

ENCORE CLEAN ENERGY INC  
Form 10KSB  
May 17, 2005

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-KSB**

(Mark One)

Annual Report Pursuant To Section 13 Or 15(D) Of The Securities Exchange Act Of 1934

For the fiscal year ended **December 31, 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.**

(Name of small business issuer 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, BC Canada**

(Address of principal executive offices)

**V6B 5C6**

(Zip Code)

**(604) 801-5566**

Issuer's telephone number

Securities registered under Section 12 (b) of the Exchange Act:

**NONE.**

Securities registered under Section 12 (g) of the Exchange Act:

**COMMON STOCK, PAR VALUE \$0.001  
PER SHARE**

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**

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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State issuer's revenues for its most recent fiscal year: **\$2,633,850**

The aggregate market value of the voting and non-voting common equity held by non-affiliates is \$1,536,109 based on an average of the bid price of \$0.20 and ask price of \$0.35 of the common stock on May 12, 2005.

As of March 31, 2005, the Registrant had **13,386,975** shares of common stock with a par value of \$0.001 outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: **NONE**

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

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**PART I**

**Cautionary Statement Regarding Forward-Looking Statements**

Certain statements contained in this Form 10-KSB 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 the caption "Management's Discussion and Analysis or Plan of Operation" and elsewhere in this Form 10-KSB. 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 quarterly reports on Form 10-QSB and our current reports on Form 8-K.

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

**ITEM 1. DESCRIPTION OF BUSINESS.**

**CORPORATE DEVELOPMENT**

We were originally incorporated on May 12, 1995 under the laws of the State of Florida.

On May 13, 2002, we incorporated a wholly owned subsidiary under the laws of the State of Delaware and merged with that subsidiary in order to change our state of jurisdiction to Delaware. As part of the merger, we changed our name to "Forge, Inc."

From 2002 until October of 2003, we were primarily engaged in the business of providing integrated advertising and electronic direct marketing ("eDirect Marketing") services.

**The Acquisition Of Cryotherm**

Effective October 28, 2003, we completed the acquisition of a 100% interest in Cryotherm, Inc. ("Cryotherm"), a Delaware corporation in the business of creating and commercializing products for generating electricity without the burning of fossil fuels. On December 1, 2003, we merged with Cryotherm under the laws of Delaware and changed our name to Encore Clean Energy, Inc.

To complete the acquisition, the outstanding shares, options and warrants of Cryotherm were exchanged for shares, options and warrants of Encore, based on a conversion ratio of 0.2345679 Encore shares for each Cryotherm share issued or issuable. Our acquisition of Cryotherm was completed pursuant to a purchase agreement and plan of reorganization dated July 28, 2003 between us, Cryotherm and the principal shareholders of Cryotherm who then held approximately 74.95% of the outstanding common shares of Cryotherm.

In connection with the Cryotherm acquisition, we also converted \$840,000 of our liabilities into 4,200,000 shares of our common stock pursuant to cancellation of indebtedness agreements that we entered into with certain of our creditors. These cancellation of indebtedness agreements were completed effective September 30, 2003 concurrent with the acquisition of the initial 97.5% interest in Cryotherm.



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In aggregate, we issued the following securities to acquire Cryotherm and to complete the debt settlement:

1. An aggregate of 7,592,024 shares of our common stock to acquire the 100% interest in Cryotherm;
2. An aggregate of 4,200,000 shares of our common stock to certain of our creditors to settle \$840,000 in outstanding indebtedness;
3. Warrants to purchase an aggregate of 29,322 of shares of our common stock at a weighted average price of \$0.6821 per share.
4. Options to purchase an aggregate of 324,877 shares of our common stock at a weighted price of \$0.4263 per share.

In addition, we have assumed the conversion obligation of certain convertible notes of Cryotherm in the aggregate principal amount of \$450,000 that are now convertible at the option of the holder into an aggregate of 633,333 shares of our common stock.

On closing, our directors appointed Lawrence M. Shultz and James E. Gayle to our Board of Directors. On December 1, 2003 we merged with Cryotherm under the Delaware General Corporation Law and changed our name to Encore Clean Energy, Inc.

### World, Wind and Water Energy LLC

In January of 2005, we entered into a joint venture with The Abell Foundation, Inc. (the "Abell Foundation") and Mr. Hunt to further develop Mr. Hunt's Vertical Axis Wind Turbine ("VAWT") technology. In order to pursue this joint venture, World, Wind and Water Energy LLC ("World, Wind and Water") was formed under the laws of Delaware. Pursuant to the Limited Liability Company Agreement for World, Wind and Water (the "LLC Agreement"), we currently own a 60% interest in World, Wind and Water, with Mr. Hunt owning a 30% interest and the Abell Foundation owning the remaining 10% interest.

Pursuant to the LLC Agreement, we obtained a 60% interest in World, Wind and Water in exchange for assigning to World, Wind and Water all of our right, title and interest to three patent pending technologies that we had licensed from Mr. Hunt. These three technologies form the basis of the VAWT. Mr. Hunt obtained his 30% interest in World, Wind and Water by similarly assigning his right, title and interest to the three technologies to World, Wind and Water.

The Abell Foundation obtained its 10% interest in World, Wind and Water by agreeing to make a capital contribution of \$100,000, payable in installments. The first installment, totaling \$50,000 (the "First Installment"), was delivered by the Abell Foundation upon execution of the LLC Agreement. The remaining \$50,000 may be contributed by the Abell Foundation in one or more additional installments. At its sole discretion, the Abell Foundation may refuse to provide any capital contributions in excess of the First Installment, in which case, the Abell Foundation's interest in World, Wind and Water will be reduced pro rata to the amount actually contributed by them. If, within 30 days after receiving a written request from us and Mr. Hunt, the Abell Foundation chooses not to provide World, Wind and Water with contributions in excess of the First Installment and the Abell Foundation has not otherwise purchased additional interests in the LLC such that their interest falls below 10%, title to the three technologies will be returned to Mr. Hunt and our license rights to those technologies will be restored.

The Abell Foundation ([www.abell.org](http://www.abell.org)), based in Baltimore, Maryland was established over half a century ago. The Abell Foundation's mission is to enhance the quality of life in Baltimore and the surrounding region, with particular emphasis on education, health and human service and economic development. Through its grant-making and research reports, the Abell Foundation's focus includes addressing complex challenges to break the cycles of urban poverty. Today, the Abell Foundation places a high priority on creating solutions that are both innovative and ensure accountability. In pursuing its mission, the Abell Foundation invests in companies that create jobs in Baltimore and

promote various social objectives, including renewable energy.

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Mr. Hunt is the inventor of most of the technologies that form the basis of our clean energy business. Mr. Hunt acts as one of our principal consultants and is one of our principal shareholders.

## **DESCRIPTION OF BUSINESS**

We are currently engaged in the following businesses:

- (a) The business of creating and commercializing products that generate electricity without burning fossil fuels (the “Encore Business”); and
- (b) The provision of “permission-based” eDirect Marketing and integrated advertising strategies services through our wholly owned subsidiary Ignite Communications Inc. (the “Ignite Business”).

## **THE ENCORE BUSINESS**

Through our clean energy business, we are working to develop new technologies for harnessing the worlds untapped energy resources. These untapped energy resources include solar thermal energy, geothermal energy, ocean thermal energy, hydro river tidal energy, rooftop wind energy, industrial waste heat energy and vehicle exhaust heat energy.

### **The Encore Products**

We are currently working to develop the following products (the “Encore Products”):

#### **Waste Heat Recovery Unit – The HeatSeeker™**

We are currently working with various suppliers who have been contracted to assist us with the design and fabrication of a sophisticated waste heat recovery unit called the HeatSeeker™. The HeatSeeker™ is designed to utilize waste heat exhaust gases, hot water or steam to generate electricity.

The HeatSeeker™ Vapor-Driven Hydraulic (VDH) Power Cycle and combined cycle engine is a new vapor power technology with the potential to augment and improve the operating efficiencies of conventional nuclear and coal-fired Rankine Cycle steam power plants, diesel engines and gasoline internal combustion engines by more fuel-efficiently and cost-effectively converting low or high temperature waste heat resources into high flow-rate high-pressure hydraulic streams that can power hydraulic pumps, motors, generators, vehicle drive-trains, heavy-lift hydraulic cylinders, pistons and other industrial hydraulic machinery

Conventional coal-fired and nuclear powered Rankine Cycle steam powered electricity-generating facilities have been the mainstay of electric power generation for over 100 years. They burn fuel to generate heat and boil water. This produces high pressure steam vapor that is then expanded through a steam turbine to turn an electric generator. As the steam expands, it cools, with the cooled steam escaping as exhaust. In this way, the heat energy of the steam is essentially converted by the turbine into mechanical energy that is then used to generate electricity. The greater the temperature differential between the incoming steam and the outgoing exhaust, the greater the energy consumed by the process. Most nuclear, coal-fired and single-stage natural gas fired power plants waste a lot of boiler and turbine exhaust heat that the HeatSeeker™ is being designed to recover and utilize.

The HeatSeeker™ utilizes low or high temperature waste heat as combustion-heat to boil a working fluid and produce a high pressure vapor bubble within a pressure vessel. This vapor bubble then displaces and pushes out of the vessel a controllable flow of high-pressure hydraulic fluid. The resulting high-pressure hydraulic steam utilizes the multiplication effect of hydraulics to power a high torque hydraulic motor, generator or vehicle drive train.



We believe that the Heat Seeker will be able to augment and improve the operating efficiencies of conventional nuclear and coal-fired Rankine steam power plants and industrial facilities by harnessing their currently untapped waste heat resources. We also hope to develop a scaled-down version in order to convert low-temperature natural solar heat as well as higher-temperature natural gas combustion-heat (to be connected to a property's natural gas-fired water heater) to generate on-site off-grid or grid-connected distributed power.

In March of 2005, we conducted testing of the first generation HeatSeeker™ prototype. This test demonstrated that we were able to produce a large amount of mechanical energy with very little energy consumption or waste. During this test, we were able to generate a driving force of 20 gallons per minute of hydraulic fluid at 300 p.s.i. of hydraulic pressure with a temperature differential of only 25° F and a Carnot efficiency of only 4.6% . The Carnot efficiency is a measure of the amount of energy input used to generate the energy output. A lower percentage indicates that a lower energy input was necessary to create a given energy output. A Carnot efficiency of only 4.6% means that very little energy was lost or used to generate the output energy. Conventional power plants typically have a Carnot efficiency of 10%. The test was considered to be an overall success, although some operational difficulties arose that we believe can be readily overcome. These difficulties were essentially limited to minor mechanical malfunctions and problems associated with the durability of the materials used to construct the first generation prototype. We plan to address these issues when constructing the second generation prototype.

We intend to begin construction of the second generation prototype for the HeatSeeker™ shortly. Once we have constructed a fully functional prototype of the HeatSeeker™, of which there is no assurance, we intend to invite industry representatives to Mr. Hunt's facility in Pass Christian, Mississippi in order to demonstrate the potential benefits of this technology.

We intend to market the HeatSeeker™ by soliciting strategic partnerships with engineering, procurement and construction ("EPC") companies, operations and maintenance ("O&M") companies and geothermal facility owners in order to up-sell our waste heat recovery technology to retro-fit existing power plant facilities. We intend to market the HeatSeeker's™ potential to increase electricity output, increase efficiency, lower operating costs, lower pollution intensity and increase profits.

We also plan to develop a version of the HeatSeeker™ which can be used at ocean thermal energy conversion ("OTEC") facilities. We are currently developing a version of the HeatSeeker™ for OTEC applications in association with the Abell Foundation and its affiliate, Sea Solar Power International, Inc.

In the future, we also hope to develop a compact HeatSeeker™ for motor vehicle applications that would be able to harness the energy contained in exhaust heat. Due to the engineering challenges inherent in developing the HeatSeeker™ as a compact, high power-density system for motor vehicles, we intend to seek strategic partnerships with automobile manufacturers, fuel cell developers and major hydraulic construction equipment manufacturers.

#### Rankine Cycle Liquid Pump Elimination Process - The Eliminator™

We are currently working with various suppliers who have been contracted to assist us with the design and fabrication of a sophisticated Rankine Cycle liquid pump elimination process called the Eliminator™.

We believe that the Eliminator™, which was initially developed as an improvement to the HeatSeeker™, can be retrofitted onto nuclear and coal-fired power plants around the world to significantly improve power plant output while significantly reducing power plant emissions-intensity.

In a conventional Rankine-Cycle electricity generating system, the working fluid most commonly used is water, though other liquids can also be used. In the Rankine Cycle, fossil fuels are usually burned to generate heat and boil water. This produces steam which expands to produce work, such as turning a turbine, that in turn turns a generator to produce electricity. The hot exhaust vapor expelled from the turbine is then cooled to condense it back into a liquid

that is pumped back into the boiler to be vaporized all over again, repeating the cycle.

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When retrofitted to existing power plants and boilers, the Eliminator™ is being designed to replace an entire process that is required by the Rankine Cycle – pumping liquid phase working fluid from the condenser that is at low pressure into the vaporizer that is at high pressure by use of an electric pump.

The Eliminator™ innovatively uses a series of specialized tanks and valves that can replace the liquid pump for a Rankine Cycle by providing a mechanism to accomplish liquid transfer at equalized pressure, thus allowing the heat exchangers to run at constant temperature and pressure without the need for a liquid pump in the cycle.

By eliminating the parasitic energy load of the electric pump in a Rankine system, the Eliminator™ is designed to enable Rankine-based power plants to increase their power outputs by recovering usable energy that would normally go to powering large electric pumps to raise the pressure of the condensed fluid high enough to overcome the back pressure of the vaporizer in order for the liquid to enter the vaporizer for heating.

A prototype of the Eliminator™ has been outfitted on the first generation HeatSeeker™ prototype and testing and development of the Eliminator™ is being conducted in conjunction with the HeatSeeker™.

#### High Torque Kinetic Energy Turbines – the SideWinder™ and the RiverBank™

Through our joint venture vehicle, World, Wind and Water, we are constructing operational prototypes of a unique patent pending high-torque kinetic energy turbine that is being configured to harness clean, renewable energy in two ways:

1. The SideWinder™ VAWT, harnessing the power of the wind; and

2. The RiverBank™ hydro-turbine, harnessing the tidal power of flowing water.

This new turbine design harnesses kinetic energy using large flat “shutters” that open, like a sail, to create a large surface area that can capture the force being exerted by on-coming wind or water. As the open shutter is pushed by the energy of the wind or water flow, it rotates the turbine shaft, producing high-torque rotational energy to drive a generator. When the shutter snaps open from the force of the wind or water flow, hydraulic cylinders connecting the shutters pump pressurized hydraulic fluid, producing high-pressure hydraulic energy which can power a separate hydraulic motor to boost the rotation and efficiency of the turbine. As the open shutter rotates away from the wind or water flow, the shutter closes, like a clam-shell, lowering its profile like an aerodynamically-balanced airplane wing to reduce drag resistance along the drag-side of the rotation into the wind. The shutters are connected in pairs with the lower shutter extending downward as the connected upper shutter rises. These pairs are geared together, which allows the weight of the lower shutter to lift the upper shutter as it falls. Very little wind or hydro force is required to actuate the shutter system.

The SideWinder™ VAWT is designed to generate electricity from low-speed winds and in locations and applications that conventional propeller-type wind turbines cannot cost-effectively function such as the rooftops of retail stores, malls, office buildings and industrial facilities. We envision SideWinder™ units being able to generate on-site electricity on existing cellular telephone towers, electrical transmission towers, outdoor signs, freestanding lighting and be utilized to replace old and inefficient conventional wind turbines in older existing wind farms.

The RiverBank™ hydro turbine is also currently being designed for testing utilizing the same basic principles as the SideWinder™. However, the RiverBank™ is expected to be able to generate 40 times more power than its sister product because water is over 775 times more dense than air.

In conventional “impoundment” hydro-power systems, water is stored behind a dam in a reservoir. Potential energy (or the “stored” energy in a reservoir) becomes kinetic energy (or moving energy) as water is released by the dam. This is then converted into mechanical energy in a power plant, which is then turned into electrical energy. Water pressure (from the weight of the water and gravity) forces the water through a penstock and onto the blades of a turbine, which

spins to generate electricity – hydro-electricity.

