

Fundamental

Research Corp.

Investment Analysis for Intelligent Investors

Siddharth Rajeev, B.Tech, MBA
Analyst

Vincent Weber, B.Sc
Research Associate

Kevin Liu, BBA, BSc
Research Associate

Ahzaz Shah, B.Tech
Research Associate

June 4, 2009

Compliance Energy Corporation (TSXV: CEC) - Initiating Coverage – Significant Holdings in the Comox Coal Basin, Vancouver Island

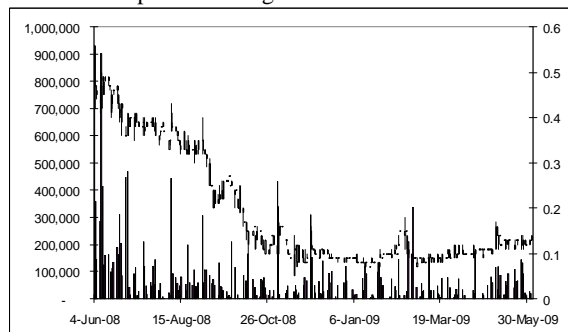
Sector/Industry: Junior Mining

www.complianceenergy.com

Market Data (as of June 4, 2009)

Current Price	\$0.13
Fair Value	C\$1.30
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	\$0.05 - \$0.56
Shares O/S	47.45 mm
Market Cap	\$6.17 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	0.40
YoY Return	-72.3%
YTD TSXV	-58.0%

*see back of report for rating and risk definitions



Investment Highlights

- Compliance Energy Corp. (“Compliance”, “CEC”, “the company”) is a Vancouver, British Columbia based coal exploration company developing the Raven Underground Coal Deposit in the Comox Coal Basin on Vancouver Island, BC, Canada.
- A recently signed joint venture with Itochu Corp. and LG International provides a significant source for financial assistance in developing the project. The company holds 60% interest in the project and will be the manager and operator of any future operating mine.
- The Raven Underground Coal Deposit currently has resources of 39.1 million tonnes measured and indicated, and 59 million tonnes inferred.
- Significant potential exists for resource expansion throughout the rest of the company’s 31,000 hectare Comox Coal Basin Holdings.
- A 15,000 meter drill program commenced in late May.
- The company has entered a definitive option agreement to sell 100% of its interest in the Basin Coal Mine.
- The company holds 2.3 million shares (7.3% of the outstanding shares) in Copper Mountain Mining Corporation (TSX: CUM).
- We estimate the total value of CEC’s working capital (which alone accounts for \$0.12 per share), potential future option payments from Jameson Resources (JAL), and the market values of CUM and JAL shares currently held by the company is about \$0.34 per share. This implies that not only does the market not assign any value to any of the company’s projects, but also does not fully value the company’s liquid assets such as working capital, CUM and JAL shares, and future option payments from JAL.

Risks

- Our fair value estimate depends on long-term coal prices.
- The value of the company is dependent on the success of drilling, expansion, and determination of favorable resource estimates.
- Like any other junior mining company, access to capital and share dilution are key risk factors.

Key Financial Data (FYE - December 31)

(C \$)	2007	2008	2009 (3 mo)
Cash + Marketable Securities	666,090	2,134,373	6,226,253
Working Capital	41,645	1,517,474	6,117,813
Mineral Assets	8,498,245	10,168,987	8,925,278
Total Assets	10,023,774	12,935,926	15,789,391
Long Term Debt	280,000	2,110,000	280,000
Net Profits	1,363,307	345,918	5,293,591
EPS	0.03	0.01	0.11

Compliance Energy Corporation is currently developing the Raven Coal Project on Vancouver Island, British Columbia. The project has resources of 39.1 million tonnes measured and indicated, and 59 million tonnes inferred. The company recently signed a joint venture to aid in project development.

**Company
Overview**

Compliance Energy Corporation is a TSX Venture-listed Canadian junior exploration company based in Vancouver, British Columbia. The primary objective of Compliance is to be a significant coal producer within the Comox Coal Basin on Vancouver Island, British Columbia. Compliance's main properties are its approximately 29,000 hectares of freehold coal and mineral interests which were acquired from West Fraser Mills ("WFM"; TSX: WFT) in 2008, and 2,046 hectares of Crown Coal licenses in the Comox Coal Basin (collectively called the "Comox Coal Basin Holdings"). Through the Comox Joint Venture agreement, Compliance owns 60% interest, and Itochu and LG International each own 20%. While the Comox Coal Basin Holdings have substantial exploration potential, the Comox Joint Venture (see below) is focused on developing the Raven Underground Coal Deposit and nearby Bear Coal Deposit.

In addition to 60% interest in coal and mineral rights, the company holds freehold rights or has the crown license application rights to 100% of the gas interests over the same 29,000 hectares.

Compliance has entered into an option agreement with NWPC Pty Ltd. ("NWPC"), a private Australian company, and Jameson Resources Ltd. ("JAL" ASX: JAL), whereby Jameson can purchase Compliance's 100% interest in the Basin Coal Mine for consideration of cash and shares totaling \$8.25 million. In early 2009, Jameson acquired 100% of the share capital of NWPC. The Basin Coal Mine is located near the town of Princeton, B.C.

Compliance is also in discussions with B.C. Hydro to develop a wood waste power project located near Princeton, B.C. The project will be fuelled entirely by wood from the Princeton region. The Timberline Natural Resource Group has completed wood fuel studies which show there is ample fuel for a 30 year plant life.

**Corporate
History**

The company was incorporated on July 6, 2000, and changed its name to Beanstalk Capital Corporation on July 27, 2000. On May 7, 2002, the company announced that it had entered into an agreement to acquire all of the issued and outstanding shares of Compliance Coal Corporation, a private company based in Vancouver, B.C. On August 30, 2002, the company completed the acquisition of Compliance Coal Corporation, and as part of the acquisition, Beanstalk changed its name to "Compliance Energy Corporation."

**Comox Joint
Venture**

In February 2009, Compliance Coal Corporation, a wholly owned subsidiary of the company; I-Comox Coal Inc., a wholly owned subsidiary of ITOCHU Corporation ("Itochu"; TSE: 8001); and LG International Investments (Canada) Ltd., a wholly owned subsidiary of LG International Corp. ("LGI"; KOSE: A001120), finalized Joint Venture, Management and Operation Services, and Marketing Services Agreements for the jointly held Comox Coal Basin coal and mineral holdings. The joint venture, called the Comox Joint Venture ("CJV"), entitles the company, ICC and LGI, to the following:

- *Coal and Minerals ownership – 60% Compliance, 20% ICC, 20% LGI*

In order to earn their respective 20% interests, Itochu and LGI have provided a total of \$11.25 million in funding utilized as listed in the next section.

