

ENCORE CLEAN ENERGY INC  
Form 10QSB  
November 24, 2004

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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 **September 30, 2004**

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, 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  No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 13,006,775 shares of common stock, \$0.001 par value per share, issued and outstanding as of November 22, 2004.

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



**ENCORE CLEAN ENERGY, INC. AND SUBSIDIARIES**  
FORM 10-QSB  
QUARTERLY PERIOD ENDED SEPTEMBER 30, 2004  
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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

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**Encore Clean Energy, Inc.**

Consolidated Balance Sheets (unaudited)

(expressed in United States Dollars)

September 30, 2004 and December 31, 2003

|   | September<br>30,<br>2004<br>(Unaudited) | December 31,<br>2003<br>(Audited) |
|---|---|-----------------------------------|
| <b>Assets</b>   |   |                                   |
| <b>Current assets:</b>                                |   |                                   |
| Cash  | \$ 77                                   | \$ 335                            |
| Accounts receivable                                   | 72,516                                  | 110,613                           |
| Prepaid expenses                                      | 19,298                                  | 8,336                             |
|   | 91,891                                  | 119,284                           |
| Property and equipment, less accumulated depreciation | 66,739                                  | 82,986                            |
| Technology and other intangible assets                | 2,322,167                               | 2,133,340                         |
|   | \$ 2,480,797                            | \$ 2,335,610                      |
| <b>Liabilities and Stockholders' Deficit</b>          |   |                                   |
| <b>Current liabilities:</b>                           |   |                                   |
| Bank indebtedness                                     | \$ -                                    | \$ 82,447                         |
| Accounts payable and accrued liabilities              | 1,801,619                               | 1,664,907                         |
| Notes payable - current portion                       | 210,000                                 | 210,000                           |
| Loan payable - current portion                        | 360,997                                 | -                                 |
| Lease obligation - current portion                    | -                                       | 4,967                             |
|   | 2,372,616                               | 1,962,321                         |
| Due to related parties                                | 985,912                                 | 901,647                           |
| <b>Total liabilities</b>                              | <b>3,358,528</b>                        | <b>2,863,968</b>                  |
| <b>Stockholders' deficit:</b>                         |   |                                   |
| Common stock  | 12,807                                  | 12,618                            |
| Additional paid-in capital                            | 6,103,768                               | 5,802,498                         |
| Deficit   | (6,653,756)                             | (6,012,058)                       |
| <b>Accumulated other comprehensive income (loss):</b> |   |                                   |
| Foreign currency translation adjustment               | (340,550)                               | (331,416)                         |
| <b>Total stockholders' deficit</b>                    | <b>(877,731)</b>                        | <b>(528,358)</b>                  |
|   | \$ 2,480,797                            | \$ 2,335,610                      |

See accompanying notes to unaudited financial statements

**Encore Clean Energy, Inc.**

Consolidated Statements of Operations and Deficit (unaudited)  
(expressed in United States Dollars)

Nine months ended September 30, 2004 and September 30, 2003

|   | Three Months Ended       |                          | Nine Months Ended        |                          |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
|   | September<br>30,<br>2004 | September<br>30,<br>2003 | September<br>30,<br>2004 | September<br>30,<br>2003 |
| Revenue   | \$ 561,613               | \$ 713,428               | \$ 2,006,849             | \$ 2,274,050             |
| Cost of revenue   | (370,976)                | (589,503)                | (1,392,572)              | (1,705,998)              |
| Gross profit  | 190,637                  | 123,925                  | 614,277                  | 568,052                  |
| Operating expenses:   |                          |                          |                          |                          |
| Depreciation  | 7,194                    | 5,843                    | 22,608                   | 17,267                   |
| Salaries and fringe benefits  | 170,767                  | 87,894                   | 520,754                  | 410,376                  |
| Legal and accounting  | 22,407                   | -                        | 112,021                  | 19,116                   |
| Consulting fees and<br>computer services                            | 46,070                   | 70,076                   | 200,929                  | 186,224                  |
| Phones and utilities  | 5,806                    | 1,576                    | 17,661                   | 11,044                   |
| Rent  | 26,659                   | 14,947                   | 92,558                   | 63,716                   |
| Advertising and promotion   | 3,114                    | 4,320                    | 9,848                    | 16,636                   |
| Other selling, general<br>and administrative                        | 23,176                   | 10,440                   | 55,490                   | 48,405                   |
|   | 305,193                  | 195,096                  | 1,031,869                | 772,784                  |
| Loss from operations  | (114,556)                | (71,171)                 | (417,592)                | (204,732)                |
| Other income (expenses):  |                          |                          |                          |                          |
| Interest expense  | (77,116)                 | (20,594)                 | (224,106)                | (60,328)                 |
| Net loss  | (191,672)                | (91,765)                 | (641,698)                | (265,060)                |
| Deficit, beginning of period  | (6,462,084)              | (5,412,190)              | (6,012,058)              | (5,238,895)              |
| Deficit, end of period  | \$ (6,653,756)           | \$ (5,503,955)           | \$ (6,653,756)           | \$ (5,503,955)           |
| Net loss per common share,<br>basic and diluted                     | \$ (0.02)                | \$ (0.18)                | \$ (0.05)                | \$ (0.51)                |
| Weighted average common<br>shares outstanding, basic<br>and diluted | 12,806,775               | 519,751                  | 12,768,872               | 519,751                  |

