

ENCORE CLEAN ENERGY INC  
Form 10QSB  
June 15, 2005

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 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 **March 31, 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)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**65-0609891**  
(I.R.S. Employer  
Identification No.)

**Suite 610 – 375 Water Street**  
**Vancouver, British Columbia 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  No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: **June 10, 2005: 13,386,975 shares of common stock, \$.001 par value per share.**

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

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**ENCORE CLEAN ENERGY, INC. AND SUBSIDIARIES**  
FORM 10-QSB  
QUARTERLY PERIOD ENDED MARCH 31, 2005  
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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS.**

**Encore Clean Energy, Inc.**

Consolidated Balance Sheets

(expressed in United States dollars)

March 31, 2005 and December 31, 2004

	March 31, 2005 (unaudited)	December 31, 2004
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 15,609	\$ -
Accounts receivable	177,194	131,736
Prepaid expenses	20,140	12,915
	212,943	144,651
Property and equipment, less accumulated depreciation	66,832	68,432
	\$ 279,775	\$ 213,083
<b>Liabilities and Stockholders' Deficit</b>		
<b>Current liabilities:</b>		
Bank indebtedness	\$ -	\$ 20,713
Accounts payable and accrued liabilities	1,830,246	1,920,650
Credit facility	352,596	371,688
Due to related parties - current portion	1,081,852	860,502
Capital lease obligation - current portion	7,941	8,478
	3,272,635	3,182,031
Due to related parties	1,149,854	961,503
Minority interest	50,000	-
Capital lease obligations	3,623	5,253
Total liabilities	4,476,112	4,148,787
<b>Stockholders' deficit:</b>		
Common stock	13,387	13,007
Additional paid-in capital	6,185,401	6,069,053
Deficit	(9,920,511)	(9,531,953)
Accumulated other comprehensive loss	(474,614)	(485,811)
Total stockholders' deficit	(4,196,337)	(3,935,704)
	\$ 279,775	\$ 213,083

See accompanying notes to the unaudited interim consolidated financial statements

**Encore Clean Energy, Inc.**

Unaudited consolidated Statements of Operations  
(expressed in United States dollars)

Three months ended March 31, 2005 and 2004

	March 31, 2005	March 31, 2004
Revenue	\$ 547,034	\$ 627,382
Cost of revenue	(385,393)	(341,262)
Gross profit	161,641	286,120
Operating expenses:		
Depreciation	5,843	7,142
Remuneration	161,761	182,788
Legal and accounting	14,437	60,806
Consulting fees and computer services	208,379	166,115
Phones and utilities	3,393	5,706
Rent	28,998	41,179
Advertising and promotion	9,859	3,360
Other selling, general and administrative	25,993	16,051
	458,663	483,147
Loss from operations	(297,022)	(197,027)
Other expense:		
Interest expense	(91,536)	(111,559)
Net loss	(388,558)	(308,586)
Deficit, beginning of period	(9,531,953)	(6,152,058)
Deficit, end of period	\$ (9,920,511)	\$ (6,460,644)
Net loss per common share, basic and diluted	\$ (0.03)	\$ (0.02)
Weighted average common shares outstanding, basic and diluted	13,108,472	12,691,381

See accompanying notes to the unaudited interim consolidated financial statements

**Encore Clean Energy, Inc.**

Unaudited consolidated Statements of Cash Flows  
(expressed in United States dollars)

