Siddharth Rajeev, B.Tech, MBA, CFA
Analyst

Matthew Bovencamp, BSc.
Research Associate

Fundamental Research Corp.

Investment Analysis for Intelligent Investors

June 3, 2011

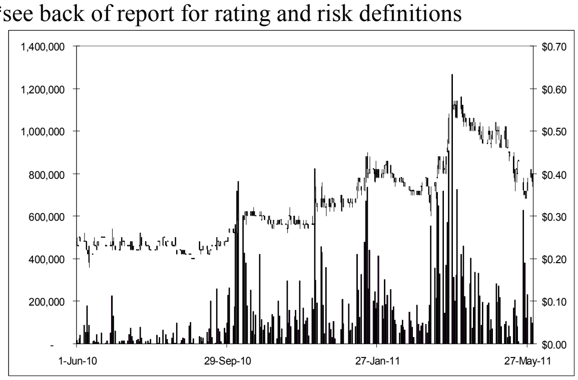
Compliance Energy Corporation (TSXV: CEC) – Positive Feasibility Results - Public Comment Period Announced

Sector/Industry: Junior Mining **www.complianceenergy.com**

Market Data (as of June 3, 2011)

Current Price	**C$0.35**
Fair Value	**C$2.00**
Rating*	**BUY**
Risk*	**5 (Highly Spec)**
52 Week Range	C$0.18 - C$0.60
Shares O/S	62.91 mm
Market Cap	C$22.02 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	1.00x
YoY Return	45.8%
YoY TSXV	38.7%

*see back of report for rating and risk definitions



Investment Highlights

- CEC announced positive feasibility study results on its Raven Coal project in May 2011.
- The before-tax NPV@10% increased from $149 million (as per the pre-feasibility study completed in late 2010) to $297 million (feasibility study) due to higher coal price forecasts. The before-tax NPV@8% is $378 million (up from $202 million).
- The feasibility study upgraded some of the inferred resource to the measured and indicated category. The revised measured and indicated resource is 97.5 Mt (up from 72 Mt).
- Two areas remain to be fully addressed - 1) the quantity and quality of water inflows to the mine workings; and 2) determining the potential for the rock reject material to be acid generating.
- A public review and comment period of 40 days regarding the draft Application Information Requirements (AIR) / Environmental Impact Statement (EIS) Guidelines commenced on May 18, 2011.
- In December 2010, the company acquired mineral tenures to five exploration properties (base metals + gold) on Vancouver Island. A 3,500 m drilling program is planned for this year.
- Cash + the market value of Copper Mountain shares alone = $20.23 million, or $0.31 per share.

Key Financial Data (FYE - December 31) (C $)	**2009**	**2010**
Cash + Marketable Securities	3,279,980	287,361
Marketable Securities	4,804,799	15,528,600
Working Capital	7,891,846	15,642,258
Mineral Assets	10,509,152	12,132,798
Total Assets	19,223,072	28,374,473
Long Term Debt	280,000	-
Net Profits	(1,220,732)	(1,746,139)
EPS	(0.03)	(0.03)

Compliance Energy is currently developing the Raven Underground Coal Project on Vancouver Island, British Columbia. The project has resources of 97.5 million tonnes measured and indicated and 34.5 million tonnes inferred of semi-soft metallurgical coal. Production is projected to begin in late 2013.

Positive Feasibility Study Results

On May 9, 2011, the company announced results from the recently completed feasibility study on the Raven Coal project. The report was prepared by Pincock, Allen, and Holt (PAH), of Denver, Colorado, who were also responsible for the pre-feasibility study completed in October 2010. The following table shows the primary results of the feasibility study versus the pre-feasibility study. **Except for the coal price, little changes were made to most of the significant inputs.** The feasibility study used an average coal price of $174/t versus $142/t in the prefeasibility study. As a result, the **before-tax NPV @10% increased from $149 million to $297 million**. The **before-tax NPV@8% increased from $202 million to $378 million.**

	Feasibility Study	**Pre-feasibility Study**
Production commencement	2013	2013
Average Coal Price ($/tonne)	$174	$142
Mine Life, years	16	16
Average annual saleable production, Mt	0.85	0.83
Total saleable coal, Mt	13.1	13.2
Average operating cost ($/t saleable coal)	76.50	75.37
Total Capex (LOM), $ million	$292	$272
Discount rate	8%	8%
Before Tax NPV, $ million	$378 (@ 8%) / $297 (@ 10%)	$202 (@ 8%) / $149 (@ 10%)

The feasibility study also upgraded some of the inferred resource to the measured and indicated category. The revised measured and indicated resource is 97.5 Mt (up from 72 Mt), while the inferred resource is 34.5Mt (down from 59 Mt). **Note that the total resource (measured + indicate + inferred) has not changed.** The feasibility study was based on the entire measured and indicated resource; no consideration was given to the inferred resource.