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Where hydro-electric dams are impractical, many locales worldwide use conventional floating “power barges” which are equipped with steam turbine or diesel engine generators that burn diesel fuel, gasoline or heavy fuel oil to generate power. These barge-based fossil fuel power plants pollute the local environment and are costly to maintain because of the need to re-supply each power barge with a continuous supply of increasingly costly fossil fuels.

Our RiverBank™ hydro turbines are being designed to harness the natural energy contained in the water flow of a river. It is designed to generate electricity from the kinetic energy present in naturally flowing water rather than the potential energy from the stored water in conventional hydro-electric dams. It is hoped that the system will be able to operate in rivers, man-made channels, tidal waters, or ocean currents. Many rivers around the world have speeds high enough to generate sufficient power. Water flow with a speed of one meter per second (approximately 2.2 miles per hour), such as can be found in the Nile River, contains an energy density of 500 watts per square meter. At the northern headwaters of the Mississippi River, the average surface speed of the water is nearly 1.2 miles per hour. In New Orleans in the month of February, the speed of the Mississippi averages 3 miles per hour. Even with its low slope, the currents of the Amazon River can be very strong, with speed ranging from 0.5 to 1.5 meters per second (approximately 1.1 to 3.4 miles per hour) at low water, while in some areas current speeds can reach as high as 3 meters per second (approximately 6.7 miles per hour).

Conceptually, a floating RiverBank™ hydro power barge could be towed on a river and moored to a dock or bridge. The barge would be a “run of the river” hydroturbine system that could harness a portion of the available tidal energy and convert it into mechanical shaft power to drive a pump or generate electricity that could be sold directly onshore.

World, Wind and Water is in the process of developing and constructing prototypes of the SideWinder™ and RiverBank™ for testing under scalable conditions in order to verify the costs and operating predictions for these technologies.

#### Drum Jet Turbine

In early 2004, the Company engaged in extensive development work on our Drum Jet Turbine, however, we have currently placed our development plans for this project on hold in order to focus our resources on the development of the SideWinder™, the RiverBank™, the HeatSeeker™ and the Eliminator™. The Drum Jet Turbine was designed to be used in high pressure gas wells and pipelines where it can potentially be installed to generate electricity from pressure drops occurring within those wells and pipelines.

The Drum Jet Turbine is designed to convert the pressure reduction occurring in a gas pipeline or a natural gas engine into rotational energy used to power a generator and create electricity. In the pipeline application, a high pressure gas or dual phase mixture of liquid and gas enters into the Drum Jet Turbine through a hollow shaft running through the Turbine’s center. The gas or mixture then passes through vortex channels inside a rotor within the Turbine. The kinetic energy of the high pressure gas or mixture causes the rotor to spin as it passes through the vortex channels to the outer circumference of the rotor. The gas or mixture then exits the Turbine at a lower downstream pressure. By connecting a generator to the shaft connected to the rotor, electricity can be generated.

In early 2004, we completed assembly of a third-generation two-foot diameter prototype of our Drum Jet Turbine. We then tested a prototype unit on a gas well in Louisiana with a major gas well operator. The testing involved the installation of the prototype Drum Jet Turbine on a gas well and monitoring of its performance. The purpose of the test was to demonstrate the viability of the technology for gas field energy recovery applications and to provide engineering and performance data required to advance development to a stage where a commercial Drum Jet Turbine unit can be specified and built. This test was only partially successful due to unforeseen design problems with this unit when tested under actual well pressure conditions. In the future, we plan to make further modifications to the Drum Jet Turbine and conduct additional testing.





### TurboFlux Disk Turbine

Through our acquisition of Cryotherm, we also obtained licensing rights to the TurboFlux Disk Turbine from Centripetal Dynamics, Inc. (“Centripetal Dynamics”). Although we still own licensing rights to the TurboFlux Disk Turbine, we do not intend to engage in any development work on this product in the foreseeable future as we will be focusing our resources on the development of the SideWinder™, the RiverBank™, the HeatSeeker™ and the Eliminator™.

### **Planned Distribution of Energy Products**

Each of the Encore Products is currently in the developmental and prototype stages and we have not yet developed any commercially marketable models of our Encore Products. Consequently, we do not yet have a network in place for the distribution of the Encore Products.

In the event that we are successful in commercializing the Encore Products, we may lease them through financing arrangements where the up-front capital cost of the product will be borne by us or by a third party finance company. Currently, we have no such financing arrangements in place and there are no assurances that in the future such financing arrangements will be in place. We may manufacture directly or sub-license territorial rights to manufacture or sell each such demonstrated technology to leading companies in the field-of-use impacted by such technology, or alternatively form joint ventures co-owned by us to exploit such technology in a given territory with a partner.

Once we have developed fully functioning and commercially marketable models of our Encore Products, we intend to sell, lease or rent our turbines and other devices for the generation of emissions-free electricity that may earn Renewable Energy Certificates and Carbon-Emissions Credits and to pursue the development of other products incorporating our proprietary clean energy technologies. We may also enter into operating and service agreements with customers, whereby the customer will receive full service of the product at a reasonably-priced monthly rate. The objective will be to provide the customer with a known operating cost in advance of purchase for budgeting purposes.

### **Market for Clean Energy Products**

After years of debate, there are an increasing number of scientists, governments, industrial leaders and average citizens who believe that global warming is real and it is caused by man-made industrial processes from the burning of fossil fuels to power our vehicles and factories.

Many experts believe that the world definitely has a climate change emissions problem that is causing long-term economic and health related consequences of continued fossil energy consumption. Many foresee catastrophic social, environmental, economic and health-related consequences in the future if alternative, cleaner methods of energy production are not developed and utilized to meet the growing population needs of our global economy for energy to power our modern, digital society.

Whether or not climate-change is real, we believe that five converging global market trends indicate that the market demand for and acceptance of clean energy technologies will continue to increase in the coming years:

1. Population Growth - According to the UN median fertility estimates, the world population is expected to increase by over 30%, from today's number of roughly 6 billion people to over 8 billion people by 2020. The global consumer class in industrialized nations today numbers over 1.7 billion consumers, with these numbers rapidly increasing due to the emergence of the consumer class in China and India. Such population growth will likely increase demand for and stress supply of water, energy, raw materials and manufactured products beyond current industrial capabilities.
2. Growing Demand For Electricity - According to the International Atomic Energy Agency (IAEA), world electricity demand is projected to double between 2000 and 2030, growing at an annual rate of 2.4% and requiring an investment in new energy-supply infrastructure and equipment worldwide of over \$16 trillion, or \$550 billion per year. Two-thirds of the increased energy demand will come from developing countries (such as Latin America), where demand for new energy-generating equipment will climb by over 4% per year, more than tripling its current need for new energy equipment by 2030.
3. Kyoto Protocol's Environmental Mandates - Implementation of the Kyoto Protocol is establishing a new world order of both emissions trading and clean development mechanisms ("CDM"s) which mandate industrial signatories to either spend money on reducing their global warming emissions at home by installing clean energy generating technologies in power plants, refineries and factories or purchasing green house gas ("GHG") emissions-credits from developing countries (such as Latin America) by investing in their local solar, wind, geothermal and industrial waste heat recovery projects.
4. U.S. State & Federal Adoption of REC Incentives and RPS Requirements - Although the United States is not a signatory to the Kyoto Protocol, local, state and federal laws and regulations are nonetheless encouraging and helping to finance the adoption of clean energy technologies by implementing renewable energy certificate ("REC") emissions-credits trading programs and passing renewable portfolio standards ("RPS") which mandate that a certain percentage of electricity sold in a given state should come from clean, renewable energy resources.
5. Price of Oil Rising Because Demand Is Outstripping Supplies - With OPEC oil ministers predicting that oil prices could reach \$80 per barrel in the near future due to fears of supply disruption, and growing demand from China and India, the rising price of oil and other energy supplies may begin to negatively impact the economies of industrialized nations and emerging countries alike, forcing responsible governments and local utilities to increase their use of alternative energy resources such as those being developed by the Company. If, as many expect, world oil production peaks within the next 20 to 40 years, then more customers will be competing for ever depleting supplies, further putting upward pressure on energy prices.

## **THE IGNITE BUSINESS**

Prior to the acquisition of Cryotherm, our primary business was the provision of "permission-based" eDirect Marketing and integrated advertising services. During 2004, we continued to carry on this advertising business through our wholly owned subsidiaries, Ignite Communications Inc. ("Ignite") and Forge Marketing Inc. ("Forge"). This segment of our business is our only significant source of revenues and our plan is to continue operating our advertising business in order to assist in financing the development of our clean-energy products.

On February 1, 2005, we merged the operations of Forge into Ignite as the Ignite eDirect Marketing Division. Ignite continues to offer integrated advertising strategies and eDirect Marketing services to a number of clients. Ignite's services include the creation, integration and execution of both online and traditional advertising strategies, the design, delivery, tracking and analysis of targeted "one-to-one" e-mail campaigns, customized loyalty programs and comprehensive list management/brokerage packages.



**INTELLECTUAL PROPERTY RIGHTS**

We do not own any significant intellectual property rights related to the Ignite Business. We have not registered any of our trademarks and we have not applied to register any of our trademarks. We may in the future apply to register trademarks for our Encore Products in the future, however there can be no assurances that we will do so.

Our rights to the technologies underlying each of the Encore Products are held by us through a license agreement with inventor Robert D. Hunt, one of our principal consultants and shareholders, dated May 20, 2003 (the "Hunt License Agreement"). In addition, we continue to hold licensing rights to Centripetal Dynamic's TurboFlux Disk Turbine, however we do not intend to spend resources on the development of this product in the foreseeable future.

**The Hunt License Agreement**

Under the Hunt License Agreement, we have acquired exclusive worldwide license rights to the following patent pending technologies (collectively, the "Hunt Technologies"):

| <b>PATENT NUMBER</b>              | <b>DATE OF PATENT</b> | <b>PATENT NAME</b>   |
|-----------------------------------|-----------------------|--|
| Provisional Patent No. 60/452,119 | February 28, 2003     | Hydraulic or Pneumatic Sail Mechanism – Improved Method of Power Generation, Refrigeration, Pumping and Compression from Wind Energy, Wave Energy, or Water Current Energy via the use of Sails Constructed of Electronically Rotatable and Extendable Shutters to Reduce Drag and to Increase Power   |
| Provisional Patent No. 60/439,514 | January 13, 2003      | Methods and Apparatus to Generate Useful Power, Refrigeration, and Heating from Harnessing the Potential Energies of Position Via the Continuous Placement or Formation of Bodies of Mass to Create Mass Differentials, Caused by the Gravitational Pull of the Earth, that Are Immediately Converted to Kinetic Energies of Motion in a Cycle |
| Provisional Patent No. 60/432,740 | December 13, 2002     | Drum Jet Turbine with Counter – Rotating Ring and Method of Manufacture  |
| Provisional Patent No. 60/424,070 | November 7, 2002      | Thermoelectric / Photovoltaic Solar Power Module, Having a Rankine Vapor Power Cycle to Provide Heat Rejection for the Module that Produces Additional Power Output  |
| Provisional Patent No. 60/417,134 | October 10, 2002      | Hybrid Combustion Engine having an Internal Thermoelectric Vaporizer that Produces DC Electrical Current and Produces High Pressure Vapor for a Low-Boiling-Point-Liquid Power Cycle   |
| Provisional Patent No. 60/417,128 | October 10, 2002      | Hydrogen and Oxygen Production via a Lift Force Provided by Hydrogen and Oxygen Gases Generated via Electrolysis at Substantial Depth  |
| Provisional Patent No. 60,410,441 | September 16, 2002    | Multi-Fuel Drum Jet Turbine Engine, Having an Internal Rotating Combustor  |
| Provisional Patent No. 60/400,870 | August 5, 2002        | Air-Lift Drum Jet Turbine  |
|                                   | July 22, 2002         |  |

Provisional Patent  
Application No.  
60/397,445

Drum Jet Turbine, Drum Jet Turbo-Alternator, Drum Jet Hydro-Turbine, or High Temperature Super-Conducting Drum Jet Turbo-Alternator Powered by High Pressure Cryogen or Cryogenic Vapor

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| <b>PATENT NUMBER</b>                             | <b>DATE OF PATENT</b> | <b>PATENT NAME</b>   |
|--|-----------------------|--|
| Provisional Patent Application No. 60/391,539    | June 26, 2002         | Dual Solar Energy Via Use of Multi-Stage Vapor Power Cycles, Using Multi-Refrigerants and Partial Pressure Refrigeration, with Hydrogen Production Via Electrolysis of Water and Hydrogen Energy Storage Via a Hydrogen and Oxygen Battery   |
| Provisional Patent Application No. 60/384,788    | June 3, 2002          | Multi-Stage, Multi-Refrigerant Working Fluid Vapor Cycle, Power Piston Thermal Engine, Having Internal Heat Rejection Using Partial Pressure Refrigeration   |
| Provisional Patent Application No. 60/384,126    | May 30, 2002          | Self-Powered Partial Pressure Refrigeration / Heating Cycle, Having Separation of the Pressure Equaling Gas from the Refrigerant Via Advanced Membrane Technology  |
| Provisional Patent Application No. 60/381,374    | May 17, 2002          | Partial Pressure Refrigeration / Heating Cycle   |
| Provisional Patent Application No. 60/381,075    | May 14, 2002          | Kinetic Energy Vapor Power Cycle with Internal Heat Rejection Via Absorption Cooling Using Anhydrous Gases   |
| Provisional Patent Application No. 60/376,412    | May 1, 2002           | Improved Thermoelectric Vaporizer, Thermoelectric Generator, or Thermoelectric Cooler by Use of Vacuum Sealed Thermoelectric Modules and by Use of New Thermoelectric Materials  |
| Provisional Patent Application No. 60/375,666    | April 29, 2002        | Multi-Cycle, High Torque, High-Pressure Boundary Layer Drag Assisted, Rotary Vane Turbine, Turbo-Compressor, Turbo-Pump, Hydro-Turbine, Turbo-Motor, Turbo-Torque Converter, or Turbo-Alternator, Pressure Equalization Via Hydraulic Fluid Seals  |
| Provisional Patent Application No. 60,366,168    | March 21, 2002        | The Production of Electrical Power from the Kinetic Energy and Geothermal Heat of a Natural Gas Well, Using a High-Speed Rotary Vane Turbo-Alternator, and Low Cost Method of Liquefying High-Pressure Natural Gas   |
| Provisional Patent Application No. 60,360,421    | March 1, 2002         | High-Speed, Boundary Layer Drag Assisted, Rotary Vane Turbine, Turbo-Compressor, Turbo-Pump, Hydro-Turbine, or Turbo-Alternator  |
| Provisional Patent Application No. 60,354,676    | February 6, 2002      | Kinetic Vapor Cycle Power Generator with Automated Pressure Balancing System   |
| Patent Application No. jc903 U.S. PTO 09/906,951 | July 16, 2001         | Method of Enhanced Heat Extraction from a Geothermal Heat Source for the Production of Electricity Thermoelectrically and Mechanically Via the High-Pressure Injection of a Cryogen into a U-Tube or Open Tube Heat Exchanger within a Geothermal Heat Source, such as a Producing or Depleted Oil Well or Gas Well, or such as a Geothermal Water Well, or such as Hot Dry Rock; and, Method of Air Lift Pumping Water; and, Method of Electrolyzing the Water into Hydrogen and Oxygen Using the Electricity |

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| <b>PATENT NUMBER</b>                            | <b>DATE OF PATENT</b> | <b>PATENT NAME</b>  |
|---|-----------------------|---|
| Patent Application No. jc821 U.S. PTO 09/888842 | June 26, 2001         | The Production of Electricity Via the High-Pressure Injection of a Cryogen into a Geothermal Thermoelectric Generator within a Geothermal Heat Source, such as a Producing or Depleted Oil Well or Gas Well, or such as a Geothermal Water Well, or such as Hot Dry Roc   |
| Application No. jc978 U.S. PTO 09/873983        | June 4, 2001          | Cryogen Production Via a Cryogenic Vapor Driven Power Piston for use in a Cryogenic Vapor Powered Vehicle with Rotary Vane Motors Attached to the Axles of the Vehicle next to the Vehicle's Four Wheels, Using a Heat Source such as Solar Heat, Heat of Compression (Heat Pump or Air Compressor, etc.) or Heat of Friction (as Formed by an Electric Generator) or Chemical Heat, or Heat Formed by Electrical Resistance, Heat of Combustion, etc. to Generate High-Pressure, High-Kinetic Energy Cryogenic Vapor |
| Application No. jc996 U.S. PTO 09/877781        | June 11, 2001         | Thermoelectric Vaporizer for the Efficient Generation of Electricity Thermoelectrically and for the Simultaneous Vaporization of a Cryogen  |
| Application No. jc1002 U.S. PTO 09/883,466      | June 18, 2001         | Method of Cryogen Production and Thermoelectric Solid-State Electric Power Generation whereby the Thermal Energy of the Atmosphere is Directly Converted to Electrical Power and whereby the Thermal Energy of the Atmosphere is used to Produce High-Energy Cryogenic Vapor Capable of Performing Substantial Work and Pure Water is Produced from Water Vapor within the Atmosphere   |
| Application No. 09/774,110                      | January 31, 2001      | The Burning of Disassociated Water as a Direct Fuel Via a Hydrogen Thermolysis Reactor  |

Mr. Hunt is in the process of filing international patent applications for the Hunt Technologies. There is no assurance that U.S. or international patents will be granted for any of the Hunt Technologies.