- I. \$3.05 million lump sum payment to purchase the 29,000 hectares of freehold coal and mineral interests from WFM.
- II. \$0.6 million to reimburse the company for two prior option payments made to WFM.
- III. \$7.0 million goes directly to the CJV to fund the work required to reach a production decision on the Raven Coal Project.

The freehold Comox Coal Basin Holdings are subject to a \$0.50 per tonne royalty once production is achieved up to a maximum of \$4 million. The Bear Coal Project has a royalty of 2.5% of coal sales FOB mine site. Royalty payments are the responsibility of the CJV.

Under the joint venture agreement, the company is to be the Manager and Operator of any joint venture mining project located within the Comox Coal Basin Holdings while Itochu and LGI have exclusive global marketing rights to sell any coal produced. Subject to a satisfactory feasibility study, the joint venture agreement stipulates that Itochu and LGI will provide debt financing or arrange debt financing for the development of the Raven Coal Project.

Several positive aspects of the joint venture stand out to us:

- Itochu and LGI are providing 40% of the capital to develop the Raven Coal Project. The perceived financial support that comes with such sizeable partners is a huge asset in the current mineral resource atmosphere. It reflects very positively upon the company and management of Compliance to attract such large partners.
- Additionally, both Itochu and LGI have backgrounds in trading commodities and have experience developing coal projects. In fact, Itochu has been involved in the development of other Canadian based coal projects.

In general, we believe the interest of such large partners shows the quality of the Comox Coal Basin Holdings.

Itochu Corporation & LG International

Itochu 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. It has investments in coal mines in Australia and Indonesia. Itochu had annual revenues of US\$35 billion, and net income of US\$1.7 billion in the fiscal year ended March 2009.

LGI 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 sale of coal worldwide. LGI had annual revenues of US\$8.9 billion in 2008, and has investments in coal mines in Russia, Australia, and Indonesia.

It is important to note that the substantial land position held by the company gives them significant control of the Comox coal basin.

A permit for exploration has been granted and subject to further permitting, the company has the right to develop and mine the coal from the Raven Coal Project. Surface rights over the property are held by timber companies. The JV has access rights to the surface emanating from historical agreements with the land owners. We anticipate the company will have to negotiate compensation for use of its surface with the timber companies should the property be taken into mining operations.

Comox Coal Basin Holdings

Overview: The company's Comox Coal Basin land holdings total approximately 29,000 hectares of freehold coal and mineral interests, and 2,046 hectares of Crown Coal licenses which include the Raven Underground Coal Deposit and the Bear Coal Deposit.

The company has had an interest in the property since 2005, when it entered into an option agreement with West Fraser Mills to earn 100% interest in WFM's Vancouver Island coal and mineral holdings (referred to as the Comox Coal Basin Holdings under the CJV). In 2008, the company, along with its joint venture partners, exercised its option with WFM for their Comox Coal Basin Holdings.

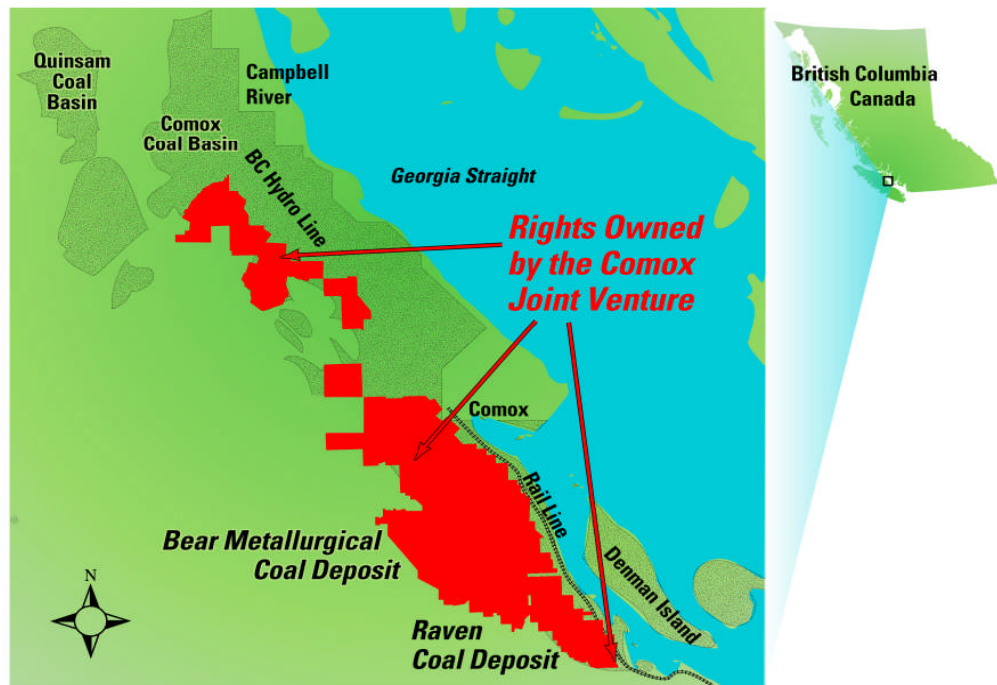


Figure 1: The company's Comox Coal Basin Holdings are located on eastern Vancouver Island. (Source: Compliance Energy Corporation)

Bear Coal Project: The Bear Coal Project consists of 8 coal licenses totaling 2,046 hectares. During 2005, the company exercised its option to acquire coal leases 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.

Under the CJV, Compliance has a 60% interest in the Bear Coal Project which is approximately 10 km to the northwest of the Raven Project. The Bear Project has a non NI 43-101 compliant metallurgical coal resource of 8.5 million tonnes, of which 5.0 million tonnes would be amenable to open pit mining methods.

While the current focus of the CJV is to develop the Raven Coal Project, the Bear Coal Project represents an important source for resource expansion as raw coal could be processed at Raven.

Raven Underground Coal Project: The current focus of the CJV is the development of the Raven Underground Coal Deposit which covers an area of 3,100 hectares and has an NI 43-101 compliant resource estimate of 39.1 million tonnes measured and indicated, and 59 million tonnes inferred in two coal seams (as reported by O.R. Cullingham Resource Consultants Ltd. in its NI 43-101 compliant resource report issued in 2007). Development is supported by the recently finalized joint venture between Compliance, Itochu and LG International, which provides funding to complete a bankable feasibility study on the project.