Three months ended March 31, 2005 and 2004

	March 31, 2005	March 31, 2004
Cash provided by (used in):		
Operations:		
Net loss	\$ (388,558)	\$ (308,586)
Items not involving cash:		
Depreciation	5,843	7,142
Stock compensation	21,677	112,632
Common stock issued for services	45,050	-
Changes in operating assets and liabilities:		
Accounts receivable	(45,458)	(158,152)
Prepaid expenses	7,225	(116)
Accounts payable and accrued liabilities	(90,404)	160,005
Net cash used in operating activities	(444,625)	(187,075)
Cash flows used in investing activities:		
Purchase of property and equipment	(4,243)	(619)
Net cash used in investing activities	(4,243)	(619)
Cash flows from financing activities:		
Principal payments on obligations under capital leases	(1,058)	(1,939)
Repayment of bank indebtedness	(20,713)	(16,188)
Repayments of credit facility	(19,092)	-
Proceeds from notes payable	-	136,260
Issuance of common stock of subsidiary to minority stockholders	50,000	-
Advances from related parties	409,701	94,637
Net cash provided by financing activities	418,838	212,770
Effect of exchange rate changes on cash	45,639	(12,717)
Increase in cash and cash equivalents	15,609	12,359
Cash and cash equivalents, beginning of year	-	335
Cash and cash equivalents, end of year	\$ 15,609	\$ 12,694
Supplementary information:		
Interest paid	\$ 58,139	\$ 22,455

See accompanying notes to the unaudited interim consolidated financial statements

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

**Expressed in United States Dollars**

**March 31, 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 Florida. On May 13, 2002, we changed our state of jurisdiction to Delaware. On December 1, 2003 we merged with our wholly-owned subsidiary, Cryotherm, under the laws of Delaware and changed our name to Encore Clean Energy, Inc.

Encore Clean Energy, Inc. 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 our wholly owned subsidiary Ignite Communications Inc.

**2. Liquidity and Future Operations:**

The Company incurred a net loss in the first quarter ending March 31, 2005 and has sustained negative cash flows from operations since its inception. At March 31, 2005, the Company has negative working capital of \$3,059,692. 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.

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

**Expressed in United States Dollars**

**March 31, 2005**

**3. Basis of Presentation:**

The unaudited consolidated financial statements of the Company at March 31, 2005 and for the three 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 accordance with generally accepted accounting principles 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 three months ended March 31, 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 Annual Report on Form 10-KSB.

**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 sheets 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 the comprehensive income (loss)) in stockholders' equity.

**5. Net Income (Loss) Per Share:**

The Company computes net income (loss) per share in accordance with SFAS No. 128, Earnings per Share, and SEC Staff Accounting Bulletin ("SAB") No. 98. Under the provisions of SFAS No. 128 and SAB No. 98, basic income (loss) per share is computed using the weighted average number of common stock outstanding during the periods. Diluted income (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 income (loss) per share are the same as any exercise of all outstanding options or warrants would be anti-dilutive.

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

Expressed in United States Dollars

March 31, 2005

**6. Related Party**

During the quarter the Company obtained financing from related parties totaling \$387,380 (CDN \$396,000 and USD \$60,000) with no fixed terms of repayment.

**7. Comprehensive Loss**

Effective January 1, 1999, the Company adopted the provisions of SFAS No. 130, "Reporting Comprehensive Income" SFAS No. 130 which establishes standards for reporting comprehensive income (loss) and its components in financial statements. Other comprehensive income, as defined, includes all changes in equity (net assets) during a period from non-owner sources. Comprehensive loss for each of the periods presented is as follows:

	2005	2004
Net Loss	\$388,558	\$308,586
Other Comprehensive Loss: Foreign Currency Translation Adjustment	(11,197)	10,302
Comprehensive Loss	\$377,361	\$318,888

## 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 ("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 three months ended March 31, 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.

