

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

- ☒ Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended **March 31, 2006**.
- ☐ Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____.

Commission file number: **001-14791**

SOLAR ENERGY LIMITED

(Exact name of small business issuer as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

76-0418364

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

145-925 West Georgia Street, Vancouver, British Columbia, Canada V6C 3L2

(Address of principal executive office) (Zip Code)

(604) 669-4771

(Issuer's telephone number)

Check whether the registrant: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X

No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No X

The number of outstanding shares of the registrant's common stock, \$0.0001 par value (the only class of voting stock), as of May 18, 2006, was 18,156,278.

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PART I

ITEM 1. FINANCIAL STATEMENTS

As used herein the terms “Company,” “we,” “our,” and “us” refer to Solar Energy Limited, a Delaware corporation and our subsidiaries, unless otherwise indicated. In the opinion of management, the accompanying unaudited consolidated financial statements included in this Form 10-QSB reflect all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results of operations for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

Solar Energy Limited
(a Development Stage Company)
Consolidated Balance Sheets

	March 31 2006 (Unaudited)	December 31, 2005
Assets		
Current Assets		
Cash	\$ 57,427	\$ 188,129
Prepaid Expenses	<u>96,664</u>	<u>174,274</u>
Total Current Assets	<u>154,091</u>	<u>362,403</u>
Property & Equipment (Note 3)	<u>12,829</u>	<u>13,575</u>
Other Assets		
Deposits	<u>30,120</u>	<u>30,120</u>
Total Other Assets	<u>30,120</u>	<u>30,120</u>
Total Assets	<u>\$ 197,040</u>	<u>\$ 406,098</u>
Liabilities & Stockholders' Equity		
Current Liabilities		
Accounts Payable	\$ 98,888	\$ 75,580
Accrued Liabilities	180,646	179,677
Notes Payable – Related Party (Note 5)	139,950	65,486
Deferred Revenue (Notes 1 and 7)	<u>250,000</u>	<u>250,000</u>
Total Current Liabilities	<u>669,484</u>	<u>570,743</u>
Long Term Liabilities		
Derivatives (Note 9)	<u>1,210,100</u>	<u>963,500</u>
Total Long Term Liabilities	<u>1,210,100</u>	<u>963,500</u>
Total Liabilities	<u>1,879,584</u>	<u>1,534,243</u>
Commitments	<u>-</u>	<u>-</u>
Stockholders' Equity		
Common Stock 50,000,000 Shares Authorized at \$.001 Par Value 15,731,275 and 14,926,275 Shares Issued and Outstanding, Respectively	1,573	1,493
Additional Paid In Capital	8,943,449	8,388,880
Subscription receivable	-	20,000
Deficit Accumulated During the Development Stage	<u>(10,627,566)</u>	<u>(9,538,518)</u>
Total Stockholders' Equity	<u>(1,682,544)</u>	<u>(1,128,145)</u>
Total Liabilities & Stockholders' Equity	<u>\$ 197,040</u>	<u>\$ 406,098</u>

The accompanying notes are an integral part of these financial statements

Solar Energy Limited
(a Development Stage Company)
Interim Consolidated Statements of Operations
(Unaudited)

	Three Months Ended March 31 <u>2006</u>	March 31 <u>2005</u>	Cumulative Total Since Inception <u></u>
Revenues	\$ -	\$ -	\$ -
Operating Expenses			
General & Administrative	433,767	146,591	3,552,946
Research & Development	<u>67,381</u>	<u>-</u>	<u>2,327,616</u>
Total Operating Expenses	<u>501,148</u>	<u>146,591</u>	<u>5,880,562</u>
Operating Income (Loss)	(501,148)	(146,591)	(5,880,562)
Other Income (Expenses)			
Minority Interest	-	-	123,856
Other Income	10,000	-	170,000
Gain (Loss) on Investments	-	-	17,200
Gain (Loss) on Derivative Valuation	(597,000)	-	(597,000)
Loss on Sale of Assets	-	-	(2,575)
Interest Income (Expense)	(900)	24	(61,930)
Financing Costs	-	-	(963,500)
Impairment of Patents	-	-	(39,648)
Impairment of Goodwill	-	-	(3,514,118)
Gain (Loss) on Sale of Subsidiary	<u>-</u>	<u>-</u>	<u>120,711</u>
Total Other Income (Expense)	<u>(587,900)</u>	<u>24</u>	<u>(4,747,004)</u>
Net Income (Loss) before taxes	<u>(1,089,048)</u>	<u>(146,567)</u>	<u>(10,627,566)</u>
Income Taxes	<u>-</u>	<u>-</u>	<u>-</u>
Net Income (Loss)	<u>\$ (1,089,048)</u>	<u>\$ (146,567)</u>	<u>\$ (10,627,566)</u>
Net Income (Loss) Per Share	<u>\$ (.07)</u>	<u>\$ (.02)</u>	
Weighted Average Shares Outstanding	<u>15,259,998</u>	<u>7,940,442</u>	