See accompanying notes to the unaudited financial statements

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**Encore Clean Energy, Inc.**

Consolidated Statements of Cash Flows (unaudited)  
(expressed in United States Dollars)

September 30, 2004 and September 30, 2003

|  | Nine Months Ended        |                          |
|--|--------------------------|--------------------------|
|  | September<br>30,<br>2004 | September<br>30,<br>2003 |
| Cash provided by (used in):                                |                          |                          |
| Operations:  |                          |                          |
| Net loss   | \$ (641,698)             | \$ (265,060)             |
| Items not involving cash:                                  |                          |                          |
| Depreciation   | 22,608                   | 17,267                   |
| Stock-based compensation                                   | 112,632                  | -                        |
| Changes in operating assets and liabilities:               |                          |                          |
| Change in accounts receivable                              | 38,097                   | 165,701                  |
| Change in prepaid expenses                                 | (10,962)                 | (7,923)                  |
| Change in accounts payable and accrued liabilities         | 136,712                  | 274,063                  |
| Change in unearned revenue                                 | -                        | (259,369)                |
| Change in accrued salaries                                 | -                        | (3,209)                  |
| Net cash used in operating activities                      | (342,611)                | (78,530)                 |
| Cash flows used in investing activities:                   |                          |                          |
| Purchase of property and equipment                         | (6,361)                  | (8,485)                  |
| Net cash used in investing activities                      | (6,361)                  | (8,485)                  |
| Cash flows from financing activities:                      |                          |                          |
| Proceeds from loans payable                                | 360,997                  | -                        |
| Repayment of lease obligation                              | (4,967)                  | (3,625)                  |
| Proceeds from (repayment of) bank indebtedness             | (82,447)                 | 81,711                   |
| Proceeds from (repayment of) advances from related parties | 84,265                   | -                        |
| Repayment of notes payable                                 | -                        | (22,205)                 |
| Issue of share capital                                     | -                        | 6,193                    |
| Net cash provided by financing activities                  | 357,848                  | 62,074                   |
| Effect of exchange rate on cash                            | (9,134)                  | (19,403)                 |
| Increase (decrease) in cash                                | (258)                    | (44,344)                 |
| Cash, beginning of period                                  | 335                      | 50,537                   |
| Cash, end of period  | \$ 77                    | \$ 6,193                 |
| Supplementary information:                                 |                          |                          |
| Interest paid  | 6,425                    | 12,494                   |

See accompanying notes to the unaudited financial statements.





**ENCORE CLEAN ENERGY, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2004**

**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 subsidiaries Ignite Communications Inc. and Forge Marketing Inc.

**2. Liquidity and Future Operations:**

The Company incurred a net loss in the third quarter ending September 30, 2004 and has sustained negative cash flows from operations since its inception. At September 30, 2004, the Company has negative working capital of \$2,280,725. 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**  
**September 30, 2004**

**3. Basis of Presentation:**

The unaudited consolidated financial statements of the Company at September 30, 2004 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 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 2004 are consistent with those used in fiscal 2003. The results of operations for the nine months ended September 30, 2004 are not necessarily indicative of the results for the entire fiscal year ending December 31, 2004. These interim financial statements should be read in conjunction with the financial statements for the fiscal year ended December 31, 2003 and the notes thereto.

**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 options or warrants would be anti-dilutive.

**6. Loan payable:**

In April 2004 the Company secured debt financing in the aggregate amount of \$360,997 from HSBC Bank Canada, in the form of a \$38,835 line of credit (Canadian dollar denominated line of credit of Cdn \$50,000) and a \$322,162 working capital loan (Canadian dollar denominated loan of Cdn \$450,000). The loan financing is denominated in Canadian dollars, secured by a general security agreement, and interest is charged at HSBC's prime rate of interest plus 1.50% .

