

ANNUAL REPORT 2007

Highlights:

- *Compliance completes NI 43-101 Resource estimate and Preliminary Assessment on Raven Project*
- *Compliance signs MOU with ITOCHU Corporation and LG International Corporation for advancement of Raven Project*
- *Wood studies confirm fuel supply for Princeton Power Project*

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CEO's Report

In 2007, we completed a NI 43-101 Resource Report and a Preliminary Assessment on our Raven coal property. The 43-101 Report, which was prepared by O.R. Cullingham Resource Consultants Ltd., outlined a significant increase in coal resources, more than doubling the known resource at Raven from a total of 38.5 million tonnes including inferred resources to a current total of 39.0 million tonnes of measured and indicated; and 59.0 million tonnes of inferred resources. In addition, The Preliminary Assessment, which was prepared by Associated Geosciences Ltd., concluded that a proposed underground mine at Raven has an estimated net present value of 105.6 million dollars at a 12% discount rate. The Raven coal resources are situated close to tidewater and have a significant transportation advantage relative to other BC coal properties located in the interior.

Early in 2008 we announced that we signed a Memorandum of Understanding with ITOCHU Corporation and LG International Corporation for the advancement of the Raven Project. It is anticipated that these companies will complete their due diligence on the Raven Property by the end of May 2008. Assuming a positive outcome to their due diligence and the successful completion of a joint venture agreement we would expect to begin an environmental assessment and full feasibility study on the project shortly thereafter.

Our plans for the 56 megawatt Princeton Power Project were influenced very negatively by the change in British Columbia's Energy Policy announced in February 2007. The new Energy Policy effectively eliminates the possibility of using coal as a fuel in electricity generation, because the Policy requires that any carbon emissions produced by a coal fired power plant be captured and sequestered. The technology to capture and sequester carbon emissions is not yet commercially available, and not likely to be available for the next decade. We have however, been working with the BC Government and BC Hydro to examine ways of utilizing beetle killed wood as fuel instead of using coal. Salvaging the standing dead pine for fuel would allow reforestation to be accelerated, would help mitigate the risk of wildfires, benefit the forest industry in the recovery of saw logs from infested areas, and enhance economic activities in the woods industry for local communities. Our Electricity Purchase Agreement with Hydro remains in good standing, however the cost of salvaging beetle killed wood will increase the cost of fuel for our project and price adjustments to the Agreement will be required for the project to be economic.

A study by the Timberline Natural Resource Group indicates that if beetle killed wood is utilized; there is sufficient fuel for a 56 megawatt plant for over 25 years. To guarantee that the plant has access to sufficient fuel for its lifetime, the project will require a forest tenure which would give the company the right to access standing dead pine in the event that insufficient fuel is available from local forestry companies. Bill 31, which was introduced into the legislature in April 2008, includes provisions to provide power producers who have contracts with Hydro to obtain tenures that would give them access to beetle killed wood. We have put our power project on hold until Hydro completes its Phase One Bioenergy Call for Power and the Ministry of Forests and Range completes its biomass inventory study.

John A. Tapics

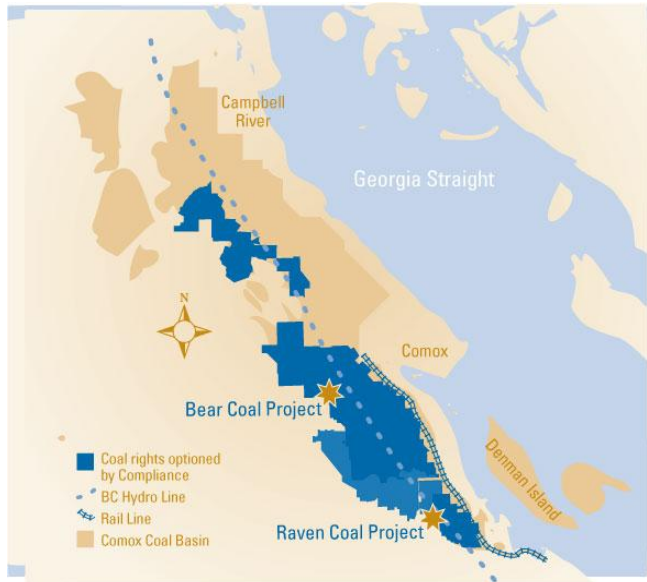
Chief Executive Officer

Vancouver Island Coal Deposits

The Raven Coal Deposit is located on Vancouver Island, BC, 2 km's from the main Island Highway and E&N Railway; and 80 km's from a deep water port.

During 2007, the Company completed a 43-101 Technical Report, which increased the reported coal resources from a total of 38.5 million tonnes to 39.1 million tonnes measured and indicated and 59.0 million tonnes inferred. The report was completed by Owen R. Cullingham, P. Geo., who was the Qualified Person for reporting purposes on the Raven exploration program.

A 43-101 compliant Preliminary Assessment of underground mining was completed by Associated Geosciences Ltd. ("AGL"). This assessment, which used a \$105 US per tonne selling price for metallurgical coal and \$61 US per tonne for thermal coal indicates that a proposed underground mine at Raven would have a net present value of \$105 million at a 12% discount rate. There have been a total of 164 holes drilled on the property, 69 of which have been drilled since 1974 supported by geophysical logs. In addition there has been 34.6 kilometers of high resolution seismic surveys conducted. AGL concluded that the property warranted further exploration and a full feasibility study.