The accompanying notes are an integral part of these financial statements

Solar Energy Limited
(a Development Stage Company)
Interim Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31 2006	March 31 2005	Cumulative Total Since Inception
Cash Flow from Operating Activities			
Net Income (Loss)	\$ (1,089,048)	\$ (146,567)	\$ (10,627,566)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operations (Net of Acquisition/Sale)			
Amortization/Depreciation	746	148	201,552
Bad Debt	-	-	225,000
Stock Issued for Services	-	126,000	706,851
Stock Issued for R&D Expenses	-	-	439,900
Loss on Sale of Assets	-	-	2,575
Gain (Loss) on Derivative Valuation	597,000	-	597,000
Gain on Investments	-	-	(17,199)
Gain on Sale of Subsidiary	-	-	(120,711)
Impairment of Patents	-	-	39,648
Warrants Issued for Financing Costs	-	-	963,500
Impairment of Goodwill	-	-	3,514,118
Minority Interest	-	-	(123,856)
Increase (Decrease) in:			
Deposits	-	-	(25,283)
Prepaid Expenses	77,610	-	95,001
Accounts Receivable	-	-	39
Accounts Payable	23,308	11,068	147,086
Accrued Expenses	969	702	231,695
Deferred Revenue	-	-	250,000
Net Cash Used in Operating Activities	<u>(389,415)</u>	<u>(8,649)</u>	<u>(3,500,650)</u>
Cash Flows from Investment Activities			
Cash Acquired from Sale of Subsidiary	-	-	180,000
Cash Acquired (Sold) from Subsidiary	-	-	247,512
Cash Paid to Subsidiary	-	-	(107,568)
Cash Paid to RECO and Sunspring	-	-	(2,076)
Cash Paid for Patent Costs	-	-	(106,318)
Cash Paid for Property & Equipment	-	-	(74,291)
Cash Paid for Deposits	-	-	(4,837)
Cash Received on Sale of Assets	-	-	23,000
Cash Paid for Notes Receivable	-	(15,000)	(295,000)
Net Cash Provided by Investing Activities	<u>-</u>	<u>(15,000)</u>	<u>(139,578)</u>

The accompanying notes are an integral part of these financial statements

Solar Energy Limited
(a Development Stage Company)
Interim Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31 2006	March 31 2005	Cumulative Total Since Inception
Cash Flows from Financing Activities			
Issued Stock for Cash	\$ 204,249	\$ 5,000	\$ 2,450,162
Cash Received for Notes Payable	74,464	20,000	591,572
Subscription proceeds	(20,000)	-	-
Cash Received from Advances by Shareholders	-	-	2,044,099
Cash Paid on Debt Financing	<u>-</u>	<u>-</u>	<u>(1,388,178)</u>
Cash Provided by Financing Activities	<u>258,713</u>	<u>25,000</u>	<u>3,697,655</u>
Net Increase (Decrease) in Cash	(130,702)	1,351	57,427
Cash, Beginning of Year	<u>188,129</u>	<u>32</u>	<u>-</u>
Cash, End of Year	<u><u>\$ 57,427</u></u>	<u><u>\$ 1,383</u></u>	<u><u>\$ 57,427</u></u>
Supplemental Cash Flow Information			
Cash Paid For:			
Interest	\$ -	\$ -	\$ 17,195
Taxes	-	-	-

The accompanying notes are an integral part of these financial statements

SOLAR ENERGY LIMITED
(a Development Stage Company)
Notes to the Interim Consolidated Financial Statements
March 31, 2006
(Unaudited)

NOTE 1 - Summary of Significant Accounting Policies

a. Organization

Solar Energy Limited (the "Company") was incorporated as Taurus Enterprises, Inc. under the laws of the State of Delaware on January 5, 1994. The Company was organized primarily for the purpose of operating a used automobile brokerage firm. The Company did not become operational and abandoned its attempts to establish the brokerage operation.

