



**FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED  
SEPTEMBER 30, 2007**

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

November 18, 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 nine months ended September 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](http://www.sedar.com) or [www.complianceenergy.com](http://www.complianceenergy.com).*

## Overall Performance

The Company recorded net income of \$1,590,949 or \$0.03 per share for the nine months ended September 30, 2007, as compared to a loss of \$426,798 or \$0.01 per share for the nine months ended September 30, 2006. In order to better understand Compliance Energy's financial results for the nine 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 power plant project located near the Company's Basin Coal Mine that was awarded a 30 year take or pay Electricity Purchase Agreement from BC Hydro. (2) The Vancouver Island Coal Deposits which recently released a national instrument 43-101 resource estimate and preliminary economic assessment reports; 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 placed the Basin Coal Mine on care and maintenance as a result of the Government's change in policy with respect to the use of coal in power generation. The Company does not plan to operate the mine during 2007.

## 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, 2006 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 value 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 \$1,590,949 or \$0.03 per share for the nine months ended September 30, 2007, as compared to a loss of \$426,798 or \$0.01 per share for the nine months ended September 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 \$92,796 as compared to \$72,193 for the nine months ended September 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. The Company received \$568,500 in cash consideration for the sale of mining equipment from the Basin Coal Mine to Copper Mountain Mining Corporation ("CMMC") and it also transferred \$523,359 in equipment lease obligations to CMMC. As all costs associated with the Basin Coal Mine have been deferred in the past, proceeds on the sale of equipment have been treated as a reduction to the deferred cost balance on the balance sheet. 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 which resulted in a combined gain on sale of investments of \$1,269,233. Professional fees were \$62,212 for the nine months ended September 30, 2007, as compared to \$129,997 for the period ended September 30, 2006. General and Administrative expenses were \$164,416 for the nine months ended September 30, 2007, as compared to \$215,512 for the nine months ended September 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; \$109,007 of office wages, \$17,762 of office rent, \$1,385 of bank and interest charges, \$11,861 of office expenses, \$4,414 printing and stationary, \$11,135 miscellaneous, and \$4,302 for subscriptions and publications. General and administrative charges for the nine months ended September 30, 2006, were made up of; \$68,160 office wages, \$23,302 office expenses, \$36,139 office rent, \$15,400 of donations, \$15,230 of printing and stationary, \$38,734 miscellaneous, and \$4,618 of subscriptions and publications.

The Company incurred \$16,525 in transfer agent fees and \$58,767 in shareholder communications fees during the nine months ended September 30, 2007 as compared to \$39,084 and \$93,255 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 September 30, 2007, the Company had working capital of \$443,113 (comprised of \$578,968 of cash, \$92,508 of receivables, prepaid expenses and marketable securities, offset by \$228,363 of accounts payable) as compared with a working capital deficiency of \$218,930 (comprised of \$477,239 of cash, \$884,984 of receivables and prepaid expenses, and \$3,397,500 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 September 30, 2007, was a result of the sale of mining equipment from the Basin Coal Mine for \$568,500 cash consideration and the assumption of current and long term lease obligations of \$523,359. In addition, the Company sold 1.25 million shares of Copper Mountain Mining Corporation ("CMMC") for \$1 per share, and retired 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, the Company has \$2.8 million in option payments on the Raven property due by November 30, 2007. 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
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)
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., (“ORC”) 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. On September 5, 2007, Associated Geosciences Ltd. completed a 43-101 preliminary assessment of underground mining on the property. Peter Cain Ph.D., P.Eng. ; and Alan Craven, P.Eng. are the Qualified Persons who prepared the report. The report indicates that the Raven Property warrants additional exploration and a feasibility study to form the basis of a production decision. The Company is currently looking for a partner to assist in developing the property and plans on completing an environmental assessment and a mining feasibility study in 2008 with the objective of opening a mine capable of producing between 800,000 and 1,400,000 clean tonnes of coal per year by the end of 2010. Reclamation of the drill holes from the 2006 exploration program was completed during the quarter. A total of \$87,476 of expenditures on the property was deferred in the quarter.

### **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 over its lifetime. Conversion to wood would enable the Project to meet Provincial objectives regarding greenhouse gas emissions and could make the output of the plant eligible to be classified as BC Clean Electricity under BC Government guidelines. The Company will continue to defer all costs associated with this project until discussions between BC Hydro, the BC Government, and the Company have concluded. A total of \$136,053 was spent on the Princeton Power Project during the quarter, all of which was deferred.