The mining plan remains the same - the project will be developed by underground mining utilizing room and pillar mining methods. The project is expected to produce 0.85 million tonnes of coal (88% semi-soft metallurgical coal and 12% thermal middlings product) over a 15.5 year mine life. The produced coal will be shipped to Port Alberni and marketed into Asian coal markets, such as Japan and Korea.

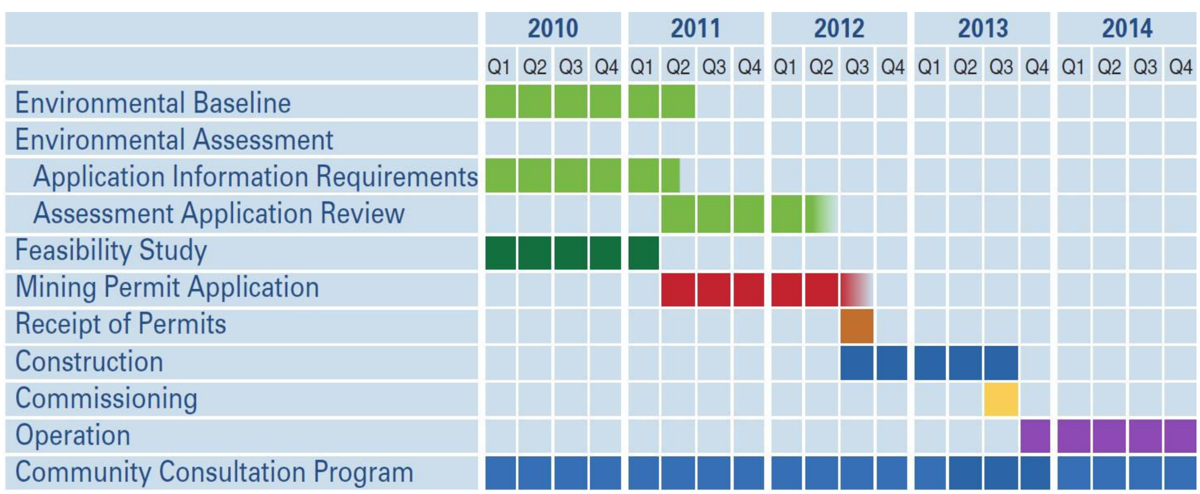
The **initial capital cost was maintained at about $240 million** (the total capital outlay over the life of the mine - $292 million).

According to the feasibility study, **two areas remain to be fully addressed** - 1) the quantity and quality of water inflows to the mine workings; and 2) determining whether there is any potential for the rock reject material to be acid generating. The company expects to work on these aspects going forward.

Subsequent studies will focus on the following aspects to improve the overall economics of the project:

- Evaluate different port options
- Revise water treatment capital expenditures (the current CAPEX estimated by the feasibility study includes an estimate for water treatment of $16.3 million)

Timeline - The construction of project related infrastructure is targeted for 2012 once all required permits are received. Mine construction/development is projected to be completed within one year with the first shipment of coal occurring in late 2013.



Source: Company

Public comment period announced

The Canadian Environmental Assessment Agency (CEAA) and the B.C. Environmental Assessment Office (BC EAO) announced a public review and comment period of 40 days *(from May 18, 2011 to June 27, 2011*) regarding the draft Application Information Requirements (AIR) / Environmental Impact Statement (EIS) Guidelines.

The CEAA and the BC EAO will:

a) review all the comments submitted during the public comment period, and

b) direct CEC to respond to valid project-specific comments

Once the CEAA and BC EAO ensure CEC's responses are adequate, they will finalize the AIR/EIS Guidelines document. **Once the guidelines are finalized, CEC and its partners should be able to begin preparation of its applications for environmental certification and approval.**

When we reviewed the public comments made on the BC EAO website (www.eao.gov.bc.ca), we noticed that over a hundred comments (mostly negative) have already been posted since May 18th. The comments were mostly from local people who do not want the Raven project to proceed as they think it would be environmentally destructive and harmful for the people in the neighboring communities and most importantly, the local fisheries (which have been in existence for a long time). Although it is normal for local communities to have negative sentiment on mining projects, it is difficult to speculate at this time whether it will negatively affect the project's progress. We believe, the following factors are in favor for the project:

- The project is expected to create **approximately 350 local jobs during its mine life** - which is a huge benefit for the local communities' residents.
- The draft AIR/EIS Guidelines were prepared after two years of consultation with the First Nations groups, community constituents, municipal governments, environmental groups, government departments/agencies, the business community, stakeholders, the CEAA and the BC EAO - therefore, it is likely the report properly identifies the necessary actions to meet the environmental guidelines.
- A lot of the comments received so far have been from people who support clean/renewable/alternative sources of energy - these comments are not project-specific and should not affect the project.
- Raven is approximately 60 km southeast of the currently producing Quinsam coal mine, indicating there are successful operating mines in the region.