The coal is classified as high volatile A Bituminous and is suitable for targeting the metallurgical coal market as a blend product or the thermal coal market. The company completed a positive preliminary assessment report on the Raven Coal Project in late 2007.

Location/Accessibility

The Raven Coal Project is located at the southern end of the Comox Basin on eastern Vancouver Island, and is part of the Tsable River coal field. The project area is within the Nanaimo Mining Division and the Nanaimo, Nelson and Newcastle Land Districts.

The deposit is situated approximately 80 km northwest from Nanaimo, B.C. and approximately 60 km southeast of the currently producing Quinsam Coal Mine operated by Hillsborough Resources Ltd. ("Hillsborough" TSX: HLB). Several past producing coal mines can be found from as near as 2 km, and up to 20 km of the deposit near Cumberland B.C.

As coal is an internationally used commodity, the project will benefit from its proximity to shipping ports such as Port Alberni located approximately 80 km to the southwest. Port Alberni has a deep sea port capable of handling Panamax size vessels, and has all the necessary shore services required for international and coastal trade. However, it will require some modifications to the port to enable it to load coal. The deposit is also located two kilometers from the main Island Highway and the E&N Railway.

Historic Exploration/Production

The project area has seen considerable exploration and development work dating back to the late 1800's. Significant drilling completed since 1905 by various entities is summarized in Table 1 below. In the 1990's, Hillsborough, who was optioning the properties from West Fraser, defined a mineable coal resource and prepared an internal pre-feasibility study with the intent of opening an underground mine. In 2002, Hillsborough's option on the property expired and the company relinquished the property in order to focus capital on its already producing Quinsam mine.

Table 1: Historic Drilling Completed on the Raven Coal Project

Entity	Year	# Drillholes	Metres Drilled
Canadian Collieries (Dunsmuir)	1905-1957	61	7,576
Weldwood	1975	10	1,750
Brinco/Hillsborough	1990/91	20	3,614
	1996/97	32	7,313
	2001	5	880

(Source: Compliance Energy Corporation)

The company itself began exploring the property in 2006, completing: 12 core holes totaling 2,850 metres; 21 line kilometers of high resolution reflection seismic, and; the extraction of a bulk sample. Through the company's exploration efforts, coal resources outlined in the deposit have been increased by approximately 200%.

Geology and Mineralization

The Nanaimo Group, which underlies the low-lying east coast of Vancouver Island (and thus the company's property) and the Gulf Islands, hosts several coal formations. Within the Nanaimo Group, and the project area itself, the Comox Formation is the most significant assemblage, hosting five identified coal seams. On a regional scale, the Comox Formation dips at 10 to 15 degrees to the northeast with locally increased dips of 25 to 20 degrees due to broad folds, thrusts and normal faults. Intrinsically, the coal seams dip at 10 to 15 degrees with outcropping on the western portion of the property.

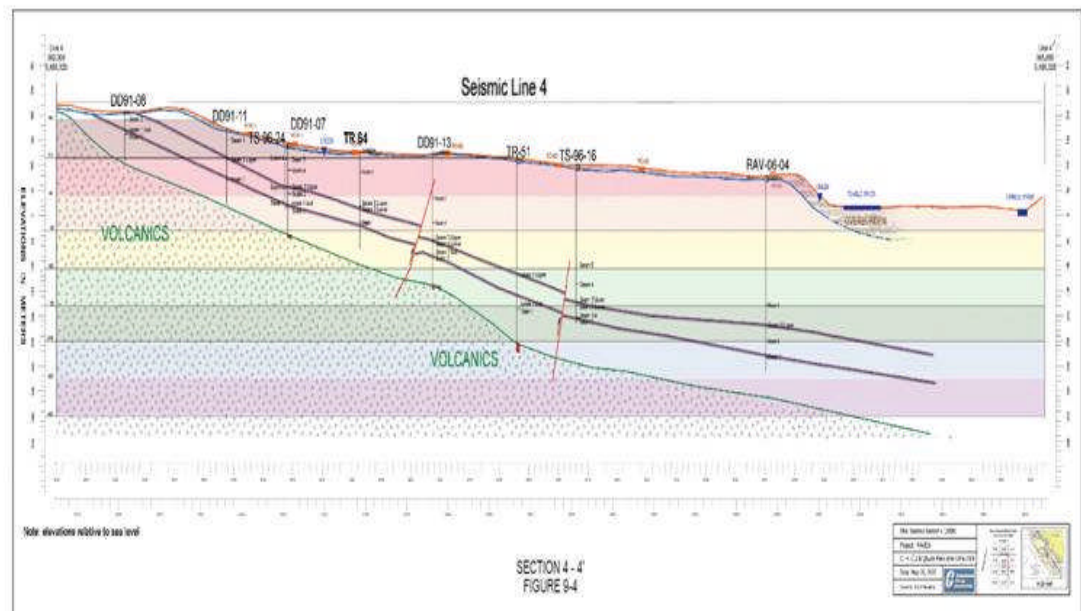


Figure 2: Cross section of seismic line 4 showing coal seams 1 (lower seam) and 3.

Two of the five identified coal seams, Seam 1 and Seam 3, are considered to be of the most economic interest. Seam 1 is the lowermost seam. It has rapidly varying thickness and raw coal quality over relatively short distances, but generally ranges in thickness between 2.5 and

3.0 metres. Seam 3 occurs as two coal plies with the upper ply ranging in thickness from 1.0 to 1.6 metres.

By Geological Survey of Canada Paper 88-21 standards, seam geometry of the Raven deposit is considered “moderate” bordering on “complex.” This is based on the low bedding inclination, and presence of folds and faults.

It is critical to note that a deposit being deemed moderate or complex merely reflects a classification determined through geological interpretation and is not the deciding factor in the economic viability of such a deposit. We do however believe that a) successful delineation of structure and b) adequate identification of variations in raw coal quality are critical factors in taking this project to production. The company should be able to successfully complete this task with the a) use of advanced technologies such as high resolution seismic and b) through additional coring and sampling.

Metallurgy

In the report *Preliminary Assessment of an Underground Mining Operation on Compliance Energy Corporation’s Raven Coal Deposit, Tsable River, Vancouver Island BC*, Associated Geosciences Ltd. determined that either a metallurgical or thermal coal product can be produced from the Raven material. **The company will have to decide whether it will produce a metallurgical coal product or a thermal coal product, a decision which we anticipate will be determined in the bankable feasibility study.**

Table 2 summarizes the anticipated product specifications following crushing and washing, for both a metallurgical product and a thermal product, as determined by Associated Geosciences Ltd.