Inspecting core from exploration drilling on the Raven Project

*" a t o t a l h a v e b e e n d r i l l e d o n t h e p r o p e r t y ,
69 o f w h i c h h a v e b e e n d r i l l e d "*

Early in 2008, an MOU was signed with ITOCHU Corporation and LG International Corp. for advancement of the Raven Project. 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. The MOU

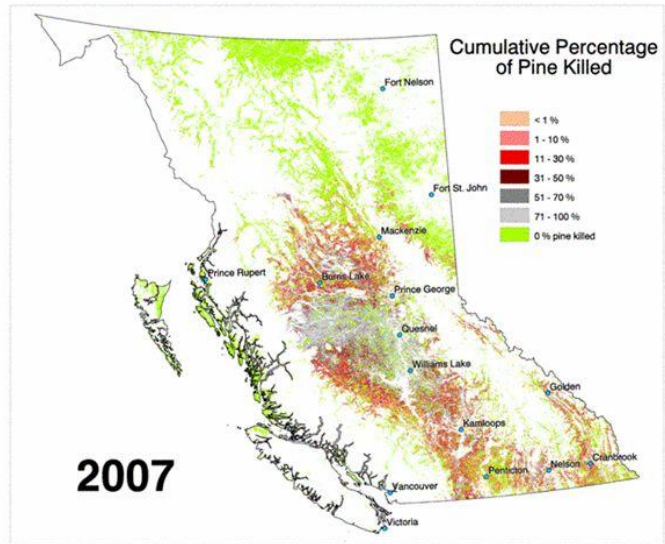
provides for a due diligence period up to May 31, 2008 at which time the parties expect to have definitive agreements signed.

Princeton Power Project

In February 2007, the BC Government changed its Energy Policy to require coal fired power plants to capture and sequester their carbon emissions. Since the technology to capture and sequester carbon emissions is not yet commercially available, our Princeton Power Project is no longer able to use coal as a fuel source. The Company has had discussions with BC Hydro on the technical and financial requirements to enable the plant to be fuelled with wood residuals and pine beetle killed wood instead of coal, but to date has been unable to come to agreement on the contract amendments required. The Company has also had discussions with the BC government about the need for a secure source of fuel.

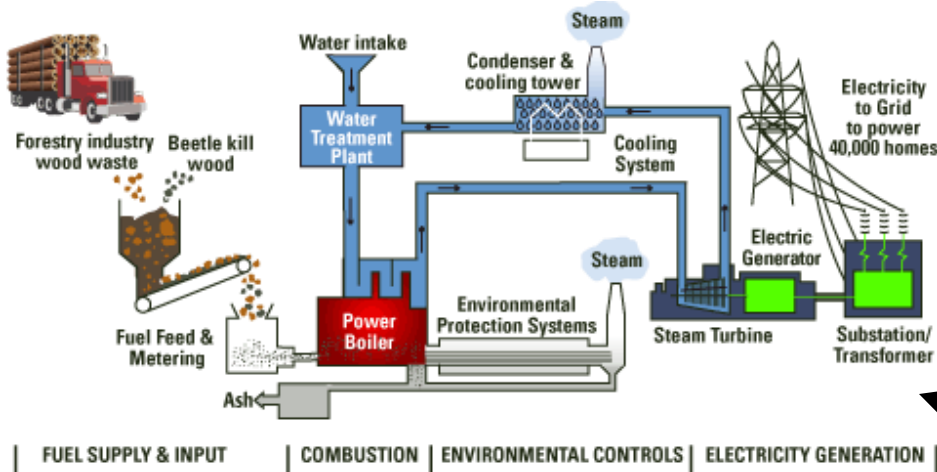
A study completed in 2007 on behalf of the Company by the Timberline Natural Resource Group forecasts that there will be ample fuel in the form of roadside residuals from existing logging operations and passed over beetle killed pine in the Princeton region to fuel the plant for over 25 years. *Salvaging the standing dead pine for fuel would allow reforestation to be accelerated, would help mitigate the risk of wildfires, benefit the forest industry in the recovery of saw logs from infested areas, and enhance economic activities in the woods industry for local communities. It would also help the Province toward its goal of becoming energy self sufficient by 2016.* In order to finance the project, the Company will need a forest license that grants it access to road side residuals and standing dead pine in the event that these fuel sources are not available from local logging and forestry companies.

The Power Project has been put on hold until after the results of Hydro's phase one bioenergy power call are publically available and these major issues have been resolved. It is anticipated that the results of the phase one power call will be available by the fall of 2008 at which time a phase two bioenergy call will be launched following the completion of the Ministry of Forests and Range's biomass inventory and forest tenure analysis.



Map Courtesy of BC Government

“The Ministry of Forests and Range estimates that as of 2007 the cumulative area of provincial Crown forest affected to some degree (red -attack and grey -attack) was about 13.5 million hectares or 22% of BC forests ”



“ Buying wood waste and pine beetle wood, the project will be carbon neutral with minimal environmental impact ”

Flow Sheet of Wood Waste/ Beetle Killed Wood Power Plant Design

Management Discussion and Analysis

MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A") OF FINANCIAL CONDITION & THE RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2007

April 28, 2008.

Occupational safety and health factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the Earnings Report for the year ended December 31, 2007. The Company reports its financial statements in accordance with Canadian generally accepted accounting principles. Significant accounting policies are set out in Note 2 of the audited consolidated financial statements for the year ended December 31, 2007. Additional information on the Company is available and can be found at www.sedar.com or www.complianceenergy.com.

Overall Performance

The 2007 year was a difficult year for the Company. At the beginning of the year, the British Columbia government decided to significantly change its' energy policy whereby the government decided to essentially exclude coal as a source of fuel for future power projects in the province as they embraced their green energy strategy. The Company was encouraged by BC Hydro to continue with the Princeton Power Project, but use pine beetle killed wood as the source of fuel. Management reviewed this option and concluded that this could be accomplished, but that it would require a much higher contract price for the electricity in order to make an acceptable return for the shareholders. To date, management has not been able to conclude an agreement with BC Hydro on these new terms. Development expenditures on the Princeton Power Project have all been deferred and will continue to be deferred until a resolution is reached on the project's status with BC Hydro. Similarly, exploration expenditures on the Vancouver Island coal assets have also been deferred. During the year, the Company completed a 43-101 technical report and a preliminary assessment on the Raven deposit on Vancouver Island. Subsequent to the end of the year, the Company concluded a memorandum of understanding with ITOCHU Corporation and LG International Corp for the advancement of the Raven Coal Deposit. The Company continues to maintain the Basin Coal Mine on a care and maintenance basis.

The following table represents selected annual financial information derived from the Company's financial statements and should be read in conjunction with the consolidated financial statements.

