



**FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED  
MARCH 31, 2008 AND 2007  
(UNAUDITED)**

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# MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A") OF FINANCIAL CONDITION & THE RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2008

May 15, 2008

## Introduction

*Management's discussion and analysis ("MD&A") focuses on significant factors that affected Compliance Energy Corporation performance and such factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the unaudited consolidated financial statements for the three months ended March 31, 2008 and the Company's 2007 audited consolidated financial statements and the related notes contained therein. The Company reports its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The Company's significant accounting policies are set out in Note 2 of the audited consolidated financial statements for the year ended December 31, 2007. Additional information on the Company is available and can be found at [www.sedar.com](http://www.sedar.com) or [www.complianceenergy.com](http://www.complianceenergy.com).*

## Overall Performance

The Company recorded net income of \$472,322 or \$0.01 per share for the three months ended March 31, 2008, as compared to income of \$1,242,735 or \$0.03 per share for the three months ended March 31, 2007. In order to better understand Compliance Energy's financial results for the three months ended in 2008, it is important to gain an understanding of the stage of development of the Company's main assets: (1) The Vancouver Island Coal Deposits in which the Company recently announced an MOU with ITOCHU Corporation and LG International; (2) The Princeton Power Project in which the Company is trying to reach an agreement with BC Hydro on the supply of pine beetle killed wood as a fuel source (3) the Basin Coal Mine which was placed on care and maintenance as a result of the Government's change in policy with respect to the use of coal in power generation; and (4) the shares held for investment purposes in Copper Mountain Mining Corporation.

Development expenditures on the Princeton Power Project have all been deferred during the quarter and will continue to be deferred until a resolution is reached on the project's status with BC Hydro and with the BC Government. Similarly, exploration expenditures on the Vancouver Island coal assets have also been deferred as the Company investigates the development possibilities on Vancouver Island. The Company does not plan to operate the Basin Mine in the near future, however, the Company is looking at options to reopen or sell the mine.

## Basis of Presentation

The accompanying financial statements of Compliance Energy Corporation have been prepared by management in accordance with GAAP. 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.

## Forward Looking Statements

The MD&A contains forward-looking information which involves risk and uncertainties including but not limited to changes in exchange rates, commodity prices, interest rates and operating uncertainties encountered in the power and mining business. Forward looking information typically contain statements with the words such as "expect", "believe", "plan", "forecast", "intend" or similar words suggesting future outcomes. Because of these risks and uncertainties, the actual results could be materially different than those currently anticipated by the Company.

### **Critical Accounting Policies**

A summary of significant accounting policies is presented in Note 2 to the consolidated financial statements for the year ended December 31, 2007 included on the Company's web page and filed on Sedar.

### **Critical Accounting Estimates**

Preparing financial statements in accordance with GAAP requires management to make certain judgments and estimates. Changes to these judgments and estimates could have a material effect on the Issuer's financial statements and financial position. The carrying values of expenditures incurred in a development stage company like Compliance Energy are subject to an impairment evaluation. All of the expenditures incurred to date on the Company's projects have been capitalized. It is management's opinion that the estimated cash flows expected to result from the future use of the property and its eventual disposition will exceed its carrying amount.

### **Results of Operations**

The Company recorded net income of \$472,322 or \$0.01 per share for the three months ended March 31, 2008, as compared to net income of \$1,242,735 or \$0.03 per share for the three months ended March 31, 2007. The Company realized a gain of \$569,464 from the sale of 300,000 shares of Copper Mountain Mining Corporation ("CMMC") at a price of \$2.00 per share. Also, during the period, the Company had interest income of \$1,546 as compared to \$79,321 for the three months ended March 31, 2007. General and Administrative expenses were \$60,558 for the three months ended March 31, 2008, as compared to \$50,941 for the three months ended March 31, 2007. The General and Administrative charges were mainly made up of; \$25,476 of office wages, \$13,197 of office rent, \$7,233 of bank and interest charges, \$3,942 of office expenses, \$2,870 of printing and stationary, \$4,494 of miscellaneous, \$429 of computer/website expenses, and \$2,917 for subscriptions and publications. General and administrative charges for the three months ended March 31, 2007, were made up of; \$35,990 office wages, \$2,421 of office expenses, \$1,359 computer/website expenses, \$5,132 of printing and stationary, \$2,105 miscellaneous, and \$3,300 of subscriptions and publications.

