



FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2008 AND 2007

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MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A") OF FINANCIAL CONDITION & THE RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

November 18, 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 nine months ended September 30, 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 or www.complianceenergy.com.

Overall Performance

The Company recorded net income of \$219,547 or \$0.01 per share for the nine months ended September 30, 2008, as compared to income of \$1,590,949 or \$0.03 per share for the nine months ended September 30, 2007. In order to better understand Compliance Energy's financial results for the nine 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 announced a sales and purchase agreement 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 subsequent MOU with NWPC Pty Ltd for the sale of the Basin Mine; and (4) the shares held for investment purposes in Copper Mountain Mining Corporation ("CMMC").

Development expenditures on the Princeton Power Project have all been deferred during the period 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 has no plans to operate the Basin Mine in the near future, however, towards the end of the quarter the Company temporarily re-opened the mine to supply approximately 30,000 tonnes of raw coal to a local customer, while the Company continues with its efforts to 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 – Three Months Ended September 30, 2008

The Company recorded a loss of \$154,755 or \$0.00 per share for the three months ended September 30, 2008 as compared to a loss of \$90,188 or \$0.00 per share for the three months ended September 30, 2007. General and Administrative expenses were \$54,731 for the three months ended September 30, 2008, as compared to \$51,242 for the three months ended September 30, 2007. Professional fees, which include management, legal, and accounting services, totaled \$22,850 for the three months ended September 30, 2008 compared to \$22,806 for the same period last year. The Company incurred \$8,263 in shareholder communications fees and \$6,859 in transfer agent fees during the three months ended September 30, 2008 as compared to \$11,610 and \$3,201 respectively for the same period last year. The Company realized a loss on the sale of 150,000 shares of CMMC shares during the quarter as these shares had been marked to their market price at the end of June 30, 2008 as required by GAAP.

Results of Operations – Nine Months Ended September 30, 2008

The Company recorded net income of \$219,547 or \$0.01 per share for the nine months ended September 30, 2008, as compared to income of \$1,590,949 or \$0.03 per share for the nine months ended September 30, 2007. The Company realized a net gain of \$509,848 from the sale of shares of CMMC. Also, during the period, the Company had interest income of \$4,144 as compared to \$89,596 for the nine months ended September 30, 2007. General and Administrative expenses were \$174,667 for the nine months ended September 30, 2008, as compared to \$164,416 for the nine months ended September 30, 2007. The General and Administrative charges were mainly made up of; \$73,211 of office wages, \$39,454 of office rent, \$28,671 of bank and interest charges, \$10,665 of office expenses, \$8,732 of printing and stationary, \$9,593 of miscellaneous, \$823 of computer/website expenses, and \$3,518 for subscriptions and publications. General and administrative charges for the nine months ended September 30, 2007, were made up of; \$109,007 of office wages, \$4,414 of office rent, \$11,861 of office expenses, \$4,365 computer/website expenses, \$4,302 of printing and stationary, \$11,135 miscellaneous, and \$4,302 of subscriptions and publications, and \$1,570 of bank charges and interest. The increase in interest and bank charges relates to the interest on the loan from Copper Mountain Mining Corporation.

The Company incurred \$22,236 in transfer agent fees and \$25,702 in shareholder communications fees during the nine months ended September 30, 2008 as compared to \$16,525 and \$58,767 respectively for the same period last year. Professional fees, which include management, legal, and accounting services, totaled \$64,974 for the nine months ended September 30, 2008 compared to \$62,212 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 September 30, 2008, the Company had working capital of \$2,619,889 (comprised of \$538,733 of cash, \$33,619 of receivables, \$9,887 of prepaid expenses and \$3,026,100 of marketable securities, offset by \$360,912 of accounts payable, and \$627,538 for a demand loan including accrued interest payable due to a related party 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 September 30, 2008, is primarily attributable to: 1) The proceeds from the sale of 7,000 tonnes of raw coal from the Basin Coal Mine 2) the receipt of net proceeds of \$782,849 from the sale of 150,000 Copper Mountain Mining (“Copper”) shares during the period ended September 30, 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 continues to hold 2,130,000 shares of CMMC.