	Dec 31 2007	Dec 31 2006	Dec 31 2005
Gross Revenue	Nil	Nil	Nil
Net income (loss)	\$1,363,307	(\$9,290,785)	(\$793,199)
Net income (loss) per share	\$0.03	(\$0.22)	(\$0.02)
Total assets	\$10,023,774	\$13,074,579	\$17,123,520
Long-Term debt	\$280,000	\$727,354	\$903,137
Cash dividends per share	\$0.00	\$0.00	\$0.00

The Company recorded net income of \$1,363,307 or \$0.03 per share, for the year ended December 31, 2007. This compares to a loss of \$9,290,785 or \$0.22 per share including a one time charge of \$9.18 million from the write down of the Basin Coal Mine assets, for the year ended December 31, 2006. Net income included a one time gain of \$1,269,233 from the sale of shares of Copper Mountain Mining Corporation (TSX-V: CUM). Future income tax recovery, resulting from renouncing expenses from issuing flow-through shares, totaled \$545,920 and helped contribute to this accounting profit.

General and Administrative expenses were \$239,300 for the year ended December 31, 2007 as compared to \$291,078 for the year ended December 31, 2006. General and Administrative were made up of; \$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. This compares to general and administrative charges for the year ended December 31, 2006 as follows: \$113,126 of office wages, \$7,484 of bank and interest charges, \$12,603 of computer and web site expenses, \$39,975 office expenses, \$43,519 office rent, \$15,900 of donations, \$17,831 printing and stationary, and \$40,640 miscellaneous.

Professional fees were \$84,458 for the year ended December 31, 2007 as compared to \$183,563 for the year ended December 31, 2006. The Company incurred \$17,884 in transfer agent fees and \$65,090 in shareholder communications fees during the year ended December 31, 2007 as compared to \$49,117 and \$117,906, 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.

Liquidity and Capital Resources

As at December 31, 2007, the Company had working capital of \$41,645 (comprised of \$79,090 cash, \$43,925 of receivables and prepaid expenses, and \$587,000 of investments and marketable securities, offset by \$68,370 of accounts payable and \$600,000 due to a related party) compared with a working capital deficiency of \$385,328 (comprised of \$763,070 of cash, \$156,886 of receivables, prepaid expenses and \$3,457,500 of investments and marketable securities and offset by \$4,762,784 of liabilities) at December 31, 2006. 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 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, 2007	-	(\$227,642)	(\$0.00)	(\$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
December 31, 2006	-	(\$8,823,255)	(\$0.22)	(\$0.22)
September 30, 2006	-	(\$137,568)	(\$0.00)	(\$0.00)
June 30, 2006	-	(\$203,803)	(\$0.00)	(\$0.00)
March 31, 2006	-	(\$126,159)	(\$0.00)	(\$0.00)

The Company's quarterly results are fairly consistent over the last eight quarters with the exception of the first quarter in 2007 and the last quarter in 2006. 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, while the Company took a one time charge against income of \$9.18 million in the last quarter of 2006 as a result of writing down the asset value of the Basin Coal Mine to its net realizable value.

Project Reviews

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 \$585,328 was incurred on this project during the year. All of these costs have been deferred. The project has an estimated capital cost of \$220 million.

Raven Coal Project

The Company completed a National Instrument 43-101 technical report on Vancouver Island during the year. The report was completed by Owen.R. Cullingham, P. Geo., who is the Qualified Person for reporting purposes. In-place resources cover an area of approximately 3,100 hectares and a measured and indicated and inferred coal resource of 39,093,000 and 59,004,000 tonnes respectively has been identified. The coal is classified as high volatile Bituminous A and may be suitable for targeting the metallurgical or thermal coal markets. On September 5, 2007, Associated Geosciences Ltd. completed a 43-101 preliminary assessment of underground mining on the property. Peter Cain Ph.D., P.Eng.; and Alan Craven, P.Eng. are the Qualified Persons who prepared the report. The report indicates that the Raven Property warrants additional exploration and a feasibility study to form the basis of a production decision. Reclamation of the drill holes from the 2006 exploration program was completed during the year.

The Company plans on completing an environmental assessment and a mining feasibility study in 2008 and 2009 with the objective of opening a mine capable of producing between 800,000 and 1,400,000 clean tonnes of coal per year by the end of 2011. The Company was able to revise the option payment agreement with West Fraser Mills Ltd on November 30, 2007 and subsequent to the end of the year the Company signed a memorandum of understanding with ITOCHU Corporation and LG International Corp. ("the Parties") for the advancement of the Project.

ITOCHE 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. Under the terms of the MOU the Parties made an initial payment of \$600,000 to secure exclusivity in the project and subject to the favourable outcome of due diligence will fund the next \$5.4 million in payments to earn up to a 50% interest in the Raven Coal Project. The \$5.4 million will be spent as follows: \$2.4 million to complete the purchase of the property and up to \$3.0 million for environmental assessment studies and a bankable feasibility study. The MOU provides for a due diligence period up to May 31, 2008 at which time the Company and the Parties expect to have definitive agreements signed.

Basin Coal Mine

The Basin Coal Mine and the project remained on care and maintenance in light of the BC Government policy on the use of coal in the province for generating power. The Company sold the remaining clean coal inventory totaling 4,798 tonnes to a leading cement producer and a local greenhouse. Total coal revenue realized was \$192,668. In July 2007, the Company sold a majority of its mobile mining equipment to Copper Mountain Mining Corporation, ("Copper") a Company related by common directorship, for \$568,500 in cash consideration. As all costs associated with the Basin Coal Mine have been deferred in the past, proceeds on the sale of equipment have been treated as a reduction to the deferred cost balance on the balance sheet. The valuation for the major pieces of mining equipment transferred was determined by an independent third party, while the remaining minor pieces of equipment were transferred at negotiated prices. In addition, the Company transferred \$523,359 in lease obligations to Copper as Copper assumed the lease obligations of the Company's a D8 Dozer, a 773 Haul Truck, and a pick up truck. Expenses on the Basin Coal Mine were primarily related to administration and security costs.

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 coal price fluctuations and operating uncertainties encountered in the mining business. Competition for the limited Pacific Northwest thermal coal market may make it difficult to penetrate the market. Future government, legal or regulatory changes could affect any aspect of the Company's business, including, among other things, environmental permitting and taxation costs and the ability of the Company to develop an independent power project. These risks and uncertainties are managed in part, by experienced managers, advisors and consultants, maintaining adequate liquidity, and by cost control initiatives.

