
| Advance (Re-payment) of demand loan | (438,187) | - |
| Share of cash received on joint venture creation | 4,200,000 | - |
| Long term debt (repaid) | (1,830,000) | - |
| Shares issued for cash (net) | - | - |
| | 2,931,813 | 600,000 |
| INCREASE (DECREASE) IN CASH | 4,207,380 | 359,872 |
| CASH, BEGINNING OF PERIOD | 840,773 | 79,090 |
| CASH, END OF PERIOD | \$ 5,048,153 | \$ 438,962 |

Supplementary disclosures

During the three months ended March 31, 2009, the Company:

- Deferred \$25,542 in amortization expenses
- \$132,482 of accounts payable relates to resource property

During the three months ended March 31, 2008, the Company:

- Deferred \$46,412 in amortization expenses
- \$32,426 of accounts payable relates to resource property
- Accrued interest expenses of \$6,750 in connection with a demand loan from a related party.

The accompanying notes are an integral part of this financial statement

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 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 March 31, 2009, the Company reported income of \$4,516,202 and an accumulated deficit of \$4,603,041 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, the Company has secured funding in the amount of \$7 million by way of the creation of the Comox Joint Venture ("CJV"), which enables 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 March 31, 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 \$0.51 per share, or an aggregate of \$1,178,100. 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.

| | March 31, 2009 | December 31, 2008 |
|-------------------------------|-------------------|----------------------|
| Investment in Copper Mountain | \$ 1,178,100 | \$ 1,293,600 |
| Total | \$ 1,178,100 | \$ 1,293,600 |

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008 (UNAUDITED)

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 March 31, 2009, consolidated within these financial statements, is as follows:

| | |
|-------------------------------|----------------------|
| Cash | \$ 4,178,348 |
| Receivables | 1,633 |
| Resource Property Costs | 12,714,950 |
| Property, Plant and Equipment | 7,800 |
| Liabilities | <u>(27,731)</u> |
| Net investment | <u>\$ 16,875,000</u> |

4. PROPERTY, PLANT AND EQUIPMENT

| | March 31, 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 | 7,800 | - |
| | <u>1,140,941</u> | <u>1,133,341</u> |
| Office equipment | 41,301 | 30,200 |
| Accumulated Depreciation | <u>(755,578)</u> | <u>(728,137)</u> |
| | <u>\$426,664</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 THREE MONTHS ENDED MARCH 31, 2009 AND 2008 (UNAUDITED)

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 and 5b)

c) Anderson Lake Coal Deposit

During 2005, 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 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
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 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:

| | March 31, 2009 | Cumulative to December 31, 2008 |
|---|-------------------|---------------------------------------|
| Comox Joint Venture | | |
| Formation of Joint Venture (including valuation adjustment) | 6,422,283 | - |
| Deferred Costs | 40,210 | - |
| 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 | 36,518 | 36,518 |

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008 (UNAUDITED)

5. RESOURCE PROPERTY (Continued)

| | Cumulative to | |
|--|---------------|---------------|
| | March 31, | December 31, |
| Other Coal Assets | | |
| Acquisition | \$ - | \$ 252,765 |
| Deferred Costs | - | 23,615 |
| Basin Coal Mine | | |
| Deferred Costs (net of valuation adjustment) | 8,433,965 | 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 | 777,390 | - |
| | | |
| CEC Power Project | | |
| Acquisition | - | - |
| Deferred Costs | 2,376,267 | 2,361,986 |
| | \$ 8,925,278 | \$ 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 quarter 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 4(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 THREE MONTHS ENDED MARCH 31, 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 | \$ 1,057,916 |
| Shares issued for cash | - | - | - |
| Issued at March 31, 2009 | 47,446,783 | \$ 16,930,649 | \$ 1,057,916 |

(c) Stock Options

As at March 31, 2009, the Company has reserved stock options to directors, officers and employees enabling them to acquire up to 4,480,000 common shares as follows:

| | March 31, 2009 | | December 31, 2008 | |
|----------------------------|---------------------|---------------------------------------|----------------------|---------------------------------------|
| | Number of shares | Weighted average exercise price | Number of shares | Weighted average exercise price |
| Options outstanding | | | | |
| Beginning of period | 4,480,000 | \$ 0.65 | 4,660,000 | \$ 0.70 |
| Granted during year | - | - | 800,000 | 0.11 |
| Expired during year | - | - | (980,000) | 0.44 |
| End of year | 4,480,000 | \$ 0.65 | 4,480,000 | \$ 0.65 |

The weighted-average remaining life of options outstanding at March 31, 2009 is 1.60 years.

| | Options | |
|--------|-------------|-------|
| Expiry | Outstanding | Price |
| Mar-11 | 775,000 | 0.76 |
| Feb-10 | 605,000 | 0.84 |
| Nov-10 | 1,500,000 | 0.95 |
| Feb-12 | 800,000 | 0.40 |
| Nov-13 | 800,000 | 0.11 |
| | 4,480,000 | |

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 quarter, the Company paid one of its officers management and administration fees aggregating \$15,075 during the period ended March 31, 2009 (period ended March 31, 2008 - \$15,075).
- (b) During the quarter, 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%.