



**FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED
JUNE 30, 2007**

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MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A") OF FINANCIAL CONDITION & THE RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2007

August 28, 2007

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 six months ended June 30, 2007 and the Company's 2006 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, 2006. Additional information on the Company is available and can be found at www.sedar.com or www.complianceenergy.com.

Overall Performance

The Company recorded income of \$1,681,137 or \$0.04 per share for the six months ended June 30, 2007, as compared to a loss of \$329,962 or \$0.01 per share for the six months ended June 30, 2006. In order to better understand Compliance Energy's financial results for the six months ended in 2007, it is important to gain an understanding of the stage of development of the Company's main assets: (1) the wood waste/coal power plant project located near the Company's Basin Coal Mine that has been awarded a 30 year take or pay Electricity Purchase Agreement from BC Hydro. The Company has continued to work with government to investigate the economics to modify the fuel mixture to 100 per cent wood waste. The Company has been advised by government that output from the project utilizing 100 per cent wood waste would be eligible to be classified as BC Clean Electricity under BC Government guidelines; (2) the Vancouver Island Coal Deposits which recently released a national instrument 43-101 resource estimate report; and (3) the Basin Coal Mine of which Compliance holds a 100% interest.

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 the BC Government. Similarly, exploration expenditures on the Vancouver Island coal assets have also been deferred as the Company evaluates the results of its' 2006 exploration program. The Company has decided to place the Basin Coal Mine on care and maintenance in light of the Government's decision to exclude the use of coal. The Company does not plan to operate the mine during 2007. However, some minor coal sales from inventory are expected during the year.

Results of Operations

The Company recorded income of \$1,681,137 or \$0.04 per share for the six months ended June 30, 2007, as compared to a loss of \$329,962 or \$0.01 per share for the six months ended June 30, 2006. Future income tax recovery, resulting from renouncing expenses from issuing flow-through shares, totaled \$545,920 and helped contribute to this accounting profit. Also, during the period, the Company had interest income of \$88,391 as compared to \$45,045 for the six months ended June 30, 2006. The increase in interest income is a result of the Company earning interest on the funds placed in escrow to support the BC Hydro performance bond. In addition, the Company sold 1.25 million shares of its investment in Copper Mountain Mining Corporation for \$1 per share and 93,750 common shares of Richard's Oil and Gas that combined resulted in a gain on sale of investments of \$1,269,233.

Professional fees were \$39,046 for the six months ended June 30, 2007, as compared to \$95,746 for the period ended June 30, 2006. General and Administrative expenses were \$113,173 for the six months ended June 30, 2007, as compared to \$176,903 for the six months ended June 30, 2006. The decrease in General & Administrative charges is a result of reduced expenses due to sharing of office space and expenses with another Company. General and Administrative charges were mainly made up of; \$73,508 of office wages, \$8,042 of office rent, \$1,076 of bank and interest charges, \$11,719 office expenses, \$4,732 printing and stationary, \$7,583 miscellaneous, \$1,860 for subscriptions and publications. General and administrative charges for the six months ended June 30, 2006, were made up of; \$81,466 office wages, \$5,875 office expenses, \$19,089 office rent, \$15,000 of donations, \$3,471 of printing and stationary, \$37,153 miscellaneous, and \$3,408 of subscriptions and publications.

The Company incurred \$13,324 in transfer agent fees and \$47,157 in shareholder communications fees during the six months ended June 30, 2007 as compared to \$28,755 and \$53,664 respectively 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 2006 audited consolidated financial statements.

Liquidity and Capital Resources

As at June 30, 2007, the Company had working capital of \$67,526 (comprised of \$136,615 of cash, \$206,073 of receivables, prepaid expenses and marketable securities, offset by \$275,162 of accounts payable) as compared with a working capital deficiency of \$385,328 (comprised of \$763,070 of cash, \$156,886 of receivables and prepaid expenses, and \$3,457,000 of investments and marketable securities, offset by \$1,262,784 of accounts payable and \$3,500,000 in a short term loan) at December 31, 2006.

The increase in working capital between December 31, 2006, and June 30, 2007, was a result of the sale of 1.25 million shares of Copper Mountain Mining Corporation ("CMMC") for \$1 per share and retiring the \$3.5 million term loan with Quest Capital Corp of Vancouver, British Columbia. Funds for the redemption of the Quest Capital loan came from a return of capital from BC Hydro for the Company's performance security. Once an agreement is achieved with BC Hydro and the government on the future of the Princeton Power Project, then this performance security may or may not be required to be replaced.