The Company will have additional cash requirements for the preparation of a feasibility study for the Raven Coal Deposit and option payments due for the Vancouver Island coal properties. These funds will either come from the formation of a joint venture with ITOCHU Corporation and LG International Corp, under which ITOCHU Corporation and LG International Investments (Canada) Ltd. a wholly owned subsidiary of LG International Corp have placed \$10.65 million in escrow pending the closing of the definitive agreements under the sales and purchase agreement 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
September 30, 2008	-	(154,755)	\$0.00	\$0.00
June 30, 2008	-	(98,020)	\$0.00	\$0.00
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)

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. 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

On September 2, 2008 the Company announced that it has signed definitive agreements with West Fraser Mills Ltd. (“WFM”) and with I-Comox Coal Inc., a wholly owned subsidiary of ITOCHU Corporation and LG International Investments (Canada) Ltd. a wholly owned subsidiary of LG International Corp. (“the Parties”) to complete the purchase of approximately 29,000 hectares of WFM’s freehold coal, mineral, and gas interests on Vancouver Island and to provide the funding necessary to reach a production decision on its Raven Coal Project which is within the WFM option lands.

The definitive Purchase and Sale Agreement with WFM requires a lump sum payment to complete the remaining payments, excluding royalties, which were due under the terms of the original purchase option agreement. The purchase is subject to full registration in BC’s Land Title Office of the undersurface rights associated with the Raven Coal Project which is expected to complete no later than November 30, 2008.

The Company also signed a Sale and Purchase Agreement (“SPA”) with the Parties to fund a total of \$11.25 million which includes a) the lump sum payment to WFM, b) the refund to the Company of two prior option payments, and c) up to \$7.0 million for all the activities necessary to reach a production decision on the Raven Coal Project including public consultation, additional drilling, environmental assessment and transportation studies, and a feasibility study. Through their funding payments, the Parties will earn a 40% interest in the undersurface rights excluding gas interests, and a 40% interest in the Company’s crown coal licences at the Bear and Raven Coal Projects (collectively the “Comox Basin Holdings”). As at September 30, 2008 the Parties have placed in escrow a total of \$10.65 million to satisfy the definitive agreement requirements outlined above.

The SPA also includes a detailed Joint Venture Agreement (“JVA”) term sheet (“JVA Term Sheet”) that provides for the Company or its subsidiaries to be the Manager and the Operator of any joint venture mining project located within the Comox Basin Holdings and for the Parties to have exclusive global marketing rights to sell coal from the Comox Basin Holdings. The JVA Term Sheet contemplates that subject to satisfactory results of a feasibility study and approval by the Parties’ Boards of Directors, the Parties would provide debt financing for the development of the Raven Coal Project. The parties have agreed to use their best efforts to execute the JVA on the terms outlined in the JVA Term Sheet by October 31, 2008. In the unlikely event that a JVA is not fully executed or if the crown coal licences have not been registered in the names of the Parties, as to their participating interest, by March 31, 2009, the SPA provides for the Company to refund the Purchase Price to the Parties to reacquire 100% of the properties.

Under the terms of the amended agreement with WFM, the Vancouver Island properties are subject to a \$0.50 per tonne royalty once production is achieved up to a maximum of \$4,000,000. These future royalty payments would be the responsibility of the joint venture to be created. 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. A total of \$472,140 of expenditures on the property was deferred in the period 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 period. A total of \$4.7 million has been spent by the Company on this project to the end of September 30, 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 \$86,363 was spent on the Princeton Power Project during the period, all of which was deferred.