In August of 1996 its shareholders decided to reactivate the Company, merge the Company with Salvage World, Inc., a private company, change the name to Salvage World, Inc., and reincorporate in the state of Nevada.

On December 17, 1997 the Company merged with Solar Energy Limited, a Delaware corporation organized on July 24, 1997, and changed the name to "Solar Energy Limited". The surviving corporation is a Delaware corporation and the authorized shares were changed to 50,000,000 par value \$.0001. The Company's headquarters are located in Los Alamos, New Mexico.

On January 1, 1998 the Company issued the initial 170,400 shares of stock and on October 21, 1998 an additional 530,000 shares were issued for the acquisition of 100% of Hydro-Air Technologies, Inc. ("Hydro") a New Mexico corporation organized June 18, 1997. Hydro owns various rights to patented intellectual property called Hydro-Air Renewable Power System ("HARPS"), and has developed a prototype system to generate electricity from the evaporation of water. Hydro's headquarters are located in Los Alamos, New Mexico. This business combination was accounted using the purchase method. Operations of Hydro have been included in the consolidated statement of operations since January 1, 1998. The Company valued the acquisition at \$83,346, the amount of goodwill recorded for the acquisition.

In January 1999 the Company issued 35,000 shares of stock for the acquisition of 100% of Renewable Energy Corporation ("RECO") a New Mexico corporation organized November 30, 1998. RECO owns various rights to patented intellectual property associated with the solar recycling of CO₂ to fuel. RECO's headquarters are located in Los Alamos, New Mexico. The Company valued the acquisition at \$440,000 consisting of cash paid of \$20,000 and stock valued at \$420,000. The Company acquired RECO assets of \$49,500 and assumed liabilities of \$49,400. The acquisition was recorded using the purchase method of a business combination. The statement of operations of RECO has been included in the consolidated statements of operation for the year ended December 31, 1999. RECO had no operations in 1998 therefore no proforma information is presented. The Company recorded \$439,900 of Research & Development expenses in connection with this acquisition.

SOLAR ENERGY LIMITED
(a Development Stage Company)
Notes to the Interim Consolidated Financial Statements
March 31, 2006
(Unaudited)

NOTE 1 - Summary of Significant Accounting Policies (continued)

On June 30, 2000, the Company sold 100% of its interest in RECO to Jade Electronic, Inc., who changed their name to Renewable Energy Limited ("REEL") for 63% of the outstanding stock of REEL and cash of \$180,000. At the point of sale REEL had no assets and no liabilities, thus RECO became its only assets, liabilities and operations at June 30, 2000. Because the Company essentially sold 37% of its interest in RECO for cash of \$180,000, the Company recorded minority of interest of \$162,800 and a gain of \$17,200. This acquisition was recorded by Jade as a reverse acquisition with RECO being the accounting acquirer, therefore no goodwill was recorded in the acquisition and REEL recorded the assets and liabilities of RECO at predecessor cost. The Company has consolidated its books with REEL as of December 31, 2000.

In April 2000, the Company acquired all of the outstanding common stock of Sunspring, Inc. ("Sunspring") for \$14,500. Sunspring was incorporated in April 2000 as Holisticom.com Limited and subsequently changed its name to Sunspring in August 2000. Sunspring is a development stage company and has directed its efforts towards development of new technology.