The Company will have additional cash requirements to prepare feasibility studies for the Raven Metallurgical Coal Deposit on Vancouver Island and, if favorable, to develop the property. In addition, if the Company reaches a favorable resolution with BC Hydro regarding its Princeton Power Project, it will have additional cash requirements for this project. It is anticipated that these additional sources of money would take the form of debt and equity, financed specific to each project.

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, 2006.

Summary of Quarterly Results

Quarter	Revenue	(Net Loss) Income	Basic (Loss) Income per Share	Fully Diluted (Loss) Income per Share
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)
March 31, 2006	-	\$(126,159)	\$(0.00)	\$(0.00)
December 31, 2005	-	\$(499,432)	\$(0.01)	\$(0.01)
September 30, 2005	-	\$(95,410)	\$(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 2007 the Company realized a gain of \$1.25 million from the sale of 1.25 million shares of Copper Mountain Mining Corporation ("CMMC"). After the sale, the Company's remaining ownership in CMMC is 2.75 million shares or approximately 14 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, which was developed to supply coal for the wood waste / coal power project in Princeton, to its net realizable value. During the quarter ended December 31, 2005 the Company expensed a stock based compensation expense of \$370,000. Other than the items listed above, the remaining quarters were fairly consistent with each other.

Project Reviews

Raven Metallurgical Coal Project

The Company has completed a 43-101 technical report on the property. The 43-101 technical report incorporates data contained in historical reports supplemented by recent drilling and seismic surveys carried out by Compliance Energy under the supervision of Owen R. Cullingham, P. Geo., who is the Qualified Person for reporting purposes on this exploration program. In-place resources within the Raven property cover an area of approximately 3100 hectares and ORC has identified 39,093,000 tonnes of measured and indicated and 59,004,000 tonnes of inferred underground coal. The coal is classified as high volatile A Bituminous and is suitable for targeting the metallurgical coal market as a blend product or the thermal coal market. In situ ash is typically in the 25 to 30% range (as received basis) and the coal will need to be washed. There are a total of 140 holes drilled on the property including the 12 drill holes completed as part of the Company's 2006 exploration program, of which 67 have been drilled since 1974 and supported by geophysical logs. There is also 34.6 kilometres of seismic surveys conducted on this property.

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 entirely fueled with wood, which we have been informed by Government, would make the output eligible to be classified as BC Clean Electricity under BC Government guidelines. The Project would utilize locally available wood waste and Mountain Pine Beetle killed wood as it becomes available. Conversion to wood will enable the Project to meet Provincial objectives regarding greenhouse gas emissions. 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 \$123,897 was deferred in the quarter.

Basin Coal Mine

As a result of the government's change in its new BC Energy Plan that now effectively excludes coal as a source of fuel for electricity production in BC for the foreseeable future, and due to rising transportation and mining costs driven by a lack of economies of scale, the Company has placed the mine on care and maintenance and does not plan to operate the Basin Coal Mine in 2007. The Company has agreed to sell its remaining clean coal inventory of approximately 4,500 tonnes to a leading cement producer. Daily coal shipments began in early June and are expected to conclude by the end of July. Total revenue from this coal sale in the quarter was \$180,000. Subsequent to the end of the quarter, the Company sold a majority of its mobile mining equipment to Copper Mountain Mining Corporation 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 Mountain Mining as Copper Mountain Mining assumed the lease obligations of the Company's a D8 Dozer and a 773 Rock Truck.

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 period, except as disclosed elsewhere in this MD&A, 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. The Company paid one of its officer's management and administration fees aggregating \$29,888 during the period ended June 30, 2007.

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 June 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) June 30, 2007	(Audited) December 31, 2006
ASSETS		
Current Assets		
Cash	\$ 136,615	\$ 763,070
Accounts receivable	160,368	156,886
Investments	35,000	3,457,500
Prepaid expenses	10,705	-
	342,688	4,377,456
Reclamation bonding	195,000	195,000
Resource property (note 4)	7,543,778	6,727,945
Capital assets (note 3)	1,552,178	1,774,178
	\$ 9,633,644	\$ 13,074,579
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 275,162	\$ 1,262,784
Short-term loan (note 5)	-	3,500,000
	275,162	4,762,784
Non-current Liability		
Long term debt	638,824	727,354
	913,986	5,490,138
SHAREHOLDERS' EQUITY		
Share Capital (note 6)	16,930,649	17,476,569
Contributed surplus	936,340	936,340
Deficit	(9,147,331)	(10,828,468)
	8,719,658	7,584,441
	\$ 9,633,644	\$ 13,074,579

Interim Financial Statements (Note 1)

Approved by:

