

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

**MANAGEMENT'S DISCUSSION & ANALYSIS (“MD&A”) OF FINANCIAL CONDITION  
& THE RESULTS OF OPERATIONS FROM THE YEAR ENDED DECEMBER 31, 2008**

March 31, 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 audited consolidated financial statements and the related notes contained therein for the years ended December 31, 2008 and December 31, 2007. 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 2008, the Company signed definitive agreements with West Fraser Mills Ltd. (“WFM”) and 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 complete the purchase of approximately 29,000 hectares of WFM’s freehold coal, mineral, and gas interests on Vancouver Island and to provide the funding necessary to reach a production decision on its Raven Coal Project. In addition, during the year the Company signed an option agreement for the sale of the mining agreement under which the Company has the right to mine coal at the Basin Coal Mine as well as all of the remaining assets of the Mine including the 400,000 tonne per year wash plant for cash and shares totaling Cdn \$8.25 million. The Company continues to have discussions with BC Hydro regarding the Company’s proposed power project located near Princeton, BC, however, to date the Company has not been able to conclude an agreement with BC Hydro.

### 1.21 Projects

#### **Raven Coal Project**

During the year, the definitive agreements signed 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”) provided for the creation of a new joint venture named the Comox Joint Venture to investigate the possibilities of developing the Raven Coal Project located 80 km northwest of Nanaimo, BC. Under the terms of the agreement the Company and the Parties planned to formed a joint venture with the Parties funding a total of \$11.25 million 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 and gas interests on the east side of Vancouver Island, which was completed prior to year end; 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 these funding payments, the Parties will earn 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 (collectively the “Comox Basin Holdings”). 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 are the responsibility of the joint venture.

The definitive agreements included a detailed Joint Venture Agreement (“JVA”) term sheet (“JVA Term Sheet”) that provides for the Company 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 JVA Term Sheet contemplates that subject to satisfactory results of a feasibility study and approval by the Parties’ Boards of Directors, the Parties would provide debt financing or arrange debt financing for

the development of the Raven Coal Project. During 2008 the Parties placed in escrow a total of \$10.65 million to satisfy the definitive agreement requirements outlined above. As at March 31, 2009, a total of \$600,000 remained in escrow and a majority of the freehold coal and mineral rights have been transferred into the names of the joint venture partners. Once the remaining freehold coal mineral rights have been transferred, the remaining funds in escrow will be released. A total of \$683,430 of expenditures on the property was deferred in the year including a \$600,000 option payment.

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 \$22 billion US and Net Income of \$1.5 billion in the fiscal year ended March 2007. 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 remained on care and maintenance for most of the year, with the exception of a six week period in which the Company mined 25,171 tonnes of raw coal for the sale to a leading cement producer for total proceeds of \$1.1 million. During the year, the Company also signed a definitive option agreement (“Option Agreement”) for the sale of the Basin Coal Mine 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 \$4 million in shares of Jameson Resources Limited (“JAL”) a public Australian Company. Subsequent to December 31, 2008 the Company received an option payment of \$1,000,000 in cash and 7,407,408 shares of JAL which 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, the Company has continued to have discussions with BC Hydro regarding switching the project to be fueled entirely with wood. 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 \$107,820 was incurred on this project during the year.

### 1.3 Selected Annual Information

The following table represents selected annual financial information derived from the Company's financial statements for each of the three most recently completed financial years and should be read in conjunction with the consolidated financial statements.

	Dec 31 2008	Dec 31 2007	Dec 31 2006
Gross Revenue	Nil	Nil	Nil
Net income (loss)	\$345,918	\$1,363,307	(\$9,290,785)
Basic & diluted loss per share	\$0.01	\$0.03	(\$0.22)
Total assets	\$12,935,926	\$10,023,774	\$13,074,579
Long-Term debt	\$2,110,000	\$280,000	\$727,354
Cash dividends per share	\$0.00	\$0.00	\$0.00

The decrease in net income during the current year over the prior year is attributable to the Company selling some marketable securities in 2007 and realizing a gain of \$1.2 million.

### 1.4 Results of Operations

#### **For the Three Months Ended December 31, 2008**

The Company recorded a net income of \$164,006 or \$0.00 per share, for the three months ended December 31, 2008. This compares to a loss of \$227,642 or \$0.01 per share for the three months ended December 31, 2007.

General and Administrative expenses were \$75,899 for the three months ended December 31, 2008 as compared to \$74,884 for the three months ended December 31, 2007. Professional fees were \$31,837 for the three months ended December 31, 2008 as compared to \$22,246 for the three months ended December 31, 2007. The Company incurred \$1,231 in transfer agent fees and \$7,673 in shareholder communications fees during the three months ended December 31, 2008 as compared to \$1,359 and \$6,323, respectively for the same period last year. The decrease in shareholders communication expenses is a result of the Company decreasing its activities surrounding the development of the power project and the Basin Coal project. The Company incurred stock-based compensation expense of \$46,119 for the three months ended December 31, 2008 as compared to \$121,576 for the same period last year. The options expensed during the period were valued using the Black-Scholes Option Pricing Model.