Table 2: Anticipated Product Specifications

	Metallurgical Coal	Thermal Coal
Yield (%)	40	70
Total Moisture (%)	8	8
Equilibrium Moisture (%)	2	2
Ash (%)	8.5 to 9.5	15
Volatile Matter (%)	33.5	32
Fixed Carbon (%)	57	52
Heating Value BTU's/lb	13600	12500
Sulphur (%)	0.83	0.83 to 1.2
FSI	8	6.5
Grind-ability	51 to 53	51 to 53
Maximum Dilatation (%)	44 to 61	
Maximum Plasticity ddpm	1300	
Coke Strength Index	3.3	
Phosphorous in Coal P205 (%)	0.02	
Reflectance	0.92	
Inerts (%)	17	
Fuel Ratio (FCNm)		1.62

(Source: Associated Geosciences Ltd.)

Resource Estimate

Current resources for the property are presented in Table 3 below:

Table 3: Current Raven Coal Project Resources

Deposit Type	ASTM Rank Classification	Coal Seam	In Situ Coal Resources (kt)		
			Measured	Indicated	Inferred
Underground	High Volatile "A" Bituminous	No. 1 Seam	12,917	19,892	56,424
		No. 3 Upper	1,754	4,430	2,580
Totals			Measured and Indicated		Inferred
			39,093		59,004

(Source: O.R. Cullingham Resource Consultants)

As noted in the table, the current resource as defined, is amenable to underground mining extraction methods. **We believe the current resources are an excellent base for Compliance to build on. We anticipate the upcoming in-fill drill program will allow the company to shift a substantial portion of inferred resources to measured and indicated resources.** In comparison, Quinsam Mine, operated by Hillsborough, and located at the northern end of the Comox Basin, is operating at a rate of 765,000 raw tonnes per year with current (as of December 31, 2008) reserves of 22.1 million tonnes proven and probable, and resources of 5.8 million tonnes measured and indicated.

Preliminary Assessment

Following the 43-101 technical report, and resource estimation completed by Cullingham, Associated Geosciences Ltd. of Calgary was contracted to complete a preliminary assessment. While our report has put a focus on the project as a metallurgical coal deposit, as noted above, the grade means it is also viable as a thermal coal deposit. Associated Geosciences Ltd. completed a preliminary assessment for both metallurgical and thermal cases:

Table 4: Preliminary Assessment Cost and Production Estimates

	Metallurgical Coal	Thermal Coal
43-101 Resource	98 Mt	98 Mt
Life of Mine	20 Years	20 Years
Annual ROM Production	2.2 Mt	2.2 Mt
Coal Processing Plant Recovery	40%	70%
Annual Clean Coal	0.82 Mt	1.44 Mt
Operating Costs	\$79.91/tonne	52.12/tonne
Capital Costs (mm)	\$48.30	\$48.30

(Source: Associated Geosciences Ltd.)

Current Status

A 15,000 metre drill program recently commenced which will begin with an initial 11,000 metre in-fill drill program. Environmental baseline and assessment studies are also underway.

Management states the goal of this year's drilling will be to collect enough data to increase the current 39 million tonne measured and indicated resource by upgrading the 59.0 million tonne of inferred resource. The company will then move towards completing a bankable feasibility study which will provide for a production decision to be made.

Development Timeline

Management is aiming to complete the bankable feasibility study by Q2 2010, and obtain permits by Q4 2010, which will be followed by construction of a metallurgical or thermal coal mine with a production target of mid 2012. The chart below shows the estimated development timeline.

	2009				2010				2011				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Infill Drilling		■	■													
Environmental Baseline		■	■	■	■											
Environmental Assessment																
Project Description		■														
Terms of Reference			■	■	■											
Assessment Application and Review					■	■	■	■								
Feasibility Study		■	■	■	■	■										
Mining Permit Application						■	■	■								
Receipt of Permits									■	■	■	■	■	■		
Construction										■	■	■	■	■	■	
Commissioning																
Operation															■	■

Source: Compliance Energy Corporation

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 2008, the company signed a definitive option agreement ("Option Agreement") for the sale of the Basin Coal Mine for consideration of cash and shares totaling \$8.25 million. Under the terms of the Option Agreement, NWPC 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 JAL. In February 2009, the company received an option payment of \$1 million in cash and 7.41 million shares of JAL which are subject to a one year escrow provision. The final option payment of \$3.1 million in cash plus closing adjustments and 7.41 million 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 7.41 million shares is due on or before the earlier of commencement of coal production and May 31, 2012.

Other Interests

1. The company holds a 7.3% interest in Copper Mountain Mining Corporation ("Copper Mountain" TSX: CUM). Copper Mountain is currently developing the Copper Mountain copper porphyry project located near Princeton, BC towards production in mid 2011. The project has measured and indicated resource of 2.68 billion lbs, and an inferred resource of 1.06 billion lbs of copper.

2. The company holds an option agreement to acquire 100% of the Anderson Lake Coal Deposit rights that cover approximately 784 hectares on Vancouver Island. The property is not subject to a royalty.
3. The company also holds an option 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.
4. In 2006, the company was awarded a 30 year electricity purchase agreement with BC Hydro to provide 421,000 megawatt hours of firm energy annually into the British Columbia transmission system. The plant was originally to be fueled by wood and coal, however in keeping with the province of BC's Clean Energy objectives, the company is examining the opportunity to fuel the project 100% by wood waste.

Management

John A. Tapics, P.Eng. – President, CEO

John A. Tapics graduated in 1975 with a B.Sc. Honours in Mining Engineering from Queen's University in Ontario, Canada. Mr. Tapics has over 30 years of mining and electricity industry experience including four years as President and CEO of the Alberta Electric System Operator responsible for operating Alberta's electricity market, transmission planning and system operations; eleven as an Officer of TransAlta Corporation, in charge of the Generation, and the Transmission and Distribution Business units. While at TransAlta Mr. Tapics was responsible for the operation of 4500 Megawatts of power capacity (3700 Megawatts of coal fired thermal capacity, and 800 Megawatts of hydro). He directed the planning and economic delivery of 16 million tonnes of coal annually from two mine sites to three power plants totaling 3300 megawatts. In addition, he was responsible for TransAlta's share of the 50/50 joint venture 800 Megawatt Sheerness power Plant operated by ATCO Power.

Mr. Tapics has served as a Director of the Coal Association of Canada, the Alberta Chamber of Resources, and the Western Electric Power Institute. He has been active with the Canadian Electricity Association, serving on the Generation and the Transmission Strategic Issues working groups; and the Canadian Institute of Mining and Metallurgy serving as the Calgary Branch Chairman.

