

ENCORE CLEAN ENERGY INC  
Form 10QSB  
December 15, 2005

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-QSB**

(Mark One)

Quarterly Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934  
For the quarterly period ended **September 30, 2005**

Transition Report Under Section 13 Or 15(D) Of The Securities Exchange Act Of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File Number: 000-26047**

**ENCORE CLEAN ENERGY, INC.**

(Exact Name of Small Business Issuer as Specified in Its Charter)

**Nevada**

(State or Other Jurisdiction of  
Incorporation or Organization)

**65-0609891**

(I.R.S. Employer  
Identification No.)

**Suite 610 375 Water Street  
Vancouver, British Columbia, Canada V6B 5C6**

(Address of Principal Executive Offices)

**(604) 801-5566**

(Issuer's Telephone Number, Including Area Code)

**Not Applicable**

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes x No**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: **15,906,975 shares of common stock, \$0.001 par value per share, issued and outstanding as of November 30, 2005.**

Transitional Small Business Disclosure Format (check one): Yes  No



**ENCORE CLEAN ENERGY, INC. AND SUBSIDIARIES**  
FORM 10-QSB  
QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005  
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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

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**Encore Clean Energy, Inc.**

Consolidated Balance Sheet (unaudited)  
expressed in United States dollars)

September  
30,  
2005

## Assets

## Current assets:

Cash and cash equivalents	\$ 165
Investment	14,966
Accounts receivable	130,290
Prepaid expenses	28,801
Other assets	2,193
Deferred tax asset less valuation allowance of \$1,663,200	-
<b>Total current assets</b>	<b>176,415</b>
Property and equipment, less accumulated depreciation	61,290
<b>TOTAL ASSETS</b>	<b>\$ 237,705</b>

## Liabilities and Deficiency in Assets

## Current liabilities:

Bank indebtedness	\$ 95,159
Accounts payable and accrued liabilities	2,060,761
Credit facility	380,368
Due to related parties - current portion	1,284,773
Capital lease obligation - current portion	7,324
<b>Total current liabilities</b>	<b>3,828,385</b>
Due to related parties	1,293,204
Minority interest	100,000
Capital lease obligations	5,181
<b>Total liabilities</b>	<b>5,226,770</b>

## Deficiency in assets:

Common stock, .001 par value; 18,000,000 share authorized; 14,406,975 issued and outstanding	14,407
Series A convertible preferred shares, .001 par value; 300,000 shares authorized; 300,000 issued	150,000
Additional paid-in capital	6,347,381
Deficit	(10,930,761)
Accumulated other comprehensive loss	(570,092)

Total deficiency in assets	(4,989,065)
<b>TOTAL LIABILITIES AND DEFICIENCY IN ASSETS</b>	<b>\$ 237,705</b>
See accompanying notes to unaudited consolidated financial statements	

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**Encore Clean Energy, Inc.**

Consolidated Statements of Operations (unaudited)

(expressed in United States dollars)

	Three Months Ended		Nine Months Ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
Revenue	\$ 646,999	\$ 561,613	\$ 2,047,359	\$ 2,006,849
Cost of revenue	558,933	370,976	1,589,971	1,392,572
Gross profit	88,066	190,637	457,388	614,277
Operating expenses:				
Depreciation	6,166	7,194	14,982	22,608
Salaries and benefits	165,269	170,767	475,790	520,754
Legal and accounting	78,126	22,407	149,679	112,021
Consulting fees and computer services	161,746	106,070	539,195	380,929
Phones and utilities	4,979	5,806	16,414	17,661
Rent	29,866	26,659	87,436	92,558
Advertising and promotion	5,014	3,114	106,648	9,848
Other selling, general and administrative	34,787	23,176	100,731	55,490
Total operating expenses	485,953	365,193	1,490,875	1,211,869
Loss from operations	(397,887)	(174,556)	(1,033,487)	(597,592)
Interest expense	(91,109)	(77,116)	(365,321)	(224,106)
Loss before taxes	(488,996)	(251,672)	(1,398,808)	(821,698)
Provision for income taxes	-	-	-	-
Net loss	(488,996)	(251,672)	(1,398,808)	(821,698)
Deficit, beginning of period	(10,441,765)	(6,722,084)	(9,531,953)	(6,152,058)
Deficit, end of period	\$ (10,930,761)	\$ (6,973,756)	\$ (10,930,761)	\$ (6,973,756)
Net loss per common share, basic and diluted	\$ (0.04)	\$ (0.02)	\$ (0.10)	\$ (0.06)
Weighted average common shares outstanding, basic				

and diluted	14,406,975	12,840,528	14,406,975	12,840,528
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See accompanying notes to the unaudited consolidated financial statements

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**Encore Clean Energy, Inc.**

Consolidated Statements of Cash Flows (unaudited)

(expressed in United States dollars)

	Nine Months Ended	
	September 30, 2005	September 30, 2004
Cash flows from operating activities:		
Net loss	\$ (1,398,808)	\$ (821,698)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	14,983	22,608
Loss on settlement of accounts receivable	20,305	-
Stock based compensation	21,678	112,632
Common stock issued for services	92,050	-
Accrual of consulting fees	180,000	-
Write-down of investment	16,364	-
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	(45,377)	38,097
Decrease in prepaid expenses and other assets	(18,205)	(10,962)
Increase in accounts payable and accrued liabilities	206,318	136,712
Net cash used in operating activities	(910,692)	(522,611)
Cash flows used in investing activities:		
Purchase of property and equipment	(6,222)	(6,631)
Net cash used in investing activities	(6,222)	(6,631)
Cash flows from financing activities:		
Principal payments on obligations under capital leases	(1,608)	(4,967)
Proceeds from (repayment of) bank indebtedness	71,054	(82,447)
Proceeds from credit facility	(3,616)	-
Proceeds from notes payable	-	180,000
Cash received from issuance of LLC subsidiary units to minority shareholders	100,000	-
Proceeds from preferred share offering	150,000	-
Proceeds from loans payable	-	360,997
Advances from related parties, net	378,031	84,265
Net cash provided by financing activities	693,861	537,848
Effect of exchange rate on cash	223,218	(9,134)
Increase (decrease) in cash	165	(258)
Cash, beginning of period	-	335
Cash, end of period	\$ 165	\$ 77
Supplementary information:		
Interest paid	\$ 308,300	\$ 6,425