**ENCORE CLEAN ENERGY, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2004**

**7. Comprehensive Income (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:

|   | Three<br>Months<br>Ended<br>September<br>30, 2004 | Three<br>Months<br>Ended<br>September<br>30,<br>2003 | Nine<br>Months<br>Ended<br>September<br>30,<br>2004 | Nine Months<br>Ended<br>September30,<br>2003 |
|---|---|--|---|--|
| Net loss                                | \$ (191,672)                                      | \$ (91,765)  | \$ (641,698)  | \$ (265,060)                                 |
| Other comprehensive (income) /<br>loss: | 35,955  | (5,986)  | 9,134   | 257,925                                      |
| Foreign currency translation adjustment |   |  |   |  |
| Comprehensive loss                      | \$ (227,627)                                      | \$ 85,779  | \$ (650,832)  | \$ (522,985)                                 |

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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" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). 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 operations for the next 12 months, our results of operations for the three month and nine month periods ended September 30, 2004 and changes in our financial condition from December 31, 2003. This discussion should be read in conjunction with the Management's Discussion and Analysis or Plan of Operations included in our Annual Report on Form 10-KSB for the year ended December 31, 2003.

During the fourth quarter of our 2003 fiscal year, we acquired Cryotherm, Inc. ("Cryotherm"), a corporation that was in the business of creating and commercializing products that generate electricity without the burning of fossil fuels. We have since merged with Cryotherm under the laws of Delaware and changed our name from Forge, Inc. to Encore Clean Energy, Inc.

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. Initially, we will focus our efforts on four primary products: a Drum Jet Turbine, a Waste Heat Recovery Unit, a Vertical Axis Wind Turbine and the TurboFlux Disk Turbine (collectively, the "Encore Products"); and
- (b) **The Forge/Ignite Business**: Prior to our acquisition of Cryotherm, our primary business was the Forge/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 subsidiaries, Ignite Communications Inc. ("Ignite") and Forge Marketing Inc. ("Forge Marketing").

## PLAN OF OPERATIONS

Our plan of operations for the next twelve months involves the following:

1. We will continue the research and development of our Encore Products. Initially we plan to focus on the development and commercialization of the Waste Heat Recovery Unit, the Drum Jet Turbine and the Vertical Axis Wind Turbine. In pursuit of this we:
  - (a) will pursue the testing of our Waste Heat Recovery Unit, Drum Jet Turbine and Vertical Axis Wind Turbine prototypes on various applications. We anticipate that the development and testing programs will take approximately nine to twelve months. 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) plan to undertake the finalization of the design and specifications for our first commercial products. This stage of development will be undertaken concurrently with the product testing program and will use the results of the testing program to refine the product design and specifications.
  - (c) 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.
2. We also plan to continue operating our advertising business through our wholly owned subsidiaries, Ignite and Forge Marketing. We will continue to seek new clients for our integrated advertising strategies and "permission-based" electronic direct 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 electronic direct marketing;
  - (b) Target industries and businesses that represent the greatest potential for email marketing adoption and 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 email marketing opportunities;
  - (f) Expand our email marketing relationships to include advertising agency opportunities; and
  - (g) Pursue strategic acquisitions and alliances to access new geographic markets and to add complimentary services.

We anticipate spending approximately \$5,000,000 in pursuing our plan of operations over the next twelve months. It is anticipated that the Encore Business will not generate any significant revenues over the next twelve months and we do not have sufficient financial resources to fund the development of the Encore Products. Accordingly, we require substantial financing in order to fund our plan of operations.



We anticipate that any additional financing will likely be in the form of equity financing as substantial additional debt financing is unlikely to be feasible at this stage of our business.

Currently, we do not have any additional financing arrangements in place and there is no assurance that we will be able to achieve sufficient financing required to continue with the development of our Encore Products. If we do not obtain the necessary financing, then our plan of operations will be scaled back according to the amount of funds available. An 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 Forge/Ignite Business.

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

Our acquisition of Cryotherm was completed on September 30, 2003. This acquisition has been treated by us for accounting purposes as an acquisition of Cryotherm's net assets. As a result, our historical financial statements up to September 30, 2003 reflect the results of operations solely for the Forge/Ignite Business to that date. Commencing October 1, 2003, our financial statements reflect our combined operations with Cryotherm.