Basin Coal Mine

On August 6, 2008 the Company signed a binding memorandum of understanding (“MOU”) for the sale of 100% of the Company’s interest in the Basin Coal Mine located near Princeton, BC for consideration of cash and shares totaling Cdn \$8 million. Under the terms of the MOU, NWPC Pty Ltd (“NWPC”), a private Australian company, has agreed to purchase the Company’s interest in the mining agreement under which the Company has the right to mine coal at the Basin Coal Mine as well as all remaining assets of the Mine including the 400,000 tonne per year wash plant for \$4 million in cash and \$4 million in shares of a public Australian Company. The shares of the public Australian Company, which may be subject to escrow and will be issued equally on the following milestone dates: 25% upon closing, 25% upon completion of a feasibility study; 25% upon commencement of production; and 25% upon production of 500,000 tonnes of saleable coal from the Basin Coal Mine. NWPC has made a total of \$150,000 in nonrefundable option payments which entitles them to an exclusive period to conduct due diligence to December 31, 2008.

Subsequent to the end of the quarter, the Company amended the MOU whereby NWPC has agreed to increase the total payable to \$8.25 million as follows: a non-refundable payment of \$250,000 on or before December 3, 2008; a non-refundable payment of \$1 million on or before January 23, 2009; a non-refundable closing payment of \$3 million in cash and \$1 million in shares of a public Australian Company on the earlier of May 31, 2010 or the completion of a bankable feasibility study; \$1 million in shares of a public Australian Company on the earlier of commencement of production or May 31, 2012; and \$1 million in shares of a public Australian Company on the earlier of 500,000 tonnes of coal being produced or March 31, 2013.

The Company has no plans to operate the Basin Mine in the near future, however, during the quarter the Company agreed to a request to temporarily reopen the mine to supply approximately 30,000 tonnes of raw coal to a local customer, while the Company continued with its efforts to sell the mine. The mining and sale of the coal is expected to be completed by the end of the fourth quarter of 2008. All costs associated with the mining and sale of the raw coal, net of revenue, will be deferred. A total of \$381,533 offset by interest and other income of \$7,671, as well as \$315,000 for coal sales was deferred in the period.

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 \$47,486 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 \$600,000 from CMMC as a demand loan secured by the equivalent value of common shares of CMMC owned by the Company, with the loan bearing an interest rate of prime plus 1%. CMMC is a public company, listed on the TSX Exchange and related by certain common directors and officers. On March 13, 2008, the Company repaid \$600,000 borrowed from CMMC in November 2007. As at September 30, 2008 a total of \$627,538 remains outstanding as is due to CMMC on demand.

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, 2008. 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) September 30, 2008	(Audited) December 31, 2007
ASSETS		
Current Assets		
Cash	\$ 538,733	\$ 79,090
Accounts receivable	33,619	34,038
Investments and marketable securities (note 4)	3,026,100	587,000
Prepaid expenses	9,887	9,887
	3,608,339	710,015
Reclamation bonding	145,000	195,000
Property, plant, and equipment (note 3)	479,469	620,514
Resource property (note 5)	9,042,694	8,498,245
	\$ 13,275,502	\$ 10,023,774
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 360,912	\$ 68,370
Due to related party (note 7c)	627,538	600,000
	988,450	668,370
Non-current liability		
Long-term debt	280,000	280,000
	1,268,450	948,370
SHAREHOLDERS' EQUITY		
Share Capital (note 6)	16,930,649	16,930,649
Contributed surplus	1,057,916	1,057,916
Deficit	(9,245,614)	(9,465,161)
Accumulated comprehensive income	3,264,101	552,000
	12,007,052	9,075,404
	\$ 13,275,502	\$ 10,023,774

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 NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