In addition to these patent applications, the Hunt License Agreement also grants us a worldwide license to manufacture, sell and otherwise commercially exploit products incorporating any new patented technologies developed by Mr. Hunt in the field of electricity generation, conversion, storage or conservation during the term of the agreement.

The Hunt License Agreement calls for the following consideration to be paid to Mr. Hunt:

1. The sum of \$413,000, which amount has already been paid.
2. We have agreed to purchase 3,000,000 of Mr. Hunt's shares of Cryotherm's common stock (now 703,704 shares of Encore's common stock) for an aggregate price of \$300,000 upon the completion, delivery and successful testing of any prototype of a VAWT, drum jet turbine or energy well power system product. Purchase of these shares is payable out of 5% of the cash proceeds, if any, received by us from the issuance of our common stock or any instrument convertible into common stock made after the prototype demonstration.



3. We have agreed to pay to Mr. Hunt a royalty based on gross cash revenues received by us from the sale of products covered by the Hunt License Agreement to third parties (“Licensed Product Sales Revenues”). This royalty will be 3% of Licensed Product Sales Revenues in the first year that a licensed product is sold, 4% in the second year and 5% thereafter.

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4. With respect to all revenues other than Licensed Product Sales Revenues received by us from the commercialization of any product or intellectual property covered by the Hunt License Agreement, we have agreed to pay a royalty to Mr. Hunt based on gross cash revenues less any direct costs incurred by us in connection with such revenues (“Adjusted Gross Revenues”). This royalty will be 3% of Adjusted Gross Revenues in the first year such revenues are generated, 4% in the second year and 5% thereafter.
5. The sum of \$12,500 for each sublicense of the Hunt Technologies granted by us.
6. Royalty advances in the amount of \$20,000 per month, beginning June 1, 2003, through May 31, 2006. Thereafter the royalty advances will escalate to \$30,000 per month until the last of the patents covered by the Hunt License Agreement expires. These royalty advances are in addition to any other royalty or sublicense payments due to Mr. Hunt.

In the event that we fail to commence sales or otherwise commercialize any licensed product utilizing the licensed intellectual property within four years from the date of a successful demonstration of a working prototype of a licensed product incorporating the licensed intellectual property, any royalty payable by a sub-licensee shall be shared 75% by Mr. Hunt and 25% by us.

In January of 2005, we issued a convertible note to Mr. Hunt in satisfaction of all amounts accrued and owing to him under the Hunt License Agreement up to December 31, 2004. The convertible note was issued 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.

Under the Hunt License Agreement, we also paid to Mr. Hunt \$10,000 for the exclusive right to lease portions of Mr. Hunt’s property in Pass Christian Mississippi for the purposes of creating an energy farm to generate electricity that can be sold to the local grid. Upon our exercise of this option, Mr. Hunt will be entitled to monthly lease payments of \$4,000 plus 3% of any gross electricity sales.

In connection with our entry into the World, Wind and Water joint venture with Mr. Hunt and the Abell Foundation, we assigned all of our license rights to the following patents to World, Wind and Water in exchange for our 60% interest in the limited liability company:

| Patent Number  | Date of Patent    | Patent Name   |
|--|-------------------|---|
| U.S. Provisional Application No. 60/452,119            | March 6, 2003     | “Hydraulic or pneumatic sail mechanism – Improved method of power generation, refrigeration, pumping, and compression from wind energy, wave energy, or water current energy, via the use of sails constructed of electronically controlled rotatable and extendable shutters to reduce drag and to increase power” |
| U.S. Provisional Application No. 60/500,362            | September 3, 2003 | “Self-Actuated Horizontal Wind Shutters For a Vertical Axis Wind Turbine”   |
| International Patent Application No. PCT/US2004/007369 | March 6, 2003     | “Hybrid Wind and Solar Powered Turbine; Hydro-Turbine; Air Compressor; Hydraulic Pump; Air or Hydro-Propeller, having Pivotal Shutters on a Rotating Disk”  |

In the event that the Abell Foundation does not provide the full \$100,000 in funding to World, Wind and Water and does not otherwise earn a 10% interest in the joint venture, all of our license rights to these products will be restored.



The Centripetal License Agreement

Cryotherm entered into a joint projects, license and consulting agreement (the “Centripetal License Agreement”) with Kenneth Hicks and Centripetal Dynamics dated July 1, 2003, which was amended on December 10, 2003. As Cryotherm’s successor, we have assumed all of Cryotherm’s rights and obligations under the Centripetal License Agreement. Under the Centripetal License Agreement, we were granted exclusive rights to sell, market and distribute Centripetal Dynamics’ TurboFlux engines and TurboFlux wind turbines in North America and the European Union for distributed power, cogeneration and waste heat recovery power generation applications. Although we still hold our licensing rights under the Centripetal License Agreement, we have no plans to work on the development of the TurboFlux products in the foreseeable future.

**COMPETITIVE BUSINESS CONDITIONS**

Competitive Business Conditions for the Encore Business

The energy business in general is an extremely large market sector and is extremely competitive. However, in the growing clean energy area, no one company has emerged as a stand alone clean energy leader. We feel that, as traditional sources of energy such as oil, gas and coal deplete becoming more expensive, industry and consumers alike will turn to and even demand renewable forms of energy on a large scale. Many companies such as Encore are emerging to fill this anticipated demand. We believe that as the market grows, competition for our systems will increase with larger better financed companies entering the marketplace.

### Competitive Business Conditions for the Forge/Ignite 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. Our ability to compete and generate revenue from advertising services will depend on our skill in utilizing the expertise we possess and the electronic direct marketing technologies we employ to provide superior strategies and execution and stay ahead of the pack.

The majority of our competitors in this area are divisions of large multinational agencies with head offices in Europe or New York City. We have been able to attract and retain clients in our marketplace because many of our clients desire local representation. We have also been able to differentiate ourselves from our competitors through our strong, in-house electronic direct marketing division.

### **EXISTING IGNITE CLIENT BASE IS CONCENTRATED**

Three clients for our advertising services 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. We are attempting to expand our advertising and email marketing services to the energy industry through the Encore Business and its access to potential clients in the oil, gas and electrical utility sectors.

### **GOVERNMENT REGULATIONS**

#### Government Regulations Affecting the Encore Business

The energy business is a highly regulated business. The installation of our clean energy systems onto existing facilities in various industries will require us and our sub-contractors to comply with various government regulations.

Both the power and oil and gas industries are highly regulated and undergoing significant change, deregulation and re-regulation. We believe that these industries will continue to be subject to regulation, the scope and effect of which we cannot predict.

Some of our Encore Products and services may be subject to federal, state, local and foreign laws and regulations, governing, among other things, emissions to air and water, as well as laws relating to occupational health and safety. Regulatory agencies may impose special requirements for implementation and operation of our products (e.g. connection with the electric grid) or may significantly impact or even eliminate some of our target markets. We may incur material costs or liabilities in complying with government regulations. In addition, potentially significant expenditures could be required in order to comply with evolving environmental and health and safety laws, regulations and requirements that may be adopted or imposed in the future. Furthermore, our potential utility customers must comply with numerous laws and regulations. The deregulation of the utility industry may also create challenges for our marketing efforts. For example, as part of electric utility deregulation, federal, state and local governmental authorities may impose transitional charges or exit fees, which would make it less economical for some potential customers to switch to our products and services.

#### Government Regulations Affecting the Ignite Business

With respect to our advertising 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

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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.

### **ENVIRONMENTAL LIABILITY**

There are no significant environmental risks associated with the Ignite Business.

The Encore Business exposes us to the risk that harmful substances, if any, may escape into the environment and cause substantial damages or injuries.

We plan to test some of our prototype products in power plants, factories, oil and gas and pipeline facilities which involve high pressure chemical, and oil and gas operations. Accordingly, our energy operations may expose us to possible liability for investigation and clean-up costs under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (“CERCLA”), the Resource Conservation and Recovery Act of 1976, as amended (“RCRA”), and comparable state laws. Under some of these environmental laws, it is also possible that we could be exposed to environmental risks and liabilities resulting from the actions of our customers, even if we are not at fault. We could be materially and adversely affected by an uninsured or partially insured claim.

### **EMPLOYEES**

We currently have 10 full-time salaried employees.

### **ITEM 2. DESCRIPTION OF PROPERTY.**

Under an operating lease expiring on December 31, 2005, we lease 6,500 square feet of space at Suite 610-375 Water Street, Vancouver, British Columbia at a cost of \$121,614 for the year ended December 31, 2004 and \$99,644 for 2005.

As discussed above, under the Hunt License Agreement, we have an exclusive option to lease portions of Mr. Hunt’s property at 23707 Red Fish Lane in Pass Christian, Mississippi for purposes of creating an energy farm to generate electricity that can be sold to the local grid. Upon our exercise of this option, we will have to pay to Mr. Hunt monthly lease payments of \$4,000 plus 3% of any gross electricity sales.

### **ITEM 3. LEGAL PROCEEDINGS.**

We are not a party to any material legal proceedings and, to our knowledge, no such proceedings are threatened or contemplated.

### **ITEM 4. SUBMISSIONS TO A VOTE OF SECURITY HOLDERS.**

No matters were submitted to our security holders for a vote during our fiscal year ended December 31, 2004.





**PART II****ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.**

Our common stock is quoted on the OTC Bulletin Board under the symbol ECLN. Our common stock has previously traded under the symbols RMPE, TVCM, EMTP and FRGA.

The following table presents the range of high and low bid prices for our common stock for the periods indicated as quoted on the OTC Bulletin Board. The quotations reflect inter-dealer prices and do not include retail mark-up, mark-down or commissions, and may not represent actual transactions.

|                                  | 2004   |        | 2003   |        |
|----------------------------------|--------|--------|--------|--------|
|                                  | High   | Low    | High   | Low    |
| First Quarter ended March 31     | \$1.12 | \$0.45 | \$0.11 | \$0.10 |
| Second Quarter ended June 30     | \$0.45 | \$0.35 | \$0.20 | \$0.08 |
| Third Quarter ended September 30 | \$0.50 | \$0.15 | \$2.00 | \$0.10 |
| Fourth Quarter ended December 31 | \$0.75 | \$0.13 | \$2.50 | \$0.83 |

The transfer agent for our securities is StockTrans, Inc., 44 West Lancaster Avenue, Ardmore, Pennsylvania.

**DIVIDENDS**

No cash dividends have been declared with respect to our common stock since inception. We are not likely to pay any dividends in the foreseeable future. We intend to reinvest any earnings in our operations.

Our Articles of Incorporation provide that, subject to any preferential rights granted to any series of our preferred stock, the holders of our common stock shall be entitled to receive dividends when declared by our board of directors out of the funds legally available for such purpose. We have not issued any series of preferred shares and no preferential rights have been attached to any of our preferred shares. The Delaware General Corporation Law provides that dividends may be properly paid out of any stockholders surplus, or if such surplus does not exist, then out of the net profits for the fiscal year in which the dividend is declared and/or the previous fiscal year.

**REGISTERED HOLDERS OF OUR COMMON STOCK**

At March 31, 2005, there were 156 holders of record of 13,386,975 shares of our common stock. We believe that a large number of stockholders hold stock on deposit with their brokers or investment bankers registered in the name of stock depositories.

**PENNY STOCK RULES**

The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Penny stocks are generally equity securities with a price of less than \$5.00, other than securities registered on certain national securities exchanges or quoted on the Nasdaq system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from those rules, to deliver a standardized risk disclosure document prepared by the SEC, which: (a) contains a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading; (b) contains a description of the broker's or dealer's duties to the customer and of the rights and remedies available to the customer with respect to a violation of such duties or other



requirements of Securities laws; (c) contains a brief, clear, narrative description of a dealer market, including bid and ask prices for penny stocks and significance of the spread between the bid and ask price; (d) contains a toll-free telephone number for inquiries on disciplinary actions; (e) defines significant terms in the disclosure document or in the conduct of trading in penny stocks; and (f) contains such other information and in such form as the SEC shall require by rule or regulation. The broker-dealer also must, prior to effecting any transaction in a penny stock, provide the customer with: (a) bid and offer quotations for the penny stock; (b) the compensation of the broker-dealer and its salesperson in the transaction; (c) the number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock; and (d) monthly account statements showing the market value of each penny stock held in the customer's account. In addition, the penny stock rules require that, prior to a transaction in a penny stock that is not otherwise exempt from those rules, the broker-dealer must: (a) make a special written determination that the penny stock is a suitable investment for the purchaser and (b) receive from the purchaser his or her written acknowledgement of receipt of the determination and a written agreement to the transaction.

These disclosure requirements may have the effect of reducing the trading activity in the secondary market for our stock and therefore stockholders may have difficulty selling those securities.

### **RECENT SALES OF UNREGISTERED SECURITIES**

On February 11, 2002, a terminated employee exercised options which had been granted to him under the terms of our 1999 Equity Compensation Plan. These options were to purchase 4,687 shares of our common stock at a price of \$0.100 per share. The issuance of these shares was made pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933 (the "Securities Act").

On September 30, 2003, we completed a private placement of 4,200,000 shares of our common stock pursuant to Regulation S promulgated under the Securities Act, on the basis that each of the recipients of these shares were not "U.S. Persons", as defined in Regulation S. The 4,200,000 shares were issued in exchange for the cancellation of indebtedness in the aggregate amount of \$840,000. As discussed below, of these shares, 655,000 shares were issued to each of Daniel B. Hunter and Donald James MacKenzie, two of our directors and officers, in exchange for cancellations of indebtedness in the amount of \$131,000 owed to each of them.

On September 30, 2003, we issued an aggregate of 7,403,197 shares of our common stock to the former shareholders of Cryotherm who had executed the acquisition agreement or joinder agreements as of that date. We received as consideration 97.5% of the issued and outstanding shares of Cryotherm's common stock. Effective October 28, 2003, we issued a further 188,827 shares of our common stock in order to acquire the remaining 2.5% of Cryotherm's issued and outstanding common stock. We issued these shares of our common stock to the former shareholders of Cryotherm in reliance of Rule 506 of Regulation D promulgated under the Securities Act on the basis that each of the former shareholders of Cryotherm represented to us that they were "Accredited Investors," as defined in Rule 501 of Regulation D.

On September 30, 2003, we issued warrants to purchase an aggregate of 29,322 shares of our common stock, expiring on June 30, 2005, in exchange for warrants to acquire an aggregate of 125,000 shares of Cryotherm's common stock. Warrants were issued to purchase 17,593 shares at a price of \$0.4263 per share, including warrants to purchase 8,796 shares issued to Kenneth Rickel, one of our principal shareholders. Warrants to purchase 11,729 shares were issued at an exercise price of \$1.0658 per share. Each of these warrants was issued in reliance of Rule 506 of Regulation D of the Securities Act on the basis that the recipients of these warrants represented to us that they were "Accredited Investors," as defined in Rule 501 of Regulation D.

On September 30, 2003, we issued options to acquire an aggregate of 324,877 shares of our common stock in exchange for options to acquire an aggregate of 1,385,000 shares of Cryotherm's common stock. These options have different expiration dates ranging from June 26, 2005 to August 5, 2015. These options are exercisable at a price of

\$0.4263 per share and were issued in reliance of Rule 506 of Regulation D of the

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Securities Act on the basis that such option holders represented to us that they were “Accredited Investors,” as defined in Rule 501 of Regulation D.