Acquires New Projects on Vancouver Island

In December 2010, the company acquired mineral tenures to five exploration properties on Vancouver Island. Brief descriptions of the properties are shown in the following table.

Property	Approximate Location	Size (Hectares)	Exploration Objectives/Targets
Camp Lake	Campbell River	3,441	Magnetite skarn and porphyry copper deposits
Hisnit	Tahsis	1,294	Porphyry and skarn deposits containing Copper, Molybdenum, and Gold
Tower	Sayward	2,107	Porphyry deposits containing Copper, Molybdenum, and Gold
NIC	Port Alice	7,533	Porphyry deposits containing Copper, Molybdenum, and Gold
CJD	Gold River	1,042	Porphyry deposits containing Copper

Source: Company

The Camp Lake, Hisnit, and Tower properties were acquired for $0.20 million in cash + future royalties. CEC did not have to make any payments or offer future royalties to stake NIC and CJD.

CEC had initially acquired these projects under an option agreement in 2010. Subsequently, the company conducted geological mapping, soil and rock geochemistry, and airborne geophysical surveys totalling 927 kilometres. Based on encouraging results from these studies, the company decided to exercise its option.

In January 2011, the company **announced its 2011 exploration program with a budget totalling $1.25 million, which will include 3,500 m of diamond drilling** at the Camp Lake and NIC properties. Drilling is expected to commence in the spring (after the snowmelt and receipt of permits)

Overall, we believe the **acquisition of these projects is a reasonable strategy** because - a) the company already has significant experience working on Vancouver Island, b) the new projects provide diversification from coal to base metals + gold, and c) the Raven project is in advanced stages and has limited exploration upside - these new projects provide exposure to exploration upside

Financials

At the end of FY2010 (end of December 2010), CEC had cash of $0.29 million. The company also had $15.53 million in marketable securities, which included 2.31 million shares (valued at $14.99 million) of Copper Mountain Mining Corp. (TSX: CUM) and 7.41 million shares (valued at $0.54 million) of Jameson Resources Ltd. (ASX: JAL). The following table shows a summary of the company's cash/liquidity position at the end of FY2010.

(C$)	2009	2010
Cash	3,279,980	287,361
Marketable Securities	4,804,799	15,528,600
Working Capital	7,891,846	15,642,258
Current Ratio	28.3	65.8
LT Debt / Assets	1.46%	-
Cash From Financing Activities	5,955,060	47,849
Monthly Burn Rate (including exploration)	(363,609)	(239,910)

In early 2011, the company sold all of its JAL shares for net proceeds of $0.84 million and 80,000 CUM shares for $0.48 million. **The current market value of the remaining 2.23 million CUM shares is $16.73 million, or $0.25 per CEC share.**

Completes $3.50 million financing - In March 2011, the company **completed a $3.50 million financing** by:

- Issuing 6.43 million common shares (non flow-through) at $0.35 per share for gross proceeds of $2.25 million. 5 million of these shares were issued to Prophecy Resource Corporation (TSXV: PCY), whose primary asset is an open-pittable thermal coal project in Mongolia.

- Issuing 3.125 million units at a unit price of $0.40, to Mineral Fields Group, for gross proceeds of $1.25 million. Each unit consisted of a common share (flow-through) and one-half of one non flow-through share purchase warrant (exercise price - $0.60 in year 1 and $0.75 in year 2).

The company currently has about $3.5 million in cash; which should take them through the end of this year.

Stock Options & Warrants: The company has 5.39 million stock options outstanding (weighted average exercise price - $0.14) and 7.79 million warrants (weighted average exercise price - $0.54). All but 0.47 million options are currently in the money.

Valuation & Rating

Our revised fair value on CEC is $2.36 per share, up from our previous estimate of $2.00 per share.

Valuation Summary	Revised	Previous
Raven and Bear Projects		
DCF	$2.47	$1.98
Real Options	$2.81	$2.31
Comparables	$0.89	$1.01
Average	**$2.06**	**$1.77**
Working Capital - Debt	$0.05	$0.02
CUM Shares	$0.25	$0.21
Fair Value	**$2.36**	**$2.00**

Our DCF and real options valuation increased primarily because we raised our weighted average (88% semi-soft metallurgical coal and 12% thermal) long-term (2014+) coal price forecast from US$125/t to $156/t based on our stronger long-term demand outlook on coal. The increase was partially offset by an increase in our discount rate assumption (from 11.63% to 13.63%) - we raised the discount rate to account for the fact that we are not in a position at this time to speculate whether the negative comments received so far in the public comment period will negatively affect progress. We will adjust our discount rate assumptions going forward as we get more clarity on the progress.

The comparables valuation dropped as the peer average enterprise value to resource ratio dropped from $0.89/t to $0.82/t since our previous report.

We have maintained our BUY rating and fair value estimate at $2.00 per share.

Risks

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

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

We rate 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.

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