With respect to the risks and uncertainties associated with our businesses, we advise readers to carefully review the Management's Discussion and Analysis section of our Annual Report on Form 10-KSB for the year ended December 31, 2003, filed with the SEC on May 17, 2004.

## RESULTS OF OPERATIONS

### *Third Quarter and Six Months Summary*

|                    | Third Quarter Ended September 30 |             |                          | Nine Months Ended September 30 |              |                          |
|--------------------|----------------------------------|-------------|--------------------------|--------------------------------|--------------|--------------------------|
|                    | 2004                             | 2003        | Percentage Inc. / (Dec.) | 2004                           | 2003         | Percentage Inc. / (Dec.) |
| Revenue            | \$ 561,613                       | \$ 713,428  | (21.2%)                  | \$ 2,006,849                   | \$ 2,274,050 | (11.7%)                  |
| Cost of Revenue    | (370,976)                        | (589,503)   | (37.0%)                  | (1,392,572)                    | (1,705,998)  | (18.3%)                  |
| Operating Expenses | (305,193)                        | (195,096)   | 56.4%                    | (1,031,869)                    | (772,784)    | 33.5%                    |
| Net Income (Loss)  | \$ (191,672)                     | \$ (91,765) | (108.8%)                 | \$ (641,698)                   | \$ (265,060) | (142.0%)                 |

### Revenue

For the last fiscal quarter, revenues were generated solely from the Forge/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 third fiscal quarter of 2003 is primarily due to the postponement by one of our clients of a seasonal advertising campaign and the loss of two of our clients during the summer months.

Revenues for the Forge/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.



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 Forge/Ignite Business represents the cost of advertising purchased for clients. The decrease in cost of revenue over our results for the third fiscal quarter of 2003 is a result of the corresponding decrease in our revenue.

Revenue for the Forge/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.

### Operating Expenses

The overall increase to our operating expenses during the nine months ended September 30, 2004 compared to the same period ended September 30, 2003 is primarily attributable to the additional costs associated with the development and commercialization of our clean energy technologies for the Encore Business. The major components of our operating expenses are outlined in the table below:

|  | Third Quarter Ended September 30 |           |                          | Nine Months Ended September 30 |            |                          |
|--|----------------------------------|-----------|--------------------------|--------------------------------|------------|--------------------------|
|  | 2004                             | 2003      | Percentage Inc. / (Dec.) | 2004                           | 2003       | Percentage Inc. / (Dec.) |
| Salaries and Fringe Benefits           | \$ 170,767                       | \$ 87,894 | 94.3%                    | \$ 520,754                     | \$ 410,376 | 26.9%                    |
| Legal and Accounting Expenses          | 22,407                           | -         | 100.0%                   | 112,021                        | 19,116     | 486.0%                   |
| Consulting Fees and Computers Services | 46,070                           | 70,076    | (34.3%)                  | 200,929                        | 186,224    | 7.9%                     |
| Rent                                   | 26,659                           | 14,947    | 78.4%                    | 92,558                         | 63,716     | 45.3%                    |

The increase in salary costs during the nine months ended September 30, 2004 compared to the same period in 2003 is primarily due to the addition of a staff member, various employee raises and costs associated with the development and commercialization of our clean energy technologies for the Encore Business.

The increase in legal and accounting expenses during the three and nine month periods ended September 30, 2004 compared to the same periods in 2003 relate to the completion of our obligations with respect to the acquisition of Cryotherm as well as an increased need for legal and patent advice with respect to the Encore Business.

The decrease in consulting fees and computer services for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003 is primarily the result of the postponement of a client's campaign.

The increase in rent during the nine months ended September 30, 2004 compared to the same period in 2003 is a result of our moving business offices early in 2003.

Interest Expenses

|                   | Third Quarter Ended September<br>30 |        |                                | Nine Months Ended September 30 |        |                                |
|-------------------|-------------------------------------|--------|--------------------------------|--------------------------------|--------|--------------------------------|
|                   | 2004                                | 2003   | Percentage<br>Inc. /<br>(Dec.) | 2004                           | 2003   | Percentage<br>Inc. /<br>(Dec.) |
| Interest Expenses | 77,116                              | 20,594 | 274.5%                         | 224,106                        | 60,328 | 271.5%                         |

The increase in interest expenses during the three and nine month periods ended September 30, 2004 as compared to the same periods in 2003 is primarily the result of the debt financing acquired from HSBC Bank Canada in April 2004 and from interest and from finance charges related to advances from related parties and loans repaid during the period.