Rodney A. Shier, B.Comm., CA. – CFO

Mr. Shier obtained his degree in Commerce from the University of British Columbia, and his Chartered Accountant designation in 1989. He is a member of the Institute of Chartered Accountants of British Columbia.

He has extensive experience in all aspects of corporate finance, having worked with PricewaterhouseCoopers. He has also been instrumental in the structuring and financial management of several publicly-traded companies.

J.C. (Jim) O'Rourke, P.Eng. – Chairman

Mr. O'Rourke graduated from the University of British Columbia with a B.A.Sc. in Mining Engineering. Over the next 14 years, Mr. O'Rourke was involved in the start-up of a number

of major mines including Gilbralter, Marcopper, and Endako while working with Placer Development Limited.

He has over 30 years of hands-on experience in mine evaluation, financing, development, operations and marketing in Canada, the United States, South American and the Philippines. Prior to his retirement, Mr. O'Rourke was responsible for the acquisition, evaluation, financing and development of the \$140 million Huckleberry open pit copper mine in Northern British Columbia.

Paul Willis – Director

Paul Willis is President of Willis Energy Services and brings with him 30 years of energy-related experience encompassing energy management, marketing, research and development, project management, detailed and conceptual design, and commissioning and acceptance. From 1989 to 1996, he was heavily involved in B.C. Hydro's Industrial Power Smart initiative, for which he helped design, implement, and manage many of the programs. More recently, Paul has designed and helped implement a number of other industrial energy efficiency projects, as well as numerous potential and approved cogeneration projects. He has worked on efficiency programs for a number of utilities such as Portland General Electric, Seattle City Light, Northern States Power, and BC Gas. His technical expertise lies in the areas of heat transfer, combustion, industrial process systems, and the optimization of large power and heating systems.

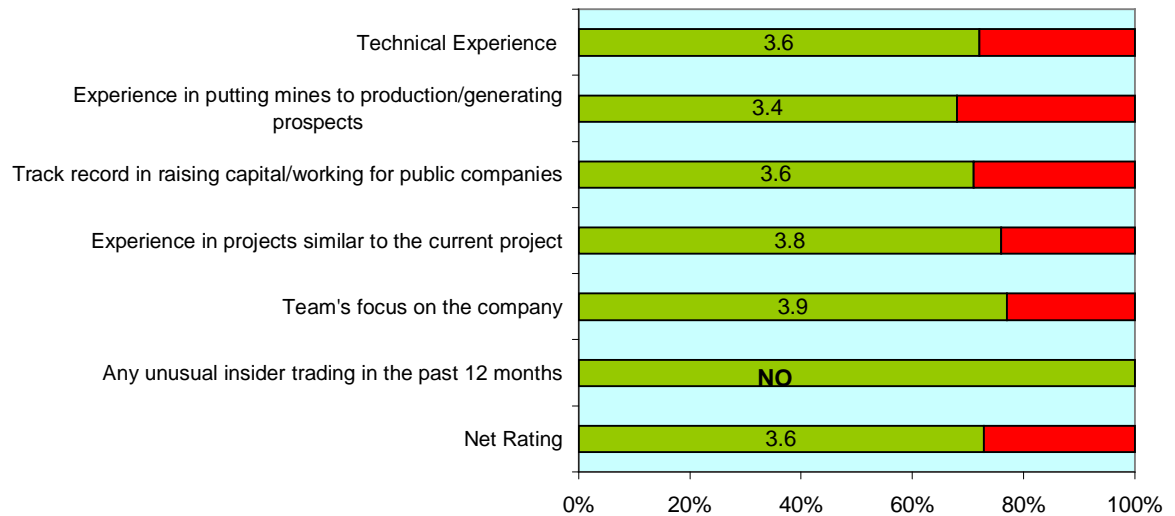
Jamieson Merritt, B.Comm., LLB – Director

Jamieson Merritt graduated in 1990 with a L.L.B. (Law) degree from the University of British Columbia and was called to the bar in 1991. Mr. Merritt has over 10 years of experience in business and financial management across a number of industries including; technology, law, and construction/development. Mr. Merritt has gained invaluable business experience during the past six years while operating his own development company and prior to that as a key member of a software development firm. Mr. Merritt is currently President of Arbutus Point Development Ltd.

***Management
Rating***

We believe that one of the most important aspects of a junior mining company is its management. Therefore we have developed a management rating system as a quantitative way to rate management based on a number of factors, including technical experience, the ability to raise financing, and the management's time commitment to the company. We also analyzed trading records to identify for evidence of unusual trading by management. **Our net rating for CEC (see below) is 3.6 out of 5.0, which we have rated above average.**

Management Rating



Strength of Board

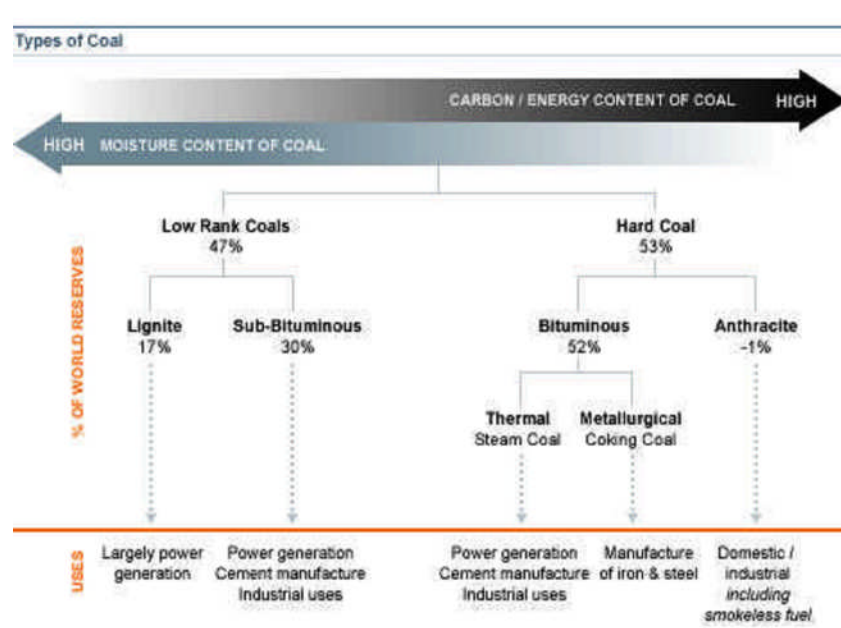
The Toronto Stock Exchange recommends that the Board of Directors of every company include independent or unrelated directors who are free of any relationship or business that could materially interfere with the director's ability to act in the best interest of the company. An unrelated/independent director can be a shareholder.