### **Basin Coal Mine**

The Company continues to operate the Basin Coal Mine on a care and maintenance basis and anticipate no mining or processing activity for the balance of 2007. 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 D8 Dozer and a 773 Haul Truck. The Company deferred a gain on the disposition of this equipment totaling \$259,742. The Company sold its remaining clean coal inventory of approximately 4,563 tonnes to a leading cement producer. Daily coal shipments began in early June and concluded on September 13, 2007. In addition, the company sold most of its remaining stoker coal inventory between July 25, and September 24, 2007. Total coal revenue in the quarter was \$190,123, all of which was treated as a reduction in deferred costs for the project.

### **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 \$43,939 during the period ended September 30, 2007. In addition, the Company paid one of its directors, consulting fees in connection with development of the Raven Coal Project totaling \$14,017 during the period ended September 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 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) September 30, 2007	(Audited) December 31, 2006
<b>ASSETS</b>		
Current Assets		
Cash	\$ 578,968	\$ 763,070
Accounts receivable	47,621	156,886
Investments	35,000	3,457,500
Prepaid expenses	9,887	-
	671,476	4,377,456
Reclamation bonding	195,000	195,000
Resource property (note 4)	7,602,245	6,727,945
Capital assets (note 3)	669,112	1,774,178
	\$ 9,137,833	\$ 13,074,579
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	\$ 228,363	\$ 1,262,784
Short-term loan (note 5)	-	3,500,000
	228,363	4,762,784
Non-current Liability		
Long term debt	280,000	727,354
	508,363	5,490,138
<b>SHAREHOLDERS' EQUITY</b>		
Share Capital (note 6)	16,930,649	17,476,569
Contributed surplus	936,340	936,340
Deficit	(9,237,519)	(10,828,468)
	8,629,470	7,584,441
	\$ 9,137,833	\$ 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 NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006**

	(Unaudited)		(Unaudited)	
	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
<b>EXPENSES</b>				
Amortization	1,336	-	4,588	-
General & admin	51,243	79,381	164,416	215,552
Professional fees	22,806	34,251	62,212	129,997
Shareholder communications	11,610	39,591	58,767	93,255
Transfer agent & filing fees	3,201	10,329	16,525	39,084
Travel	1,197	1,164	7,292	21,103
Loss before other items	(91,393)	(164,716)	(313,800)	(498,991)
<b>Other items:</b>				
Future income tax recovery	-	-	545,920	-
Interest and other income	4,405	27,148	92,796	72,193
Gain on sale of investments	-	-	1,269,233	-
(Loss) on disposal of fixed assets	(3,200)	-	(3,200)	-
<b>Total Other items</b>	<b>1,205</b>	<b>27,148</b>	<b>1,904,749</b>	<b>72,193</b>
<b>NET INCOME (LOSS) FOR THE PERIOD</b>	<b>(90,188)</b>	<b>(137,568)</b>	<b>\$1,590,949</b>	<b>(426,798)</b>
<b>RETAINED EARNINGS (DEFICIT), BEGINNING OF PERIOD</b>	<b>(9,147,331)</b>	<b>(1,823,913)</b>	<b>(10,828,468)</b>	<b>(1,537,683)</b>
<b>RETAINED EARNINGS (DEFICIT), END OF PERIOD</b>	<b>\$ (9,237,519)</b>	<b>\$ (1,964,481)</b>	<b>\$(9,237,519)</b>	<b>\$ (1,964,481)</b>
<b>INCOME (LOSS) PER SHARE</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>	<b>\$ 0.03</b>	<b>\$ (0.01)</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	<b>47,446,783</b>	<b>44,399,460</b>	<b>47,446,783</b>	<b>44,028,628</b>