On December 10, 2003, we issued to Ken Hicks warrants to purchase 116,667 shares of our common stock at a price of \$0.85 per share in exchange for Centripetal Dynamics granting to us exclusive rights to the TurboFlux engine for Saudi Arabia. These warrants expire on December 31, 2005 and were issued in reliance of Rule 506 of Regulation D on the basis that Mr. Hicks had previously represented to us, in connection with the Cryotherm acquisition, that he was an “Accredited Investor,” as defined in Rule 501 of Regulation D.

As discussed below, on December 12, 2003, we issued to Kenneth Rickel warrants to purchase 166,667 shares of our common stock at a price of \$0.60 per share, expiring on December 31, 2005. These warrants were granted to Mr. Rickel as partial consideration for extending the due date of a promissory note issued to Mr. Rickel by Cryotherm. These warrants were issued in reliance of Rule 506 of Regulation D on the basis that Mr. Rickel had previously represented to us, in connection with the Cryotherm Acquisition, that he was an “Accredited Investor,” as defined in Rule 501 of Regulation D.

On December 31, 2003, we completed the sale of 195,000 units by way of a private placement pursuant to Regulation S, on the basis that each of the recipients of these units were not “U.S. Persons”, as defined under Regulation S. Each unit was sold for USD \$1.00 and each unit consisted of one share and one share purchase warrant exercisable for three (3) years from closing, at a price of USD \$1.50 per share. Upon effectiveness of any registration statement, we will have the right to require the subscriber to exercise their warrants during the thirty day period following the date on which our common stock has traded at a minimum price of at least \$2.00 per share for ten consecutive trading days at a minimum volume of 25,000 shares per day. If the warrants are not exercised during this period, then the warrants will terminate.

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 “Convertible Note”). The terms of the Convertible Note provide that, at any time prior to the payment of the 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. The 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 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.

Effective on February 18, 2005, we issued 50,000 shares of our common stock in consideration for the agreement by a consulting company to provide us with consulting services related to financial public relations and business development. These shares were issued in reliance on section 4(2) of the Securities Act on the basis that the issuance of these shares did not involve a public offering.

## **ITEM 6. MANAGEMENT’S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.**

### **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<sup>TM</sup> waste heat recovery unit, the Eliminator<sup>TM</sup> Rankine Cycle liquid pump elimination process, the SideWinder<sup>TM</sup> VAWT and the RiverBank<sup>TM</sup> 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

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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**

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

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up to September 30, 2003 reflect the results of operations solely for the Ignite Business to that date. Commencing October 1, 2003 our financial statements reflect our combined operations with Cryotherm.

### Summary of Results

|                           | Year Ended December 31 |             |                                  |
|---------------------------|------------------------|-------------|----------------------------------|
|                           | 2004                   | 2003        | Percentage Increase / (Decrease) |
| Revenue                   | \$2,633,850            | \$2,858,341 | (7.9%)                           |
| Cost of Revenue           | (1,753,065)            | (2,167,077) | (19.1%)                          |
| Operating Expenses        | (3,883,360)            | (1,756,422) | 121.1%                           |
| Other Income and Expenses | (377,320)              | 151,995     | (348.2%)                         |
| Net Loss                  | \$(3,379,895)          | \$(913,163) | 270.1%                           |

#### Revenue

For the last fiscal year, revenues were generated solely from the Ignite business. We did not earn revenues from the Encore Business during the last fiscal year and there is no assurance that we will be able to earn revenue from that business in the near future.

Our revenues for the year ended December 31, 2004 decreased by 7.9% from the fiscal year ended December 31, 2003.

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.

To date, the vast majority of our revenue has been generated from the provision of integrated marketing and advertising strategies as opposed to our email services, which have grown over the past 2 years but represent less than 10% of our overall billings. With increased focus, time and expenditure being directed to these online services, we anticipate proportionate increases in revenue, both in absolute and percentage terms. However, if these services do not continue to achieve market acceptance, we cannot assure you that we will generate business at a level sufficient to support our continued operations.

#### Cost of Revenue

Our cost of revenue decreased by 19.1% for the year ended December 31, 2004. This decrease in cost of revenue is reflective of the decrease in our revenues over the same period.

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

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.

**Operating Expenses**

|   | Year Ended December 31 |             | Percentage<br>Increase /<br>(Decrease) |
|---|------------------------|-------------|--|
|   | 2004                   | 2003        |  |
| Salaries and Fringe Benefits              | \$691,836              | \$663,873   | 4.2%                                   |
| Consulting Fees and Computer Services     | 539,503                | 679,825     | (20.6%)                                |
| Legal and Accounting                      | 198,909                | 130,851     | 52.0%                                  |
| Phones and Utilities                      | 19,085                 | 38,201      | (50.0%)                                |
| Rent                                      | 121,614                | 97,769      | 24.4%                                  |
| Advertising and Promotion                 | 13,085                 | 23,195      | (43.6%)                                |
| Other Selling, General and Administrative | 98,850                 | 100,607     | (1.7%)                                 |
| Technology Write-Down                     | 2,174,882              | Nil         | 100%                                   |
| Depreciation                              | 25,596                 | 22,101      | 15.8%                                  |
| Total Expenses                            | \$3,883,360            | \$1,756,422 | 121.1%                                 |

We recorded a 121.1% increase in our operating expenses during the 2004 fiscal year. This increase is attributable to the fact that we recorded a write-down in the carrying value of the Hunt Technologies of \$2,174,882. This write-down was done in order to reflect our inability to predict future cash flows related to the Hunt Technologies due to the long-term development period for the technology. Net of this write-down, our operating expenses for the year ended 2004 were \$1,708,478, which is a decrease of 2.7% from our total operating expenses for the 2003 fiscal year.

**Interest Expenses**

|                   | Year Ended December 31 |           | Percentage<br>Increase /<br>(Decrease) |
|-------------------|------------------------|-----------|--|
|                   | 2004                   | 2003      |  |
| Interest Expenses | \$382,320              | \$226,005 | 69.2%                                  |

The increase in interest expenses during the year ended December 31, 2004 as compared to the same period in 2003 is primarily the result of the debt financing acquired from HSBC Bank Canada in April 2004 and from interest and finance charges related to advances from related parties and loans repaid during the period.

**Liquidity and Capital Resources**

|                                   | At December 31, |               | Percentage<br>Increase /<br>(Decrease) |
|-----------------------------------|-----------------|---------------|--|
|                                   | 2004            | 2003          |  |
| Current Assets                    | \$144,651       | \$119,284     | 21.3%                                  |
| Current Liabilities               | (3,182,031)     | (2,078,580)   | 53.1%                                  |
| Working Capital Surplus (Deficit) | \$(3,037,380)   | \$(1,959,296) | (55.0%)                                |

**Cash Flows**

|   | Year Ended December 31 |             |
|---|------------------------|-------------|
|   | 2004                   | 2003        |
| Net Cash used in Operating Activities               | \$(757,474)            | \$(588,645) |
| Net Cash provided by (used in) Investing Activities | (4,240)                | 3,034       |
| Net Cash from Financing Activities                  | 703,320                | 620,516     |
| Effects of Changes in Foreign Exchange Rate         | 58,059                 | (85,107)    |
| Net Increase (Decrease) in Cash During Period       | \$(335)                | \$(50,202)  |

The increase in our working capital deficit is primarily attributable to the fact that we recorded a substantial increase to our current liabilities during the 2004 fiscal year. Our accounts payable and accrued liabilities increased by \$301,015 or 18.6% and the current portion of our amounts due to related parties increased by \$488,971 or 131.6%. In addition, in April, 2004, we obtained a Canadian dollar denominated loan and line of credit in the aggregate amount of \$500,000 CDN (approximately \$415,975 USD) (the "Debt Financing"). Interest is charged on the Debt Financing at HSBC's prime rate of interest, plus 1.50%. The funds from the Debt Financing are being used by us as working capital. As at December 31, 2004, there was \$371,688 USD outstanding on the Debt Financing.

The increase in our current liabilities occurred largely as a result of the fact that our revenues from the Ignite Business were insufficient to finance our operations during the 2004 fiscal year.

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 \$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 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.

**CRITICAL ACCOUNTING POLICIES**

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of expenses during the period. The valuation of intangible assets and stock compensation is a significant area requiring the use of estimates. Actual results could differ from the estimates used in the preparation of consolidated financial statements.



We have identified certain accounting policies, described below, that are most important to the portrayal of our current financial condition and results of operations. Our significant accounting policies are disclosed in Note 4 to the consolidated financial statements included in this Annual Report.

**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 consolidated balance sheet dates 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 loss and reported as foreign currency translation adjustment (which is included in accumulated other comprehensive loss in stockholders' equity).

**Impairment of long-lived assets and long-lived assets to be disposed of:**

In accordance with SFAS No. 144, long-lived assets such as property and equipment, and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheets.

Goodwill and intangible assets not subject to amortization are tested annually for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value.

During the year ended December 31, 2004, the carrying value of \$2,174,882 relating to the Hunt Technologies and related intangible assets was written off to reflect our inability to reliably predict future cash flows due to the long-term development period for the technology.

**RISKS RELATED TO OUR BUSINESS**

**Risks 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 twelve 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 demonstrations 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 insufficient 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 December 31, 2004, we had no cash and a working capital deficit of \$3,037,380. 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 those 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 payable to Mr. Hunt. 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.

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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. As of December 31, 2004 we had no cash and a working capital deficit of \$3,037,380. 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 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 eDirect 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 edirect 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 eDirect 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 eDirect 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 Ignite Business and could have a substantial adverse affect on the Company as a whole.

Ignite's Operating History

We have a limited operating history upon which to evaluate our business strategies and performance. Losses throughout our 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.

**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 7. FINANCIAL STATEMENTS.**

Index to Financial Statements:

1. Auditors' Report;
2. Audited Financial Statements for the years ended December 31, 2004 and December 31, 2003, including:
  - a. Consolidated Balance Sheets as at December 31, 2004 and December 31, 2003;
  - b. Consolidated Statements of Operations for the years ended December 31, 2004 and December 31, 2003;
  - c. Consolidated Statements of Stockholders' Deficit and Comprehensive Income (Loss) for the years ended December 31, 2004 and December 31, 2003;
  - d. Consolidated Statements of Cash Flows for the years ended December 31, 2004 and December 31, 2003; and
  - e. Notes to Consolidated Financial Statements.

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Audited Consolidated Financial Statements of

**Encore Clean Energy, Inc.**

Years ended December 31, 2004 and 2003

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kpmg

**KPMG LLP**

**Chartered Accountants**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders  
Encore Clean Energy, Inc.

We have audited the accompanying consolidated balance sheets of Encore Clean Energy, Inc. as of December 31, 2004 and 2003 and the related consolidated statements of operations, stockholders' deficit and comprehensive loss and cash flows for the years ended December 31, 2004 and 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Encore Clean Energy, Inc. as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years ended December 31, 2004 and 2003 in accordance with U.S. generally accepted accounting principles.

The consolidated financial statements as of December 31, 2003 and for the year then ended have been restated from that previously presented as explained in note 8(g).

The accompanying consolidated financial statements have been prepared assuming Encore Clean Energy, Inc. will continue as a going concern. As discussed in note 3 to the consolidated financial statements, the Company's recurring losses from operations and stockholders' deficit and its need to generate cash from operations and obtain additional financing to meet its obligations as they come due raise substantial doubt about its ability to continue as a going concern. Management's plans as to these matters are also described in note 3. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

*/s/ KPMG LLP*

Chartered Accountants

Victoria, Canada

April 19, 2005

**Encore Clean Energy, Inc.**

Consolidated Balance Sheets

(Expressed in United States dollars)

December 31, 2004 and 2003

|  | 2004        | 2003<br>(restated -<br>note 8(g)) |
|--|-------------|-----------------------------------|
| <b>Assets</b>                                      |             |                                   |
| <b>Current assets:</b>                             |             |                                   |
| Cash and cash equivalents                          | \$ -        | \$ 335                            |
| Accounts receivable                                | 131,736     | 110,613                           |
| Prepaid expenses                                   | 12,915      | 8,336                             |
|  | 144,651     | 119,284                           |
| Property and equipment (note 6)                    | 68,432      | 82,986                            |
| Technology and other intangible assets (note 5(b)) | -           | 2,133,340                         |
|  | \$ 213,083  | \$ 2,335,610                      |
| <b>Liabilities and Stockholders' Deficit</b>       |             |                                   |
| <b>Current liabilities:</b>                        |             |                                   |
| Bank indebtedness                                  | \$ 20,713   | \$ 82,447                         |
| Accounts payable and accrued liabilities (note 8)  | 1,920,650   | 1,619,635                         |
| Credit facility (note 7)                           | 371,688     | -                                 |
| Due to related parties - current portion           | 860,502     | 371,531                           |
| Capital lease obligations - current portion        | 8,478       | 4,967                             |
|  | 3,182,031   | 2,078,580                         |
| Due to related parties (note 8)                    | 961,503     | 925,388                           |
| Capital lease obligations (note 9)                 | 5,253       | -                                 |
| Total liabilities                                  | 4,148,787   | 3,003,968                         |
| <b>Stockholders' deficit (note 10):</b>            |             |                                   |
| Common stock                                       | 13,007      | 12,618                            |
| Additional paid-in capital                         | 6,069,053   | 5,802,498                         |
| Deficit  | (9,531,953) | (6,152,058)                       |
| Accumulated other comprehensive loss               | (485,811)   | (331,416)                         |
| Total stockholders' deficit                        | (3,935,704) | (668,358)                         |
| Commitments (note 8 and 13)                        | \$ 213,083  | \$ 2,335,610                      |

See accompanying notes to consolidated financial statements.



**Encore Clean Energy, Inc.**

Consolidated Statements of Operations  
(Expressed in United States dollars)

Years ended December 31, 2004 and 2003

|  | 2004           | 2003<br>(restated -<br>note 8(g)) |
|--|----------------|-----------------------------------|
| Revenue  | \$ 2,633,850   | \$ 2,858,341                      |
| Cost of revenue  | (1,753,065)    | (2,167,077)                       |
| Gross profit   | 880,785        | 691,264                           |
| Operating expenses:  |                |                                   |
| Salaries and fringe benefits                                     | 691,836        | 663,873                           |
| Consulting fees and computer services                            | 539,503        | 679,825                           |
| Legal and accounting   | 198,909        | 130,851                           |
| Phones and utilities   | 19,085         | 38,201                            |
| Rent   | 121,614        | 97,769                            |
| Advertising and promotion  | 13,085         | 23,195                            |
| Other selling, general and administrative                        | 98,850         | 100,607                           |
| Technology write-down (note 5)                                   | 2,174,882      | -                                 |
| Depreciation   | 25,596         | 22,101                            |
|  | 3,883,360      | 1,756,422                         |
| Loss from operations   | (3,002,575)    | (1,065,158)                       |
| Other income (expense):  |                |                                   |
| Interest and bank charges  | (382,320)      | (226,005)                         |
| Gain on conversion of debt                                       | 5,000          | 378,000                           |
|  | (377,320)      | 151,995                           |
| Net loss   | \$ (3,379,895) | \$ (913,163)                      |
| Net loss per common share, basic and diluted                     | \$ (0.26)      | \$ (0.26)                         |
| Weighted average common shares outstanding,<br>basic and diluted | 12,858,291     | 3,500,503                         |

See accompanying notes to consolidated financial statements.