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Income taxes paid	-	-
Investment received on settlement of accounts receivable	30,605	-
Shares issued on conversion of note	66,000	-
Accounts payable settled for shares	100,000	-

See accompanying notes to the unaudited consolidated financial statements.

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**ENCORE CLEAN ENERGY, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Expressed in United States Dollars**

September 30, 2005

**1. The Company and Description of Business:**

Encore Clean Energy, Inc. (the Company) was originally incorporated on May 12, 1995, under the laws of the State of Florida. On May 13, 2002, the Company changed its state of jurisdiction to Delaware. On December 1, 2003, the Company merged with, Cryotherm, Inc., now a wholly-owned subsidiary, under the laws of Delaware and changed its name to Encore Clean Energy, Inc.

The Company is currently engaged in the following business:

- (a) The business of creating and commercializing products that generate electricity without burning fossil fuels; and
- (b) The provision of permission-based e-mail marketing and integrated advertising strategies services through its wholly-owned subsidiary Ignite Communications Inc.

**2. Liquidity and Future Operations:**

The Company incurred a net loss in the quarter ending September 30, 2005, and has sustained negative cash flows from operations since its inception. At September 30, 2005, the Company has negative working capital of \$3,651,970. The Company's ability to meet its obligations in the ordinary course of business is dependent upon its ability to increase profitable operations or to obtain additional funding through public or private equity financing, collaborative or other arrangements with corporate sources, or other sources. Management is seeking to increase revenues through continued marketing of its services; however additional funding will be required.

Management is working to obtain sufficient working capital from external sources in order to continue operations. There is however no assurance that the aforementioned events, including the receipt of additional funding, will occur and be successful which raises substantial doubt about its ability to continue as a going concern. Failure to generate sufficient cash flow will require the Company to amend or reduce operations.

**3. Basis of Presentation:**

The unaudited consolidated financial statements of the Company at September 30, 2005, and for the nine month period then ended include the accounts of the Company and its wholly-owned subsidiaries and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in conformity with generally accepted accounting principles in the United States of America have been condensed or omitted in these interim statements under the rules and regulations of the Securities and Exchange Commission ("SEC"). Accounting policies used in fiscal 2005 are consistent with those used in fiscal 2004. The results of operations for the nine months ended September 30, 2005, are not necessarily indicative of the results for the entire fiscal year ending December 31, 2005. These interim financial statements should be read in conjunction with the financial statements for the fiscal year ended December 31, 2004, and the notes thereto included in the Company's Annual Report on Form 10-KSB.

**ENCORE CLEAN ENERGY, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Expressed in United States Dollars**

September 30, 2005

**4. Foreign Currency:**

The functional currency of the operations of the Company's wholly-owned Canadian operating subsidiaries is the Canadian dollar. Assets and liabilities measured in Canadian dollars are translated into United States dollars using exchange rates in effect at the balance sheet date with revenue and expense transactions translated using average exchange rates prevailing during the period. Exchange gains and losses arising on this translation are excluded from the determination of income and reported as foreign currency translation adjustment (which is included in accumulated other comprehensive loss) in stockholders' deficit.

**5. Net Loss Per Share:**

Basic net loss per share is computed using the weighted average number of common stock outstanding during the periods. Diluted net loss per share is computed using the weighted average number of common and potentially dilutive common stock outstanding during the period. Basic and diluted net loss per share are the same as any exercise of all outstanding options or warrants would be anti-dilutive.

**6. Related Party**

During the nine months ended September 30, 2005, the Company obtained financing from related parties totaling \$497,656 with no fixed terms of repayment.

**ENCORE CLEAN ENERGY, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Expressed in United States Dollars**

September 30, 2005

**7. Comprehensive Income (Loss):**

Comprehensive loss for each of the periods presented is as follows:

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Net loss	\$ ( 488,996 )	\$ ( 261,440 )	\$ ( ) 1,398,808	\$ ( 821,698 )
Other comprehensive income/ (loss):	( 118,798 )	35,955	( 84,281 )	9,134
Foreign currency translation adjustment				
Comprehensive loss	\$ ( 640,054 )	\$ ( 215,717 )	\$ ( ) 1,483,091	\$ ( 812,564 )

**8. Segmented Information**

The Company has two segments although only one operating segment has reportable activity at this time. This segment controls advertising services and commercializing products that generate electricity without burning fossil fuels, and the chief operating decision maker makes decisions about allocating resources based on each operating segment. All of the Company's sales relate to the advertising services operating segment and are to Canadian customers. Substantially all of the Company's assets are located in Canada.

**ENCORE CLEAN ENERGY, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Expressed in United States Dollars**

September 30, 2005

**9. Commitment**

Effective June 1, 2005, we entered into consulting contracts with two companies resident in Canada (each a Canadian Consultant ) for the provision of investor relations services. Each of these contracts calls for the Canadian Consultant to be paid fees in the amount of \$4,500 per month, payable by the issuance of 10,000 shares of our common stock, which shares are to be issued to the Canadian Consultants on a quarterly basis. As a result, effective July 15, 2005, we issued an aggregate of 60,000 shares of our common stock (30,000 shares each) to the Canadian Consultants.

