FORM 51-102F1
COMPLIANCE ENERGY CORPORATION

MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A") OF FINANCIAL CONDITION & THE RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2012

1.1 MAY 23, 2012

Introduction

Management's discussion and analysis ("MD&A") focuses on significant factors that affected Compliance Energy Corporation's performance and 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 year ended December 31, 2011 and the Company's condensed consolidated interim financial statements and the related notes contained therein for the three months ended March 31, 2012.

The Company has prepared its condensed consolidated interim financial statements for the three months ended March 31, 2012 in accordance with International Financial Reporting Standards ("IFRS"). The Company files its financial statements with appropriate regulatory authorities in Canada and you can find more information about the Company on SEDAR at www.sedar.com.

There have been no changes to the following since we published our 2011 MD&A: critical accounting estimates and judgments; financial related risks; and other risks and uncertainties.

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 U.S. 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, B.C. and 4 non-coal exploration properties on Vancouver Island. Compliance also holds an equity investment in Copper Mountain Mining Corporation. Compliance trades on the TSX Venture Exchange with the trading symbol CEC.

During the period, the Company continued to advance the Raven Underground Coal Project ("Raven Project"), which is part of the Company's Comox Joint Venture ("CJV"), formed in 2009 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.)

1.21 Projects

Comox Joint Venture

During the three months ended March 31, 2012, the Company, along with its consultants;

- continued to update and advance outstanding items from the feasibility study on the Raven Underground Coal Mine Project;
- continued to gather baseline environmental information including, but not limited to aquatic species, hydrology, hydrogeology and climatic data;
- continued to advance the environmental permitting process for the Raven Underground Coal Mine Project; and
- continued to liaise and dialogue with the governmental environmental assessment offices and is currently awaiting acceptance and release of the final version of the AIR/EIS Guidelines by the Province of British Columbia and by Canada.

Vancouver Island Exploration Properties

During the three months ended March 31, 2012, the Company;

- on January 19, 2012 released results of the 2011 drill program for the NIC property; and
- on February 21, 2012 released results of the 2011 drill program for the Camp Lake property.

  The Company is currently evaluating the results received from this drill program and previous exploration programs prior to progressing with any additional explorations programs on these properties.

Corporate Activities

During the three months ended March 31, 2012, the Company;

- disposed of 40,000 Copper Mountain Mining shares, holding 1,985,000 shares at the end of the period.

1.3 Not Applicable for Quarterly MD&A

1.4 Results of Operations

For the Three Months Ended March 31, 2012

The Company recorded a loss of $133,000 or $0.00 per share for the three months ended March 31, 2012. This compares to income of $736,000 or $0.01 per share for the three months ended March 31, 2011 as shown in the table below:

(in thousands of dollars)	Three months ended March 31,			
		2012		2011
Expenses				
General and administration (below)	$	379	$	271
Loss from operating activities				
Foreign exchange losses		-		(17)
Realized gain on sale of marketable securities		246		1,024
Income (loss) for the period		(133)		736
Other comprehensive (loss) income				
Unrealized (loss) gain on marketable securities		(2,819)		2,119
Total comprehensive income (loss)	$	(2,952)	$	2,855
Basic and diluted income (loss) per common share	$	(0.00)	$	0.01

For the three months ended March 31, 2012, the Company realized an after-tax gain of $246,000 from the sale of 40,000 Copper Mountain Mining shares. In the three months ended March 31, 2011, the Company sold 80,000 Copper Mountain Mining shares and its entire holdings in Jameson Resources Limited.

General and administration expenses for the period are detailed in the table below:

(in thousands of dollars)	Three months ended March 31,			
		2012		2011
Amortization	$	1	$	1
Consulting Fees		31		7
Professional Fees		13		16
Transfer Agent Fees and Filing Fees		8		9
Travel		4		4
Shareholder communications		27		48
Office and other expenses		84		54
Wages and salaries		150		117
Share-based payments		61		14
General and administrative	$	379	$	271

Consulting fees increased as the Company engaged an external consultant to evaluate certain strategic opportunities in 2012. Shareholder communications decreased as the Company because in 2011 the Company updated its website and incurred additional costs while attending three investor conferences in 2011. Office and other expenses increased in 2012 as the Company entered into a new lease arrangement in 2012 which saw the loss of one sub-tenant that was offsetting rent expense.

Wages and salaries increased as a result of additional staff being utilized for head office functions and annual compensation increases being made in the first quarter of 2012 when in 2011 they were made in the second quarter of 2011. Share-based payments increased as a result of an annual option grant taking place in the first quarter of 2012 versus the second quarter in 2011.

1.5 Summary of Quarterly Results

The following table is selected quarterly financial information derived from the Company's unaudited interim condensed consolidated financial statements and should be read in conjunction therewith.