Related Party Transactions

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 \$58,885 to a private company controlled by a director and officer of the Company and paid consulting fees of \$14,760 to a private company controlled by a director of the Company in connection with the Raven Coal Project. The Company also borrowed \$600,000 from Copper Mountain Mining Corporation ("Copper") during the year as a demand loan secured by the equivalent value of common shares of Copper owned by the Company, with the loan bearing an interest rate of prime plus 1%. Copper is a public company, listed on the TSX Venture Exchange and related by certain common directors and officers, and at December 31, 2007 the Company owned 2,750,000 common shares of Copper.

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, 2007. 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

AUDITORS' REPORT

To the Shareholders, of
Compliance Energy Corporation:

We have audited the consolidated balance sheets of Compliance Energy Corporation as at December 31, 2007 and 2006, and the consolidated statements of operations and deficit and cash flows for the year ended December 31, 2007 and December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the year ended December 31, 2007 and December 31, 2006 in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

“De Visser Gray”

Chartered Accountants

Vancouver, BC
April 28, 2008

COMPLIANCE ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31, 2007	December 31, 2006
ASSETS		
Current assets		
Cash	\$ 79,090	\$ 763,070
Accounts receivable	34,038	156,886
Investments and marketable securities (note 4)	587,000	3,457,500
Prepaid expenses	9,887	-
	<u>710,015</u>	<u>4,377,456</u>
Reclamation bonding	195,000	195,000
Property, plant and equipment (note 5)	620,514	1,774,178
Resource property (note 6)	8,498,245	6,727,945
	<u>\$ 10,023,774</u>	<u>\$ 13,074,579</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 68,370	\$ 1,262,784
Due to related party (note 9)	600,000	-
Short-term loan (note 7)	-	3,500,000
	<u>668,370</u>	<u>4,762,784</u>
Long term debt (note 8)	280,000	727,354
	<u>948,370</u>	<u>5,490,138</u>
SHAREHOLDERS' EQUITY		
Share Capital (note 10b)	16,930,649	17,476,569
Contributed surplus (note 10b)	1,057,916	936,340
Deficit	(9,465,161)	(10,828,468)
Other comprehensive income	552,000	-
	<u>9,075,404</u>	<u>7,584,441</u>
	<u>\$ 10,023,774</u>	<u>\$ 13,074,579</u>

Approved by:

"Jamieson Merritt" Director
Jamieson Merritt

"Paul Willis" Director
Paul Willis

The accompanying notes are an integral part of these financial statements

COMPLIANCE ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31, 2007	Year ended December 31, 2006
EXPENSES		
Amortization	\$ 5,948	\$ 6,132
General & administration	239,300	291,078
Professional fees	84,458	183,563
Shareholder communications	65,090	117,906
Stock-based compensation	121,576	246,273
Transfer agent & filing fees	17,884	49,117
Travel	8,670	26,466
Write-down of Basin Coal Mine (notes 5 and 6)	-	9,179,996
Net loss before other item	(542,926)	(10,100,531)
Other items:		
Future income tax recovery	545,920	723,364
Loss on disposal of fixed assets	(3,200)	-
Interest income	94,280	86,382
Gain on sale of investments	1,269,233	-
Total other items	1,906,233	809,746
NET INCOME (LOSS) FOR THE YEAR	1,363,307	(9,290,785)
EARNING (LOSS) PER SHARE	\$ 0.03	\$ (0.22)
WEIGHTED AVERAGE COMMON SHARES	45,248,282	45,248,282

The accompanying notes are an integral part of these financial statements

COMPLIANCE ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Share Capital		Deficit	Contributed Surplus	Accumulated Other Comprehensive Income	Total Shareholder's Equity
	No. of Shares	Amount				
	(Note 10(b))			(Note 10(b))	(Note 3)	
Balance December 31, 2005	43,839,092	\$ 16,459,050	\$ (1,537,683)	\$ 690,067	\$ -	\$ 15,611,434
Net loss for the year	-	-	(9,290,785)	-	-	(9,290,785)
Shares issued for cash	3,607,691	1,740,883	-	-	-	1,740,883
Flow through renunciation	-	(723,364)	-	-	-	(723,364)
Stock-based compensation	-	-	-	246,273	-	246,273
Balance, December 31, 2006	47,446,783	17,476,569	(10,828,468)	936,340	-	7,584,441
Adjustment to opening balance, change in accounting policy (note 3)	-	-	-	-	51,562	51,562
	47,446,783	\$ 17,476,569	\$ (10,828,468)	\$ 936,340	\$ 51,562	\$ 7,636,003
Net income for the year	-	-	1,363,307	-	-	1,363,307
Other comprehensive income:						
Unrealized gains on marketable securities	-	-	-	-	552,000	
Realized gains on marketable securities	-	-	-	-	(51,562)	500,438
Comprehensive income						1,863,745
Flow through renunciation	-	(545,920)	-	-	-	(545,920)
Stock-based compensation	-	-	-	121,576	-	121,576
	-	(545,920)	1,363,307	121,576	500,438	1,439,401
Balance December 31, 2007	47,446,783	\$ 16,930,649	\$ (9,465,161)	\$ 1,057,916	\$ 552,000	\$ 9,075,404
			(A)		(A)	

(A) Total deficit and accumulated other comprehensive income at December 31, 2007 was \$(8,913,161).