**Encore Clean Energy, Inc.**

Consolidated Statements of Stockholders' Deficit and Comprehensive Loss  
(Expressed in United States dollars)

Years ended December 31, 2004 and 2003 (restated - note 8(g))

|   | Common<br>stock | Additional<br>paid in<br>capital | Deficit        | Accumulated<br>other<br>comprehensive<br>income (loss) | Stockholders'<br>deficit |
|---|-----------------|----------------------------------|----------------|--|--------------------------|
| Balance at December 31,<br>2002                                   | \$ 520          | \$ 3,645,386                     | \$ (5,238,895) | \$ (14,695)  | \$ (1,607,684)           |
| Stock-based compensation  | -               | 397,637                          | -              | -  | 397,637                  |
| Conversion of shareholder<br>loans<br>(4,200,000 shares)          | 4,200           | 457,800                          | -              | -  | 462,000                  |
| Issued on 97.5% acquisition<br>of Cryotherm:                      |                 |                                  |                |  |                          |
| 7,403,197 Shares  | 7,403           | 806,949                          | -              | -  | 814,352                  |
| 29,322 Warrants   | -               | 89                               | -              | -  | 89                       |
| 324,877 Options   | -               | 132                              | -              | -  | 132                      |
| Private placement for cash<br>(195,000 shares)                    | 195             | 194,805                          | -              | -  | 195,000                  |
| Exercise of stock options<br>(300,000 shares)                     | 300             | 299,700                          | -              | -  | 300,000                  |
| Components of<br>comprehensive loss:                              |                 |                                  |                |  |                          |
| Net loss  | -               | -                                | (913,163)      | -  | (913,163)                |
| Foreign exchange<br>translation adjustment                        | -               | -                                | -              | (316,721)  | (316,721)                |
| Comprehensive loss  |                 |                                  |                |  | (1,229,884)              |
| Balance at December 31,<br>2003<br>(restated (note 8(g)))         | 12,618          | 5,802,498                        | (6,152,058)    | (331,416)  | (668,358)                |
| Stock-based compensation  | -               | 175,402                          | -              | -  | 175,402                  |
| Acquisition of remaining<br>2.5% of Cryotherm<br>(188,827 shares) | 189             | 41,353                           | -              | -  | 41,542                   |
| Exercise of stock options<br>(100,000 shares)                     | 100             | 24,900                           | -              | -  | 25,000                   |
| Common stock issued for<br>services<br>(100,000 shares)           | 100             | 24,900                           | -              | -  | 25,000                   |
| Components of<br>comprehensive loss:                              |                 |                                  |                |  |                          |
| Net loss  | -               | -                                | (3,379,895)    | -  | (3,379,895)              |

|   |           |              |                |              |                |
|---|-----------|--------------|----------------|--------------|----------------|
| Foreign exchange translation adjustment | -         | -            | -              | (154,395)    | (154,395)      |
| Comprehensive loss                      |           |              |                |              | (3,534,290)    |
| Balance at December 31, 2004            | \$ 13,007 | \$ 6,069,053 | \$ (9,531,953) | \$ (485,811) | \$ (3,935,704) |

See accompanying notes to consolidated financial statements.

**Encore Clean Energy, Inc.**

Consolidated Statements of Cash Flows  
(Expressed in United States dollars)

Years ended December 31, 2004 and 2003

|   | 2004           | 2003<br>(restated -<br>note 8(g)) |
|---|----------------|-----------------------------------|
| Cash provided by (used in):                                 |                |                                   |
| Operations:   |                |                                   |
| Net loss  | \$ (3,379,895) | \$ (913,163)                      |
| Items not involving cash:                                   |                |                                   |
| Depreciation  | 25,596         | 22,101                            |
| Gain on conversion of debt                                  | (5,000)        | (378,000)                         |
| Stock-based compensation                                    | 175,402        | 397,637                           |
| Technology write-down                                       | 2,174,882      | -                                 |
| Common stock issued for legal services                      | 25,000         | -                                 |
| Loss on disposal of equipment                               | 1,582          | -                                 |
| Changes in operating assets and liabilities:                |                |                                   |
| Accounts receivable   | 12,624         | 239,023                           |
| Prepaid expenses  | 3,924          | (9,697)                           |
| Accounts payable and accrued liabilities                    | 208,411        | 681,869                           |
| Unearned revenue  | -              | (628,415)                         |
| Net cash used in operating activities                       | (757,474)      | (588,645)                         |
| Cash flows used in investing activities:                    |                |                                   |
| Purchase of property and equipment                          | (4,240)        | (3,159)                           |
| Cash acquired on acquisition (note 2)                       | -              | 6,193                             |
| Net cash provided by (used in) investing activities         | (4,240)        | 3,034                             |
| Cash flows from financing activities:                       |                |                                   |
| Principal payments of obligations under capital leases      | (12,657)       | (8,049)                           |
| Proceeds from issuance of stock                             | -              | 195,000                           |
| (Decrease) increase in bank indebtedness                    | (61,734)       | 82,447                            |
| Repayments of credit facility                               | (44,286)       | (202,686)                         |
| Increase in credit facility                                 | 415,974        | -                                 |
| Increase in advances from related parties                   | 406,023        | 553,804                           |
| Net cash provided by financing activities                   | 703,320        | 620,516                           |
| Effect of changes in foreign exchange rate on cash balances | 58,059         | (85,107)                          |
| Decrease in cash and cash equivalents                       | (335)          | (50,202)                          |
| Cash and cash equivalents, beginning of year                | 335            | 50,537                            |
| Cash and cash equivalents, end of year                      | \$ -           | \$ 335                            |
| Supplementary information:                                  |                |                                   |
| Interest paid   | \$ 290,757     | \$ 190,950                        |

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|   |        |         |
|---|--------|---------|
| Income taxes paid   | -      | -       |
| Non-cash transactions:                                    |        |         |
| Issue of common stock for services                        | 25,000 | -       |
| Exercise of options                                       | 25,000 | 300,000 |
| Issue of common stock for repayment of debt               | -      | 840,000 |
| Acquisition of equipment under capital leases             | 18,105 | -       |
| Issue of common stock on acquisition of 2.5% of Cryotherm | 41,542 | -       |

See accompanying notes to consolidated financial statements.

## **Encore Clean Energy, Inc.**

Notes to Consolidated Financial Statements  
(Expressed in United States dollars)

Years ended December 31, 2004 and 2003

### **1. The Company and description of business:**

Encore Clean Energy, Inc. (the “Company”) is an integrated advertising strategies and “permission-based” email marketing service. The Company’s advertising services include the design, delivery, tracking, and analysis of targeted “one-on-one” email campaigns, customized loyalty programs, comprehensive list management/brokerage packages and the creation, integration and execution of both online and traditional advertising strategies. The Company is also researching and developing commercial products that generate electricity without burning fossil fuels.

### **2. Corporate transactions:**

On May 13, 2002 the Company’s effective domicile was changed from Florida to Delaware by way of a merger between the Company’s parent corporation, emailthatpays.com, Inc. (“email”) (a Florida corporation) and the Company (a Delaware corporation). The surviving corporation (Encore Clean Energy, Inc.) issued one share for every twenty shares of email, thus affecting a reverse stock split. As the former shareholders of email owned 100% of the Company, this transaction has been accounted for on a continuity-of-interests basis as a continuation of email. References to “the Company” refer to email for periods prior to May 13, 2002 and Encore Clean Energy, Inc. thereafter.

On October 28, 2003, Encore Clean Energy, Inc. (“Encore”) completed the acquisition of Cryotherm, Inc. (“Cryotherm”), a Delaware corporation, in exchange for common shares of Encore. The outstanding options and warrants of Cryotherm were also exchanged for options and warrants of Encore based on a conversion ratio of 0.23456789 Encore options for each Cryotherm option and warrant. In addition, certain shareholder advances of Cryotherm in the aggregate principal amount of \$450,000 became convertible at the option of the holder into an aggregate of 633,333 shares of Encore.

The shares issued to the former Cryotherm stockholders in the acquisition represent approximately 61% of Encore’s total issued and outstanding shares immediately prior to the transaction. Immediately following the closing of the acquisition, former Cryotherm stockholders, option holders and convertible debenture holders owned or had the right to acquire 64% of the fully diluted common shares of Encore. Accordingly, the merger resulted in a change of control of Encore.

## **Encore Clean Energy, Inc.**

Notes to Consolidated Financial Statements  
(Expressed in United States dollars)

Years ended December 31, 2004 and 2003

### **2. Corporate transactions (continued):**

For accounting purposes however, notwithstanding the change of control of Encore, the acquisition of Cryotherm is treated as an acquisition of the net assets of Cryotherm by Encore as Cryotherm was, prior to completion of the transaction, a development stage company that did not meet the definition of a business for accounting purposes. Therefore, for accounting purposes, this results in the acquisition of the net assets of Cryotherm and their being valued at their fair market value with that value being assigned to the equity instruments deemed to be issued by Encore. In addition, as Encore is considered to have acquired Cryotherm's net assets, the historical financial statements of Encore reflect Encore's operations to the date of the acquisition and combined with those of Cryotherm thereafter.

The acquisition was accounted for using the purchase method of accounting and, accordingly, the assets acquired have been recorded at their fair values as of the date of the acquisition.

In conjunction with the acquisition of Cryotherm, \$840,000 of Encore's shareholder loans were converted into 4,200,000 common shares, at an effective price of \$0.20 per share. As the market price at the measurement date was \$0.11 per share, a gain of \$378,000 resulted from this conversion.

On February 24, 2004, the Company purchased the remaining 2.5% of the net assets of Cryotherm in exchange for 188,287 common shares of the Company.

On December 17, 2004, the World, Wind and Water Energy LLC, a Delaware company, was formed with three founding partners. In return for 60% ownership of the LLC, the Company has agreed to transfer to the LLC all of its license rights to a related party's patented Vertical Axis Wind Turbine ("VAWT") technology invention. The new World, Wind and Water Energy LLC was formed for the purpose of developing larger working prototypes of the VAWT invention and ultimately to manufacture and market the resulting energy-producing devices. Finalization of the shareholder agreement is still in process as at April 19, 2005.

### **3. Liquidity and future operations:**

The Company has sustained net losses and negative cash flows from operations since its inception. At December 31, 2004, the Company has negative working capital of \$3,037,380. For the year ended December 31, 2004, the Company has used \$757,474 cash in operating activities. At December 31, 2004, the Company has a total stockholders' deficit of \$(3,935,704).

The Company's ability to meet its obligations in the ordinary course of business is dependent upon its 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. Management is seeking to increase revenues through continued marketing of its services; however additional funding will be required.

## **Encore Clean Energy, Inc.**

Notes to Consolidated Financial Statements  
(Expressed in United States dollars)

Years ended December 31, 2004 and 2003

### **3. Liquidity and future operations (continued):**

Management is working to obtain sufficient working capital from external sources in order to continue operations at current levels for a reasonable period of time into the future. There is, however, no assurance that the aforementioned events, including the receipt of additional funding, will occur and be successful. Failure to generate sufficient cash flow will require the Company to amend or reduce operations.

### **4. Significant accounting policies:**

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States and are presented in United States dollars. The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are Canadian and wholly owned. All significant inter-company balances and transactions have been eliminated in the consolidation process.

(b) Use of estimates:

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of expenses during the period. The valuation of intangible assets and stock compensation is a significant area requiring the use of estimates. Actual results could differ from the estimates used in the preparation of consolidated financial statements.

(c) Revenue recognition:

The Company earns revenue by charging fees for sending targeted email and for providing integrated marketing and advertising solutions. Revenue is recognized in accordance with contractual arrangements, which generally is when email is transmitted and services are performed. Amounts received prior to services being performed are recorded as unearned revenue.

(d) Cash and cash equivalents:

Cash and cash equivalents are defined as all highly liquid marketable securities with original maturities of three months or less at the date of acquisition.



**Encore Clean Energy, Inc.**

Notes to Consolidated Financial Statements  
(Expressed in United States dollars)

Years ended December 31, 2004 and 2003

**4. Significant accounting policies (continued):****(e) 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 consolidated balance sheet dates 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 loss and reported as foreign currency translation adjustment (which is included in accumulated other comprehensive loss in stockholders' equity).

**(f) Property and equipment:**

Property and equipment are recorded at cost and are depreciated at rates which will reduce original cost to estimated residual value over the useful life of each asset. Maintenance and repairs are charged to expense as incurred, and improvements and betterments are capitalized. When assets are retired or otherwise disposed of, the cost and accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is reflected in the consolidated statements of operations for the period in which it is realized.

The annual rates used to compute depreciation on a declining balance basis are as follows:

| Asset                         | Rate |
|-------------------------------|------|
| Office furniture and fixtures | 20%  |
| Computer hardware             | 30%  |

**(g) Technology and other intangible assets:**

Technology and other intangible assets consist of designs and related patents of alternative energy technology acquired from Cryotherm.

**(h) Capital lease obligations:**

The asset carrying value and amount of the capital lease obligations recorded at the beginning of the lease term are calculated based upon the present value of the minimum lease payments. Assets under a capital lease are depreciated at the same rates as other property and equipment.

## Encore Clean Energy, Inc.

Notes to Consolidated Financial Statements  
(Expressed in United States dollars)

Years ended December 31, 2004 and 2003

### 4. Significant accounting policies (continued):

(i) Financial instruments and concentration of risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and obligations under capital leases. At December 31, 2004 and 2003, the fair market value of these instruments approximated their financial statement carrying amount due to the short-term maturity of these instruments. The Company does not require collateral for accounts receivable, but does evaluate customer creditworthiness and establishes allowances as necessary based on management estimates of collectibility.

Credit facility is stated at its exchange values, which approximates fair value due to their short-term maturity and market rates of interest.

Amounts due to related parties are stated at their exchange values. The fair value is not determinable due to the nature of the payable and the lack of a ready market to assess their value.

(j) Income taxes:

The Company has adopted Statement of Financial Accounting Standards (SFAS) No. 109, "*Accounting for Income Taxes*". This standard requires the use of the asset and liability approach for accounting and reporting on income taxes. Deferred tax assets and liabilities are recognized for the future consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. To the extent that it is not more likely than not that a deferred tax asset will be realized, a valuation allowance is provided.

**Encore Clean Energy, Inc.**Notes to Consolidated Financial Statements  
(Expressed in United States dollars)

Years ended December 31, 2004 and 2003

**4. Significant accounting policies (continued):****(k) Stock-based compensation:**

The Company accounts for stock-based employee and director compensation arrangements under the intrinsic-value-based method of accounting prescribed by Accounting Principles Board (“APB”) Opinion No. 25, “*Accounting for Stock Issued to Employees*”, and related interpretations including Financial Accounting Standards Board (“FASB”) Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation*, an interpretation of APB Opinion No. 25, issued in March 2000. Under APB No. 25, compensation expense is recorded on the date of grant based on the difference, if any, between the current market price of the Company’s stock and the exercise price of options to purchase that stock. The Company accounts for stock-based compensation arrangements for non-employees in accordance with provisions of SFAS No. 123, “*Accounting for Stock-Based Compensation*”. Under SFAS No. 123, compensation expense for services received from non-employees is based upon the fair value of equity instruments issued as the services are performed and the stock award is earned.

The Company has adopted the disclosure requirements of SFAS No. 123 (“FAS 123”), “*Accounting for Stock-Based Compensation*”, to account for grants to employees under the Company’s existing stock-based compensation plan. Had compensation cost for the Company’s stock option plan been determined, based on the fair value at the grant date for awards under those plans consistent with the measurement provisions of FAS 123, the Company’s net loss and basic loss per share would have been adjusted as follows:

|  | 2004           | 2003         |
|--|----------------|--------------|
| Loss, as reported                                      | \$ (3,379,895) | \$ (913,163) |
| Add back stock-based compensation, as reported         | 52,347         | 397,636      |
| Less stock-based compensation, under fair value method | (52,347)       | (526,675)    |
| Loss for the year - pro forma                          | (3,379,895)    | (1,042,202)  |
| Basic loss per share                                   | (0.26)         | (0.26)       |
| Basic loss per share - pro-forma                       | (0.26)         | (0.30)       |

The fair value of each option grant has been estimated on the date of the grant using the Black-Scholes option-pricing model with the following assumptions:

|                                 | 2004   | 2003   |
|---------------------------------|--------|--------|
| Expected dividend yield         | 0.0%   | 0.0%   |
| Expected stock price volatility | 240%   | 189%   |
| Risk-free interest rate         | 1.19%  | 1.31%  |
| Expected life of options        | 1 year | 1 year |



## Encore Clean Energy, Inc.

Notes to Consolidated Financial Statements  
(Expressed in United States dollars)

Years ended December 31, 2004 and 2003

### 4. Significant accounting policies (continued):

(l) Net loss per share:

The Company computes net loss per share in accordance with SFAS No. 128, "*Earnings per Share*". Under the provisions of SFAS No. 128, basic loss per share is computed using the weighted average number of common stock outstanding during the periods, and gives retroactive effect to the shares cancelled on the effective reverse stock split, described in note 2. Diluted loss per share is computed using the weighted average number of common and potentially dilutive common stock outstanding during the period. As the Company generated net losses in each of the periods presented, basic and diluted net loss per share is the same as any exercise of options would be anti-dilutive.

(m) Impairment of long-lived assets and long-lived assets to be disposed of:

In accordance with SFAS No. 144, long-lived assets such as property and equipment, and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheets.

Goodwill and intangible assets not subject to amortization are tested annually for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value.