On November 26, 2001, the Company exchanged all of its shares of common stock in its wholly owned subsidiary, Sunspring, for 2,000,000 shares of restricted common stock and 8,000,000 shares of preferred stock of Sun Power Corporation ("Sun"). During the period November 26, 2001 to November 26, 2002, both Sun and the Company had the right to cancel this agreement. If either cancels, the 8,000,000 shares of preferred will be returned to Sun and Sunspring will be returned to the Company. The Company uses the equity method to account for its investments and recognized a gain on the exchange. The restricted common stock and preferred stock of Sun were recorded at a basis of \$0.

On November 26, 2001, the Company exchanged all of its common stock in its 63% owned subsidiary, RECO, for 2,000,000 shares of restricted common stock and 8,000,000 shares of preferred stock of Sun. During the period November 26, 2001 to November 26, 2002, both Sun and the Company had the right to cancel this agreement. If either canceled, the 8,000,000 preferred shares would be returned to Sun and Sunspring would be returned to the Company. The restricted common stock and preferred stock of Sun were recorded at a basis of \$0.

On December 30, 2002, the Company was returned all of its stock in its 63% owned subsidiary, RECO, and gave back 8,000,000 shares of preferred stock of Sun. In addition, on December 30, 2002, the Company was returned all of its stock in its 100% owned subsidiary, Sunspring, Inc., and gave back 8,000,000 shares of preferred stock to Sun. The Company kept the 2,000,000 shares of restricted common stock of Sun and recorded a basis of \$0.

SOLAR ENERGY LIMITED
(a Development Stage Company)
Notes to the Interim Consolidated Financial Statements
March 31, 2006
(Unaudited)

NOTE 1 - Summary of Significant Accounting Policies (continued)

On April 27, 2004, the Company entered into a stock purchase agreement for RECO with Los Alamos Renewable Energy, LLC, ("LARE") a limited liability company for which two of the Company's former Officers and Directors act as managing members. Pursuant to the Agreement, an additional 99,900 shares of common stock of RECO were issued to the Company and an additional 200,000 shares of RECO were issued to LARE. In effect, the Company now has a 21% interest in RECO and will use the equity method of accounting instead of the consolidation method. The Company has also forgiven debt due from RECO. At December 31, 2004, a gain of \$56,138 has been recognized due to the recapture of prior year losses.

On August 10, 2005, the Company entered into a stock purchase agreement with Russ George to acquire 100% of the issued and outstanding stock of Planktos, Inc. ("Planktos") for the purchase price of \$1,500,000 by issuing a 5 year term convertible debenture bearing an interest rate of 5%. The interest is payable only in the event that Planktos realizes net income from operations. The debenture is convertible into the Company's shares at 10% below market at any time after 12 months and prior to the expiration of the debenture. The agreement commits the Company to assist Planktos in the process of becoming a public company within the next six (6) months either by reverse acquisition into an existing public entity or through an initial public offering of Planktos' common stock and to advance up to \$1,500,000 in the form of loans over the next twelve months. Should the Company fail to arrange the required financing within twelve months of the agreement, Russ George has the right to redeem the shares of Planktos in exchange for canceling any amounts due to him pursuant to the debenture and the Company has the right to redeem the debenture in exchange for returning the Planktos shares to Mr. George. On November 21, 2005, Mr. George converted the debenture for 1,500,000 of the Company's restricted common shares.

On August 17, 2005, the Company and its wholly owned subsidiary, Planktos, executed an Iron-Fertilization Prove-Out and Purchase Agreement with Diatom Corporation whereby Diatom committed to assist the Company in providing developmental funding for a marine "iron-fertilization" prove out program in exchange for exclusive marketing and intellectual property rights to Planktos' CO2 sequestration process. Planktos expects the cost of the prove out program to be \$1,290,000 over the next six months of which Diatom has agreed to provide up to 25%. The Company will be responsible for funding the remainder of the developmental funding. The agreement also provides for a royalty agreement which will entitle Planktos and the Company to 75% of net sales revenue generated by Diatom from the sale of carbon emission reduction credits (CER) created from the sequestration process until the Company and Planktos, Inc. have recouped their costs. Thereafter, the Company and Planktos will be entitled to 25% of net sales revenue generated by Diatom from the sale of CERs. Diatom Corporation has paid \$250,000 in cash for the exclusive marketing and intellectual property rights.