"Jamieson Merritt" Director
Jamieson Merritt

"Paul Willis" Director
Paul Willis

The accompanying notes are an integral part of this financial statement

COMPLIANCE ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

	(Unaudited)		(Unaudited)	
	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
EXPENSES				
Amortization	1,638	-	3,252	-
General & admin	62,232	107,486	113,173	176,903
Professional fees	20,354	70,408	39,406	95,746
Shareholder communications	23,584	15,941	47,157	53,664
Transfer agent & filing fees	5,026	35,232	13,324	28,755
Travel	3,754	8,523	6,095	19,939
Loss before other items	(116,588)	(237,590)	(222,407)	(375,007)
Other items:				
Future income tax recovery	545,920	-	545,920	-
Interest and other income	9,070	33,786	88,391	45,045
Gain on sale of investments	-	-	1,269,233	-
Total Other items	554,990	33,786	1,903,544	45,045
NET INCOME (LOSS) FOR THE PERIOD	438,402	(203,804)	\$1,681,137	(329,962)
RETAINED EARNINGS (DEFICIT), BEGINNING OF PERIOD	(9,585,733)	(1,663,841)	(10,828,468)	(1,537,683)
RETAINED EARNINGS (DEFICIT), END OF PERIOD	\$ (9,338,403)	\$ (1,867,645)	\$(9,147,331)	\$ (1,867,645)
INCOME (LOSS) PER SHARE	\$ 0.01	\$ (0.00)	\$ 0.04	\$ (0.01)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	47,446,783	43,861,491	47,446,783	43,861,491

The accompanying notes are an integral part of this financial statement

COMPLIANCE ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

	(Unaudited)		(Unaudited)	
	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
OPERATING ACTIVITIES				
Net Income (loss) for the period	\$ 438,402	\$ (203,804)	\$ 1,681,137	\$ (329,962)
Items not involving cash:				
Amortization	1,638	-	3,252	-
Future income tax recovery	(545,920)	-	(545,920)	-
Net change in non-cash working capital items	(286,397)	(644,861)	(2,271,042)	(571,325)
	(392,277)	(848,665)	(1,132,573)	(901,287)
INVESTING ACTIVITIES				
Purchase of reclamation bond	-	(21,500)	-	(21,500)
Redemption of performance security	-	-	3,360,000	-
Sale of marketable securities	-	-	1,331,733	-
Sale (Purchase) of capital assets	(1,924)	(167,637)	1,210	(243,468)
Resource property costs	76,532	(2,136,519)	(598,295)	(3,134,918)
	74,608	(2,325,656)	4,094,648	(3,599,886)
FINANCING ACTIVITIES				
(Repayment) of demand loans	-	-	(3,500,000)	-
Long term debt (repaid)	(44,566)	(48,908)	(88,530)	(72,973)
Shares issued for cash	-	-	-	(20,999)
	(44,566)	(48,908)	(3,588,530)	(93,972)
DECREASE IN CASH	(362,235)	(3,223,229)	(626,455)	(4,595,145)
CASH, BEGINNING OF PERIOD	498,850	4,481,766	763,070	5,853,682
CASH, END OF PERIOD	\$ 136,615	\$ 1,258,537	\$ 136,615	\$ 1,258,537

Supplementary disclosures

During the three months ended June 30, 2007, the Company:

- Deferred \$217,538 in amortization expenses
- Paid \$16,934 in interest costs related to equipment lease obligations

During the three months ended June 30, 2006, the Company:

- Deferred \$139,378 in amortization expenses
- Paid \$22,458 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 SIX MONTHS ENDED JUNE 30, 2007 (UNAUDITED)

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, 2006.

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

	June 30, 2007	December 31, 2006
Land	\$ 50,000	\$ 50,000
Building	48,012	297,476
Equipment – other	74,823	157,755
Equipment – wash plant	1,209,833	3,119,518
Equipment – mining	1,493,100	2,442,611
Write-down of fixed assets ⁽¹⁾	-	(3,179,996)
	<u>2,875,768</u>	<u>2,887,364</u>
Office equipment	36,200	25,810
Accumulated Amortization	(1,359,790)	(1,138,996)
	<u>\$ 1,552,178</u>	<u>\$ 1,774,178</u>

⁽¹⁾On December 31, 2006, all fixed assets at the Basin Coal Mine were written-down to their net realizable value.