The accompanying notes are an integral part of this financial statement

**COMPLIANCE ENERGY CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006**

	(Unaudited)		(Unaudited)	
	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
<b>OPERATING ACTIVITIES</b>				
Net Income (loss) for the period	\$ (90,188)	\$ (137,568)	\$ 1,590,949	\$ (426,798)
Items not involving cash:			-	-
Amortization	1,336	-	4,588	-
Future income tax recovery	-	-	(545,920)	-
Net change in non-cash working capital items	234,502	4,154,963	(2,036,540)	3,583,638
	145,650	4,017,395	(986,923)	3,156,840
<b>INVESTING ACTIVITIES</b>				
Purchase of reclamation bond	-	-	-	(21,500)
Redemption (Purchase) of performance security	-	(3,360,000)	3,360,000	(3,360,000)
Sale of marketable securities	-	-	1,331,733	-
Sale (Purchase) of capital assets	568,500	145,816	569,710	(97,652)
Resource property costs	(271,797)	(1,784,342)	(870,092)	(5,159,992)
	296,703	(4,998,526)	4,391,351	(8,639,144)
<b>FINANCING ACTIVITIES</b>				
(Repayment) of demand loans	-	-	(3,500,000)	-
Long term debt (repaid)	-	(49,328)	(88,530)	(122,301)
Shares issued for cash	-	249,161	-	228,162
	-	199,833	(3,588,530)	105,861
<b>INCREASE (DECREASE) IN CASH</b>	442,353	(781,298)	(184,102)	(5,376,443)
<b>CASH, BEGINNING OF PERIOD</b>	136,615	1,258,537	763,070	5,853,682
<b>CASH, END OF PERIOD</b>	\$ 578,968	\$ 477,239	\$ 578,968	\$ 477,239

Supplementary disclosures

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

- Deferred a \$259,653 gain on the sale of mining equipment
- Deferred \$46,412 in amortization expenses

During the three months ended September 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 NINE MONTHS ENDED SEPTEMBER 30, 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, 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**

In July 2007, 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 Haul Truck. The breakdown of the company's remaining equipment and accumulated amortization is as follows:

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

**3. PROPERTY, PLANT AND EQUIPMENT** *(Continued)*

	September 30, 2007	December 31, 2006
Land	\$ 50,000	\$ 50,000
Building	48,012	297,476
Equipment – other	-	157,755
Equipment – wash plant	1,157,990	3,119,518
Equipment – mining	199,203	2,442,611
Write-down of fixed assets <sup>(1)</sup>	-	(3,179,996)
	<u>1,455,205</u>	<u>2,887,364</u>
Office equipment	30,200	25,810
Accumulated Amortization	(816,293)	(1,138,996)
	<u>\$ 669,112</u>	<u>\$ 1,774,178</u>

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

**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.

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

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**4. RESOURCE PROPERTY** *(Continued)*

**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; additionally \$2,000,000 is due 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 NINE MONTHS ENDED SEPTEMBER 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	
	September 30, 2007	December 31, 2006
Basin Coal Mine		
Mining	\$ 3,768,183	\$ 5,968,640
Processing	2,229,479	3,384,083
Development	3,912,680	5,815,821
Marketing	233,579	363,994
Environmental	222,463	320,362
Legal	52,508	52,508
	<u>10,418,892</u>	<u>15,905,408</u>
Less: start-up Coal Revenue	(7,031,318)	(6,560,981)
	<u>3,387,574</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>\$ 1,054,935</u>	<u>\$ 1,011,788</u>
Other deferred costs:		
Bear Coal Deposit		
Acquisition	215,000	215,000
Deferred Costs	864,463	821,282
Raven Coal Deposit		
Acquisition	681,200	481,200
Deferred Costs	2,278,624	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	2,159,007	1,660,964
	<u>\$ 7,602,245</u>	<u>\$ 6,727,945</u>

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

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**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 the Company issued 646,153 common shares of the Company as "Bonus Shares" as permitted under TSX Venture Exchange rules. The loan had a monthly interest rate of 1%. Proceeds from the term loan were used to provide performance security to BC Hydro under the 30 year Electricity Purchase Agreement for the Company's 56 megawatt Princeton Power Project awarded on July 27, 2006. On January 31, 2007, the Company repaid the loan to Quest Capital Corporation as a result of BC Hydro returning the Company's performance security deposit.

**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 September 30, 2007	47,446,783	\$ 16,930,649	\$ 936,340

- (c) Escrowed Shares

Pursuant to the terms of the business combination completed during the year, at September 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.

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**6. CAPITAL STOCK** *(continued)*

(d) Stock Options

As at September 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	<u>3,810,000</u>	<u>0.77</u>	<u>3,020,000</u>	<u>0.77</u>

The weighted-average remaining life of options outstanding at September 30, 2007, is 2.96 years.

(e) Warrants

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

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**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 \$43,939 during the period ended September 30, 2007 (period ended September 30, 2006 - \$87,750).
- The Company paid one of its directors, management consulting fees aggregating \$-nil during the period ended September 30, 2007 (period ended September 30, 2006 - \$7,088)
- The Company paid one of its directors, consulting fees in connection with development of the Raven Coal Project totaling \$14,017 (period ended September 30, 2006 - \$nil)