In this section, we present our strength of board rating for Compliance Energy Corporation, which uses information available from the company's annual "Management Information Circular" to ensure that the company has an independent Board of Directors, Audit Committee, and Compensation Committee.

Compliance Energy Corporation's Board of Directors is made up of 5 individuals: James O'Rourke, John Tapics, Rodney Shier, Jamieson Merrit and Paul Willis. None of the directors have filed for personal bankruptcy. The related/non-independent directors are John Tapics and Rodney Shier, as they are executive officers of the company, and receive compensation. The Audit Committee is made up of James O'Rourke, Jamieson Merrit, and Paul Willis. The company does not have a compensation committee at this time.

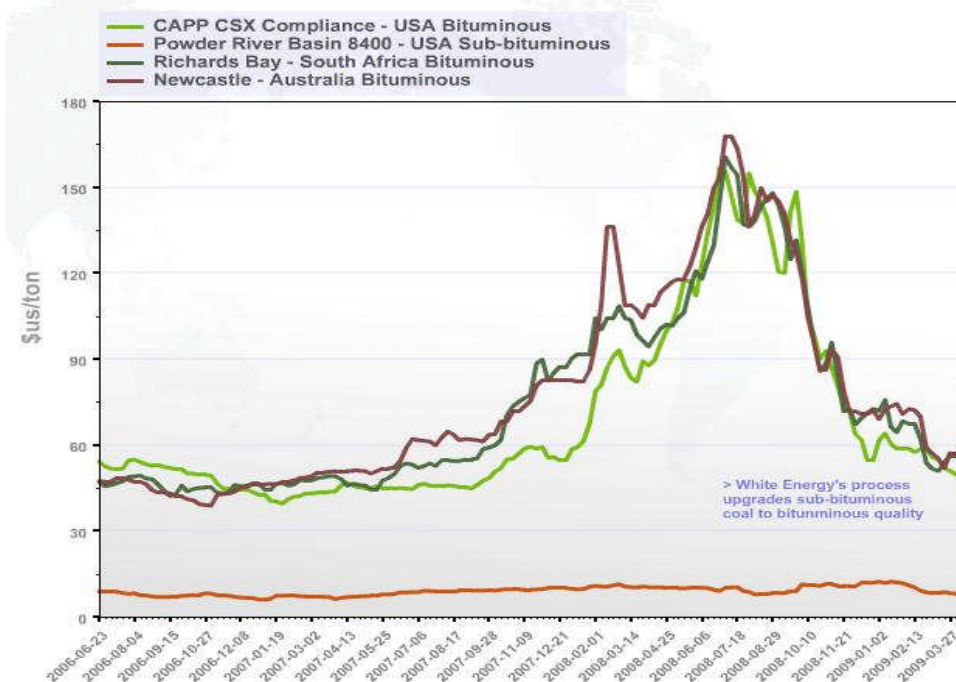
Outlook on Coal

The company's coal is in the bituminous category, or specifically, the high volatile A bituminous with favourable coking coal characteristics. As shown in the graph below, bituminous coal, a high ranked coal in terms of carbon and energy content, is used in power generation, cement manufacturing (from steam coal), and iron and steel (from coking coal) manufacturing.



Canada is not a significant player in the global coal market, and its current recoverable coal reserves are estimated at 7.25 billion tons and ranked at 15 in the world (Source: EIA).

The higher the energy content in coal, the higher the price it usually receives. Coal prices have seen a significant increase since 2006. However, the global economic crisis brought prices down in the later part of 2008, as industrial demand for steel, and to a lesser extent, electricity, declined. Thermal coal prices have increased from an average of about US\$60/ton in 2007, to US\$121/ton in 2008 (shown in the graph below), and currently trades at slightly above US\$60/ton. In light of the downturn in the steel industry, metallurgical coal prices have also declined from a record price of about US\$300/tonne reached in 2008, to current prices of slightly above US\$100/tonne, though still above historical averages.



Source: White Energy Company

Long Term Outlook: According to the Energy Information Association's (EIA) most recent forecasts, global coal supply is estimated to meet demand through 2030, as shown in the following table below. Global coal consumption is forecasted to increase by 56.3%, from 121.7 quadrillion Btu in 2005, to 190.2 quadrillion Btu in 2030.

in Quadrillion Btu	2005	2010E	2015E	2020E	2025E	2030E
Consumption	121.7	140.6	150.7	161.7	175.2	190.2
Production	122.2	140.2	158	172.1	187.1	202.7
Surplus(Deficit)	0.5	(0.4)	7.3	10.4	11.9	12.5

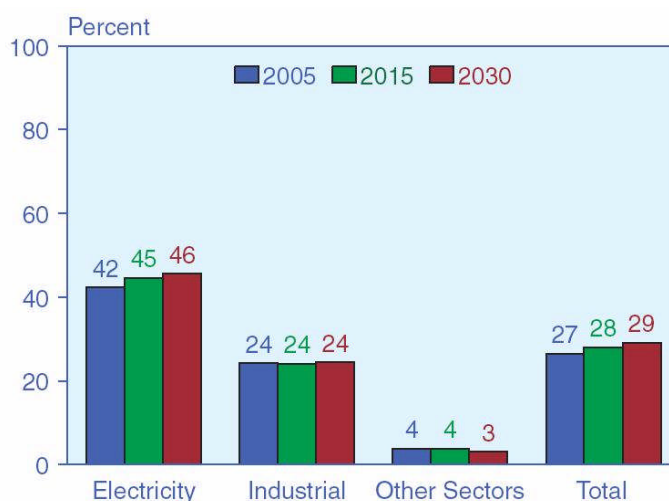
Source: EIA

Although these forecasts indicate a coal surplus market in the long-term, we believe the demand for coal will be strong enough in the long run to support prices remaining above historical averages due to:

Strong demand growth from China and India: The EIA expects the growth in coal consumption to primarily come from non-OECD countries (total coal consumption in non-OECD countries is projected to grow at 2.5% per year on average during 2005 - 2030, compared to average annual growth of 0.3% during 2005 - 2030 for OECD countries). According to the EIA, non-OECD coal consumption is projected to almost double from 74.8 quadrillion Btu in 2005, to 139.6 quadrillion Btu in 2030, whereas coal consumption in OECD countries is expected to increase from 46.9 quadrillion Btu in 2005, to 50.7 quadrillion Btu in 2030. The increase in coal consumption from non-OECD countries (64.8 quadrillion Btu) represents 94.6% of the total increase in world coal consumption during 2005 - 2030. In particular, the EIA expects China and India to account for 83.2% of the

projected increase in world coal consumption from 2005 to 2030, due to their strong economic growth projections. Most of the increase in demand for energy in China and India is expected to be met by coal. We note, despite global warming issues, much of Asia, including China, still considers coal to be one of the most important energy supply sources.