The Company incurred \$7,733 in transfer agent fees and \$7,148 in shareholder communications fees during the three months ended March 31, 2008 as compared to \$8,298 and \$23,573 respectively for the same period last year. Professional fees, which include management, legal, and accounting services, totaled \$21,297 for the three months ended March 31, 2008 compared to \$50,941 for the same period last year.

### **Selected Annual Information**

Selected consolidated financial information of the Company for each of the last three completed financial years is detailed in the MD&A accompanying the Company's 2007 audited consolidated financial statements.

## Liquidity and Capital Resources

As at March 31, 2008, the Company had working capital of \$538,609 (comprised of \$438,962 of cash, \$45,008 of receivables, and prepaid expenses and \$759,058 of marketable securities, offset by \$97,669 of accounts payable, a \$600,000 demand loan due to a related party and interest payable on the demand loan of \$6,750 as compared with 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 demand loan due to a related party) at December 31, 2007.

The increase in working capital between December 31, 2007, and March 31, 2008, is primarily attributable to: 1) the receipt of \$600,000 from the sale of Copper Mountain Mining (“Copper”) shares during the quarter ended March 31, 2008, 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 Company will have additional cash requirements during the year for the preparation of a feasibility study for the Raven Coal Deposit and additional exploration on the property. In addition, the Company has \$1.8 million in option payments for the Raven property due by November 30, 2008. These funds will either come from the formation of a joint venture with ITOCHU Corporation and LG International Corp in which those parties would be contributing to the expenses, or by way of debt or equity as the markets permit. If the Company reaches a favorable resolution with BC Hydro regarding its Princeton Power Project, it will have additional cash requirements for this project. These additional requirements are not known at this time as the size and scope of the project could very well change. However, it is anticipated that these additional sources of money would take the form of debt and equity financed directly at the project level.

The following table is selected quarterly financial for the Company’s eight most recently completed quarters. The information has been derived from the Company’s financial statements and should be read in conjunction with the consolidated quarterly financial statements and the audited financial statements for the year ended December 31, 2007.

### Summary of Quarterly Results

Quarter	Revenue	(Net Loss) Income	Basic (Loss) Income per Share	Fully Diluted (Loss) Income per Share
March 31, 2008	-	\$472,322	\$0.01	\$0.00
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	-	\$(8,825,255)	\$(0.22)	\$(0.22)
September 30, 2006	-	\$(137,568)	\$(0.00)	\$(0.00)
June 30, 2006	-	\$(203,803)	\$(0.00)	\$(0.00)

The Company’s quarterly results are sensitive to the activity of the Company at that particular period of time. During the first quarter of 2008 the Company realized a gain of \$0.6 million from the sale of 300,000 common shares of Copper Mountain Mining Corporation (“CMMC”). Likewise, during the first quarter of 2007 the Company realized a gain \$1.25 million from the sale of 1.25 million shares of CMMC. After the sales, the Company’s remaining ownership in CMMC is 2.46 million shares or approximately 11 per cent. 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, which was developed to supply coal for the proposed wood waste / coal power project in Princeton.

## **Project Reviews**

### **Raven Coal Project**

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, which is expected to be completed by the end of May 2008, the Parties 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. A total of \$667,642 of expenditures on the property was deferred in the quarter including the \$600,000 option payment made at the end of January. The \$600,000 initial payment received from the Parties was offset against deferred costs of the project during the quarter. A total of \$4.3 million has been spent by the Company on this project to the end of March 31, 2008.