We are currently engaged in the following businesses:

- (a) **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.
- (b) **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 and the RiverBank™ hydro turbine. In pursuit of this, we:

- (a) will pursue the development and testing of our HeatSeeker™, Eliminator™, SideWinder™ and RiverBank™ 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.
  - (b) will refine our marketing and sales program for each of the products. The anticipated costs of manufacturing each product will be analyzed using the final designs and specifications for each. These costs will be used to develop a business model for various applications. The business models will be analyzed in order to identify the optimum target market for each of the products. We anticipate that the optimum market will depend on various factors, including the energy source, the electricity that can be generated based on the available energy source, the manufacturing costs and installation costs and the price of electricity in the targeted customer's market. If we are able to develop fully functional prototypes of any of our Encore Products, of which there is no assurance, we intend to invite industry representatives to Mr. Hunt's facility located in Pass Christian, Mississippi in order demonstrate the potential benefits of those technologies.
2. We also plan to continue operating our advertising business through our wholly owned subsidiary, Ignite Communications, Inc. We will continue to seek new clients for our integrated advertising strategies and "permission-based" eDirect Marketing services and to further explore how we can better service our existing clients. In pursuit of this, we plan to do the following:
  - (a) Build market awareness and recognition for Ignite eDirect Marketing;
  - (b) Target industries and businesses that represent the greatest potential for both email marketing adoption and traditional advertising growth;
  - (c) Develop and present case studies to organizations in other regions and markets who could benefit from our experience;
  - (d) Research and utilize emerging relevant technologies primarily from application service providers (ASP's);
  - (e) Leverage our advertising contacts in pursuit of Ignite eDirect Marketing opportunities;
  - (f) Pursue strategic acquisitions and alliances to access new geographic markets and to add complimentary services.

We anticipate spending approximately \$2,000,000 in pursuing our plan of operation over the next twelve months. This amount is in excess of our current cash reserves and anticipated revenues for that period. 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 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

### *Summary of Results*

Three Months Ended March 31

	<u>2005</u>	<u>2004</u>	Percentage <u>Changes</u>
Revenue	\$547,034	\$627,382	(12.8%)
Cost of Revenue	(385,393)	(341,262)	12.9%
Operating Expenses	(458,663)	(483,147)	(5.1%)
Other Expenses	(91,536)	(111,559)	(17.9%)
Net Loss	(\$388,558)	\$(308,586)	25.9%

### **Revenue**

For the first 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.

The decrease in our revenue over our results for the first fiscal quarter of 2004 is due to seasonal fluctuations and clients delaying their 2005 marketing and advertising campaigns until the Spring/Summer months.

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 second 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 cost of revenue is a result of an increase in creative and production costs during the first quarter for campaigns to run during the year.

**Operating Expenses**

	Year Ended December 31		Percentage Increase / (Decrease)
	2004	2003	
Depreciation	\$5,843	\$7,142	(18.1%)
Remuneration	161,761	182,788	(11.5%)
Legal and Accounting	14,437	60,806	(76.3%)
Consulting Fees and Computer Services	208,379	166,115	25.4%
Phones and Utilities	3,393	5,706	(40.5%)
Rent	28,998	41,179	(29.6%)
Advertising and Promotion	9,859	3,360	193.4%
Other selling, general and administrative	25,993	16,051	61.9%
Total Operating Expenses	\$458,663	\$483,147	(5.1%)

Our operating expenses have decreased overall to \$458,663 for the quarter ended March 31, 2005 from \$483,147 for the quarter ended March 31, 2004, a decrease of \$24,484 or 5.1%. The decrease to our operating expenses largely reflects the amalgamation of Forge Marketing Inc.'s operations into Ignite Communications and the subsequent decrease in staffing levels.

The largest component of our operating expenses during the first quarter was consulting fees. Consulting fees and computer services has increased to \$208,379 for the quarter ended March 31, 2005 from \$166,115 for the quarter ended March 31, 2004 due to the additional need for specialized expertise in the development and commercialization of our clean energy technologies for the Encore Business.

Our legal and accounting expenses have decreased to \$14,437 for the quarter ended March 31, 2005 from \$60,806 for the quarter ended March 31, 2004. The decrease in legal and accounting expenses reflects the completion of our obligations with respect to the acquisition of Cryotherm. The Cryotherm acquisition significantly increased our need for legal and accounting during 2004.