SOLAR ENERGY LIMITED
(a Development Stage Company)
Notes to the Interim Consolidated Financial Statements
March 31, 2006
(Unaudited)

NOTE 1 - Summary of Significant Accounting Policies (continued)

On August 18, 2005, the Company entered into a stock purchase agreement with Russ George to acquire 100% of the issued and outstanding stock of D2Fusion, Inc. ("D2Fusion") for the purchase price of \$2,000,000 by issuing a 5 year term convertible debenture bearing an interest rate of 5%. The interest is payable only in the event that D2Fusion realizes net income from operations. The debenture is convertible into the Company's shares at 10% below market, not to exceed one dollar (\$1.00), through the remaining term of the debenture. The agreement commits the Company to arrange financing of not less than \$2,200,000 and, within six (6) months of the agreement, cause D2Fusion to have direct access to the public capital markets for the purpose of raising additional capital in excess of the Company's financing obligations. Should the Company fail to arrange the required financing within twelve months of the agreement, Russ George has the right to redeem the shares of D2Fusion in exchange for canceling any amounts due to him pursuant to the debenture and the Company has the right to redeem the debenture in exchange for returning the D2Fusion shares to Mr. George. On November 21, 2005, Mr. George converted the debenture for 2,000,000 of the Company's restricted common shares.

The Company is in the development stage according to Financial Accounting Standards Board Statement No. 7 and is currently focusing its attention on raising capital in order to pursue its goals.

b. Accounting Method

The Company recognizes income and expenses on the accrual basis of accounting.

c. Earnings (Loss) Per Share

The computation of earnings per share of common stock is based on the weighted average number of shares outstanding at the date of the financial statements. Fully diluted earnings per share are not presented because it is anti-dilutive.

	<u>Income (loss)</u> <u>(Numerator)</u>	<u>Shares</u> <u>(Denominator)</u>	<u>Per-Share</u> <u>Amount</u>
For the year ended December 31, 2005			
Basic EPS			
Income (loss) to common stockholders	\$ (5,635,198)	9,558,001	\$ (.59)
For the year ended March 31, 2006			
Basic EPS			
Income (loss) to common stockholders	\$ (492,048)	15,259,998	\$ (.03)

d. Fair Value of Financial Instruments

Unless otherwise indicated, the fair values of all reported assets and liabilities which represent financial instruments approximate the carrying values of such amounts.

SOLAR ENERGY LIMITED
(a Development Stage Company)
Notes to the Interim Consolidated Financial Statements
March 31, 2006
(Unaudited)

NOTE 1 - Summary of Significant Accounting Policies (continued)

e. Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less to be cash equivalents.

f. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. In these financial statements, assets involve extensive reliance on management's estimates. Actual results could differ from those estimates.

g. Principles of Consolidation

The December 31, 2005 and 2004 financial statements include the accounts of the Company and its wholly owned subsidiaries Hydro, Sunspring, REEL, Planktos and D2 Fusion. All intercompany accounts and transactions have been eliminated in the consolidation.

h. Fixed Assets

Property and equipment are stated at cost. Depreciation is computed on a declining balance basis at 20% per year.

i. Concentrations

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents. The Company places its cash and cash equivalents at well-known, quality financial institutions.

SOLAR ENERGY LIMITED
(a Development Stage Company)
Notes to the Interim Consolidated Financial Statements
March 31, 2006
(Unaudited)

NOTE 2 - Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has had recurring operating losses for the past several years and is dependent upon financing to continue operations. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. It is management's plan includes the following: (1) obtaining funding from private placement sources; (2) obtaining additional funding from the sale of the Company's securities; (3) establishing revenues from commercializing of its project; and (4) obtaining loans and grants from various financial institutions, where possible. Although management believes that it will be able to obtain the necessary funding to allow the Company to remain a going concern through the methods discussed above, there can be no assurances that such methods will prove successful.