### **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 the BC Government and 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 for over 25 years. 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, the BC Government, and the Company have concluded. A total of \$53,049 was spent on the Princeton Power Project during the quarter, all of which was deferred.

### **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 does not plan to operate the Basin Mine in the near future, however, the Company is looking at options to reopen or sell the mine. A total of \$102,961 offset by interest income of \$5,386 was deferred in the quarter.

### **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 \$15,075 to a private company controlled by a director and officer of the Company and paid consulting fees of \$2,642 to a private company controlled by a director of the Company in connection with the Raven Coal Project. On January 30, 2008, the Company borrowed an additional \$600,000 from Copper Mountain Mining Corporation ("Copper") 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. On March 7, 2008, 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 2,460,000 shares of Copper Mountain, or 11% of Copper's total issued and outstanding common shares.

## **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 September 30, 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.

**COMPLIANCE ENERGY CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

	(Unaudited) March 31, 2008	(Audited) December 31, 2007
<b>ASSETS</b>		
Current Assets		
Cash	\$ 438,962	\$ 79,090
Accounts receivable	35,121	34,038
Investments and marketable securities (note 4)	759,058	587,000
Prepaid expenses	9,887	9,887
	1,243,028	710,015
Reclamation bonding	145,000	195,000
Property, plant, and equipment (note 3)	573,594	620,514
Resource property (note 5)	8,745,581	8,498,245
	\$ 10,707,203	\$ 10,023,774
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	\$ 97,669	\$ 68,370
Due to related party (note 7c)	606,750	600,000
	704,419	668,370
Non-current liability		
Long-term debt	280,000	280,000
	984,419	948,370
<b>SHAREHOLDERS' EQUITY</b>		
Share Capital (note 6)	16,930,649	16,930,649
Contributed surplus	1,057,916	1,057,916
Deficit	(8,992,839)	(9,465,161)
Accumulated comprehensive income	727,058	552,000
	9,722,784	9,075,404
	\$ 10,707,203	\$ 10,023,774

Interim Financial Statements (Note 1)

Approved by:

"Jamieson Merritt" Director  
**Jamieson Merritt**

"Jim O'Rourke" Director  
**Jim O'Rourke**

The accompanying notes are an integral part of this financial statement

**COMPLIANCE ENERGY CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007**

	(Unaudited)	
	March 31, 2008	March 31, 2007
<b>EXPENSES</b>		
Amortization	\$ 1,337	\$ 1,614
Professional fees	21,297	19,052
General & admin	60,558	50,941
Shareholder communications	7,148	23,573
Transfer agent & filing fees	7,733	8,298
Travel	615	2,341
Loss before other items	98,688	105,819
<b>Other items:</b>		
Interest income	1,546	79,321
Gain on sale of investments	569,464	1,269,233
<b>Total Other items</b>	571,010	1,348,554
<b>NET INCOME FOR THE PERIOD</b>	472,322	1,242,735
<b>(DEFICIT), BEGINNING OF PERIOD</b>	(9,465,161)	(10,828,468)
<b>(DEFICIT), END OF PERIOD</b>	\$ (8,992,839)	\$ (9,585,733)
<b>INCOME PER SHARE</b>	\$ 0.01	\$ 0.03
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	47,446,783	47,446,783

The accompanying notes are an integral part of this financial statement

**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, 2006	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		
		(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
Net income for the period	-	-	472,322	-	-	472,322
Other comprehensive income:						
Unrealized gains on marketable securities	-	-	-	-	175,058	175,058
Comprehensive income						647,380
	-	-	472,322	-	175,058	647,380
<b>Balance March 31, 2008</b>	<b>47,446,783</b>	<b>\$ 16,930,649</b>	<b>\$ (8,992,839)</b>	<b>\$ 1,057,916</b>	<b>\$ 727,058</b>	<b>\$ 9,722,784</b>
			(A)		(A)	

(A) Total deficit and accumulated other comprehensive income at March 31, 2008 was \$(8,265,781).