Effective July 15, 2005, we entered into an additional consulting contract with a company resident in the United States (the US Consultant ), also for the provision of investor relations services. The contract calls for the US consultant to be paid fees of \$3,000 US per month, plus an additional equity based consulting fee of \$20,000 per each three month period, payable by the issuance of 100,000 shares of our common stock, which shares are to be issued at the end of each such three month period. As a result, effective July 15, 2005, we issued an aggregate of 100,000 shares of our common stock to the US Consultant.

Effective August 29, 2005, we entered into an additional letter agreement with a related party assigning all of their interest in the MPG technology. In consideration we issued warrants to purchase 1,500,000 shares of common stock at \$0.20 per share. As of the date of this filing no change to the status of this agreement has occurred.

Effective September 9, 2005, we have entered into a development and license agreement with ISE Corporation to build a prototype unit of the MPG to be used as a prime electric generator in hybrid-electric Heavy Duty Motor Vehicles. For this effort, the Company will pay \$260,000 payable in two installments of \$100,000 within the next 60 and 120 days respectively and the final installment for the first phase within the next 180 days. If the first phase is successful, we will also fund the second phase currently estimated at \$600,000.

**ENCORE CLEAN ENERGY, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Expressed in United States Dollars**

September 30, 2005

**10. Subsequent Event**

On October 21, 2005, the Company's state of incorporation relocated from Delaware to Nevada and our authorized capital increased to 100,000,000 shares of Common Stock and 20,000,000 shares of preferred stock.

On October 21, 2005, each share of our Series A Convertible Preferred Stock outstanding was converted into five shares of our Common Stock and warrants to purchase an additional five shares of our Common Stock at a price of \$0.25 per share. We had 300,000 shares of Series A Stock outstanding. As such, we issued 1,500,000 shares of our Common Stock and Series A Warrants to acquire an aggregate of 1,500,000 additional shares of Common Stock at a price of \$0.25 per share.

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Form 10-QSB constitute "forward-looking statements". These statements, identified by words such as "plan", "anticipate," "believe," "estimate," "should," "expect" and similar expressions include our expectations and objectives regarding our future financial position, operating results and business strategy. These statements reflect the current views of management with respect to future events and are subject to risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to be materially different from those described in the forward-looking statements. Such risks and uncertainties include those set forth under this Item 2. "Management's Discussion and Analysis or Plan of Operation" and elsewhere in this Form 10-QSB. We do not intend to update the forward-looking information to reflect actual results or changes in the factors affecting such forward-looking information. We advise you to carefully review the reports and documents we file from time to time with the Securities and Exchange Commission (the "SEC"), particularly our annual reports on Form 10-KSB, our quarterly reports on Form 10-QSB and our current reports on Form 8-K.

As used in this Quarterly Report, the terms "we", "us", "our", "Company" and "Encore" mean Encore Clean Energy, Inc. unless otherwise indicated. All dollar amounts in this Quarterly Report are in U.S. dollars unless otherwise stated.

### INTRODUCTION

The following discussion and analysis summarizes our plan of operation for the next 12 months, our results of operations for the nine months ended September 30, 2005 and changes in our financial condition from December 31, 2004. This discussion should be read in conjunction with the Management's Discussion and Analysis or Plan of Operation included in our Annual Report on Form 10-KSB for the year ended December 31, 2004.

Effective October 21, 2005, we completed a merger with a Nevada corporation also named Encore Clean Energy, Inc. ("Encore Nevada"). As a result of completing this merger, our jurisdiction of incorporation has been changed from the State of Delaware to the State of Nevada. In addition, our authorized capital was increased to include 100,000,000 shares of Common Stock and 20,000,000 shares of Preferred Stock. (See Part II, Item 4 "Submission of Matters to a Vote of Security Holders.")

We are currently engaged in the following businesses:

- (i) **The Encore Business:** The Encore Business involves developing and commercializing proprietary clean-energy technologies that we have acquired through our acquisition of Cryotherm. Our plan for this segment of our business involves creating products that will be targeted at creating lower-cost, cleaner ways to generate electricity without the burning of fossil fuels.
- (ii) **The Ignite Business:** Prior to our acquisition of Cryotherm, our primary business was the Ignite Business of providing permission-based email marketing and integrated advertising services. We continue to carry on this segment of our business through our wholly owned subsidiary, Ignite Communications Inc. ("Ignite").

### PLAN OF OPERATION

Our plan of operation for the next twelve months includes the following elements:

1. We will continue the research and development of our Encore products. Initially we plan to focus on the continuing development and commercialization of the HeatSeeker™ waste heat recovery unit, the Eliminator™ Rankine Cycle liquid pump elimination process, the SideWinder™ VAWT, the





RiverBank™ hydro turbine and our latest design, the MPG™ accelerated magnetic piston generator. In pursuit of this, we will:

- (a) Pursue the development and testing of our HeatSeeker™, Eliminator™, SideWinder™, RiverBank™ and MPG™ prototypes on various applications. We anticipate that the development and testing programs for these products will continue for the foreseeable future. The results of these testing programs will be used to further refine the product designs and identify the optimal sizes and configurations for various commercial and consumer applications. Our current development programs include:
  - (i) The development of our SideWinder™ and RiverBank™ technologies through World, Wind and Water Energy LLC, our joint venture operation with the Abell Foundation, Inc. and Robert D. Hunt.
  - (ii) The development of our MPG™ and HeatSeeker™ technologies for geothermal and hydrothermal energy applications through a joint venture operation with ThermoSource, Inc., a California geothermal energy consulting company.
  - (iii) The development of our MPG™ technology as an electrical generator for hybrid-electric heavy duty motor vehicles such as buses, garbage truck and delivery trucks being conducted by ISE Corporation under a Development and License Agreement signed with ISE in September.