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2007 (UNAUDITED)

4. RESOURCE PROPERTY

a) Basin Coal Mine

The Basin Coal Mine consists of 9 coal licenses covering 8,295 acres, 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. In early 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 has written down the value of the assets at the Basin Coal Mine as of December 31, 2006 by \$9.2 Million (\$3.2 million as an impairment on the value of fixed assets and \$6.0 million as a write-down of deferred costs) and has no current plans to operate the mine in 2007.

b) Bear Metallurgical Coal Deposit

The Bear Metallurgical Coal Deposit consists of 6 coal licenses totaling 4,325 acres. During 2005, the Company exercised its option to acquire coal leases that cover 100% of the Bear Metallurgical Coal Deposit on Vancouver Island. 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 Metallurgical Coal Deposit

During 2005, the Company entered into an agreement to acquire coal rights that cover approximately 82,000 acres on Vancouver Island, including 100% of the Raven Metallurgical Coal Deposit on Vancouver Island. Under the terms of the agreement, the Company has made a \$250,000 option payment and also made an additional payment of \$150,000 on March 20, 2007; \$2,800,000 is due on or before November 30, 2007; \$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

In 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 paid \$50,000 during the year. 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.

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2007 (UNAUDITED)

4. RESOURCE PROPERTY *(continued)*

f) CEC Power Project

The Company has an option to lease or purchase 90 hectares of the former Similco mine where the Company is proposing to build a 56MW power plant on a portion of the leased land ("Core Area") from Copper Mountain Mining Corporation ("CMMC"). Under the term of the agreement the Company has the option to purchase or lease the Core Area for \$1 for a period of 5 years. Costs incurred to date on the power plant project have been deferred.

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

	Cumulative to	
	June 30, 2007	December 31, 2006
Basin Coal Mine		
Mining	\$ 3,789,772	\$ 5,968,640
Processing	2,115,539	3,384,083
Development	3,899,598	5,815,821
Marketing	229,907	363,994
Environmental	221,383	320,362
Legal	52,508	52,508
	<u>10,308,707</u>	<u>15,905,408</u>
Less: start-up Coal Revenue	(6,746,070)	(6,560,981)
	<u>3,562,637</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>\$ 1,229,998</u>	<u>\$ 1,011,788</u>
Other deferred costs:		
Bear Coal Deposit		
Acquisition	215,000	215,000
Deferred Costs	854,463	821,282
Raven Coal Deposit		
Acquisition	681,200	481,200
Deferred Costs	2,191,148	2,220,574
Wolf Mountain Mine		
Acquisition	50,000	50,000
Deferred Costs	22,637	22,637
Other Coal Assets		
Acquisition	252,764	240,000
Deferred Costs	23,615	4,500
CEC Power Project		
Acquisition	-	-
Deferred Costs	2,022,953	1,660,964
	<u>\$ 7,543,778</u>	<u>\$ 6,727,945</u>

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2007 (UNAUDITED)

5. 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, which has been fully drawn down and is due May 30, 2007, bearing a monthly interest rate of 1%, the Company issued 646,153 common shares of the Company as "Bonus Shares" as permitted under TSX Venture Exchange rules. The Bonus Shares were subject to a four-month hold period until December 24, 2006. 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.

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, 2006	47,446,783	\$ 17,476,569	\$ 936,340
Shares issued for cash	-	-	-
Flow-Through renounced		(545,920)	
Issued at June 30, 2006	47,446,783	\$ 16,930,649	\$ 936,340

- (c) Escrowed Shares

Pursuant to the terms of the business combination completed during the year, at June 30, 2007 there are 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, Computershare Investor Services Inc.

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2007 (UNAUDITED)

6. CAPITAL STOCK *(continued)*

(d) Stock Options

As at June 30, 2007, 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	2007		2006	
	Number of shares	Weighted average exercise price Cdn. \$	Number of shares	Weighted average exercise price Cdn. \$
Beginning of period	3,810,000	0.77	3,020,000	0.77
Granted during period	-	-	-	-
Exercised during the period	-	-	-	-
End of period	3,810,000	0.77	3,020,000	0.77

The weighted-average remaining life of options outstanding at June 30, 2007, is 3.27 years.

(e) Warrants

As at June 30, 2007, 500,000 warrants are outstanding entitling the holders to acquire shares of the Company at a price of \$0.75 per share exercisable until August 10, 2008.

(f) Broker Warrants

As at June 30, 2007, nil (2006 -921,029) broker warrants are outstanding entitling the holders to acquire shares of the Company.

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. The year end balances payable are non-interest bearing and have no fixed terms for repayment.

- The Company paid one of its officers legal, management and administration fees aggregating \$28,995 during the period ended June 30, 2007 (period ended June 30, 2006 - \$58,500).
- The Company paid one of its directors, management consulting fees aggregating \$-nil during the period ended June 30, 2007 (period ended June 30, 2006 - \$7,088)

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2007 (UNAUDITED)

8. SUBSEQUENT EVENT

Subsequent to the end of the quarter, the Company sold a majority of its mobile mining equipment to Copper Mountain Mining Corporation, 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 Mountain Mining as Copper Mountain Mining assumed the lease obligations of the Company's a D8 Dozer and a 773 Rock Truck.