	(Unaudited)		(Unaudited)	
	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
EXPENSES				
Amortization	1,337	1,337	4,011	4,588
General & admin	54,731	51,242	174,667	164,416
Professional fees	22,840	22,806	64,974	62,212
Shareholder communications	8,263	11,610	25,702	58,767
Transfer agent & filing fees	6,859	3,201	22,236	16,525
Travel	1,809	1,197	2,855	7,292
Loss before other items	(95,839)	(91,393)	(294,445)	(313,800)
Other items:				
Future income tax recovery	-	-	-	545,920
Interest and other income	700	1,205	4,144	89,596
Gain (loss) on sale of investments	(59,616)	-	509,848	1,269,233
Total Other items	(58,916)	1,205	513,992	1,904,749
NET INCOME (LOSS) FOR THE PERIOD	(154,755)	(90,188)	\$219,547	1,590,949
RETAINED EARNINGS (DEFICIT), BEGINNING OF PERIOD	(9,090,859)	(9,147,331)	(9,465,161)	(10,828,468)
RETAINED EARNINGS (DEFICIT), END OF PERIOD	\$ (9,245,614)	\$ (9,237,519)	\$(9,245,614)	\$ (9,237,519)
INCOME (LOSS) PER SHARE	\$ (0.00)	\$ (0.00)	\$ 0.01	\$ 0.03
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	47,446,783	47,446,783	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	-	-	219,547	-	-	219,547
Other comprehensive income:						
Unrealized gains on marketable securities	-	-	-	-	2,712,101	2,712,101
Comprehensive income						2,931,648
	-	-	219,547	-	2,712,101	2,931,648
Balance September 30, 2008	47,446,783	\$ 16,930,649	\$ (9,245,614)	\$ 1,057,916	\$ 3,264,101	\$ 12,007,052
			(A)		(A)	

(A) Total deficit and accumulated other comprehensive income at September 30, 2008 was \$(12,007,052).

The accompanying notes are an integral part of these financial statements

COMPLIANCE ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

	(Unaudited)		(Unaudited)	
	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
OPERATING ACTIVITIES				
Net Income (loss) for the period	\$ (154,755)	\$ (90,188)	\$ 219,547	\$ 1,590,949
Items not involving cash:			-	
Amortization	1,337	1,337	4,011	4,588
Future income tax recovery	-	-	-	(545,920)
(Gain) Loss on sale of marketable securities	59,616	-	(509,848)	
Net change in non-cash working capital items	163,232	234,501	150,864	(2,036,540)
	69,430	145,650	(135,426)	(986,923)
INVESTING ACTIVITIES				
Redemption (purchase) of reclamation bond	-	-	50,000	-
Redemption (Purchase) of performance security	-	-	-	3,360,000
Resource property option payment	-	-	(600,000)	-
Sale of marketable securities	210,385	-	782,849	1,331,733
Sale (Purchase) of capital assets	-	568,500	-	569,710
Resource property costs	138,412	(271,797)	(237,780)	(870,092)
	348,797	296,703	(4,931)	4,391,351
FINANCING ACTIVITIES				
Option payment received	-	-	600,000	-
Advance (Re-payment) of demand loan	-	-	-	(3,500,000)
Long term debt (repaid)	-	-	-	(88,530)
Shares issued for cash (net)	-	-	-	-
	-	-	600,000	(3,588,530)
INCREASE (DECREASE) IN CASH	418,227	442,353	459,643	(184,102)
CASH, BEGINNING OF PERIOD	120,506	136,615	79,090	763,070
CASH, END OF PERIOD	\$ 538,733	\$ 578,968	\$ 538,733	\$ 578,968
Supplemental Schedule for Non-Cash Investing and Financing Activities				
Amortization expenses deferred	\$45,475	\$46,412	\$141,045	\$139,378
Accounts payable related to resource property	\$168,806	-	\$168,806	-
Accrued interest expenses	\$10,472	-	\$27,538	\$22,458

The accompanying notes are an integral part of this financial statement

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 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, 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

	September 30, 2008	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
	<hr/> 1,133,141	<hr/> 1,133,141
Office equipment	30,200	30,200
Accumulated Depreciation	(683,872)	(542,827)
	<hr/> \$ 479,469	<hr/> \$ 620,514

COMPLIANCE ENERGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)

4. INVESTMENTS AND MARKETABLE SECURITIES

Investments and marketable securities consist of shares of Copper Mountain Mining Corp. (TSX: CUM) ("CMMC"). As at September 30, 2008, the Company owned 2,310,000 common shares of CMMC (2007 – 4,000,000), all of which are free trading and recorded at their market value of \$1.31 per share, or an aggregate of \$3,026,100 (\$587,000 – Dec 31, 2007).