The accompanying notes are an integral part of these financial statements

COMPLIANCE ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2007	Year Ended December 31 2006
OPERATING ACTIVITIES		
Net income (loss) for the year	\$ 1,363,307	\$ (9,290,785)
Add: non - cash expense items		
Amortization	5,948	6,132
Future income tax recovery	(545,920)	(723,364)
Loss on sale of fixed assets	3,200	-
Stock-based compensation	121,576	246,273
Write-down of basin coal mine	-	9,179,996
Gain on sales of marketable securities	(1,269,233)	-
	(321,122)	(581,748)
Net change in non-cash working capital items	(328,900)	(196,718)
	(650,022)	(778,466)
INVESTING ACTIVITIES		
Purchase of reclamation bond	-	(21,500)
Proceeds on sale of marketable securities	1,331,733	-
Redemption (purchase) of performance security	3,360,000	(3,360,000)
Sale (purchase) of equipment	569,710	(394,157)
Resource property costs	(1,691,882)	(5,601,589)
	3,569,561	(9,377,246)
FINANCING ACTIVITIES		
Advance (repayment) of short-term loan	(3,500,000)	3,500,000
Long term debt (repaid)	(103,519)	(175,783)
Shares issued for cash (net)	-	1,743,833
	(3,603,519)	5,065,100
(DECREASE) IN CASH	(683,980)	(5,090,612)
CASH, BEGINNING OF YEAR	763,070	5,853,682
CASH, END OF YEAR	\$ 79,090	\$ 763,070

Supplemental Disclosures:

During the year ended December 31, 2007, the Company:

- paid interest of \$55,704
- deferred \$311,189 in amortization expenses

During the year ended December 31, 2006, the Company:

- paid interest of \$150,740
- deferred \$583,031 in amortization expenses
- issued 646,153 shares valued at \$420,000 as per a short term loan agreement. Refer also to note 6
- received marketable securities valued at \$60,000 as payment for an option of a property

The accompanying notes are an integral part of these financial statements

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company is incorporated under the provisions of the British Columbia *Company Act*. These consolidated financial statements include all of the accounts of the Company and its wholly-owned legal subsidiaries. All significant inter-company balances and transactions have been eliminated on consolidation.

The consolidated financial statements have been prepared on a going concern basis, which assumes the ongoing capacity of the Company to realize on its assets and discharge of liabilities in the normal course of business. The Company has incurred losses since inception and the operations to date at the Basin Coal Mine have yet to achieve commercial viability; accordingly, the Company's status as a going concern is dependent on its ability to generate future profitable operations and to receive continued financial support from its lenders and shareholders. Management is of the opinion that sufficient working capital will be obtained from operations and external financing to meet the Company's liabilities and values and classifications of assets and liabilities would change and those changes could be material. It is not possible to predict the outcome of those matters at this time.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates.

A specific area requiring significant estimates is in respect to the calculation of stock-based compensation. Refer to note 10(d).

(b) Earnings per Share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. For 2007 diluted and basic earnings per share are the same as no options or warrants are in the money.

(c) Deferred Expenditures

Deferred expenditures are comprised of the Company's carrying value of the Company's coal properties and related assets, net of the Company's proportionate share of any gain or loss realized on its contribution of the property to the Basin Coal mine upon the formulation of the Basin Coal mine originally as a joint venture. The carrying costs of deferred expenditures of the Basin Coal Mine are inclusive of the deemed value of Coal's vend-in of the coal property and related assets, plus all subsequent cash costs incurred on property development. Sundry initial revenue amounts from coal sales are offset against costs deferred to date. These costs will be amortized on a units-of-production basis upon the commencement of commercial production.

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, Plant, and Equipment

Property, plant and equipment consists of land, a building, and office and mining equipment and is recorded at cost net of accumulated amortization. These assets are amortized over their estimate useful economic lives on a declining-balance basis.

(e) Financial Instruments

The Company's financial instruments consist of cash, short-term investments, goods and services tax receivable and accounts payable. The fair values of these financial instruments approximate their carrying values due to the short-term nature of the items. The Company does not hold any asset backed paper.

(f) Income Taxes

The Company accounts for and measures future tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income and in the period that includes the date of enactment or substantive enactment of the change.

When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized. Such an allowance has been applied to all potential income tax assets of the Company.

(g) Share Capital

Common shares issued for non-monetary consideration are recorded at their fair market value based upon the lower of the trading price of the Company's shares on the TSX Venture Exchange on the date of the agreement to issue the shares and the date of share issuance.

(h) Stock-based Compensation

The Company measures and records compensation expense in connection with stock options granted to employees and consultants using the fair value method, and records the expense as the options vest with the recipients. Any consideration paid by directors and employees on the exercise of stock options is credited to share capital.

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Asset Retirement Obligations

The fair value of a liability for an asset retirement obligation is recognized on an undiscounted cash flow basis when a reasonable estimate of the fair value of the obligation can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the long-lived asset. Subsequently, the asset retirement cost is allocated to expense using a systematic and rational method and is adjusted to reflect period-to-period changes in the liability resulting from passage of time and from revisions to either expected payment dates of the amounts comprising the original estimate of the obligation. The Company does not currently have any asset retirement obligations reflected in its financial statements.

(j) Impairment of Long-Lived Assets

Long-lived assets are assessed for impairment when events and circumstances warrant. The carrying value of a long-lived asset is impaired when the carrying amount exceeds the estimated undiscounted net cash flow from use and fair value. In that event, the amount by which the carrying value of an impaired long-lived asset exceeds its fair value is charged to earnings.

(k) Flow-Through Shares

The Company has adopted the new Canadian accounting standards relating to flow-through shares effective for all flow-through share renunciations occurring after March 19, 2004. Under the Canadian Income Tax Act an enterprise may issue securities referred to as flow-through shares whereby the investor may claim the tax deduction arising from related resource expenditures. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, future income tax liabilities are recognized (renounced expenditures multiplied by the effective corporate tax rate), thereby reducing share capital.

(l) Accounting Policies Not Yet Adopted

The following pronouncements recently issued by the Canadian Institute of Chartered Accountants ("CICA") will likely impact the Company's future accounting policies:

(i) CICA Handbook Section 1535 - Capital Disclosures

This standard requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for the Company for interim and annual periods relating to fiscal years beginning on or after January 1, 2008. The Company is currently evaluating the effects of adopting this standard.

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) Accounting Policies Not Yet Adopted (continued)

(ii) Financial Instruments - Disclosure (Section 3862) and Presentation (Section 3863)

These standards replace CICA 3861, Financial Instruments - Disclosure and Presentation. They increase the disclosures currently required, which will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures must provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. This standard is effective for the Company for interim and annual periods beginning on or after January 1, 2008. The Company expects that its disclosures will be expanded to incorporate the additional requirements.