## Encore Clean Energy, Inc.

Notes to Consolidated Financial Statements  
(Expressed in United States dollars)

Years ended December 31, 2004 and 2003

### 4. Significant accounting policies (continued):

(n) Comparatives:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

(o) Recent accounting pronouncements:

In December 2004 and revised April 2005, the Financial Accounting Standards Board (“FASB”) issued revised Statement of Financial Accounting Standards No. 123 entitled “Share-Based Payment” (“FAS No. 123R”). This revised statement addresses accounting for stock-based compensation and requires the fair value of all stock-based compensation arrangements, including options granted to employees and directors, being recognized as an expense in a company’s financial statements are opposed to supplemental disclosure in the notes to the financial statements. The revised Statement eliminates the ability to account for stock-based compensation transactions using APB Opinion No. 25. FAS No. 123 is effective for public entities that file as small business issuers as of the beginning of the first interim or annual reporting period that begins after December 15, 2005.

### 5. Acquisition of Cryotherm, Inc.:

The fair value of the net assets of Cryotherm acquired on September 30, 2003, as described in note 2, was as follows:

|   |           |
|---|-----------|
| Assets:   |           |
| Cash  | \$ 6,193  |
| Property and equipment                                    | 3,226     |
| Technology and other intangible assets                    | 2,133,340 |
| Leasehold interest  | 8,419     |
| Total assets  | 2,151,178 |
| Liabilities:  |           |
| Accounts payable  | 307,932   |
| Interest payable  | 58,200    |
| Due to stockholder  | 310,473   |
| Current portion of notes payable to stockholders          | 210,000   |
| Long-term portion of notes payable to stockholders        | 450,000   |
| Total liabilities   | 1,336,605 |
| Net assets acquired, being fair value assigned to shares: |           |
| 7,403,197 Shares  | 814,352   |
| 29,322 Warrants   | 89        |

|                 |            |
|-----------------|------------|
| 324,877 Options | 132        |
|                 | \$ 814,573 |

## Encore Clean Energy, Inc.

Notes to Consolidated Financial Statements  
(Expressed in United States dollars)

Years ended December 31, 2004 and 2003

### 5. Acquisition of Cryotherm, Inc. (continued):

During 2004, the Company purchased the remaining 2.5% of the net assets of Cryotherm in exchange for 188,287 common shares of the Company. The fair value of the shares issued of \$41,542 has been assigned to technology and other intangible assets for accounting purposes.

The fair values of the consideration paid for the net assets of Cryotherm were determined as follows:

- (a) Common shares: as a percentage of market value at the measurement date; and
- (b) Warrants and options: fair value at the measurement date determined using the Black- Scholes pricing model with the following input factors:

|                                 | Options | Warrants |
|---------------------------------|---------|----------|
| Expected dividend yield         | 0%      | 0%       |
| Expected stock price volatility | 31%     | 31%      |
| Risk-free interest rate         | 1.31%   | 1.31%    |
| Expected life (years)           | 1.80    | 3.0      |

Cryotherm acquired the technology and related intangible assets underlying the products the Company plans to commercialize pursuant to license agreements for technology relating to the field of generating, converting, storing or conserving energy or electricity. Specifically, the technology and associated intangible assets, including the underlying patents, relate to the following products: the Drum Jet Turbine, the Vertical Axis Wind Turbine, the Floating "Power Barge" and the Partial Pressure Membrane Refrigeration System.

During the year ended December 31, 2004, the carrying value of \$2,174,882 relating to Cryotherm technology and related intangible assets was written off to reflect the inability of management of the Company to reliably predict future cash flows due to the long-term development period for the technology.



**Encore Clean Energy, Inc.**Notes to Consolidated Financial Statements  
(Expressed in United States dollars)

Years ended December 31, 2004 and 2003

**6. Property and equipment:**

| 2004                          | Cost       | Accumulated depreciation | Net book value |
|-------------------------------|------------|--------------------------|----------------|
| Office furniture and fixtures | \$ 151,503 | \$ 115,623               | \$ 35,880      |
| Computer hardware             | 197,735    | 165,183                  | 32,552         |
|                               | \$ 349,238 | \$ 280,806               | \$ 68,432      |

  

| 2003                          | Cost       | Accumulated depreciation | Net book value |
|-------------------------------|------------|--------------------------|----------------|
| Office furniture and fixtures | \$ 138,665 | \$ 96,452                | \$ 42,213      |
| Computer hardware             | 183,316    | 142,543                  | 40,773         |
|                               | \$ 321,981 | \$ 238,995               | \$ 82,986      |

The cost and accumulated depreciation of assets under capital lease included in office furniture and fixtures is \$40,946 and \$(23,389) respectively, (2003 - \$23,007 and \$(15,639)) and computer hardware is \$26,334 and \$(25,107) respectively, (2003 - \$22,511 and \$(18,158)).

**7. Credit facility:**

The Company has entered into a credit facility with HSBC involving a \$41,597 (CDN \$50,000) revolving operating line of credit and \$374,376 (CDN \$450,000) demand loan. The demand loan has a repayment period of five years through monthly principal and interest payments. Both loan facilities incur interest at a rate of prime plus 1.5%. Unlimited personal guarantees have been executed by four shareholders and two related parties on behalf of these loan facilities.

**Encore Clean Energy, Inc.**Notes to Consolidated Financial Statements  
(Expressed in United States dollars)

Years ended December 31, 2004 and 2003

**8. Due to related parties:**

|   | 2004       | 2003<br>(restated -<br>note 8(f)) |
|---|------------|-----------------------------------|
| Stockholder-controlled company (a)                    | \$ 185,573 | \$ 91,729                         |
| Stockholders (b)                                      | 421,907    | 359,916                           |
| Notes payable to stockholders (c)                     | 1,214,525  | 845,274                           |
|   | 1,822,005  | 1,296,919                         |
| Less current portion of notes payable to stockholders | (860,502)  | (371,531)                         |
|   | \$ 961,503 | \$ 925,388                        |

- (a) \$185,573 (CDN \$184,725 and USD \$8,676) advances from a stockholder-controlled company are unsecured, bear interest at an annual rate of 7% and are not callable within 2004. Balance includes interest of \$23,215 (CDN \$18,267 and USD \$1,256) (2003 - USD \$12,809).
- (b) Advances from stockholders and notes payable to stockholders consist of the following:

|  | 2004       | 2003       |
|--|------------|------------|
| Advances from stockholders:  |            |            |
| These advances bear interest at annual rates between 6% and 7% and includes \$43,755 in interest (2003 - \$23,276)   | \$ 396,949 | \$ 359,916 |
| \$24,958 (CDN \$30,000) advance bears interest at 320% and incurred \$43,755 in interest at \$3,074 (CDN \$4,000) bi-monthly, paid on a monthly basis. Interest payments made during the year totaled \$18,443 (CDN \$24,000). | 24,958     | -          |
|  | \$ 421,907 | \$ 359,916 |

**Encore Clean Energy, Inc.**Notes to Consolidated Financial Statements  
(Expressed in United States dollars)

Years ended December 31, 2004 and 2003

**8. Due to related parties (continued):**

(c) Notes payable to stockholders:

|   | 2004         | 2003<br>(restated -<br>note 8(f)) |
|---|--------------|-----------------------------------|
| \$375,000 6% convertible note, matures December 31, 2009.<br>The unpaid principal bears no interest until December 31, 2006. Conversion feature is allowable at any time into common stock at a share price of \$0.50. (2003 - non-interest bearing amount payable to shareholders for licensing agreement royalties incurred at \$20,000 per month.) | \$ 375,000   | \$ 140,000                        |
| \$450,000 total note with \$50,743 interest incurred during the year (2003 - \$23,743). The continuing agreement from 2003 for conversion consisted of the following:   | 500,743      | 473,743                           |
| \$250,000 due August 1, 2005 at an annual rate of 6% with a conversion price of \$5.3289  |              |                                   |
| \$100,000 due August 1, 2005 at an annual rate of 6% with a conversion price of \$0.4263  |              |                                   |
| \$100,000 due August 1, 2005 at an annual rate of 6% with a conversion price of \$0.2842.   |              |                                   |
| No repayment terms and bears no interest  | 3,981        | -                                 |
| \$83,195 (CDN\$100,000) note with no repayment terms.<br>Principal bears interest of 144% consisting of \$9,222 (CDN \$12,000) per month, payable on a monthly basis.<br>Interest payments of \$4,610 (CDN \$6,000) were made during the year (2003 - \$nil).   | 83,195       | -                                 |
| \$115,000 note which bears an annual interest rate of 12.5%.<br>Includes interest of \$30,960 (2003 - \$16,585).  | 145,960      | 131,585                           |
| \$95,000 note with no repayment terms. Principal bears an annual interest of 6%. Includes interest of \$10,646 (2003 - \$4,946).  | 105,646      | 99,946                            |
|   | \$ 1,214,525 | \$ 845,274                        |



## Encore Clean Energy, Inc.

Notes to Consolidated Financial Statements  
(Expressed in United States dollars)

Years ended December 31, 2004 and 2003

### 8. Due to related parties (continued):

- (d) On May 20, 2003, the Company entered into an exclusive worldwide royalty-bearing license agreement with a stockholder to develop and commercialize energy-generating technologies and all prior agreements between these two parties were superseded. Under this agreement, the Company agreed to repurchase 703,704 shares of the Company's common stock from this stockholder for \$300,000 on or after 60 days following completion, delivery and successful testing of any electricity-generating prototype of one of the licensed products. Purchase of these shares is payable out of 5% of the cash proceeds, if any, received by the Company from the issuance of common stock or any instrument convertible into common stock made after the prototype demonstration. The Company shall also pay the inventor royalties equal to 3% of the Licensed Product Sales Revenues and 3% of Adjusted Gross Revenues as defined in the Exclusive License Agreement, with annual increase of 1% until a maximum royalty of 5% has been established. The Company agreed to pay \$20,000 per month, commencing June 1, 2003 through May 31, 2006 and \$30,000 per month effective June 1, 2006 until the last of the Licensed Patents as defined in the Exclusive License Agreement expired. At December 31, 2004, the amount payable to the stockholders totaled \$380,000 (2003 - \$140,000) and was converted to a 6% convertible note in the amount of \$375,000 discussed above. All payments shall be fully creditable, non-refundable advances against royalties due. In addition to royalties, the Company agreed to pay the inventor \$12,500 as initial sub-license fee for each sub-license the Company granted.

No royalty advances have yet been recorded by the Company.

In the event that the Company fails to commence sales or otherwise commercialize any licensed product utilizing the licensed intellectual property within four years from the date of a successful demonstration of a working prototype of a licensed product incorporating the licensed intellectual property, any royalty payable by a sub-licensee shall be shared 75% by the stockholder and 25% by the Company.

- (e) During the year, related parties and stockholders loaned \$199,667 (CDN \$240,000) and \$24,958 (CDN \$30,000) respectively with interest amounting to \$64,565 (CDN \$84,000) on the related party loan and \$nil on the stockholders' loans.
- (f) Included in accounts payable and accrued liabilities are expenses paid by stockholders on behalf of the Company to be reimbursed by the Company and amounted to \$430,323 (2003 - \$293,705).
- (g) During 2004, a contract originally effective in 2003 was recorded as a correction to the 2003 financial statements which resulted in the restatement for an increase in due to related parties and a correlated increase in consulting expenses in the amount of \$140,000 for the year ended December 31, 2003. Total stockholders' deficit and net loss were restated from \$(528,358) and \$(773,163) to \$(668,358) and \$(913,163) respectively, for the year ended December 31, 2003. Net loss per common share, basic and diluted was restated from \$(0.22) to \$(0.26).

**Encore Clean Energy, Inc.**

Notes to Consolidated Financial Statements  
(Expressed in United States dollars)

Years ended December 31, 2004 and 2003

**9. Capital lease obligations:**

The Company leased computer and telephone equipment that were classified as capital leases for accounting purposes, with future payments under these leases as follows:

|                                    |    |        |
|------------------------------------|----|--------|
| 2005                               | \$ | 8,238  |
| 2006                               |    | 5,168  |
| 2007                               |    | 1,151  |
| 2008                               |    | -      |
| 2009                               |    | -      |
|                                    |    | 14,557 |
| Interest                           |    | 826    |
|                                    |    | 13,731 |
| Current portion of capital lease   |    | 8,478  |
| Long-term portion of capital lease | \$ | 5,253  |

Interest expense incurred during 2004 on capital leases amounted to \$480 (2003 - \$722).

**Encore Clean Energy, Inc.**

Notes to Consolidated Financial Statements  
(Expressed in United States dollars)

Years ended December 31, 2004 and 2003

**10. Capital structure:**

## (a) Common stock:

The Company's authorized stock consists of 18,000,000 \$0.001 par value common shares and 2,000,000 \$.001 par value preferred shares (no preferred shares issued and outstanding).

At December 31, 2004 and 2003, 2 (two) stockholders held greater than 10% ownership in the Company individually.

The following table presents the issued and outstanding common stock of the Company after retroactive restatement for the May 2002 effective reverse stock split (note 2):

|  | Company<br>common<br>shares | Par value | Additional<br>paid in<br>capital |
|--|-----------------------------|-----------|----------------------------------|
| December 31, 2002                          | 519,751                     | \$ 520    | \$ 3,645,386                     |
| Stock-based compensation                   | -                           | -         | 397,637                          |
| Conversion of shareholder loans            | 4,200,000                   | 4,200     | 457,800                          |
| Private placement for cash                 | 195,000                     | 195       | 194,805                          |
| Exercise of stock options                  | 300,000                     | 300       | 299,700                          |
| Issued on acquisition of Cryotherm         | 7,403,197                   | 7,403     | 807,170                          |
| December 31, 2003                          | 12,617,948                  | 12,618    | 5,802,498                        |
| Stock-based compensation                   | -                           | -         | 175,402                          |
| Acquisition of remaining 2.5% of Cryotherm | 188,827                     | 189       | 41,353                           |
| Exercise of stock options                  | 100,000                     | 100       | 24,900                           |
| Common stock issued for services           | 100,000                     | 100       | 24,900                           |
| December 31, 2004                          | 13,006,775                  | \$ 13,007 | \$ 6,069,053                     |

**Encore Clean Energy, Inc.**Notes to Consolidated Financial Statements  
(Expressed in United States dollars)

Years ended December 31, 2004 and 2003

**10. Capital structure (continued):****(b) Common stock options:**

The Company established a new stock-compensation plan in 2003. The plan provides for the grant of up to 2,000,000 incentive or non-qualified stock options or shares of restricted stock to employees and key advisors (an "Optionee") of the Company. If an Optionee ceases employment with or service to the Company (a "Termination"), the Optionee may exercise any vested option at the time of Termination within such period of time specified in the option agreement. In the absence of a specified time in the option agreement, the option remains exercisable for three months following the Optionee's Termination.

The Company issued options to previous shareholders of Cryotherm as part of the acquisition of that company. These options have an exercise price of \$0.43 and expire between June 26, 2008 and August 5, 2015.

All options issued under a previous stock-compensation plan were cancelled in 2003.

Following is a summary of stock option activity for the years ended December 31, 2004 and 2003.

|                                     | Outstanding<br>options | Weighted<br>average<br>exercise<br>price |
|-------------------------------------|------------------------|--|
| Outstanding as of December 31, 2002 | -                      | \$ -                                     |
| Granted on acquisition of Cryotherm | 324,877                | 0.43                                     |
| Granted under stock option plan     | 600,000                | 1.00                                     |
| Exercised                           | (300,000)              | 1.00                                     |
| Outstanding as of December 31, 2003 | 624,877                | 0.70                                     |
| Granted under stock option plan     | 200,000                | 0.25                                     |
| Exercised                           | (100,000)              | 0.25                                     |
| Outstanding as of December 31, 2004 | 724,877                | \$ 0.64                                  |

All options are exercisable at December 31, 2004 and 2003. The weighted average fair value of options granted during the year ended December 31, 2004 is \$0.25 (2003 - \$0.72) each.