#### **For The Year Ended December 31, 2008**

The Company recorded net income of \$345,918 or \$0.01 per share, for the year ended December 31, 2008. Compared to net income of \$1,363,307 or \$0.03 per share in 2007. Net income included a gain of \$800,225 from the sale of shares of Copper Mountain Mining Corporation (TSX: CUM) as compared to a gain \$1,236,233 from the sale of shares of Copper Mountain Mining Corporation, and a one time future income tax recovery, resulting from renouncing expenses from issuing flow-through shares, totaling \$545,920 in 2007.

General and Administrative expenses were \$250,566 for the year ended December 31, 2008 as compared to \$239,300 for the year ended December 31, 2007. General and Administrative were made up of; \$97,189 of office wages, \$39,559 of bank and interest charges, \$1,625 of computer and web site expenses, \$13,242 office expenses, \$52,938 office rent, \$17,186 printing and stationary, \$10,600 in insurance costs and \$18,227 miscellaneous. This compares to general and administrative charges for the year ended December 31, 2007 as follows: \$146,603 of office wages, \$1,655 of bank and interest charges, \$6,204 of computer and web site expenses, \$13,955 office expenses, \$27,568 office rent, \$8,215 printing and stationary, \$11,100 in insurance costs and \$24,000 miscellaneous.

Professional fees were \$96,811 for the year ended December 31, 2008 as compared to \$84,458 for the year ended December 31, 2007. The Company incurred \$23,467 in transfer agent fees and \$33,375 in shareholder communications fees during the year ended December 31, 2008 as compared to \$17,884 and \$65,090, respectively for the same period last year. The decrease in shareholders communication expenses is a result of the Company decreasing its activities surrounding the development of the power project and the Basin Coal project.

## 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
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	\$0.00
December 31, 2007	-	(\$227,642)	(\$0.03)	\$(0.00)
September 30, 2007	-	\$(90,188)	\$0.00	\$0.00
June 30, 2007	-	\$438,402	\$0.01	\$0.01
March 31, 2007	-	\$1,242,735	\$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 2007. During the first quarter of 2007, the Company sold 1.25 million common shares of Copper Mountain and realized a gain of \$1,269,233.

## 1.6 Liquidity and Capital Resources

As at December 31, 2008, the Company had working capital of \$1,517,474 (comprised of \$840,773 cash, \$52,362 of receivables and prepaid expenses, and \$1,293,600 of investments and marketable securities, offset by \$231,074 of accounts payable and \$438,187 due to a related party) compared with working capital of \$41,645 (comprised of \$79,090 of cash, \$43,925 of receivables, prepaid expenses and \$587,000 of investments and marketable securities and offset by \$668,370 of liabilities) at December 31, 2007. The increase in working capital is primarily attributable to: 1) the

receipt of \$1.25 million from the sale of Copper Mountain Mining (“Copper”) shares during 2007, and 2) the adoption of the new CICA handbook sections 1530, and 3855 accounting standards for financial instruments whereby changes in the fair value of marketable securities are recorded in the Company’s financial statements in each reporting period. (See note 3 of the audited consolidated financial statements for more information.)

The current cash requirements for the Company on its Princeton Power Project and any proposed exploration program on the Raven Coal Deposit on Vancouver Island will require additional sources of money. It is anticipated that these additional sources of money would come from: the proposed joint venture arrangement on the Raven Project with ITOCHU Corporation and LG International, from the sale of additional Copper Mountain common shares, and from additional debt and equity financed specific to each project.

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 will continue to require funds and as a result, will have to continue to rely on 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 current cash requirements for the Company on its projects will require additional sources of money. It is anticipated that these additional sources of money would come from the initial funding of the newly created Comox joint venture with ITOCHU Corporation and LG International, from the sale of additional Copper Mountain common shares if required, 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 December 31, 2008, the Company had no material commitments for material capital expenditures as of December 31, 2008.

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

None

## **1.9 Transactions with Related Parties**

During the year, 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 \$60,300 to a private company controlled by a director and officer of the Company and paid consulting fees of \$2,516 to a private company controlled by a director of the Company in connection with the Raven Coal Project. During the year ended December 31, 2007, the Company borrowed \$600,000 from Copper Mountain Mining Corporation (“Copper”) as a demand loan secured by the equivalent value of common shares of the Copper owned by the Company, with the loan bearing an interest rate of prime plus 1%. On March 13, 2008 the demand loan was repaid.

On January 30, 2008, the Company borrowed an additional \$600,000 from Copper as a demand loan 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%. On December 18, 2008 the Company repaid \$200,000 of the demand loan to Copper. As at December 31, 2008 the balance outstanding was \$438,187 which included \$400,000 of principal and \$38,187 of interest. Copper is a public company, listed on the TSX and related by certain common directors and officers, and at December 31, 2008 the Company owned 2,310,000 common shares of Copper. Subsequent to the end of the year the loan to Copper was repaid in full.

#### **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](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 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 December 31, 2008. 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)