NOTE 3 - Property & Equipment

Property and equipment consists of the following at March 31, 2006 and December 31, 2005:

	<u>2006</u>	<u>2005</u>
Office Equipment & Furniture	\$ 43,106	\$ 43,106
Tools	<u>2,264</u>	<u>2,264</u>
	45,370	45,370
Accumulated Depreciation	<u>(32,541)</u>	<u>(31,795)</u>
Net Property & Equipment	<u>\$ 12,829</u>	<u>\$ 13,575</u>

NOTE 4 - Stockholders' Equity Transactions

During the three months ended March 31, 2006, the Company issued 805,000 shares of common stock for cash of \$204,249.

During 2005, the Company issued 2,650,000 shares of common stock for cash of \$605,000, 1,255,000 shares of common stock for prepaid expenses and services of \$585,400 and 3,500,000 shares of common stock for the acquisitions of Planktos and D2 Fusion.

During 2004, the Company issued 650,000 shares of common stock for cash of \$140,000.

During 2003, the following shares of common stock were issued:

<u>Month</u>	<u>Shares</u>	<u>Per Sh.</u>	<u>Exchange</u>
January, 2003	23,000	\$.30	Cash
February, 2003	60,000	\$.30	Cash
September, 2003	2,734,954	\$.30	Debt
October, 2003	150,000	\$.30	Cash
October, 2003	200,000	\$.20	Service

SOLAR ENERGY LIMITED
(a Development Stage Company)
Notes to the Interim Consolidated Financial Statements
March 31, 2006
(Unaudited)

NOTE 4 - Stockholders' Equity Transactions (continued)

In August 2002, the Company issued 56,113 shares of common stock for services at \$.30 per share.

Pursuant to the plan or reorganization and merger agreement dated August 20, 1996, the Company merged Taurus Enterprises, Inc. (a public company) with Salvage World, Inc. (a private company). The shareholders of Taurus returned their stock and received stock in the new combined entity named Salvage World, Inc. The Company changed the par value of its common stock from \$.0001 to \$.001.

Pursuant to the merger agreement dated December 17, 1997, the Company merged with Solar Energy Limited and the shareholders of Salvage received shares in the new combined entity. The Company then changed the par back to \$.0001 and the new authorized capital became 50,000,000. The Board then authorized a 1 for 20 reverse stock split. These financial statements have been retroactively restated to reflect the split.

The Company has issued 70,040 shares of stock to acquire 100% of the stock of Hydro. The acquisition agreement between the Company and Hydro provides an initial issuance of stock at the beginning of phase one, and additional issuances throughout the development process to arrive at no less than 4,000,000 shares or 40% of the outstanding stock. Because Hydro had a negative equity position goodwill was recorded and no value was assigned to the stock issued.

The Company issued 7,800,000 shares of common stock at \$.10 and 2,000,000 shares of common stock at \$.10 for cash and services in an exempt 504 offering which raised \$800,000 during 1998.

The Company also issued 125,000 shares of common stock for \$125,000 in a 505 exempt offering.

During January 1999, the Company issued 350,000 shares of its common stock to acquire 100% of the stock of RECO. The shares were valued at \$1.20 each net of a 40% discount due on their restricted nature based on the trading value of the stock at the time.

During May 1999, the Company issued 100,000 shares of its common stock for cash of \$100,000.

During November 1999, the Company issued 800,000 shares of its common stock for cash of \$144,000.

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SOLAR ENERGY LIMITED
(a Development Stage Company)
Notes to the Interim Consolidated Financial Statements
March 31, 2006
(Unaudited)

NOTE 5 - Notes Payable - Related Party

Bay Cove Investments, Ltd., a shareholder, loaned the Company \$18,701 and \$74,464 during 2005 and the three months ended March 31, 2006, respectively. The loans bear interest at 6% per annum and are due upon demand. The balance of the loans at December 31, 2005 and March 31, 2006 are \$65,486 and \$139,950 respectively.

Russ George is the President of the wholly owned subsidiaries Planktos and D2Fusion.

NOTE 6 – Mining & Mineral Rights

On November 17, 2004, the Company entered into an agreement with Manhattan Minerals Corp. (“Manhattan”) to purchase certain mining and mineral rights located in the vicinity of Tambogrande, Peru. Pursuant to the agreement, the Company was required to pay cash totaling \$600,000. As of December 31, 2004, the Company had paid a \$50,000 refundable deposit to Manhattan. The Company and Manhattan, by mutual consent, terminated the agreement in May of 2005, with the understanding that the \$50,000 deposit would be refunded to the Company, of which \$25,000 was refunded as of June 30, 2005. On August 11, 2005, the Company and Manhattan extended the terms of the original agreement for an additional 90-day option period. Subsequent to the period ended September 30, 2005, the option expired and \$25,000 remains due to the Company.