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 on all coal sold.

Effective July 31, 2008 the Company signed a binding memorandum of understanding ("MOU") for the sale of 100% of the Company's interest in the Basin Coal Mine located near Princeton, BC for consideration of cash and shares totaling Cdn \$8 million. Under the terms of the MOU, NWPC Pty Ltd ("NWPC"), a private Australian company, has agreed to purchase the Company's interest in the mining agreement under which the Company has the right to mine coal at the Basin Coal Mine as well as all remaining assets of the Mine including the 400,000 tonne per year wash plant for \$4 million in cash and \$4 million in shares of a public Australian Company. NWPC has made a total of \$150,000 in nonrefundable option payments which entitles them to an exclusive period to conduct due diligence to December 31, 2008. The shares of the public Australian Company, which may be subject to escrow and will be issued equally on the following milestone dates: 25% upon closing, 25% upon completion of a feasibility study; 25% upon commencement of production; and 25% upon production of 500,000 tonnes of saleable coal from the Basin Coal Mine.

Subsequent to the end of the quarter, the Company amended the MOU whereby NWPC has agreed to increase the total payable to \$8.25 million as follows: a non-refundable payment of \$250,000 on or before December 3, 2008; a non-refundable payment of \$1 million on or before January 23, 2009; a non-refundable closing payment of \$3 million in cash and \$1 million in shares of a public Australian Company on the earlier of May 31, 2010 or the completion of a bankable feasibility study; \$1 million in shares of a public Australian Company on the earlier of commencement of production or May 31, 2012; and \$1 million in shares of a public Australian Company on the earlier of 500,000 tonnes of coal being produced or March 31, 2013.

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.

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5. RESOURCE PROPERTY (Continued)

c) Raven Coal Deposit

On September 2, 2008 the Company announced that it had signed definitive agreements with West Fraser Mills Ltd. ("WFM") and with I-Comox Coal Inc., a wholly owned subsidiary of ITOCHU Corporation and LG International Investments (Canada) Ltd. a wholly owned subsidiary of LG International Corp. ("the Parties") to complete the purchase of approximately 29,000 hectares of WFM's freehold coal, mineral, and gas interests on Vancouver Island and to provide the funding necessary to reach a production decision on its Raven Coal Project which is within the WFM option lands.

The definitive Purchase and Sale Agreement with WFM requires a lump sum payment to complete the remaining payments, excluding royalties, which were due under the terms of the original purchase option agreement. The purchase is subject to full registration in BC's Land Title Office of the undersurface rights associated with the Raven Coal Project which is expected to complete within the next few weeks, but no later than November 30, 2008.

The Company also signed a Sale and Purchase Agreement ("SPA") with the Parties to fund a total of \$11.25 million which includes a) the lump sum payment to WFM, b) the refund to the Company of two prior option payments, and c) up to \$7.0 million for all the activities necessary to reach a production decision on the Raven Coal Project including public consultation, additional drilling, environmental assessment and transportation studies, and a feasibility study. Through their funding payments, the Parties will earn a 40% interest in the undersurface rights excluding gas interests, and a 40% interest in the Company's crown coal licences at the Bear and Raven Coal Projects (collectively the "Comox Basin Holdings"). As at September 30, 2008 the Parties have placed in escrow a total of \$10.65 million to satisfy the definitive agreement requirements outlined above.