**LIQUIDITY AND CAPITAL RESOURCES**Working Capital

|                         | At September 30,<br>2004 | At December 31,<br>2003 | Percentage<br>Increase /<br>(Decrease) |
|-------------------------|--------------------------|-------------------------|--|
| Current Assets          | \$ 91,891                | \$ 119,284              | (23.0%)                                |
| Current Liabilities     | (2,372,616)              | (1,962,321)             | 20.9%                                  |
| Working Capital Deficit | \$ (2,280,725)           | \$ (1,843,037)          | 23.7%                                  |

The decrease in our current assets is primarily attributable to a decrease in accounts receivable

The increase in our working capital deficit is primarily attributable to the increase in our current liabilities. On April 14, 2004, we obtained a Canadian dollar denominated loan in the amount of Cdn \$500,000 from HSBC Bank Canada ("HSBC"). The loan was advanced in the form of a Cdn \$50,000 line of credit and a Cdn \$450,000 working capital loan (collectively, the "Debt Financing"). The Debt Financing was advanced in Canadian dollars and has been converted to US dollars for the purpose of this Quarterly Report at the rate of 1.2875 USD/CDN, our rate of exchange as of September 30, 2004. Interest is charged on the Debt Financing at HSBC's prime rate of interest plus 1.50%. The funds obtained through the Debt Financing are being used by us as working capital. Stated in U.S. dollars, as of September 30, 2004, there was \$360,997 still outstanding on the Debt Financing.

The working capital loan from HSBC is repayable upon demand, however HSBC has allowed us to amortize the schedule of repayments over a period of 5 years. According to this schedule, of the approximately \$360,997 still outstanding, approximately \$64,432 is payable within the next 12 month's. However, because HSBC may demand repayment in full at any time, the full amount of the debt financing has been classified as a current liability.

Cash Flows

|                                       | Nine Months Ended September 30 |             |
|---------------------------------------|--------------------------------|-------------|
|                                       | 2004                           | 2003        |
| Net Cash used in Operating Activities | \$ (342,611)                   | \$ (78,530) |
| Net Cash used in Investing Activities | (6,361)                        | (8,485)     |
| Net Cash used in Financing Activities | 357,848                        | 62,074      |
| Net Decrease in Cash During Period    | \$ (258)                       | \$ (44,344) |

Cash provided by financing activities for the quarter consisted of proceeds from the Debt Financing acquired from HSBC, notes payable and advances from related parties. These funds were utilized in their entirety as working capital.

We anticipate that we will require financing in the amount of \$5,000,000 in order to fund our plan of operations over the next twelve months, as discussed above under "Plan of Operations." In addition, we anticipate that we will continue to require additional financing to fund the Forge/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 operations 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 the Debt Financing from HSBC, we have sustained our operations to date with advances by one of our principal stockholders and these funds have been applied to finance our current operations. 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 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.

#### **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 5. OTHER INFORMATION.****Proposed Business Combination.**

In our Quarterly Report on Form 10-QSB for the period ended June 30, 2004, filed with the SEC on August 13, 2004, we disclosed that we were in discussions regarding a possible business combination. These discussions have been terminated and we have no plans to resume discussions with respect to this proposed business combination.

**Reports on Form 8-K.**

We have not filed any Current Reports on Form 8-K during our fiscal quarter ended September 30, 2004 and we have not filed any Current Reports on Form 8-K since September 30, 2004.

**ITEM 6. EXHIBITS****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                  | Line of Credit By Way of Current Account Overdraft Agreement dated April 14, 2004 between HSBC Bank Canada and Ignite Communications Inc. <sup>(4)</sup>                           |
| 10.7                  | Demand Promissory Note issued by Ignite Communications Inc. in favor of HSBC Bank Canada. <sup>(4)</sup>   |
| 10.8                  | General Security Agreement dated April 14, 2004 between HSBC Bank Canada and Ignite Communications Inc. <sup>(4)</sup>   |
| 14.1                  | Code of Ethics. <sup>(1)</sup>   |
| 21.1                  | List of Subsidiaries. <sup>(1)</sup>   |
| <u>31.1</u>           | <u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>   |

32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, 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 Quarterly Report on Form 10-QSB filed with the SEC on August 13, 2004.

**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: November 22, 2004

By: */s/ Daniel Hunter*

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Daniel Hunter  
Chief Executive Officer and  
Chief Financial Officer