We anticipate spending approximately \$2,500,000 in pursuing our plan of operation over the next twelve months. This amount is in excess of our current cash reserves. It is anticipated that the Encore Business will not generate any significant revenues over the next twelve months and we do not anticipate earning sufficient income from the Ignite Business to fund our development plan for the Encore Business. Accordingly, we will require substantial additional financing in order to fund our plan of operation. We anticipate that any additional financing will likely be in the form of equity financing as substantial debt financing will not be as available at this stage of our business.

Currently, we do not have any firm financing arrangements in place and there is no assurance that we will be able to achieve sufficient financing required to proceed with the development of our Encore Products. If we do not obtain the necessary financing, then our plan of operation will be scaled back according to the amount of funds available. The inability to raise the necessary financing will severely restrict our ability to complete the development and commercialization of our Encore Products. In the event that we are unable to develop and commercialize our Encore Products, we intend to focus on the Ignite Business.

## RESULTS OF OPERATIONS

### *Third Quarter and Nine Months Summary*

	Third Quarter Ended September 30			Nine Months Ended September 30		
	2005	2004	Percentage Inc. / (Dec.)	2005	2004	Percentage Inc. / (Dec.)
Revenue	\$ 646,999	\$ 561,613	15.2%	\$ 2,047,359	\$ 2,006,849	2.0%
Cost of Revenue	(558,933)	(370,976)	50.7%	(1,589,971)	(1,392,572)	14.2%
Operating Expenses	(485,953)	(365,193)	33.1%	(1,490,875)	(1,211,869)	23.0%
Interest Expenses	(91,109)	(77,116)	18.2%	(365,321)	(224,106)	63.0%
Net Loss	\$ (488,996)	\$ (251,672)	94.3%	\$ (1,398,808)	\$ (821,698)	70.2%

### **Revenue**

For the last fiscal quarter, revenues were generated solely from the Ignite Business. We did not earn revenues from our Encore Business and there is no assurance that we will be able to do so in the future.

We experienced an increase in our revenues during the third fiscal quarter of 2005 as compared to the same period in 2004. This increase is due to the addition of two new clients.

Revenues for the Ignite Business are earned by delivering online direct marketing, promotional, and informational offers and by developing and implementing integrated marketing and advertising strategies. We charge our advertisers based upon a number of criteria including offers delivered, qualified leads generated, online transactions executed and marketing services performed.

Revenue for the Ignite Business consists of the gross value of our billings to clients and includes the price of the advertising that we purchase from offline and online suppliers. Under marketing services contracts, we recognize the cost of the advertising we purchase for our clients as an expense and the payments we receive from our clients for this advertising as revenue. Under these arrangements, we are ultimately responsible for payment to suppliers for the cost of the advertising that we purchase.

We believe that our revenues will be subject to seasonal fluctuations as a result of general patterns of retail advertising, which are typically higher during the third and fourth calendar quarters. In addition, expenditures by

advertisers tend to be cyclical, reflecting overall economic conditions and consumer buying patterns.

**Cost of Revenue**

Cost of revenue for the Ignite Business represents the cost of advertising purchased for clients. The increase in our cost of revenue as compared to the third fiscal quarter of 2004 is a direct result of our increased revenue.

**Operating Expenses**

	Third Quarter Ended September 30			Nine Months Ended September 30		
	2005	2004	Percentage Inc. / (Dec.)	2005	2004	Percentage Inc. / (Dec.)
Depreciation	\$ 6,166	\$ 7,194	(14.2)%	\$ 14,982	\$ 22,608	(33.7)%
Salaries and Fringe Benefits	165,269	170,767	(3.2)%	475,790	520,754	(8.6)%
Legal and Accounting	78,126	22,407	248.7%	149,679	112,021	33.6%
Consulting Fees and Computer Services	161,746	106,070	52.5%	539,195	380,929	41.5%
Phones and Utilities	4,979	5,806	(14.2)%	16,414	17,661	(7.1)%
Rent	29,866	26,659	12.0%	87,436	92,558	(5.5)%
Advertising and Promotion	5,014	3,114	61.0%	106,648	9,848	982.9%
Other selling, general and administrative	34,787	23,176	50.1%	100,731	55,490	81.5%
<b>Total Operating Expenses</b>	<b>\$ 485,953</b>	<b>\$ 365,193</b>	<b>33.1%</b>	<b>\$ 1,490,875</b>	<b>\$ 1,211,869</b>	<b>23.0%</b>

Our total operating expenses incurred during the quarter ended September 30, 2005, increased by \$32,694 or 33.1% over our operating expenses incurred during the same period ended September 30, 2004. This increase in our operating expenses was primarily attributable to significant increases to our legal and accounting fees, consulting fees and computer services, advertising and promotion expenses and other selling, general and administrative expenses.

The increase in consulting fees and computer services for the quarter ended September 30, 2005, compared to the three and nine month periods ended September 30, 2004, is primarily the result of additional consulting costs associated with the development of our clean energy technologies for the Encore Business.

During the quarter ended June 30, 2005, we commenced a marketing and advertising campaign in order to promote public awareness of developments in our clean energy technologies for the Encore Business. As a result, we experienced a significant increase in the advertising and promotion expenses that we incurred during the period ended September 30, 2005 as compared to the same period ended in 2004.

The increase in selling, general and administrative costs during the quarter ended September 30, 2005 compared to the same period in 2004 is a direct result of our increased spending to support the Encore Business.

We also experienced a decrease in amounts incurred as a result of salaries and fringe benefits during the quarter ended September 30, 2005. This decrease is largely a result of the amalgamation of Forge Marketing Inc.'s operations into

Ignite Communications and the subsequent decrease in staffing levels.