NOTE 7 – Commitments

On August 17, 2005, the Company and its wholly owned subsidiary, Planktos executed an Iron-Fertilization Prove-Out and Purchase Agreement with Diatom Corporation whereby Diatom committed to assist the Company in providing developmental funding for a marine “iron-fertilization” prove out program in exchange for exclusive marketing and intellectual property rights to Planktos’ CO₂ sequestration process. Planktos expects the cost of the prove out program to be \$1,290,000 over the next six months of which Diatom has agreed to provide up to 25%. The Company will be responsible for funding the remainder of the developmental funding.

On February 23, 2006, Planktos, a wholly owned subsidiary of the Company, announced the formation of a joint venture with Klimafa, Inc., a carbon forestry firm, that is in the process of working with Hungary's government to turn large tracts of degraded land and retired pasturage into protected mixed growth woodlands. Planktos will earn up to an 80% equity interest in Klimafa in return for arranging financing for the venture, primarily through the pre-sale of carbon credits, and for advancing initial working capital.

SOLAR ENERGY LIMITED
(a Development Stage Company)
Notes to the Interim Consolidated Financial Statements
March 31, 2006
(Unaudited)

NOTE 8 – Stock Options

In October 2001, the Company granted stock options to employees. The stock options vested in October 2003.

In December 2002, the Financial Accounting Standards Board issued Financial Accounting Standard No. 148, “Accounting for Stock-Based Compensation – Transition and Disclosure” (“SFAS No. 148”), an amendment of Financial Accounting Standard No. 123 “Accounting for Stock-Based Compensation” (“SFAS No. 123”). The purpose of SFAS No. 148 is to: (1) provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation, (2) amend the disclosure provisions to require prominent disclosure about the effects on reported net income of an entity’s accounting policy decisions with respect to stock-based employee compensation, and (3) to require disclosure of those effects in interim financial information. The disclosure provisions of SFAS No. 148 were effective for the Company for the period ended September 30, 2003.

Company has elected to continue to account for stock options granted to employees and officers using the intrinsic value based method in accordance with the provisions of Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees”, (“APB No. 25”) and comply with the disclosure provisions of SFAS No. 123 as amended by SFAS No. 148 as described above. Under APB No. 25, compensation expense is recognized based on the difference, if any, on the date of grant between the estimated fair value of the Company’s stock and the amount an employee must pay to acquire the stock. Compensation expense is recognized immediately for past services and pro-rata for future services over the option-vesting period. In addition, with respect to stock options granted to employees, the Company provides pro-forma information as required by SFAS No. 123 showing the results of applying the fair value method using the Black-Scholes option-pricing model.

In accordance with SFAS No. 123, the Company applies the fair value method using the Black-Scholes option-pricing model in accounting for options granted to consultants.

Information with respect to the Company’s stock options at March 31, 2006 is as follows:

	Stock Options	Exercise Price	Weighted Average Exercise
Outstanding at January 1, 2005	500,000	\$.33	\$.33
Granted	-	-	-
Exercised	-	-	-
Forfeited	-	-	-
Outstanding at December 31, 2005	500,000	\$.33	\$.33
Granted	-	-	-
Exercised	-	-	-
Forfeited	-	-	-
Outstanding at March 31, 2006	<u>500,000</u>	<u>\$.33</u>	<u>\$.33</u>

SOLAR ENERGY LIMITED
(a Development Stage Company)
Notes to the Interim Consolidated Financial Statements
March 31, 2006
(Unaudited)

Note 9 - Warrants

A summary of the Company's warrants at March 31, 2006 and the changes for 2005 are as follows:

	<u>Warrants Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Life</u>
Balance, December 31, 2005	2,185,000	0.28	1.71 years
Issued	-	-	
Exercised / Cancelled / Expired	<u>(705,000)</u>	<u>(0.40)</u>	
Balance March 31, 2006	<u>1,480,000</u>	<u>\$0.30</u>	<u>1.35 years</u>

The price of the warrants at the time of grant was below the market price of the Company's common shares, and the fair value of the warrants was determined using the Black-Scholes pricing model.