**LIQUIDITY AND CAPITAL RESOURCES**Working Capital

	<u>At Mar. 31, 2005</u>	<u>At Dec. 31, 2004</u>	Percentage <u>Change</u>
Current Assets	\$212,943	\$144,651	47.2%
Current Liabilities	(3,272,635)	(3,182,031)	2.8%
Working Capital Deficit	(\$3,059,692)	(\$3,037,380)	0.7%

Cash Flows

	Three Months Ended March 31	
	<u>2005</u>	<u>2004</u>
Net Cash from (used in) Operating Activities	(\$444,625)	(\$187,545)
Net Cash from (used in) Investing Activities	(4,243)	(619)
Net Cash from Financing Activities	418,838	212,770
Net Increase in Cash During Period	\$15,609	\$12,359

The increase in our current assets is primarily attributable to an increase in accounts receivable, which increased by \$45,458 or 34.5% during the first quarter ended March 31, 2005. The increase in our current liabilities is primarily attributable to an increase in the current portion of amounts due to related parties, which increased by \$221,350 or 25.7% during the first quarter ended March 31, 2005. Our other current liabilities decreased during the quarter. As a result, we recorded only a \$22,312 or 0.7% increase to our working capital deficit.

Cash provided by financing activities for the quarter consisted primarily of advances from related parties. During the quarter, we borrowed a total of \$387,380 from related parties. We issued to two of these related party individuals a total of \$150,000 CDN (approximately \$124,005 USD) of 12% convertible notes (the "Convertible Notes"). Principal and interest is payable on the Convertible Notes on a monthly basis and the Convertible Notes mature 18 months from the date of issuance. At any time during the term of the Convertible Notes, the principal balance and accrued and unpaid interest are convertible into shares of our common stock at a conversion price of \$0.24 CDN (approximately \$0.192 USD), provided however that we may elect to pay any accrued interest amounts in cash. The remainder of the amounts borrowed are non-interest bearing and contain no fixed terms of repayment. These funds were utilized in their entirety as working capital.

We are also in discussions with another related party subscriber for an additional \$50,000 convertible note financing that is expected to be issued on similar terms as the Convertible Notes, however completion of this convertible note financing is subject to the execution of formal agreements between the Company and the additional subscriber. There is no assurance that we will be able to finalize formal agreements with the additional subscriber on the same terms as the Convertible Notes, or at all.

We anticipate that we will require financing in the amount of \$2,000,000 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 this stockholder, 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.

## **CRITICAL ACCOUNTING POLICIES**

Our unaudited consolidated financial statements at March 31, 2005 and for the three 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 accordance with generally accepted accounting principles have been condensed or omitted in these interim statements under the rules and regulations of the SEC. Accounting policies used in fiscal 2005 are consistent with those used in fiscal 2004. The results of operations for the three months ended March 31, 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 Annual Report on Form 10-KSB.

We have identified certain accounting policies, described below, that are most important to the portrayal of our current financial condition and results of operations.

### **Foreign Currency**

The functional currency of the operations of our 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 sheets 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 the comprehensive income (loss)) in stockholders' equity.

## **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 our stockholders.

## **RISK FACTORS**

### **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 the 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 \$2,000,000 to be spent over the next 12 months developing and marketing prototypes of our Encore Products in order to accomplish our goals. As of March 31, 2005, we had cash in the amount of \$15,609 and a working capital deficit of \$3,059,692. 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 licensed worldwide exclusivity to make, use and sell products based on such patent applications to us 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

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 Forge/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.**

None.

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

None.

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

None.