**Interest Expenses**

The increase in interest expense during the quarter ended September 30, 2005, as compared to the same period in 2004, is primarily attributable to interest and financing charges related to advances from related parties and loans repaid during the period.

**LIQUIDITY AND CAPITAL RESOURCES****Working Capital**

	At September 30, 2005	At December 31, 2004	Percentage Increase / (Decrease)
Current Assets	\$ 176,415	\$ 144,651	22.0%
Current Liabilities	(3,828,385)	(3,182,031)	20.3%
Working Capital Deficit	\$ (3,651,970)	\$ (3,037,380)	20.2%

**Cash Flows**

	Nine Months Ended September 30	
	<u>2005</u>	<u>2004</u>
Net Cash from (used in) Operating Activities	\$ (910,692)	\$ (522,611)
Net Cash from (used in) Investing Activities	(6,222)	(6,631)
Net Cash from (used in) Financing Activities	693,861	537,848
	223,218	(9,134)
Net Increase (decrease) in Cash During Period	\$ 165	\$ (528)

The increase in our current assets is primarily attributable to an increase in prepaid expenses, which increased by \$15,886 or 123.0% from December 31, 2004. In addition, we have recorded investments in the amount of \$14,966 on account of shares of a publicly traded company that we received in settlement of an accounts receivable debt. The increase in our current liabilities is primarily attributable to increases in our accounts payable, which increased by \$140,111 or 7.3% from December 31, 2004, and to increases in the current portion of amounts due to related parties, which increased by \$424,271 or 49.3% from December 31, 2004.

Cash provided by financing activities for the nine months ended September 30, 2005 consisted primarily of the following:

- We recorded as cash received from the issuance of LLC subsidiary units, \$100,000 in capital contributions made by the Abell Foundation, Inc. to our joint venture enterprise, World, Wind and Water Energy LLC.
- During the nine months ended September, 30, 2005, we received financing from related parties in the amount of \$378,031. There are no fixed terms of repayment attached to the amounts advanced.
- We received financing from proceeds from bank indebtedness in the amount of \$71,054.
- In August, 2005, we issued 300,000 shares of our Series A Convertible Preferred Stock at a price of \$0.50 per share to a number of accredited investors for total proceeds of \$150,000.

We anticipate that we will require financing in the amount of \$2,500,000 in order to fund our plan of operation over the next twelve months. In addition to financing our development plans for the Encore Products, we anticipate that we will continue to require additional financing to fund the Ignite Business which continues to consume more cash in operating activities than is generated. We plan to pursue additional





bank debt and equity financings through private placements of our common stock or common stock and share purchase warrants in order to raise the funds necessary to enable us to pursue our plan of operation for the next twelve months. We do not have any arrangements in place for equity financing and there is no assurance that any equity financing will be achieved. If equity financing is achieved, then it is anticipated that existing shareholders will suffer dilution. In addition to third party debt financing and equity financings, we have sustained our operations to date with advances from related parties, however we do not have any formal financing arrangements in place with any of these related parties and there is no assurance that they will continue to provide us with funds.

Our ability to meet our current obligations is dependent upon continued advances from related parties, upon our ability to increase our revenues while maintaining expenses and upon our ability to achieve additional financing. If we are unable to meet our current obligations, we may be forced to significantly scale back our business operations with the result that our ability to earn revenues and achieve profitability may be adversely affected.

## **OFF-BALANCE SHEET ARRANGEMENTS**

We have no significant off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to stockholders.

## **RISKS AND UNCERTAINTIES**

### **Risks and Uncertainties Related to the Encore Business**

#### The Encore Business Will Incur Losses And May Never Achieve Profitability

We do not expect the Encore Business to achieve profitability in the near future and we expect to incur substantial operating losses for at least the next eighteen months. If we are unable to develop a significant revenue stream or if expenses are larger than expected, the Encore Business may never become profitable. We anticipate substantial expenditures in a number of areas, including:

- development and commercialization of prototypes;
- public demonstration of prototypes;
- marketing and promotion of our Encore products, including building recognition of the Encore name;
- establishing an operating infrastructure, including management and administrative personnel.

In addition, as a result of the lack of an operating history, the emerging nature of the clean energy market and the unproven nature of our clean energy business model, we are unable to accurately forecast revenue for the Encore Business. We will incur operating expenses based predominantly on operating plans and estimates of future revenue. We may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfalls.

Accordingly, a failure to meet revenue projections would have an immediate and negative impact on our ability to achieve profitability.

#### Liquidity and Future Operations

Our plan of operation calls for significant expenses in connection with the development of our Encore Products. Our current operating funds and revenues are insignificant compared to the funding required to complete our plan of operation which will require an estimated \$2,500,000 to be spent over the next 12 months developing and marketing prototypes of our Encore products in order to accomplish our goals. As of September 30, 2005, we had cash in the amount of \$165 and a working capital deficit of \$3,651,970. Our ability to meet our obligations in the ordinary course of our operations is dependent on our ability to



establish profitable operations and positive cash flows from operating activities or to obtain additional funding through public or private equity financing, debt collaborative or other arrangements.

We will also require additional financing if the costs of developing our Encore products are greater than anticipated. There is no assurance that actual cash requirements will not exceed our estimates. In particular, additional capital may be required in the event that:

- we incur unexpected costs in completing the development of a prototype of one of our products or encounter any unexpected technical or other difficulties;
- we incur delays and additional expenses as a result of technology failure;
- we are unable to create a substantial market for our products; or
- we incur any significant unanticipated expenses.

We are working to obtain sufficient working capital from external sources in order to continue operations and meet our plan of operation. There is however, no assurance that the aforementioned events, including the receipt of additional funding, will occur or be successful. Failure to generate sufficient cash flow will require us to amend or reduce our operations and could adversely affect our ability to meet our plan of operation.