Importance in electricity generation: The following chart shows coal is forecasted to remain a very important source of energy thorough 2030. Particularly, coal continues to be an important input in the electric power sector, with its share projected to increase from 42% in 2005, to 46% in 2030. Coal is projected to account for 29% of the total energy mix in 2030, compared to 27% in 2005.



Source: EIA

We have used long-term forecasts (2012+) of \$67.5/tonne for thermal coal, and \$110/tonne for metallurgical coal in our valuation models.

Financials

CEC had cash (including marketable securities) and working capital of \$6.23 million and \$6.12 million, respectively, at the end of Q1-2009 (quarter ended March 2009). In Q1 2009, CEC posted net income of \$5.29 million, compared to \$0.47 million in Q1-2008. Net income in Q1 2009 was primarily due to a \$4.61 million valuation gain recognized in the formation of the Comox Joint Venture. The table below shows the company's cash position and liquidity ratio.

	2007	2008	2009 (3 mo)
Working Capital	41,645	1,517,474	6,117,813
Current Ratio	1.1	3.3	36
LT Debt / Assets	2.79%	16.31%	1.77%
Cash From Financing Activities	(3,603,519)	1,630,000	2,931,813
Monthly Burn Rate	(195,159)	(141,764)	(33,674)

In Q1 2009, the company received \$5.2 million (60% of the \$7 million received from Itochu and LGI, and \$1 million received from the sale of the Basin Coal project).

Stock Options & Warrants: At the end of March 2009, the company had 4.48 million

options outstanding with exercise prices ranging from \$0.11 to \$0.95, and expiry dates ranging from February 2010 to November 2013 (800,000 options are currently in the money). The company does not have any warrants outstanding.

Conclusion: At the end of March 2009, the company had \$6.23 million in cash (including marketable securities). Based on a capital expenditure budget of \$5.7 million for the CJV (CEC's share - \$3.4 million) for the rest of 2009, and 2010, as per our discussion with management, we estimate cash should be sufficient to fund capital expenditures and working capital to the end of 2010 (assuming the company also receives a \$0.6 million reimbursement from its joint venture partners for payments the company made to West Fraser).

Valuation

We used three valuation models - Discounted Cash Flow (DCF), real options, and comparables valuation to value the company's Raven and Bear projects.

DCF Valuation: We have valued the company's Raven Coal project based on its current resource of 39.1 million tonnes measured and indicated, and 59 million tonnes inferred. Since we believe it is highly likely that the company will be able to convert most of its inferred resource to the measured and indicated category, we have discounted its inferred resource by only 25% (instead of the 50% discount we usually apply to inferred resources in our valuation models). We also included 50% of the non 43-101 compliant resource of 8.5 million tonnes at the Bear Coal project.

Our discounted cash flow models showed a higher net asset value of \$40 million, or \$0.84 per share, from the production of metallurgical coal, versus \$29 million, or \$0.60 per share, from the production of thermal coal. Therefore, based on this analysis, we recommend the production of metallurgical coal from the Raven coal project. A summary of our valuation models is in the following table.

DCF Valuation Summary	Thermal Coal Production	Metallurgical Coal Production
Ownership	60%	60%
Recovery	70%	40%
Recovered Clean Coal (tonnes)	61,317,200	35,038,400
Production Commencement	2012	2012
Annual Clean Coal Production (mm tonnes)	1.44 mm in years 1 - 3, and 2.88 mm thereafter	0.82 mm in years 1 - 3 and 1.64 mm thereafter
Mine Life (in years)	23	23
Average Operating Costs (\$/t)	\$52	\$79
Capital Costs (\$)	\$136,000,000	\$136,000,000
LT Coal Price (\$/t)	67.50	110
Discount Rate	11.63%	11.63%
Net Present Value	\$47,894,172	\$66,980,539
CEC's 60% Interest	\$28,736,503	\$40,188,323
No. of Shares	47,569,860	47,569,860
Value per Share	\$0.60	\$0.84

Our valuation is highly sensitive to our long-term coal price assumptions. The following

table shows the sensitivity of our valuation to changes in coal prices.

Metallurgical Coal Price (\$/tonne)	Valuation (\$/Share)
\$70	-\$2.05
\$90	-\$0.60
\$110	\$0.84
\$130	\$2.29
\$150	\$3.74

Real Options Valuation: Our real options models also gave a higher value of \$1.16 per share from metallurgical coal production, versus \$0.95 per share from thermal coal production (as shown in the following tables).

Real Options Valuation - Thermal Coal			
Inputs relating to the underlying asset			
Estd. Value of Minerals if extracted today (\$)		\$133,977,708	
Annualized Standard Deviation of Mineral prices		13.1%	
Capital Investment (\$)		136,000,000	
Estd. Mine Life (years)		23	
Riskfree Rate		3.42%	
Output			
Stock Price	\$133,977,708	T.Bond rate	3.42%
Strike Price	\$136,000,000	Variance	0.02
Expiration (in years)	23	Annualized div yield	0%
d1 =	1.546	Value of Option (\$)	\$74,962,217
N(d1) =	0.939	CEC's 60% Interest	\$44,977,330
d2 =	0.920	No of outstanding shares	47,569,860
N(d2) =	0.821	Value per share	\$0.95

Real Options Valuation - Metallurgical Coal			
Inputs relating to the underlying asset			
Estd. Value of Minerals if extracted today (\$)		\$151,527,705	
Annualized Standard Deviation of Mineral prices		13.2%	
Capital Investment (\$)		136,000,000	
Estd. Mine Life (years)		23	
Riskfree Rate		3.42%	
Output			
Stock Price	\$151,527,705	T.Bond rate	3.42%
Strike Price	\$136,000,000	Variance	0.02
Expiration (in years)	23	Annualized div yield	0%
d1 =	1.727	Value of Option (\$)	\$91,754,526
N(d1) =	0.958	CEC's 60% Interest	\$55,052,716
d2 =	1.092	No of outstanding shares	47,569,860
N(d2) =	0.863	Value per share	\$1.16

Comparable Analysis: In our comparables valuation model, we valued the projects based on the average ratio of enterprise value (EV) to resource of its peers. Based on an average EV/resource ratio of \$0.35/tonne coal, our model gave a fair value of \$0.65 per share.

