ENCORE CLEAN ENERGY INC
Form 10QSB
December 15, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

(Mark One)
x 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	**65-0609891**
(State or Other Jurisdiction of Incorporation or Organization)	(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 x**

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 x**

1

ENCORE CLEAN ENERGY, INC. AND SUBSIDIARIES
FORM 10-QSB
QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005
INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

3

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		-
Total current assets		176,415
Property and equipment, less accumulated depreciation		61,290
TOTAL ASSETS	$	237,705
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
Total current liabilities		3,828,385
Due to related parties		1,293,204
Minority interest		100,000
Capital lease obligations		5,181
Total liabilities		5,226,770
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)
TOTAL LIABILITIES AND DEFICIENCY IN ASSETS	$	237,705

See accompanying notes to unaudited consolidated financial statements

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

See accompanying notes to the unaudited consolidated financial statements

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

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.

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): Foreign currency translation adjustment	(118,798)	35,955	(84,281)	9,134
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.

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

4

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%
Int						