#### Risks Related To The Protection Of Intellectual Property Rights

Ownership of patent applications of the Cryotherm technologies invented by Robert Hunt resides with Mr. Hunt, who has provide us with an exclusive worldwide license to make, use and sell products based on such patent applications in consideration of license fees and royalties. We are relying on the patent applications of Mr. Hunt to protect our core technologies and products from competition.

We cannot assure investors that pending or future patent applications will result in the granting of patents or that any issued patents will not be invalidated, circumvented or challenged. A portion of our proprietary technology depends upon unpatented trade secrets and know-how. Without patent protection we would be vulnerable to competition from third parties who could develop competing products through reverse engineering. Also, where we do not have patent protection, competitors may independently develop substantially equivalent technology or otherwise gain access to our trade secrets, know-how or other proprietary information.

#### Our Product Development Program May Not Be Successful

Once we complete development of our prototypes there is no assurance that our prototypes will work as expected. In the event we successfully develop a prototype, there is no assurance that we will be able to manufacture the prototype at a reasonable cost. Even if we are able to manufacture the prototype at a reasonable cost, there is no assurance that the price of our Encore Products will not be excessive, precluding the product from generating sufficient market acceptance. As such, there is no assurance that we will be able to successfully develop and commercialize the Encore Products.

#### A Market For The Encore Products And Services May Not Develop Or We May Be Unable To Achieve Market Acceptance

Our technologies and products represent an emerging market, and we are unable to provide assurances that our targeted customers and markets will accept our technologies or will purchase our products and services in sufficient quantities to achieve profitability. If a significant market fails to develop or develops more slowly than we anticipate, we may be unable to recover the losses incurred to develop products, we may be unable to meet our operational expenses and we may be unable to achieve profitability. The development of a suitable market for our technologies and products may be impacted by many factors which are out of our control, including:

- the cost competitiveness of our products and services;
- the cost and availability of alternative products and services;
- customer reluctance to try new products or services;

- regulatory requirements; and
- the emergence of newer, more competitive technologies and products.

#### The Encore Business Is Dependent On Key Personnel and Sub-Contractors

The success of the Encore Business depends on the abilities and continued participation of key personnel such as inventor Robert Hunt, who has been instrumental in bringing several of our technologies to their present state of development. The loss of Mr. Hunt's services could hamper the successful development of our new technologies and products. We do not have "key man" life insurance on Mr. Hunt and have no plans to obtain such insurance. Our success also depends on our ability to attract and retain additional skilled employees, vendors and sub-contractors, who can bring our patents-pending designs to market.

We intend to rely in the near term upon sub-contractors and suppliers for a significant portion of our current and proposed products. The inability of sub-contractors and suppliers to meet their obligations may affect our ability to develop and deliver products on a timely and competitive basis.

Our success in the next few years is significantly dependent upon the abilities of our management. The determination of employee compensation is in control of the Board of Directors of the Company. The loss of the services of any one or more of our key employees or contractees could adversely affect us to a substantial degree.

#### Limited Experience of Management

Although our management collectively has significant business experience, most of our current officers and directors have limited experience with the clean energy business in particular. There is no assurance that we have or will acquire the skills necessary to enable the Encore Business to be profitable

#### We Have A Limited Operating History In The Energy Business

We have only recently moved into the clean energy business and we have limited experience operating in this business. We will need to generate significant revenues to achieve profitability, which may not occur. Our limited operating history makes it difficult to forecast future operating results. We expect operating expenses to increase as a result of the further implementation of our business plan. Even if we achieve profitability, we may be unable to sustain or increase profitability on a quarterly or annual basis in the future. It is possible that we will never achieve profitability.

#### **Risks and Uncertainties Related to the Ignite Business**

##### Our Existing Ignite Client Base Is Concentrated And The Loss Of A Major Client Would Be Difficult To Replace

Three advertising clients currently account for over 61% of our revenues. The loss of any of these clients would significantly damage our revenue base and opportunities for growth. We cannot guarantee that these clients will remain with us or that we will be able to access new clients to replace them.

##### Competition For Internet Advertising And Direct Marketing Is Intense And Could Adversely Affect Our Business.

The market for internet advertising and direct marketing is intensely competitive, rapidly changing and highly fragmented. With no significant barriers to entry and increasing attention being placed on the internet as a means of advertising and direct marketing, we expect that competition will continue to increase in the near term. Our ability to compete and generate revenue from businesses will depend on our skill in utilizing our expertise in electronic direct marketing technology to provide superior strategies and execution.

As we expand the scope of our advertising product and service offerings, we may compete with a greater number of media companies across a wide range of advertising and direct marketing services. Many of these companies have greater name recognition, longer operating histories, larger customer bases and significantly greater financial, technical, marketing, public relations, sales, distribution and other resources

than we do. In addition, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to increase the ability of their products or services to address the needs of our prospective advertisers and advertising agency customers. As a result, we may not be able to compete effectively and competitive pressures may result in price reductions, reduced gross margins and an inability to gain market share.

Failure To Safeguard Member Privacy Could Affect The Ignite Reputations Among Consumers.

An important feature of the Ignite advertising and marketing strategies is our ability to capture list member profiles on behalf of our clients. Security and privacy concerns may cause consumers to resist providing the personal data necessary to support this profiling capability. Usage of our marketing program could decline if any well-publicized compromise of security occurred. As a result of these security and privacy concerns, we may incur significant costs to protect against the threat of security breaches or to alleviate problems caused by such breaches.