The accompanying notes are an integral part of these financial statements

**COMPLIANCE ENERGY CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007**

	(Unaudited)	(Unaudited)
	March 31, 2008	March 31, 2007
<b>OPERATING ACTIVITIES</b>		
Net income (loss) for the period	\$ 472,322	\$ 1,242,735
Items not involving cash:		
Amortization	1,337	1,614
Gain on sale of marketable securities	(569,464)	-
Net change in non-cash working capital items	1,711	(1,984,645)
	(94,094)	(740,296)
<b>INVESTING ACTIVITIES</b>		
Redemption of reclamation bond	50,000	-
Redemption of performance security	-	3,360,000
Resource property option payment	(600,000)	-
Proceeds on sale of marketable securities (net)	572,464	1,331,733
Sale of property, plant and equipment	-	3,134
Resource property costs	(168,498)	(674,827)
	(146,034)	4,020,040
<b>FINANCING ACTIVITIES</b>		
Option payment received	600,000	-
Advance (Re-payment) of demand loan	-	(3,500,000)
Long term debt (repaid)	-	(43,964)
Shares issued for cash (net)	-	-
	600,000	(3,543,964)
<b>INCREASE (DECREASE) IN CASH</b>	<b>359,872</b>	<b>(264,220)</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>79,090</b>	<b>763,070</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 438,962</b>	<b>\$ 498,850</b>

Supplementary disclosures

During the three months ended March 31, 2008, the Company:

- Deferred \$46,412 in amortization expenses
- \$32,426 of accounts payable relates to resource property
- Accrued interest expenses of \$6,750 in connection with a demand loan from a related party.

During the three months ended March 31, 2007, the Company:

- Deferred \$149,075 in amortization expenses
- Paid interest and closing costs of \$44,546 to pay out the Quest Capital loan.
- Paid \$8,832 in interest costs related to equipment lease obligations

The accompanying notes are an integral part of this financial statement

**COMPLIANCE ENERGY CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007 (UNAUDITED)**

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**1. BASIS OF PRESENTATION**

These interim period consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles (“GAAP”) with respect to the preparation of interim financial information. Accordingly, they do not include all of the information and disclosures required by Canadian GAAP in the preparation of our annual consolidated financial statements. Certain information and footnote disclosure normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted. The accounting policies used in preparation of the accompanying unaudited interim consolidated financial statements are the same as those described in our annual consolidated financial statements and the notes thereto for the two years ended December 31, 2007.

These interim period statements have not been reviewed by the Company’s auditors and should be read together with the audited consolidated financial statements and the accompanying notes included in the Company’s latest annual report.

**2. CONTINUANCE OF OPERATIONS**

These interim 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’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 commitments as they become due. Should the going concern assumption not be appropriate, the carrying 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.

**3. PROPERTY, PLANT AND EQUIPMENT**

	March 31, 2007	December 31, 2007
Land	\$ 50,000	\$ 50,000
Building	33,000	33,000
Equipment – wash plant	850,937	850,937
Equipment – mining	199,204	199,204
	<u>1,133,141</u>	<u>1,133,141</u>
Office equipment	30,200	30,200
Accumulated Depreciation	(589,747)	(542,827)
	<u>\$ 573,594</u>	<u>\$ 620,514</u>

**COMPLIANCE ENERGY CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007 (UNAUDITED)**

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**4. INVESTMENTS AND MARKETABLE SECURITIES**

Investments and marketable securities consist of shares of Copper Mountain Mining Corp. (TSX-V: CUM) (“Copper Mountain”). As at March 31, 2008, the Company owned 2,460,000 common shares of Copper Mountain (2007 – 4,000,000), of which 397,500 are free trading and recorded at their market value of \$1.85 per share, or an aggregate of \$735,375 (\$587,000 – Dec 31, 2007). The remaining 2,052,500 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 \$26,683.