**Encore Clean Energy, Inc.**Notes to Consolidated Financial Statements  
(Expressed in United States dollars)

Years ended December 31, 2004 and 2003

**10. Capital structure (continued):**

## (b) Common stock options (continued):

The following table summarizes information about the total number of stock options outstanding at December 31:

| Exercise price | 2004                              |   | 2003                               |   |
|----------------|-----------------------------------|---|------------------------------------|---|
|                | Number outstanding at December 31 | Weighted average remaining contractual life (years) | Number outstanding at December 31, | Weighted average remaining contractual life (years) |
| \$ 0.25        | 100,000                           | 0.8   | -                                  | -   |
| 0.43           | 148,951                           | 3.5   | 148,951                            | 4.5   |
| 0.43           | 175,926                           | 10.6  | 175,926                            | 11.6  |
| 1.00           | 300,000                           | 1.0   | 300,000                            | 2.0   |
|                | 724,877                           | 3.8   | 624,877                            | 5.3   |

## (c) Share purchase warrants:

The Company has issued share purchase warrants in relation to a number of transactions. Each share purchase warrant entitles the holder to purchase one common share of the Company at various prices and with various terms.

- (i) In 2003, the Company issued 29,322 share purchase warrants with a weighted average exercise price of \$0.69 in conjunction with the acquisition of Cryotherm as described in note 2. These warrants expire on June 30, 2005.
- (ii) In 2003, the Company issued 116,667 share purchase warrants with an exercise price of \$0.60 in conjunction with the refinancing of a note payable to a shareholder to extend the repayment period to February 29, 2004. These warrants expire on December 31, 2005. A refinancing expense of \$53,547 (2003 - \$80,178) has been recorded in relation to the note payable.

**Encore Clean Energy, Inc.**Notes to Consolidated Financial Statements  
(Expressed in United States dollars)

Years ended December 31, 2004 and 2003

**10. Capital structure (continued):**

## (c) Share purchase warrants (continued):

- (iii) In 2003, the Company issued 166,667 share purchase warrants with an exercise price of \$0.85 to a consultant in relation to a service contract that ended on June 2, 2004. The warrants expire on December 31, 2005. A consulting fee of \$69,516 (2003 - \$17,379) has been recorded in relation to these warrants.
- (iv) In 2003, the Company issued 195,000 share purchase warrants with an exercise price of \$1.50 as part of the private placement.
- (v) The following tables summarize the warrant activity and related information:

|  | Outstanding<br>warrants | Weighted<br>average<br>exercise<br>price |
|--|-------------------------|--|
| Outstanding as of December 31, 2002          | 24,250                  | \$ 106.24                                |
| Granted                                      | 507,656                 | 1.01                                     |
| Cancelled                                    | (21,250)                | 73.24                                    |
| Outstanding as of December 31, 2003 and 2004 | 510,656                 | \$ 3.00                                  |

The warrants have the following price and expiration dates:

| Exercise price | Number of warrants | Expiration date   |
|----------------|--------------------|-------------------|
| \$ 0.43        | 17,593             | June 30, 2005     |
| 0.60           | 116,667            | December 31, 2005 |
| 0.85           | 166,667            | December 31, 2005 |
| 1.07           | 11,729             | June 30, 2005     |
| 1.50           | 195,000            | December 31, 2005 |
| 250.00         | 1,500              | December 31, 2005 |
| 400.00         | 750                | December 31, 2005 |
| 460.00         | 750                | December 31, 2005 |

**Encore Clean Energy, Inc.**

Notes to Consolidated Financial Statements  
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Years ended December 31, 2004 and 2003

**10. Capital structure (continued):**

## (d) Stock-based compensation:

The following table disaggregates stock compensation expense by employees and non-employees.

|  | 2004       | 2003       |
|--|------------|------------|
| Pursuant to stock option grants to employees     |            |            |
| - intrinsic value                                | \$ -       | \$ 14,000  |
| Pursuant to stock option grants to non-employees |            |            |
| - fair value                                     | 52,339     | 286,080    |
| Pursuant to warrants issued to non-employees     |            |            |
| - fair value                                     | 123,063    | 97,557     |
|  | \$ 175,402 | \$ 397,637 |

**11. Segmented information:**

The Company has one reportable operating segment, advertising services, and the chief operating decision maker makes decisions about allocating resources based on the one operating segment. All of the Company's sales are to Canadian customers and substantially all of the Company's assets are located in Canada.

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**Encore Clean Energy, Inc.**Notes to Consolidated Financial Statements  
(Expressed in United States dollars)

Years ended December 31, 2004 and 2003

**12. Income taxes:**

Current income taxes are computed at statutory rates on pre-tax income. Deferred taxes would be recorded based on differences in the carrying values of assets and liabilities for financial statement and income tax purposes. At December 31, 2003, the Company has elected to carry forward net operating losses for federal, state and provincial income tax purposes of approximately \$5.0 million that may be available to reduce future taxable income to 2023. As utilization of such operating losses for tax purposes is not considered to be more likely than not, the deferred tax asset has been fully reserved through the recording of a 100% valuation allowance. These operating losses may be limited to the extent an "ownership change" occurs.

The components of the deferred tax asset as of December 31, 2004 are as follows:

|                                  | 2004         | 2003         |
|----------------------------------|--------------|--------------|
| Deferred tax asset:              |              |              |
| Net operating loss carry forward | \$ 2,800,000 | \$ 1,840,000 |
| Less valuation allowance         | (2,800,000)  | (1,840,000)  |
| Net deferred tax                 | \$ -         | \$ -         |

Income tax recovery differs from the amounts computed by applying the Canadian combined federal and provincial tax rates of 39.6% (2003 - 39.6%) to pre-tax income from continuing operations as a result of the following:

|  | 2004           | 2003         |
|--|----------------|--------------|
| Loss for the year  | \$ (3,379,895) | \$ (913,163) |
| Income tax recovery based on combined Canadian tax rates | \$ (1,338,000) | \$ (360,000) |
| Effect of:   |                |              |
| Non-deductible expenses and other differences            | 312,000        | 137,000      |
| Loss subject to tax at rates lower than statutory rate   | 66,000         | 30,000       |
| Change in valuation allowance                            | 960,000        | 193,000      |
| Income tax recovery                                      | \$ -           | \$ -         |

**Encore Clean Energy, Inc.**

Notes to Consolidated Financial Statements  
(Expressed in United States dollars)

Years ended December 31, 2004 and 2003

**13. Commitment:**

The Company leases office space under an operating lease which expires in 2005.

|      |    | Operating<br>leases |
|------|----|---------------------|
| 2005 | \$ | 167,000             |
| 2006 |    | 2,000               |
| 2007 |    | 1,000               |

**14. Economic dependence:**

During the year, the Company generated 61% of total revenue (approximately \$1,506,559) from three customers (2003 - 61%; \$1,736,310 from three customers).

**15. Subsequent events:**

(a) In January 2005, the Company issued a \$750,000 12% convertible note for \$375,000 in restricted common stock at a conversion of \$0.20. Repayment terms are 18 monthly principal and interest, and the holder may elect to receive any portion of any monthly payments in restricted stock. In this instance, the holder would receive 30,491 stock for every USD \$6,098.20 regardless of the stock's current market price.

(b) As at April 19, 2005, the Company was in process of drafting an agreement with the following terms:

In return for 30% direct ownership of the World, Wind and Water Energy LLC described in note 2, a related party has agreed to transfer full ownership for three patents to the new LLC. In return for a 10% interest in the LLC, a related party, has agreed to a cash contribution of \$100,000 in two payments of \$50,000 subject to certain terms and conditions, the related party will also be granted a warrant to purchase up to an additional 25% of the LLC for a three (3) year period. This warrant will allow the related party to purchase one (1%) percent increments for \$20,000 each. This would allow for a potential additional investment of \$500,000 if the entire additional 25% is purchased.

**ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

There have been no change in auditors or accountants nor have there been any disagreements on accounting and financial matters with the auditors and accountants.

**ITEM 8A. 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.

**ITEM 8B. OTHER INFORMATION.**

**Waiver of a Provision of the Code of Ethics**

Effective on February 3, 2005, our Board of Directors granted a waiver from the provisions of our Code of Ethics to Larry Shultz, a member of our Board of Directors. This waiver was granted to Mr. Shultz in order to allow him to enter into a letter agreement with us and Robert Hunt and to participate in a proposed joint venture with us, Mr. Hunt and an as yet to be determined group of investors.

On February 3, 2005, we entered into a letter agreement with Larry Shultz and Robert Hunt in which we agreed to form a limited liability company (the "LLC") to pursue the research and development of four new proprietary technologies developed by Mr. Hunt and Mr. Shultz. We have agreed that we will own 56% of the LLC, Mr. Hunt will own 22% of the LLC, Mr. Shultz will own 12% of the LLC and we will offer to an as yet to be determined investors group a 10% ownership interest in the LLC in exchange for a minimum investment of \$1,000,000. We will also offer the investors group a warrant to acquire up to an additional 10% interest in the LLC at a price of \$300,000 for each additional 1% interest. Any gross revenues earned by the LLC will be subject to a 2% royalty payable to Mr. Hunt and a 1% royalty payable to Mr. Shultz. If we are unable to find an investors group willing to provide the minimum investment, Mr. Hunt has the right to terminate the agreement. If and when the LLC is formed, we have, subject to the negotiation of certain minimum terms, agreed to cause the LLC to enter into a joint venture with a Panamanian company, whereby the LLC will grant an exclusive license to manufacture and sell products based on the technologies to be developed by the LLC. We have agreed that the minimum terms for such an agreement will be that the LLC receive \$2,000,000 for the licensing rights, that the LLC receive at least a 25% interest in the proposed joint venture and that the LLC have the right to purchase any products manufactured at a price of cost plus 25%. If and when received, the \$2,000,000 will be distributed to Mr. Hunt, Mr. Shultz, us and certain of our related party creditors.



**ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.**

The following table sets forth the names and positions of our officers and directors as of the date hereof.

| Name                     | Age | Positions   |
|--------------------------|-----|---|
| Daniel B. Hunter         | 46  | Chief Executive Officer, Chief Financial Officer and Director |
| Donald James MacKenzie   | 48  | President, Secretary and Director                             |
| Lawrence Mitchell Shultz | 50  | Director  |

Mr. Hunter was appointed our Chief Executive Officer, Chief Financial Officer and a Director in October 1999. Since September 1998, Mr. Hunter has been the Chief Executive Officer, Chief Financial Officer and a Director of Ignite Communications Inc. (formerly Coastal Media Group). From 1993 to 1998, Mr. Hunter was an account executive and partner at Canaccord Capital and has participated in the financing of numerous private and public companies.

Mr. MacKenzie was appointed our President, Secretary, and a Director in October 1999. From 1990 to 1998, Mr. MacKenzie was a senior account executive at BCTV, a major local television station in Vancouver.

Mr. Shultz was appointed as one of our directors effective September 30, 2003. Mr. Shultz is the founder of Cryotherm. Mr. Shultz is an entrepreneur with a track record in product development and marketing. Prior to Cryotherm, Mr. Shultz served as Chairman and Chief Executive Officer of AirBelt Systems LLC, developer of the IntelliFlow™ AirBag Inflator. Prior to AirBelt Systems, Mr. Shultz was Senior Vice President, Audio and Video technologies, and a Director of Aura Systems, Inc. As President of International TeleSystems, Mr. Shultz developed the TickeTV pay-per-view “positive trap” used by non-addressable cable operators to encrypt and secure pay-tier and pay-per-view programming from unauthorized, non-paying customers.

**TERMS OF OFFICE**

Our directors are elected to hold office until the next annual meeting of the shareholders and until their respective successors have been elected and qualified. Our executive officers are appointed by our board of directors and hold office until removed by our board of directors or until their successors are appointed.

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires our executive officers and directors and persons who own more than 10% of a registered class of our securities (“Reporting Persons”) to file reports of ownership and changes in ownership with the SEC. Reporting Persons are required by SEC regulations to furnish us with copies of all forms they file pursuant to Section 16(a). Based solely on our review of such reports received by the Company, and written representations from certain Reporting Persons that no other reports were required for those persons, we believe that except for the following persons, during the year ended December 31, 2004, all Reporting Persons complied with all Section 16(a) filing requirements applicable to them:

| Name and Relationship to Company                    | Number of Late Reports | Transactions Not Timely Reported | Known Failures to File a Required Form |
|---|------------------------|----------------------------------|--|
| Robert D. Hunt<br>Greater than 10% beneficial owner | One                    | One                              | One                                    |





**AUDIT COMMITTEE**

We are not a listed issuer and, under the rules of the OTC Bulletin Board, our board of directors is not required to maintain a separately-designated standing audit committee. As such, our entire board of directors acts as our audit committee. Our Board of Directors has determined that we do not presently have a director who meets the definition of an “audit committee financial expert.” We believe that the cost related to appointing a financial expert to our board of directors at this time is prohibitive.

**CODE OF ETHICS**

We adopted a Code of Ethics applicable to our officers and directors which is a "code of ethics" as defined by applicable rules of the SEC. If we make any amendments to our Code of Ethics other than technical, administrative, or other non-substantive amendments, or grant any waivers, including implicit waivers, from a provision of our Code of Ethics to our chief executive officer, chief financial officer, or certain other finance executives, we will disclose the nature of the amendment or waiver, its effective date and to whom it applies in a Current Report on Form 8-K filed with the SEC.

**ITEM 10. EXECUTIVE COMPENSATION.****COMPENSATION OF EXECUTIVE OFFICERS**

The following Summary Compensation Table sets forth the cash compensation and certain other components of the compensation received by (i) Daniel B. Hunter, our Chief Executive Officer and Chief Financial Officer and a Director and (ii) Donald James MacKenzie, our President and Secretary and a Director (together, the “named executive officers”).

| SUMMARY COMPENSATION TABLE |   |      |                     |       |                           |                          |                  |                   |                        |
|----------------------------|---|------|---------------------|-------|---------------------------|--------------------------|------------------|-------------------|------------------------|
|                            |   |      | ANNUAL COMPENSATION |       |                           | LONG TERM COMPENSATION   |                  |                   |                        |
| Name                       | Title   | Year | Salary              | Bonus | Other Annual Compensation | AWARDS                   |                  | PAYOUTS           | All Other Compensation |
|                            |   |      |                     |       |                           | Restricted Stock Awarded | Options/SARs (#) | LTIP payouts (\$) |                        |
| Daniel B. Hunter           | Chief Executive Officer, Chief Financial Officer and a Director | 2004 | \$143,812           | 0     | 0                         | 0                        | 0                | 0                 | 0                      |
|                            |   | 2003 | \$123,139           | 0     | 0                         | 0                        | 0                | 0                 | 0                      |
|                            |   | 2002 | \$100,470           | 0     | 0                         | 0                        | 0                | 0                 | 0                      |
| Donald James MacKenzie     | President, Secretary and a Director                             | 2004 | \$101,547           | 0     | 0                         | 0                        | 0                | 0                 | 0                      |
|                            |   | 2003 | \$95,648            | 0     | 0                         | 0                        | 0                | 0                 | 0                      |
|                            |   | 2002 | \$88,650            | 0     | 0                         | 0                        | 0                | 0                 | 0                      |

**STOCK OPTION GRANTS**

We did not grant any stock options to the named executive officers or directors during our most recent fiscal year ended December 31, 2004. We also have not granted any stock options to our named executive officers or directors since December 31, 2004. In addition, as of December 31, 2004, no retirement, pension or insurance programs or other similar programs have been adopted by us for the benefit of our employees.

As discussed below, in December of 2003, we adopted a "2003 Stock Incentive Plan" and filed a Form S-8 registration statement covering this plan. The number of shares of common stock available for issuance under the plan is two million (2,000,000) treasury shares. As at December 31, 2004, none of these options had been granted to any of our directors or officers. We also have not granted any of these options to any of our directors or officers since December 31, 2004.

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### **LONG-TERM INCENTIVE PLANS**

We do not have any long-term incentive plans, pension plans, or similar compensatory plans for our directors or executive officers.

### **COMPENSATION OF DIRECTORS**

Other than as described above, our directors are not paid any compensation for acting as our directors. However, we may periodically grant stock incentive options to our directors in consideration for them providing their services as directors. Our 2003 Stock Compensation Plan permits the grant of incentive stock options to any of our directors, officers or employees.

### **EMPLOYMENT CONTRACTS**

We do not have any employment contracts with any of our executive officers or directors.

### **CHANGE IN CONTROL ARRANGEMENTS**

We have no compensatory plans or arrangements with respect to any of the named executive officers which would result from the resignation, retirement or any other termination of such named executive officer's employment with the Company or its subsidiaries or from a change-in-control of the Company or a change in the named executive officer's responsibilities following such a change-in-control.

### **REPRICING OF STOCK OPTIONS**

We did not, at any time during our 2004 fiscal year, adjust, amend or otherwise reprice the exercise price of any stock options or grants.

**ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANGEMENT AND RELATED STOCKHOLDER MATTERS.****EQUITY COMPENSATION PLAN INFORMATION**

We have one equity compensation plan under which shares of our common stock are authorized for issuance to our directors, officers, employees and eligible consultants, namely our 2003 Stock Compensation Plan. This plan has not been previously approved by our shareholders. We do not have any equity compensation plans other than the 2003 Stock Compensation Plan. The following information is provided as of our most recently completed fiscal year.

**Equity Compensation Plan Information**

| Plan Category  | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights<br>(a) | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights<br>(b) | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in column (a))<br>(c) |
|--|--|--|--|
| Equity Compensation Plans Approved By Security Holders     | Not Applicable   | Not Applicable   | Not Applicable   |
| Equity Compensation Plans Not Approved By Security Holders | 100,000  | \$0.25   | 1,700,000 shares of our common stock   |

(1) As of March 31, 2005, we had issued an additional 330,200 shares of our common stock pursuant to our 2003 Stock Compensation Plan, leaving us with 1,369,800 shares of our common stock available for future issuance under the 2003 Stock Compensation Plan.

Our 2003 Stock Compensation Plan (the "Plan") has not been previously approved by our stockholders. The Plan provides that the Plan's administrator may grant shares of our common stock or options to purchase shares in our common stock to any of our officers, directors or employees or to any consultant, agent, advisor or independent contractor who provides services to us (each of whom is referred to as a "Participant"). Up to 2,000,000 shares of our common stock may be issued under the plan. The exercise price for options granted under the Plan shall be determined by the Plan's administrator, but cannot be less than 85% of the fair market value of our shares at the time the option is granted.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth, as of March 31, 2004, the stock ownership of each named executive officer, director, all executive officers and directors as a group, and of each person known by us to be a beneficial owner of 5% or more of our common stock. Except as otherwise noted, each person listed below is the sole beneficial owner of the shares and has sole investment and voting power of such shares. No person listed below has any option, warrant or other right to acquire additional securities of us except as otherwise noted.

| Title of Class                | Name and Address of Beneficial Owner  | Number of Shares         | Percentage of Class <sup>(1)</sup> |
|-------------------------------|---|--------------------------|------------------------------------|
| <b>DIRECTORS AND OFFICERS</b> |   |                          |                                    |
| Common Stock                  | Daniel B. Hunter,<br>Chief Executive Officer, Chief Financial Officer and a Director<br>Suite 610-375 Water Street<br>Vancouver, BC, Canada V5Y 1L2 | 779,999 <sup>(2)</sup>   | 5.8%                               |
| Common Stock                  | Donald James MacKenzie<br>President, Secretary and a Director<br>Suite 610-375 Water Street<br>Vancouver, BC, Canada V5Y 1L2                        | 730,000                  | 5.4%                               |
| Common Stock                  | Lawrence M. Shultz<br>Director<br>2769 Deep Canyon Drive<br>Beverly Hills, CA 90210   | 2,388,253 <sup>(3)</sup> | 17.8%                              |
| Common Stock                  | All Officers and Directors<br>as a Group (3 Persons)  | 3,848,252                | 29.1%                              |
| <b>5% SHAREHOLDERS</b>        |   |                          |                                    |
| Common Stock                  | Robert and Dianne Hunt<br>23707 Red Fish Lane<br>Pass Christian, MS 39571   | 2,775,154 <sup>(5)</sup> | 19.6%                              |
| Common Stock                  | Kenneth Rickel<br>2121 Avenue of the Stars, Suite 2800<br>Los Angeles, CA   | 1,455,054 <sup>(4)</sup> | 10.2%                              |
| Common Stock                  | Sally Shultz<br>2769 Deep Canyon Drive<br>Beverly Hills, CA 90210   | 703,704 <sup>(3)</sup>   | 5.3%                               |
| Common Stock                  | James E. Gayle<br>15341 Key Largo Ct.<br>Corpus Christi, TX 78418-6926  | 527,778                  | 5.6%                               |

- (1) Under Rule 13d-3, a beneficial owner of a security includes any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares: (i) voting power, which includes the power to vote, or to direct the voting of shares; and (ii) investment power, which includes the power to dispose or direct the disposition of shares. Certain shares may be deemed to be beneficially owned by more than one person (if, for example, persons share the power to vote or the power to dispose of the shares). In addition, shares are deemed to be beneficially owned by a person if the person has the right to acquire the shares (for example, upon exercise of an option) within 60 days of the date as of which the information is provided. In computing the percentage ownership of any person, the amount of shares outstanding is deemed to include the amount of shares beneficially owned by such person (and only such person) by reason of these acquisition rights. As a result, the percentage of outstanding shares of any person as shown in this table does not necessarily reflect the person's actual ownership or voting power with respect to the number of shares of

common stock actually outstanding on March 31, 2004. As of March 31, 2004, there were 13,386,975 shares of our common stock issued and outstanding.

- (2) Includes 87,499 shares held by Camino Enterprises Ltd. Mr. Hunter is the sole shareholder of Camino Enterprises Ltd.

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- (3) Mr. Shultz and Mrs. Shultz are joint custodians under the California Uniform Transfer to Minors Act for Brian L. Shultz, Alexander L. Shultz and Eric L. Shultz, together the registered owners of 703,704 shares of our common stock. In addition, Mr. Shultz is the trustee of the Shultz Family 1989 Intervivos Trust which owns 1,684,549 shares of our common stock.
- (4) In connection with our acquisition of Cryotherm, we exchanged convertible notes and warrants entitling Mr. Rickel to acquire shares of Cryotherm common stock for convertible notes and warrants entitling Mr. Rickel to acquire a total of 808,819 shares of our common stock. The calculation the number of shares beneficially owned by Mr. Rickel and his ownership percentage assumes that Mr. Rickel has exercised his rights under the convertible notes and warrants, but that all other holders of similar rights have not.
- (5) Includes 750,000 shares issuable to Mr. Hunt pursuant to a convertible note in the principal amount of \$375,000 and convertible at a price of \$0.50 per share.

**ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.**

As presented in the following table, Mr. Hunter, our Chief Executive Officer, has advanced funds to us for working capital purposes both personally and through Camino Enterprises Ltd., a company of which he is the sole shareholder.

|                         | <u>December 31, 2004</u> | <u>December 31, 2003</u> |
|-------------------------|--------------------------|--------------------------|
| Camino Enterprises Ltd. | \$105,286                | \$91,370                 |
| Daniel B. Hunter        | \$80,288                 | \$359,917                |
| Total                   | \$185,574                | \$451,647                |

The advances from Mr. Hunter and Camino Enterprises Ltd. are unsecured, bear interest at an annual rate of 7%, have no set terms of repayment and are not callable during 2005.

Mr. Shultz, one of our directors, and Camilo Jorge, a member of Mr. Shultz's immediate family, have loaned \$353,320 and \$115,000 to us respectively. The loans from Mr. Shultz and Mr. Jorge are unsecured, have no set terms of repayment and bear interest at the annual rate of 6% and 12.5% respectively.

As part of our acquisition of Cryotherm, we exchanged each share of Cryotherm common stock for 0.23456789 shares of our common stock. As a result, Lawrence M. Schultz and James E. Gayle and the following beneficial owners of 5% of our common stock, became the beneficial owners of the following number of shares of our common stock:

| Beneficial Owner     | Number of Cryotherm Shares Beneficially Held | Number of Encore Shares Beneficially Received |
|----------------------|--|---|
| Lawrence M. Shultz   | 10,181,500                                   | 2,388,253                                     |
| James E. Gayle       | 2,250,000                                    | 527,778                                       |
| Robert & Dianne Hunt | 9,887,500                                    | 2,319,290                                     |
| Kenneth Rickel       | 2,755,000                                    | 646,235                                       |
| Sally Shultz         | 3,000,000                                    | 703,704                                       |

We also exchanged options, warrants and convertible notes entitling the holder to acquire Cryotherm common stock for options, warrants and convertible notes entitling the holder to acquire shares of our common stock on the same conversion ratio of 1 share of Cryotherm common stock for every 0.23456789





shares of our common stock. Mr. Rickel exchanged one Cryotherm share purchase warrant entitling him to purchase 37,500 shares of Cryotherm common stock at a price of \$0.10 per share for one share purchase warrant entitling him to purchase 8,796 shares of our common stock at a price of \$0.4263 per share. We also amended Cryotherm convertible notes issued to Mr. Rickel with an aggregate principal amount of \$450,000 and convertible to an aggregate of 2,699,925 shares of Cryotherm common stock such that those convertible notes are now convertible into an aggregate of 633,356 shares of our common stock.

Also in connection with our acquisition of Cryotherm, we converted indebtedness in the aggregate amount of \$840,000 into 4,200,000 of our common shares. The following directors, officers and beneficial owners of 5% of our common stock received shares as a result of this debt conversion:

| <b>Creditor</b>         | <b>Amount of Indebtedness</b> | <b>Number of Encore Shares Received</b> |
|-------------------------|-------------------------------|---|
| Daniel B. Hunter        | \$131,000                     | 655,000                                 |
| Donald James MacKenzie  | \$131,000                     | 655,000                                 |
| Leinsmill Holdings Ltd. | \$132,000                     | 660,000                                 |
| Mill Pond Ltd.          | \$132,000                     | 660,000                                 |
| Sand Creek Capital Ltd. | \$132,000                     | 660,000                                 |
| Cocal Investments Inc.  | \$132,000                     | 660,000                                 |

On December 12, 2003 Mr. Rickel agreed to extend the due date of a \$125,000 Promissory Note dated March 2003 and issued by Cryotherm. Mr. Rickel agreed to extend payment of the remaining principal balance of \$95,000 plus \$5,700 in interest charges to February 29, 2004. In exchange, we agreed to pay Mr. Rickel the sum of \$28,746.15 in consideration for attorney's fees incurred by Mr. Rickel in connection with our acquisition of Cryotherm and the extension of the Promissory Note and warrants to purchase 166,667 shares of our common stock at a price of \$0.60 per share. As the due date for the Promissory Note has passed, we are technically in default of the provisions of the Promissory Note. We are currently in discussions with Mr. Rickel to extend the term of the Promissory Note.

In September, 2004, we entered into a one year consulting agreement that was dated effective as of July 1, 2004, with Cocal Investments, Inc. ("Cocal"), a private company owned by Benson Hunter, the father of our Chief Executive Officer and Chief Financial Officer, Daniel B. Hunter. Under the terms of the consulting agreement, Cocal has agreed to devote 100 hours per month to assist us in the areas of marketing, branding, sales and strategic business planning in exchange for fees of \$10,000 per month. Cocal has the option to convert the fees payable to it into shares of our common stock at its discretion. In addition, we agreed to issue to Cocal options to purchase 200,000 shares of our common stock at a price of \$0.25 per share pursuant to our 2003 Stock Option Plan. The exercise price of these options was equal to the fair market value of our shares on the day that the agreement was entered into.

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 "Convertible Note"). The Convertible Note provides that, at any time prior to the payment in full of the amounts owing on the Convertible Note, Mr. Hunt may convert the outstanding principal and interest into shares of our common stock at a conversion price of \$0.50 per share. The Convertible Note was issued to Mr. Hunt in satisfaction of the amounts owed to him under the Hunt License Agreement up to December 31, 2004.

Effective January 14, 2005, we entered into the World, Wind and Water joint venture with Mr. Hunt and the Abell Foundation. Pursuant to the LLC Agreement for World, Wind and Water, we received a 60% interest and Mr. Hunt received a 30% interest in World, Wind and Water in exchange for assigning to it all of our rights, title and interests to certain of the Hunt Technologies, with the Abell Foundation owning the remaining 10%. See "Description of Business".



Effective on February 3, 2005, we entered into a letter agreement (the “Letter Agreement”) with Larry Shultz and Robert Hunt in which we agreed to form a limited liability company (the “LLC”) to pursue the research and development of four new proprietary technologies developed by Mr. Hunt and Mr. Shultz. We have agreed that we will own 56% of the LLC, Mr. Hunt will own 22% of the LLC, Mr. Shultz will own 12% of the LLC and we will offer to an as yet to be determined investors group a 10% ownership interest in the LLC in exchange for a minimum investment of \$1,000,000. We will also offer the investors group a warrant to acquire up to an additional 10% interest in the LLC at a price of \$300,000 for each additional 1% interest. Any gross revenues earned by the LLC will be subject to a 2% royalty payable to Mr. Hunt and a 1% royalty payable to Mr. Shultz. If we are unable to find an investors group willing to provide the minimum investment, Mr. Hunt has the right to terminate the agreement. If and when the LLC is formed, we have, subject to the negotiation of certain minimum terms, agreed to cause the LLC to enter into a joint venture with a Panamanian company, whereby the LLC will grant an exclusive license to manufacture and sell products based on the technologies to be developed by the LLC. We have agreed that the minimum terms for such an agreement will be that the LLC receive \$2,000,000 for the licensing rights, that the LLC receive at least a 25% interest in the proposed joint venture and that the LLC have the right to purchase any products manufactured at a price of cost plus 25%. If and when received, the \$2,000,000 will be distributed to Mr. Hunt, Mr. Shultz, us and certain of our related party creditors.

### ITEM 13. EXHIBITS.

The following exhibits are either provided with this Annual Report or are incorporated herein by reference:

| <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>(4)</sup>  |
| 10.2                  | Letter Joint Projects, License and Consulting Agreement between Cryotherm, Inc. and Centripetal Dynamics, Inc. <sup>(4)</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>(4)</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 Energy LLC, dated January 14, 2005, between Encore Clean Energy, Inc., Robert D. Hunt and The Abell Foundation, Inc. <sup>(5)</sup> |
| 10.7                  | First Amendment to the Limited Liability Company Agreement of World, Wind and Water Energy LLC dated January 14, 2005. <sup>(5)</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>(5)</sup>                                |
| 10.9                  | Convertible Note Agreement dated January 14, 2005 between Encore Clean Energy, Inc. and Robert Hunt. <sup>(6)</sup>  |



10.10      Consulting Agreement dated effective July 1, 2004 between Encore Clean Energy, Inc. and Cocal Investments, Inc.

10.11      Letter of Agreement dated February 3, 2005 between Encore Clean Energy, Inc., Robert Hunt and Larry Shultz

14.1      Code of Ethics<sup>(4)</sup>

21.1      List of Subsidiaries

23.1      Consent of KPMG LLP

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) A complete copy of the articles of the corporation, as amended are filed as an exhibit to this Annual Report on Form 10-KSB. Our bylaws 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 Amendment No. 1 to Form 8-K filed with the SEC on December 16, 2003.
- (4) Previously filed as an exhibit to our Annual Report on Form 10-KSB filed with the SEC on May 17, 2004.
- (5) Previously filed as an exhibit to our Current Report on Form 8-K filed with the SEC on January 19, 2005.
- (6) Previously filed as an exhibit to our Current Report on Form 8-K filed with the SEC on January 18, 2005.

**ITEM 14.      PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

The aggregate fees billed for the two most recently completed fiscal years ended December 31, 2004 and 2003 for professional services rendered by the principal accountant for the audit of the Corporation's annual financial statements and review of the financial statements included our Quarterly Reports on Form 10-QSB and services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for these fiscal periods were as follows:

|                    | Year Ended<br>December 31, 2004 | Year Ended<br>December 31, 2003 |
|--------------------|---------------------------------|---------------------------------|
| Audit Fees         | \$48,500                        | \$47,000                        |
| Audit Related Fees | \$7,950                         | \$20,000                        |
| Tax Fees           | \$7,300                         | \$7,500                         |
| All Other Fees     | \$0                             | \$0                             |
| Total              | \$63,750                        | \$74,500                        |



**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.**

By: */s/ Daniel B. Hunter*  
**DANIEL B. HUNTER,**  
Chief Executive Officer, Chief Financial Officer  
(Principal Executive Officer and Principal  
Accounting Officer)  
Director

Date: May 16, 2005

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: */s/ Daniel B. Hunter*  
**DANIEL B. HUNTER,**  
Chief Executive Officer, Chief Financial Officer  
(Principal Executive Officer and Principal  
Accounting Officer)  
Director

Date: May 16, 2005

By: */s/ Donald James Mackenzie*  
**DONALD JAMES MACKENZIE,**  
President, Secretary  
Director

Date: May 16, 2005

By: */s Lawrence M. Shultz*  
**LAWRENCE M. SHULTZ**  
Director

Date: May 16, 2005