For Ignite To Remain Competitive, We Must Keep Pace With Technological Changes In Our Industry

The internet and our market are characterized by rapidly changing technologies, frequent new product and service introductions, short development cycles, evolving industry standards and intense competition. We must adapt to rapidly changing technologies by maintaining and improving the performance features and reliability of our services. We may experience technical difficulties that could impact the operation of existing systems or delay the successful development, introduction or marketing of new products and services.

Continued Development And Use Of The Internet Infrastructure Is Critical To Ignite s Ability To Offer Our Services

We depend heavily on third-party providers of internet and related telecommunication services to operate our online direct marketing service. Internet service providers have experienced significant outages in the past, and could experience outages, delays and other difficulties due to system failures unrelated to our systems. If outages or delays occur frequently in the future, internet usage and the usage of our products and services, could grow more slowly or decline. If internet usage grows, the internet infrastructure may not be able to support the demands placed on it by this growth and its performance and reliability may decline.

Government Regulation And The Legal Uncertainties Of Doing Business On The Internet Could Negatively Impact The Ignite Business

Laws and regulations that apply to internet communications, commerce and advertising are becoming more prevalent. These regulations could affect the cost of communicating on the internet and negatively affect the demand for our direct marketing solutions or otherwise harm our business. Laws and regulations may be adopted covering issues such as user privacy, pricing, libel, acceptable content, taxation and quality of products and services. This legislation could hinder growth in the use of the Internet generally and decrease the acceptance of the Internet as a communications, commercial and direct marketing medium.

The laws governing the internet remain largely unsettled, even in areas where there has been some legislative action. It may take years to determine whether and how existing laws apply to the internet and internet advertising. In addition, the growth and development of the market for Internet commerce may prompt calls for more stringent consumer protection laws, both in the United States and abroad. This may impose additional burdens on companies conducting business over the Internet.

The Ignite Business Is Dependent on Key Personnel

The success of our Ignite Business depends on the abilities and continued participation of key personnel. The loss of any of our key employees, consultants or sub-contractors could hamper the development and continued operation of our Forge/Ignite Business and could have a substantial adverse affect on the Company as a whole.





Ignite Has a Limited Operating History

We have a limited operating history upon which to evaluate our business strategies and performance. Our limited operating history makes it difficult to forecast future operating results. We cannot be certain that revenues will increase at a rate sufficient to achieve and maintain profitability. Even if we were to achieve profitability in any period, we might fail to sustain or increase that profitability on a quarterly or annual basis.

**ITEM 3. CONTROLS AND PROCEDURES.**

**Evaluation Of Disclosure Controls And Procedures**

As of the end of the period covered by this report, our management carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer has concluded that our disclosure controls and procedures are, as of the date covered by this Quarterly Report, effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms.

**Changes In Internal Controls Over Financial Reporting**

In connection with the evaluation of our internal controls during our last fiscal quarter, our Chief Executive Officer and Chief Financial Officer has determined that there have been no changes to our internal controls over financial reporting that has materially affected, or is reasonably likely to materially effect, our internal controls over financial reporting.

**PART II - OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS.**

None.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

All unregistered sales of our equity securities made during the period covered by this Quarterly Report have been previously disclosed in reports filed by us with the SEC.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None.

**ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS.**

On October 5, 2005, we held our Annual Meeting of the Stockholders at our offices at Suite 610 375 Water Street, Vancouver, BC, Canada. The following matters were voted upon at the meeting:

1. Election of Directors

The following individuals were elected to our board of directors, and will hold those positions until the next annual meeting of our stockholders or until their respective successors have been elected:

	For	Against	Withheld / Abstained
Daniel B. Hunter	11,464,037	0	9,449
Donald J. MacKenzie	11,464,037	0	9,449
Lawrence M. Shultz	11,464,037	0	9,449

2. Merger with Encore Nevada

The merger with Encore Nevada, a Nevada corporation incorporated for the sole purpose of changing our jurisdiction of incorporation from the State of Delaware to the State of Nevada, was approved at the meeting.

	For	Against	Withheld / Abstained
	10,646,899	669,758	500

The merger with Encore Nevada was completed on October 21, 2005. As such, our legal domicile is now the State of Nevada.

3. 2003 Stock Incentive Plan

The adoption of our 2003 Stock Incentive Plan was approved at the meeting.

	For	Against	Withheld / Abstained
	10,604,643	711,714	800



#### 4. Increase in Authorized Capital

An increase in our authorized capital to 100,000,000 shares of common stock and 20,000,000 shares of preferred stock was approved at the meeting.

For	Against	Withheld
10,605,439	711,718	0

The increase in our authorized capital was effected on October 21, 2005 upon completion of the merger with Encore Nevada.

#### ITEM 5. OTHER INFORMATION.

Except as may be described in this section, all information required to be disclosed in a Current Report on Form 8-K during the period covered by this Quarterly Report has been disclosed in reports previously filed by us with the SEC.

##### Other Information

On October 5, 2005, at our Annual Meeting of the Stockholders, our stockholders approved of our merger with Encore Nevada and an increase in our authorized capital to 100,000,000 shares of Common Stock and 20,000,000 shares of preferred stock. Pursuant to our Articles of Incorporation, as amended, each share of Series A Convertible Preferred Stock ( Series A Stock ) outstanding is convertible into five (5) shares of our Common Stock and warrants to purchase an additional five (5) shares of our Common Stock at a price of \$0.25 per share (the Series A Warrants ). The conversion provisions of the outstanding shares of Series A Stock were automatically deemed to have been exercised upon our stockholders having approved the increase in our authorized capital as described above. The Series A Warrants will expire at 5:00 PM (Pacific Standard Time) on October 26, 2007.