(iii) International Financial Reporting Standards ("IFRS")

In February 2008 the Canadian Accounting Standards Board announced 2011 as the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The specific implementation is set for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

3. CHANGES IN ACCOUNTING POLICIES

Comprehensive Income

The Company adopted new CICA Handbook Section 1530, which introduces new standards for reporting and display of comprehensive income. Comprehensive income is the change in equity (net assets) of an enterprise during a reporting period from transaction and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Statements of other comprehensive income are included with the financial statements. The statement of other comprehensive income lists unrealized gains and losses for classifications of financial instruments, that do not require such gains and losses to be included in net income.

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

3. CHANGES IN ACCOUNTING POLICIES (Continued)

Financial Instruments

The Company adopted CICA Handbook Section 3855 which prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and whether fair value or cost measures are used. It also specifies how financial instrument gains and losses are to be presented. No retroactive application of this standard is required.

Pursuant to this standard, the Company is required to classify its financial instruments and restate their carrying values to market.

Cash equivalents, temporary investments, and assets and liabilities associated with options and warrants that are based on companies other than the Company have been classified as available for sale and will be re-valued to market in each succeeding period end. Unrealized changes in fair value are recorded as other comprehensive income and included in shareholder's equity.

4. INVESTMENTS AND MARKETABLE SECURITIES

Investments and marketable securities consist of shares of Copper Mountain Mining Corp. (TSX-V: CUM) ("Copper Mountain"). As at December 31, 2007, the Company owned 2,750,000 common shares of Copper Mountain (2006 – 4,000,000), of which 275,000 are free trading and recorded at their market value of \$2.02 per share, or an aggregate of \$555,000. The remaining 2,475,000 shares are held in escrow and are therefore not considered to be available for sale, and are carried at cost of \$0.013 per share, or a total of \$32,000 (free trading market value of \$5.0 million at December 31, 2007).

	December 31, 2007	December 31, 2006
Investment in Copper Mountain	\$ 587,000	\$ 60,000
BC Hydro Security Bond	-	3,360,000
Other	-	37,500
Total	<u>\$ 587,000</u>	<u>\$ 3,457,500</u>

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

5. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2007			Net Book Value
	Cost	Accumulated Amortization	Net Book Value	December 31, 2006
Land	\$ 50,000	-	\$ 50,000	\$ 50,000
Building	33,000	(13,000)	20,000	274,464
Equipment - Other	-	-	-	122,932
Equipment - Wash Plant	850,937	(446,490)	404,447	2,530,685
Equipment - Mining	199,204	(73,057)	126,147	1,956,415
Office Equipment	30,200	(10,280)	19,920	19,678
Less: Write –Down	-	-	-	(3,179,996)
	<u>\$ 1,163,341</u>	<u>(542,827)</u>	<u>\$ 620,514</u>	<u>\$ 1,774,178</u>

6. RESOURCE PROPERTY

a) Basin Coal Mine

The Basin Coal Mine consists of 9 coal licenses covering 2,172 hectares, and the mining rights were acquired pursuant to a Mining Agreement dated August 30, 2002. Under this agreement, the Company acquired working rights to the Property and a Right of First Offer in respect to any future disposition of the mineral tenures and related royalty comprising the property. The property is subject to a royalty of \$1.50 per tonne on all washed coal sold. On February 13, 2007, the BC Government introduced a revised BC Energy Plan that effectively eliminated the use of coal as a fuel in electricity production in British Columbia. As a result the Company wrote down the value of the assets at the Basin Coal Mine by \$9.2 Million (\$3.2 million as an impairment on the value of property, plant and equipment and \$6.0 million as a write–down of deferred costs) in 2006, and has no current plans to operate the mine in 2008.

b) Bear Coal Deposit

The Bear Coal Deposit consists of 8 coal licenses totaling 2,046 hectares. During 2005, the Company exercised its option to acquire 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.

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

6. RESOURCE PROPERTY (Continued)

c) Raven Coal Deposit

During 2007, the Company entered into an amended agreement to acquire coal rights that cover approximately 82,000 acres on Vancouver Island, including 100% of the Raven Coal Deposit. Under the terms of the amended agreement, the Company, which had already made \$1,000,000 in option payments under the original option agreement of 2005, must make the following payments: \$600,000 due on January 30, 2008, \$600,000 on July 30, 2008 and \$1,200,000 on November 30, 2008. \$2,000,000 in four equal payments over the next four years based on development milestones; and \$4,000,000 by way of a \$0.50 per tonne royalty once production is achieved. The property is subject to no other royalties. In addition, the Company paid a total of \$175,000 to an independent third party for the acquisition of ground contiguous to the Raven property.

d) Anderson Lake Coal Deposit

During 2005 the Company entered into an agreement to acquire 100% of the coal rights that cover approximately 1,938 acres on Vancouver Island. Under the terms of the agreement, the Company has paid a total of \$50,000. The property is not subject to a royalty.

e) Wolf Mountain Mine

During 2004, the Company entered into an agreement to acquire 100% of the common shares of a private company that holds the coal licenses, permits and physical assets of the Wolf Mountain Mine located on Vancouver Island. Under the terms of the agreement, the Company has made an initial \$50,000 option payment and must make an additional payment of \$200,000 on or before December 24, 2009.

f) CEC Power Project

The Company has an option to purchase or lease 94 hectares of the former Similco mine where the Company is proposing to build a 56 megawatt power plant on a portion of the leased land ("Core Area") from Copper Mountain Mining Corporation ("CMMC"). Under the terms of the agreement the Company has the option to purchase or lease the Core Area from CMMC for \$1 to July 31, 2011.