Company	EV / Resource
1 Grande Cache Coal Corporation	\$2.07
2 Phoenix Coal Inc.	\$0.86
3 Hillsborough Resources Limited	\$0.44
4 NEMI Northern Energy & Mining Inc.	\$0.07
5 East Energy Corp.	\$0.01
Average EV/Resource	\$0.35
Fair Value (\$/Share)	\$0.65

- EV/Resources of 1,2 and 3 were discounted by 50% to calculate the average as they are producing
- EV was calculated based on the average share prices in the past 12 mo
- Resources = Measured and Indicated + 75% Inferred/Historic Resource Estimates

Valuation Summary

Our average valuation of the Raven and Bear projects (based on the production of metallurgical coal – the scenario which has a higher net asset value estimate), based on our three valuation models, is \$0.88 per share. Adding the company's current working capital, expected remaining option payments (cash + shares) from Jameson, the market values of CUM and JAL shares currently held by the company, and the book value of the company's other projects (which also includes the CEC power project), we arrived at a fair value of \$1.28 per share.

Valuation Summary	Valuation (\$/share)
Raven and Bear Projects	
DCF	\$0.84
Real Options	\$1.16
Comparables	\$0.65
Average	\$0.88
Working Capital - Debt	\$0.12
Estd. option payments (cash + shares) from JAL, and the market values of CUM and JAL shares currently held	\$0.22
Book Value of Other Projects	\$0.05
Fair Value	\$1.28

Conclusions & Rating

Therefore, based on our analysis of the company's projects, and our valuation models, we initiate coverage on Compliance Energy with a BUY rating and a fair value estimate of \$1.30 per share.

Risks The following risks, though not exhaustive, may cause our estimates to differ from actual results:

- The value of the company is dependent on coal prices.
- Several different entities have explored these properties in the past with no further action. The implication being that these properties are only now economically viable based on the high prices of the target ores.
- The success of drilling, project development and resource expansion are important long-term success factors for the company.
- Access to capital and share dilution

We the company's shares a RISK of 5 (Highly Speculative).

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

Disclaimers and Disclosure

The opinions expressed in this report are the true opinions of the analyst about this company and industry. Any "forward looking statements" are our best estimates and opinions based upon information that is publicly available and that we believe to be correct, but we have not independently verified with respect to truth or correctness. There is no guarantee that our forecasts will materialize. Actual results will likely vary. The analyst and Fundamental Research Corp. "FRC" does not own any shares of the subject company, does not make a market or offer shares for sale of the subject company, and does not have any investment banking business with the subject company. Fees of less than \$30,000 have been paid by CEC to FRC. The purpose of the fee is to subsidize the high costs of research and monitoring. FRC takes steps to ensure independence including setting fees in advance and utilizing analysts who must abide by CFA Institute Code of Ethics and Standards of Professional Conduct. Additionally, analysts may not trade in any security under coverage. Our full editorial control of all research, timing of release of the reports, and release of liability for negative reports are protected contractually. To further ensure independence, CEC has agreed to a minimum coverage term including an initial report and three updates starting with this report. Coverage can not be unilaterally terminated. Distribution procedure: our reports are distributed first to our web-based subscribers on the date shown on this report then made available to delayed access users through various other channels for a limited time. The performance of FRC's research is ranked by Investors. Full rankings and are available at www.investstars.com.

The distribution of FRC's ratings are as follows: BUY (69%), HOLD (11%), SELL (3%), SUSPEND (17%).

To subscribe for real-time access to research, visit <http://www.fundamentalresearchcorp.com/subscribe.php> for subscription options.

This report contains "forward looking" statements. Forward-looking statements regarding the Company and/or stock's performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company's products/services in the marketplace; acceptance in the marketplace of the Company's new product lines/services; competitive factors; new product/service introductions by others; technological changes; dependence on suppliers; systematic market risks and other risks discussed in the Company's periodic report filings, including interim reports, annual reports, and annual information forms filed with the various securities regulators. By making these forward looking statements, Fundamental Research Corp. and the analyst/author of this report undertakes no obligation to update these statements for revisions or changes after the date of this report. A report initiating coverage will most often be updated quarterly while a report issuing a rating may have no further or less frequent updates because the subject company is likely to be in earlier stages where nothing material may occur quarter to quarter.

Fundamental Research Corp DOES NOT MAKE ANY WARRANTIES, EXPRESSED OR IMPLIED, AS TO RESULTS TO BE OBTAINED FROM USING THIS INFORMATION AND MAKES NO EXPRESS OR IMPLIED WARRANTIES OR FITNESS FOR A PARTICULAR USE. ANYONE USING THIS REPORT ASSUMES FULL RESPONSIBILITY FOR WHATEVER RESULTS THEY OBTAIN FROM WHATEVER USE THE INFORMATION WAS PUT TO. ALWAYS TALK TO YOUR FINANCIAL ADVISOR BEFORE YOU INVEST. WHETHER A STOCK SHOULD BE INCLUDED IN A PORTFOLIO DEPENDS ON ONE'S RISK TOLERANCE, OBJECTIVES, SITUATION, RETURN ON OTHER ASSETS, ETC. ONLY YOUR INVESTMENT ADVISOR WHO KNOWS YOUR UNIQUE CIRCUMSTANCES CAN MAKE A PROPER RECOMMENDATION AS TO THE MERIT OF ANY PARTICULAR SECURITY FOR INCLUSION IN YOUR PORTFOLIO. This REPORT is solely for informative purposes and is not a solicitation or an offer to buy or sell any security. It is not intended as being a complete description of the company, industry, securities or developments referred to in the material. Any forecasts contained in this report were independently prepared unless otherwise stated, and HAVE NOT BEEN endorsed by the Management of the company which is the subject of this report. Additional information is available upon request. THIS REPORT IS COPYRIGHT. YOU MAY NOT REDISTRIBUTE THIS REPORT WITHOUT OUR PERMISSION. Please give proper credit, including citing Fundamental Research Corp and/or the analyst, when quoting information from this report.

Fundamental Research Corp is registered with the British Columbia Securities Commission as a Securities Adviser which is not in any way an endorsement from the BCSC. The information contained in this report is intended to be viewed only in jurisdictions where it may be legally viewed and is not intended for use by any person or entity in any jurisdiction where such use would be contrary to local regulations or which would require any registration requirement within such jurisdiction.