**ITEM 5. OTHER INFORMATION.**

**Unregistered Sales of Equity Securities**

Effective on January 14, 2005, we issued a convertible note to Robert D. Hunt in the principal amount of \$375,000 with interest payable at a rate of 6% per annum, beginning on January 1, 2007 and maturing on December 31, 2009 (the "Hunt Convertible Note"). The terms of the Hunt Convertible Note provide that, at any time prior to the payment of the Hunt Convertible Note in full, Mr. Hunt may convert the principal balance and any accrued and unpaid interest into shares of our common stock at a conversion price of \$0.50 per share, provided that we may elect to pay any accrued interest amounts in cash. The Hunt Convertible Note was issued to Mr. Hunt in settlement of all amounts accrued and owing to Mr. Hunt under the Hunt License Agreement up to December 31, 2004. The Hunt Convertible Note was issued pursuant to Rule 506 of Regulation D on the basis that Mr. Hunt has previously represented to the Company that he is an "Accredited Investor," as defined in Rule 501 of Regulation D.

In February of 2005, we issued to two related party subscribers a total of \$150,000 CDN (approximately \$124,005 USD) of 12% convertible notes (the "Convertible Notes"). Principal and interest is payable on the Convertible Notes on a monthly basis and the Convertible Notes mature 18 months from the date of issuance. At any time during the term of the Convertible Notes, the principal balance and accrued and unpaid interest are convertible into shares of our common stock at a conversion price of \$0.24 CDN (approximately \$0.192 USD), provided however that we may elect to pay any accrued interest amounts in cash. Each of the Convertible Notes was issued in reliance on the exemptions to registration contained in Regulation S promulgated under the Securities Act on the basis that each of the subscribers has represented to us that he is not a "U.S. person" as that term is defined in Regulation S. We are also in discussions with another related party subscriber for an additional \$50,000 convertible note financing that is expected to be issued on similar terms as the Convertible Notes, however completion of this convertible note financing is subject to the execution of formal agreements between the Company and the additional subscriber. There is no assurance that we will be able to finalize formal agreements with the additional

subscriber on the same terms as the Convertible Notes, or at all. If we are successful in completing this financing, of which there is no assurance, it is expected that the Convertible Note will be issued in reliance on the exemptions to registration contained in Regulation S on the basis that the additional subscriber is not a “U.S. person” as defined in Regulation S.

In addition to the above convertible note issuances, we expect to sign consulting agreements with two consultants located in Alberta, Canada. Each of the consulting agreements is expected to extend for a period of 12 months, pursuant to which the consultants will provide us with financial public relations services during that time. It is expected that shares of our common stock will form all or part of the consideration to be paid to the consultants. We are currently negotiating the final terms of the consulting agreements, including the number of shares to be issued to the consultants, and there is no assurance that we will be able to finalize the terms of these agreements. If we do issue shares of our common stock as all or part of the consideration to be paid to the consultants, it is expected that these shares will be issued in reliance on the exemptions to registration contained in Regulation S promulgated under the Securities Act on the basis that the consultants are not “U.S. persons” as defined in Regulation S.

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

**(a) Exhibits And Index of Exhibits Required By Item 601 of Regulation S-B.**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
3.1	Articles of Incorporation and Bylaws, as amended <sup>(1)</sup>
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>
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>
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, except for our bylaws, which were previously filed as an exhibit to our Current Report on Form 8-K, filed with the SEC on May 13, 2002.
- (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.

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

We have filed the following reports on Form 8-K since the end of our fiscal year ended December 31, 2004:

<u>Date of Form 8-K</u>	<u>Date of Filing with the SEC</u>	<u>Description of the Form 8-K</u>
January 14, 2005	January 18, 2005	Disclosing issuance of \$375,000 convertible note to Robert D. Hunt.
January 14, 2005	January 19, 2005	Disclosing entry into World, Wind and Water Energy LLC joint venture with Robert D. Hunt and the Abell Foundation.
January 31, 2005	February 8, 2005	Disclosing resignation of James E. Gayle as a director of the Company.
April 19, 2005	May 16, 2005	Disclosing restatement of the Company's December 31, 2003 audited financial statements and March 31, 2004, June 30, 2004 and September 30, 2004 unaudited interim financial statements.

**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.**

Dated: June 14, 2005

By: */s/ Daniel B. Hunter*  
Daniel B. Hunter  
Chief Executive Officer and  
Chief Financial Officer

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