(in $000s except per share amounts)	**Revenue**		**Net (Loss) Income**		**Basic and diluted (loss) income per common share**
March 31 2012	-	$	(133)	$	(0.00)
December 31, 2011	-	$	696	$	0.01
September 30, 2011	-	$	(297)	$	(0.00)
June 30, 2011	-	$	(328)	$	(0.01)
March 31, 2011	-	$	736	$	0.01
December 31, 2010	-	$	(838)	$	(0.02)
September 30, 2010	-	$	(202)	$	(0.00)
June 30, 2010	-	$	(743)	$	(0.00)

In the quarter ended March 31, 2012 the Company realized a gain of $246,000 from sale of 40,000 Copper Mountain Mining shares.

In the quarter ended December 31, 2011 the Company realized a gain of $1,003,000 from sale of 205,000 Copper Mountain Mining shares.

In the quarter ended March 31, 2011 the Company realized a gain of $1,024,000 from the sale of all of shares it held in Jameson Resources Limited and from the sale of 80,000 Copper Mountain Mining shares.

During the quarter ended December 31, 2010, the Company reduced the carrying value of its Basin Coal Mine and accrued a $350,000 provision for reclamation.

1.6 Liquidity and capital resources

As at March 31, 2012, the Company had working capital of $8,481,000 compared with working capital of $11,579,000 as at December 31, 2011.

(in $000s)		March 31, 2012		December 31, 2011
Cash and equivalents	$	846	$	479
Accounts receivable and prepayments		165		209
Marketable securities		8,357		11,401
		9,368		12,089
Less: Current liabilities		887		510
Working Capital	$	8,481	$	11,579

The overall decrease in working capital between the two periods presented above is primarily attributable to:

- a decrease in the market price of shares of Copper Mountain Mining owned by the Company; and
- additional funds invested into the Raven Underground Coal Project.

This decrease was mitigated by:

- the sale of 40,000 Copper Mountain shares in the first quarter of 2012; and
- additional funds received into the Comox Joint Venture

The current cash and working capital resources of the Company for this year will mainly fund:

- Activities on the Raven Underground Coal Project: funding the continuation of the environmental assessment process, updates to the feasibility study and other project development activities. Funding requirements in excess of these activities will require additional sources of cash. Significant additional funding requirements will be required upon a positive production decision on the Raven Underground Coal Project;
- Exploration expenditures on the Company's Vancouver Island exploration properties; and
- General and administrative expenses of the Company.

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 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

Other than those obligations disclosed in the notes to its condensed consolidated interim financial statements for the three months ended March 31, 2012 and the notes to its audited consolidated financial statements for the year ended December 31, 2011, the Company had no material commitments for material capital expenditures as of March 31, 2012. The Company has no long-term debt. Management believes that its working capital is sufficient to meet its working capital and mineral exploration and minimum property holding costs for the near future. Should the market price of the Company's marketable securities decline unexpectedly, the Company would have to look to alternative sources of capital including the possible issuance of common shares.

1.8 Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

1.9 Transactions with Related Parties

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 three months ended March 31, 2012, the Company paid $9,000 to private companies controlled by an employee for minimum royalties on resource properties.

1.10 Fourth Quarter

Not applicable to quarterly MD&A.

1.11 Proposed Transactions

There are no Proposed Transactions.

1.12 Critical Accounting Estimates

The Company's significant accounting policies are presented in Note 3 of the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2012. The preparation of consolidated financial statements requires management to select accounting policies and make estimates. Such estimates may have a significant impact on the consolidated financial statements. These estimates include:

- coal resources and reserves,
- the carrying value of resource properties,
- the carrying value of marketable securities;
- the carrying value of property, plant and equipment,
- rates of amortization of property, plant and equipment,
- the carrying values of the asset retirement obligations,
- the valuation allowances for future income taxes;
- the determination of stock-based compensation expense.

Actual amounts could differ from the estimates used and, accordingly, affect the results of operations.

1.13 Financial Instruments and Other Instruments

Please refer to our condensed interim consolidated financial statements for the three months ended March 31, 2012 and to Note 14 of our consolidated financial statements for the year ended December 31, 2011.

1.14 Other MD&A Requirements

Additional information relating to the Company is available on SEDAR at www.sedar.com. The Company's internet web site is www.complianceenergy.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 commodity 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 Raven 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, 2011.

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 National 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.

Share Capital Structure as at May 23, 2012

	Expiry Date	Exercise Price		Number
Common Shares				62,939,283
Share Purchase Options				
	10-Feb-13	$	0.11	330,000
	25-Mar-13	$	0.11	25,000
	02-Nov-13	$	0.11	1,500,000
	25-Nov-13	$	0.11	675,000
	01-Mar-14	$	0.36	75,000
	25-Mar-14	$	0.11	740,000
	01-May-14	$	0.11	-
	11-Jan-15	$	0.29	100,000
	24-Feb-15	$	0.11	800,000
	01-Mar-15	$	0.28	500,000
	23-Jun-15	$	0.25	150,000
	20-Apr-16	$	0.49	470,000
	13-Feb-17	$	0.28	622,500
				5,987,500
Warrants	11-Mar-13	$	0.40	100,030
	11-Mar-13	$	0.75	50,015
	14-Mar-13	$	0.40	201,250
	14-Mar-13	$	0.75	1,663,125
				2,014,420