On October 5, 2005 (the Conversion Date ), we had 300,000 shares of Series A Stock outstanding. As such, effective on the Conversion Date, we issued 1,500,000 shares of our Common Stock and Series A Warrants to acquire an aggregate of 1,500,000 additional shares of Common Stock at a price of \$0.25 per share. Certificates for the Series A Warrants and shares of Common Stock issuable upon conversion are being issued to the former holders of our Series A Stock upon the surrender for cancellation of share certificates representing such Series A Stock.

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

##### (a) Exhibits and Index of Exhibits Required By Item 601 of Regulation S-B.

###### Exhibit

###### Number Description of Exhibit

- 3.1 Articles of Merger, including Plan of Merger and Bylaws of Encore Clean Energy, Inc. (Nevada) attached as Exhibit B to the Plan of Merger.
- 10.1 Exclusive License Agreement between Cryotherm, Inc. and Robert D. Hunt<sup>(1)</sup>
- 10.2 Letter Joint Projects, License and Consulting Agreement between Cryotherm, Inc. and Centripetal Dynamics, Inc.<sup>(1)</sup>

**Exhibit**

**Number Description of Exhibit**

- 10.3 Letter Agreement between Encore Clean Energy, Inc. and Centripetal Dynamics, Inc. extending the terms of the Joint Projects, License and Consulting Agreement.<sup>(1)</sup>
- 10.4 Purchase Agreement and Plan of Reorganization dated July 28, 2003 between Forge, Inc., Cryotherm, Inc. and the major shareholders of Cryotherm, Inc. <sup>(2)</sup>
- 10.5 Amendment to Purchase Agreement and Plan of Reorganization dated August 25, 2003 between Forge, Inc., Cryotherm, Inc. and the major shareholders of Cryotherm, Inc. <sup>(3)</sup>
- 10.6 Limited Liability Company Agreement of World, Wind and Water LLC, dated January 14, 2005, between Encore Clean Energy, Inc., Robert D. Hunt and The Abell Foundation, Inc.<sup>(4)</sup>
- 10.7 First Amendment to the Limited Liability Company Agreement of World, Wind and Water Energy LLC dated January 14, 2005.<sup>(4)</sup>
- 10.8 Technology Contribution Agreement, dated January 14, 2005, between Encore Clean Energy, Inc., Robert D. Hunt and World, Wind and Water Energy LLC.<sup>(4)</sup>
- 10.9 Convertible Note Agreement dated January 14, 2005 between Encore Clean Energy, Inc. and Robert Hunt.<sup>(5)</sup>
- 10.10 Web Coverage and Advertising Services Agreement dated effective as of April 18<sup>th</sup> , 2005 between Encore Clean Energy, Inc. and Free-Market News Network, Corp.<sup>(6)</sup>
- 10.11 Consulting Agreement dated September 1, 2005 between Encore Clean Energy, Inc. and McCreath Communications.<sup>(6)</sup>
- 10.12 Consulting Agreement dated September 1, 2005 between Encore Clean Energy, Inc. and tinePublic Inc.<sup>(6)</sup>
- 10.13 Letter Agreement dated July 5, 2005 between Encore Clean Energy, Inc. and Robert D. Hunt.<sup>(6)</sup>
- 10.14 Convertible Note Agreement dated July 5, 2005 between Encore Clean Energy, Inc. and Robert D. Hunt.<sup>(6)</sup>
- 10.15 Consulting Agreement dated July 15, 2005 between Encore Clean Energy, Inc. and C&H Capital, Inc.<sup>(6)</sup>
- 10.16 Letter Agreement dated August 5, 2005 between Encore Clean Energy, Inc. and ThermoSource, Inc.<sup>(6)</sup>
- 10.17 Development and License Agreement dated effective September 6, 2005 between Encore Clean Energy, Inc. and ISE Corporation.<sup>(7)</sup>
- 14.1 Code of Ethics.<sup>(1)</sup>
- 21.1 List of Subsidiaries.<sup>(1)</sup>
- 31.1 Certification of Chief Executive Officer and Chief Financial Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

- (1) Previously filed as exhibits to our Annual Report on Form 10-KSB, filed with the SEC on May 17, 2004.
- (2) Previously filed as an exhibit to our Current Report on Form 8-K filed with the SEC on August 1, 2003.
- (3) Previously filed as an exhibit to our Current Report on Form 8-K filed with the SEC on October 15, 2003.
- (4) Previously filed as an exhibit to our Current Report on Form 8-K filed with the SEC on January 19, 2005.
- (5) Previously filed as an exhibit to our Current Report on Form 8-K filed with the SEC on January 18, 2005.
- (6) Previously filed as an exhibit to our Quarterly Report on Form 10-QSB filed with the SEC on September 7, 2005.
- (7) Previously filed as an exhibit to our Current Report on Form 8-K filed with the SEC on September 15, 2005.

**(b) Current Reports On Form 8-K.**

We have filed the following reports on Form 8-K since the end of our fiscal quarter ended June 30, 2005:

<u>Date of Form 8-K</u>	<u>Date of Filing with the SEC</u>	<u>Description of the Form 8-K</u>
August 5, 2005	August 8, 2005	Disclosing dismissal of KPMG LLP as principal independent accountant and appointment of Dohan and Company, PA as principal independent accountant
August 29, 2005	September 6, 2005	Disclosing the entry into an agreement with Larry Shultz dated August 29, 2005.
September 9, 2005	September 15, 2005	Disclosing the entry into an agreement dated effective September 6, 2005 with ISE Corporation.
October 24, 2005	October 25, 2005	Disclosing the completion of the merger between Encore Clean Energy, Inc., a Delaware corporation, and Encore Clean Energy, Inc., a Nevada corporation.

**SIGNATURES**

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**ENCORE CLEAN ENERGY, INC.**

Date: December 15, 2005

By: */s/ Daniel Hunter*

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Title: Daniel Hunter  
Chief Executive Officer and  
Chief Financial Officer