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

6. RESOURCE PROPERTY (continued)

The details of the carrying amount of the Company's resource property costs are as follows:

	Cumulative to	
	December 31, 2007	December 31, 2006
Basin Coal Mine		
Mining	\$ 3,786,518	\$ 5,968,640
Processing	2,240,876	3,384,083
Development	3,975,302	5,815,821
Marketing	234,636	363,994
Environmental	230,676	320,362
Legal	52,508	52,508
Recovery	(272,752)	-
	<u>10,247,764</u>	<u>15,905,408</u>
Less: start-up Coal Revenue	(6,763,660)	(6,560,981)
	<u>3,484,104</u>	<u>9,344,427</u>
Valuation adjustment on purchase of remaining 35% interest in the CBCJV	(2,332,639)	(2,332,639)
Write-down of Basin Coal Mine	-	(6,000,000)
	<u>\$ 1,151,465</u>	<u>\$ 1,011,788</u>
Other deferred costs:		
Bear Coal Deposit		
Acquisition	215,000	215,000
Deferred Costs	874,479	821,282
Raven Coal Deposit		
Acquisition	1,281,200	481,200
Deferred Costs	2,365,978	2,220,574
Wolf Mountain Mine		
Acquisition	50,000	50,000
Deferred Costs	29,577	22,637
Other Coal Assets		
Acquisition	252,765	240,000
Deferred Costs	23,615	4,500
CEC Power Project		
Acquisition	-	-
Deferred Costs	2,254,166	1,660,964
	<u>\$ 8,498,245</u>	<u>\$ 6,727,945</u>

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

7. SHORT TERM LOAN

During 2006, the Company closed a \$3.5 million term loan with Quest Capital Corp of Vancouver, British Columbia. Under the terms of the loan the Company issued 646,153 common shares of the Company as "Bonus Shares" as permitted under TSX Venture Exchange rules. The loan had a monthly interest rate of 1%. Proceeds from the term loan were used to provide performance security to BC Hydro under the 30 year Electricity Purchase Agreement for the Company's 56 megawatt Princeton Power Project awarded on July 27, 2006. On January 31, 2007, the Company repaid the loan to Quest Capital Corporation as a result of BC Hydro returning the Company's performance security deposit. (see also note 11(b)).

8. LONG TERM DEBT

On December 31, 2004, the Company purchased the joint venture interests of Sojitz Coal Development Corporation and 4056345 Canada Inc for \$700,000. Under the terms of the agreement, \$420,000 was due immediately and of this amount \$60,000 was paid and \$360,000 was deemed paid during 2005. The remaining \$280,000 is non-interest bearing and is due to be paid out of 50% of the net cash flow of the Basin Coal Mine after capital requirements, and is included within long term debt.

9. RELATED PARTY TRANSACTIONS

All transactions with related parties have occurred in the normal course of the Company's operations and have been measured at their fair value as determined by management.

- 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%. Copper is a public company, listed on the TSX Venture Exchange and related by certain common directors and officers, and at December 31, 2007 the Company owned 2,750,000 common shares of Copper.
- In July 2007, the Company sold a majority of its mobile mining equipment to Copper Mountain Mining Corporation, ("Copper") a Company related by common directorship, for \$568,500 in cash consideration. The valuation for the major pieces of mining equipment transferred was determined by an independent third party, while the remaining minor pieces of equipment were transferred at negotiated prices. In addition, the Company transferred \$523,359 in lease obligations to Copper as Copper assumed the lease obligations of the Company's a D8 Dozer, a 773 Haul Truck, and a pick up truck.
- During the year, the Company paid one of its officers management and administration fees aggregating \$58,885 during the year ended December 31, 2007 (year ended December 31, 2006 - \$117,000).
- During the year, the Company paid one of its directors consulting fees aggregating \$nil during the year ended December 31, 2007 (year ended December 31, 2006 - \$3,100).
- Also during 2007, the Company paid one of its directors consulting fees in connection with the Raven Coal Project totaling \$14,760 (year ended December 31, 2006 - \$nil).

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

10. CAPITAL STOCK

- (a) Authorized
1,000,000,000 Common shares without par value
20,000,000 Preferred shares without par value

- (b) Issued

	Common Shares	Amount	Contributed Surplus
Issued at December 31, 2005	43,839,092	\$ 16,459,050	\$690,067
• Shares issued for cash*	3,607,691	2,330,003	-
• Share issue costs	-	(589,120)	246,273
• Future tax recovery on renunciation of flow through expenditures	-	(723,364)	-
Issued at December 31, 2006	47,446,783	\$ 17,476,569	\$936,340
• Future tax recovery on renunciation of flow through expenditures	-	(545,920)	-
• Stock-based compensation	-	-	121,576
Issued at December 31, 2007	47,446,783	\$ 16,930,649	\$1,057,916

* Included in shares issue for cash are 2,461,538 flow through shares issued for proceeds of \$1,600,000.

- (c) Escrowed Shares

At December 31, 2007, there are 1,154,877 common shares (December 31, 2006 - 3,464,612 common shares) held in escrow. These shares are subject to a six year hold period and their release from escrow is subject to the terms of an agreement between the shareholders, the Company, and the transfer agent.

- (d) Stock Options

As at December 31, 2007, the Company has reserved stock options to directors, officers and employees enabling them to acquire up to 4,660,000 common shares as follows:

	2007		2006	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Options outstanding				
Beginning of year	3,810,000	\$ 0.77	3,020,000	\$ 0.77
Granted during year	850,000	0.40	890,000	0.76
Exercised during year	-	-	-	-
Expired during year	-	-	-	-
Cancelled during year	-	-	(100,000)	0.80
End of year	<u>4,660,000</u>	\$ 0.70	<u>3,810,000</u>	\$ 0.77

The weighted-average remaining life of options outstanding at December 31, 2007 is 2.71 years.

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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10. CAPITAL STOCK (Continued)

The fair value of options reported as compensation expense in the current year has been estimated using the Black-Scholes Option Pricing Model using the following assumptions: a risk free interest rate of 4.5%, an expected life of 5 years; an expected volatility of 48%, and no expectation for the payments of dividends.

Option pricing models require the input of highly subjective assumptions, particularly as to the expected price volatility of the stock. Changes in these assumptions can materially affect the fair value estimate and therefore it is management's view that the existing models do not necessarily provide a single reliable measure of the fair value of the Company's stock option grants.

Based on these variables, stock-based compensation expense of \$121,576 was recorded during the current year (2006 - \$264,273).

(e) Warrants

As at December 31, 2007, 500,000 warrants are outstanding (2006 – 500,000) entitling the holders to acquire shares of the Company at a price ranging between \$0.75 per share exercisable up until August 10, 2008.