**5. 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.

**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.

**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 \$1,600,000 in option payments under the original option agreement of 2005, must make the following payments: \$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.

**COMPLIANCE ENERGY CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007 (UNAUDITED)**

**5. RESOURCE PROPERTY** *(continued)*

**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.

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

	Cumulative to	
	March 31, 2008	December 31, 2007
Basin Coal Mine		
Mining	\$ 3,808,870	\$ 3,786,518
Processing	2,252,007	2,240,876
Development	4,054,914	3,975,302
Marketing	235,803	234,636
Environmental	233,547	230,676
Legal	52,508	52,508
Recovery	(278,138)	(272,752)
	<u>10,359,511</u>	<u>10,247,764</u>
Less: start-up Coal Revenue	(6,763,660)	(6,763,660)
	3,595,851	3,484,104
Valuation adjustment on purchase of remaining 35% interest in the CBCJV	(2,332,639)	(2,332,639)
	<u>\$ 1,263,212</u>	<u>\$ 1,151,465</u>

**COMPLIANCE ENERGY CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007 (UNAUDITED)**

**5. RESOURCE PROPERTY** *(continued)*

	Cumulative to	
	March 31, 2008	December 31, 2007
Other deferred costs:		
Bear Coal Deposit		
Acquisition	215,000	215,000
Deferred Costs	889,377	874,479
Raven Coal Deposit		
Acquisition	1,881,200	1,281,200
Deferred Costs	1,833,620	2,365,978
Wolf Mountain Mine		
Acquisition	50,000	50,000
Deferred Costs	29,577	29,577
Other Coal Assets		
Acquisition	252,765	252,765
Deferred Costs	23,615	23,615
CEC Power Project		
Acquisition	-	-
Deferred Costs	2,307,215	2,254,166
	<b>\$ 8,745,581</b>	<b>\$ 8,498,245</b>

**6. 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, 2007	47,446,783	\$ 16,930,649	\$ 1,057,916
Shares issued for cash	-	-	-
Issued at March 31, 2008	47,446,783	\$ 16,960,649	\$ 1,057,916

- (c) Escrowed Shares

Pursuant to the terms of the business combination completed during the year, at March 31, 2008 there are 4,619,480 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, Computershare Investor Services Inc.

**COMPLIANCE ENERGY CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007 (UNAUDITED)**

(d) Stock Options

As at March 31, 2008, the Company has reserved stock options to directors and officers enabling them to acquire up to 3,810,000 common shares of the Company as follows:

Options Outstanding	2008		2007	
	Number of shares	Weighted average exercise price Cdn. \$	Number of shares	Weighted average exercise price Cdn. \$
Beginning of period	4,660,000	0.70	4,660,000	0.70
Granted during period	-	-	-	-
Expired during the period	50,000	0.30	-	-
End of period	4,610,000	0.70	4,660,000	0.70

The weighted-average remaining life of options outstanding at March 31, 2008, is 2.64 years.

**7. 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.

- (a) The Company paid one of its officers management and administration fees aggregating \$15,075 during the period ended March 31, 2008 (period ended March 31, 2007 - \$14,052).
- (b) The Company paid, consulting fees aggregating \$2,642 during the period ended March 31, 2007 in connection with the Raven Coal Project, to a company controlled by one of its directors (period ended March 31, 2007 - \$nil).
- (c) On January 30, 2008, the Company borrowed an additional \$600,000 from Copper Mountain ("Copper") 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%.
- (d) On March 7, 2008, the Company sold 300,000 shares of Copper Mountain at the market price of \$2.00 per share for total proceeds of \$600,000. On March 13, 2008 the proceeds were used to repay \$600,000 borrowed from Copper Mountain. The balance remaining outstanding at March 31, 2008 is \$606,750 including accrued interest of \$6,750.