The SPA also includes a detailed Joint Venture Agreement ("JVA") term sheet ("JVA Term Sheet") that provides for the Company or its subsidiaries to be the Manager and the Operator of any joint venture mining project located within the Comox Basin Holdings and for the Parties to have exclusive global marketing rights to sell coal from the Comox Basin Holdings. The JVA Term Sheet contemplates that subject to satisfactory results of a feasibility study and approval by the Parties' Boards of Directors, the Parties would provide debt financing for the development of the Raven Coal Project. The parties have agreed to use their best efforts to execute the JVA on the terms outlined in the JVA Term Sheet by November 30, 2008. In the unlikely event that a JVA is not fully executed or if the crown coal licences have not been registered in the names of the Parties, as to their participating interest, by March 31, 2009, the SPA provides for the Company to refund the Purchase Price to the Parties to reacquire 100% of the properties.

Under the terms of the amended agreement with WFM, the Vancouver Island properties are subject to a \$0.50 per tonne royalty once production is achieved up to a maximum of \$4,000,000. These future royalty payments would be the responsibility of the to be created joint venture with the Parties. 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. A total of \$472,140 of expenditures on the property was deferred in the period 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 period. A total of \$4.7 million has been spent by the Company on this project to the end of September 30, 2008.

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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 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	
	September 30, 2008	December 31, 2007
Basin Coal Mine		
Mining	\$ 3,821,387	\$ 3,786,518
Processing	2,283,300	2,240,876
Development	4,131,122	3,975,302
Marketing	243,590	234,636
Environmental	253,636	230,676
Legal	52,508	52,508
Recovery	(280,420)	(272,752)
	<u>10,505,123</u>	<u>10,247,764</u>
Less: start-up Coal Revenue	(7,078,660)	(6,763,660)
	3,426,463	3,484,104
Valuation adjustment on purchase of remaining 35% interest in the CBCJV	(2,332,639)	(2,332,639)
	<u>\$ 1,093,824</u>	<u>\$ 1,151,465</u>

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5. RESOURCE PROPERTY *(continued)*

	Cumulative to	
	September 30, 2008	December 31, 2007
Other deferred costs:		
Bear Coal Deposit		
Acquisition	215,000	215,000
Deferred Costs	928,066	874,479
Raven Coal Deposit		
Acquisition	1,881,200	1,281,200
Deferred Costs	2,228,118	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		
Deferred Costs	2,340,529	2,254,166
	<u>\$ 9,042,694</u>	<u>\$ 8,498,245</u>

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 and September 30, 2008	47,446,783	\$ 16,960,649	\$ 1,057,916

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6. CAPITAL STOCK (Continued)

(c) Stock Options

As at September 30, 2008, the Company has reserved stock options to employees, directors and officers enabling them to acquire up to 3,945,000 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	730,000	0.34	-	-
End of period	3,930,000	0.77	4,660,000	0.70

The weighted-average remaining life of options outstanding at September 30, 2008, is 2.5 years.

Expiry	Options Outstanding	Price
Mar-11	825,000	0.76
Feb-10	755,000	0.84
Nov-10	1,500,000	0.95
Feb-12	850,000	0.40
	3,930,000	

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 \$47,486 during the period ended September 30, 2008 (period ended September 30, 2007 - \$43,939).
- (b) The Company paid, consulting fees aggregating \$2,642 during the period ended September 30, 2008 in connection with the Raven Coal Project, to a company controlled by one of its directors (period ended September 30, 2007 - \$nil).
- (c) On January 30, 2008, the Company borrowed an additional \$600,000 from Copper Mountain Mining Corporation ("CMMC") as a demand loan secured by the equivalent value of common shares of CMMC owned by the Company, with the loan bearing an interest rate of prime plus 1%.
- (d) On March 13, 2008 the Company repaid \$600,000 borrowed from Copper Mountain in November 2007. The balance remaining outstanding at September 30, 2008 is \$627,538 including accrued interest of \$27,538.