	2007		2006	
Warrants outstanding	Number of warrants	Weighted average exercise price Cdn. \$	Number of warrants	Weighted average exercise price Cdn. \$
Beginning of year	500,000	0.75	6,093,678	1.05
Granted during year	-	0.75	500,000	0.75
Exercised during year	-	0.75	-	0.75
Expired during the year	-	0.75	(6,093,678)	1.05
End of year	500,000	0.75	500,000	0.75

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

11. INCOME TAXES

The reconciliation of the income tax provision computed at statutory rates to the reported income tax provision is as follows:

	December 31, 2007	December 31, 2006
Net income (loss)	1,363,307	(9,290,785)
Effective statutory rate	34.12%	34.12%
Expected taxes recoverable (payable)	(465,160)	3,170,016
Net effect of non-deductible amounts	359,288	(2,967,691)
Unrecognized liability (benefit) of non-capital losses	105,872	(202,325)
	-	-

Future income tax assets reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's future income tax assets at December 31, 2007 and 2006 are as follows:

	December 31, 2007	December 31, 2006
Future income tax assets		
Non capital loss carry-forwards	2,141,000	2,111,000
Deferred costs	(51,790)	615,962
Property, plant and equipment	1,334,868	4,268,922
Other comprehensive income	(552,000)	
	2,872,078	6,995,884
Statutory rate	34.12%	34.12%
Potential future income tax assets	979,953	2,386,996
Valuation allowance	(979,953)	(2,386,996)
	-	-

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

11. INCOME TAXES (continued)

The Company has non capital losses of approximately \$2,141,000 expiring in stages to 2026 as follows:

Expiry Date	December 31, 2007	December 31, 2006
31-Dec-07	-	24,000
31-Dec-08	24,000	46,000
31-Dec-09	-	229,000
31-Dec-10	169,000	202,000
31-Dec-14	348,000	348,000
31-Dec-15	668,000	424,000
31-Dec-26	932,000	838,000
	\$ 2,141,000	2,111,000

12. SUBSEQUENT EVENTS

Subsequent to December 31, 2007:

- (a) The Company borrowed an additional \$600,000 from Copper Mountain as a demand loan secured by the equivalent value of common shares of Copper Mountain owned by the Company, with the loan bearing an interest rate of prime plus 1%.
- (b) On January 30, 2008 the Company made a \$600,000 option payment on the Raven Coal Deposit.
- (c) The Company signed a Memorandum of Understanding (“MOU”) with ITOCHU Corporation and LG International Corp. (“the Parties”) for the development of the Raven Coal Project located on Vancouver Island. Under the terms of the MOU the Parties made an initial payment of \$600,000 to secure exclusivity in the project and subject to the favourable outcome of due diligence will fund the next \$5.4 million in payments to earn up to a 50% interest in the Raven Coal Project. The \$5.4 million will be spent as follows: \$2.4 million to complete the purchase of the property and up to \$3.0 million for environmental assessment studies and a feasibility study.
- (d) On March 7, 2007, the Company sold 300,000 shares of Copper Mountain at the market price of \$2.00 per share for total proceeds of \$600,000. The proceeds were used to repay the first \$600,000 borrowed from Copper Mountain. The Company continues to hold 2,450,000 shares of Copper Mountain, or 11% of Copper Mountain’s total issued and outstanding common shares. These common shares, if they are free trading would have a market value of \$5.0 million at December 31, 2007.

Corporate Information

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Fax: (604) 681-5910

Mine Office

Compliance Coal Corporation
DBA Compliance Basin Coal Mine
PO Box 1400
Princeton, British Columbia
Canada, V0X 1W0

Registrar and Transfer Agent

Computershare Trust Corporation
of Canada
Vancouver, British Columbia

Exchange Listing

TSX Venture Exchange
“CEC”

Notice of Annual General Meeting

June 24, 2008

Suite 550 – 800 West Pender St
Vancouver, British Columbia

Directors & Management

John A. Tapics, .Eng.

Director, President & CEO
Mr. Tapics graduated in 1975 with a B.Sc. Honours in Mining Engineer from Queen’s University in Ontario, Canada. Mr. Tapics has over 30 years mining and electricity industry experience including four years as President and CEO of the Alberta Electric System Operator, eleven as Officer of TransAlta Corporation. While at TransAlta, Mr. Tapics was responsible for the operation of 4,500 Megawatts of power capacity (3,700 MW of coal fired thermal capacity, and 800 Megawatts of hydro). Mr. Tapics has served as a Director of the Coal Association of

Directors & Management

Canada, the Alberta Chamber of Resources, and the Western Electric Power Institute.

J.C. (Jim) O’Rourke, P.Eng.

Director & Chairman

Mr. O’Rourke is a mining executive with over 30 years experience in mine evaluations, feasibility studies, financing, development, and operations. Mr. O’Rourke has had hands-on experience with more than five major mine start-ups and in 1995-1996 was responsible for the financing and development of a \$140 million open pit copper mine that was completed on schedule and budget.

Jamieson Merritt, B.Comm, LLB

Director

Mr. Merritt graduated from the University of British Columbia with a B. Comm and a LLB degree in 1990 and was called to the Bar of the Province of BC in 1991. Jamieson operates his own construction company

Rodney A. Shier, C.A..

Director & CFO

Mr. Shier has over 10 years experience in corporate finance and accounting in the mining industry. Mr. Shier is experienced in all aspects of corporate finance including over \$150 million of equity and debt financings, merger and acquisition structuring, negotiation of joint ventures, and commodity and foreign exchange hedging.

Eric W. Beresford, P.Eng.

Director

Mr. Beresford is a professional engineer and brings with him over 30 years mining experience. Mr. Beresford has held senior positions with various coal mining companies over his career, including being directly responsible for managing a 3 million tonne per year surface coal mine in Western

Directors & Management

Canada. In addition to his hands-on coal mine experience, Eric has served with the Ministry of Energy and Mines of British Columbia for a number of years.

Paul Willis, P.Eng.

Director

Mr. Willis is President of Willis Energy Services and brings with him 30 years energy-related experience encompassing energy management, marketing, research and development, project management, detailed and conceptual 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, Mr. Willis has designed and helped implement a number of other industrial energy efficiency projects, as well as numerous potential and approved cogeneration projects.

Michael Varabioff, LLB.,LL.M

Corporate Secretary

Mr Varabioff is a founding partner of Axium Law Group, a boutique law firm specializing in corporate securities law. In recent years Mr Varabioff has served as a director and officer of numerous public companies.