In accordance with EITF 00-19, the Company recorded in 2005 a derivative in the amount of \$963,500 and charged the same amount as a financing cost. During the Company's valuation at March 31, 2006, the Company recorded an increase in the valuation of \$597,000 to the income statement as a gain(loss) on valuation of derivatives, with an increase in the valuation of derivatives on the balance sheet. During the quarter ended March 31, 2006, 705,000 warrants were exercised. Therefore, \$350,400 of derivative value has been charged against additional paid in capital.

Note 10 – Subsequent Events

Subsequent to March 31, 2006, the Company issued 2,376,726 common shares for cash proceeds of \$715,753.

ITEM 2.

MANAGEMENT'S PLAN OF OPERATION

This Management's Plan of Operation and Results of Operations and other parts of this report contain forward-looking statements that involve risks and uncertainties. Forward-looking statements can also be identified by words such as "anticipates," "expects," "believes," "plans," "predicts," and similar terms. Forward-looking statements are not guarantees of future performance and our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in the subsection entitled "Forward-Looking Statements and Factors That May Affect Future Results and Financial Condition" below. The following discussion should be read in conjunction with our financial statements and notes thereto included in this report. All information presented herein is based on our period ended March 31, 2006. Our fiscal year end is December 31.

Business

The Company is a research and development company with no revenues and no immediate source of revenue generation. The Company has been funded since inception from public or private debt or equity placements or by major shareholders in the form of loans. All of the Company's projects have been experimental in nature and virtually all of the capital raised to date has been allocated for research and the development activities with related administrative costs. In 2005 we began research and development operations with Planktos, Inc. ("Planktos") and D2Fusion Inc. ("D2Fusion").

Planktos

On August 10, 2005, the Company acquired Planktos, a Foster City, California, based company primarily concerned with the commercial opportunities attendant to the Kyoto Protocol. The Kyoto Protocol enables companies and governments to offset regulated greenhouse emission restrictions by investing in carbon dioxide (CO₂) reduction programs in exchange for certified emission reduction ("CER") credits. European nations began trading CER credits as of January 2005. CER credits are traded much like commodities with an average value of approximately twenty-five dollars per CER (which represents one ton of CO₂ or equivalent). The Kyoto Protocol became law effective February 16, 2005, the result of which should be a rapidly expanding multi-billion-dollar market for CER credits.

Planktos' near-term commercial objective is to produce CER credits at a cost of less than one dollar per ton utilizing proprietary technology designed to stimulate plankton growth in the world's oceans as a means by which to sequester (isolate from the atmosphere) CO₂. Specifically, Planktos expects to implement its program of sequestration by "iron fertilization" of the ocean, to micro-fertilize the oceans with natural iron dust, a vital micronutrient for ocean plant growth and photosynthesis which is now scarce in marine waters. Planktos obtains this iron from natural iron ore deposits. The iron is identical to that used in nature to sustain the oceans throughout history. The fertilization process triggers vast plankton blooms which absorb the carbon in CO₂, 30-40% of which sinks deep enough to be verified as sequestered for hundreds or thousands of years.

Planktos has cultivated working partnerships with top government labs and ocean science institutions to assist with measurement and verification procedures and optimize project design. Bankable, tradable investment grade CER credits for corporate buyers and fund managers will be verified and certified with satellite & aerial mapping, underwater analysis methods, and bloom measuring sensors on Planktos' proprietary autonomous ocean rovers.

On August 17, 2005, the Company and Planktos executed an Iron-Fertilization Prove-Out and Purchase Agreement with Diatom Corporation (“Diatom”), whereby Diatom committed to assist the Company in providing developmental funding for Planktos’ “iron-fertilization” prove out program in exchange for exclusive marketing and intellectual property rights to Planktos’ CO₂ sequestration process. Diatom agreed to provide up to 25% of the program while the Company is responsible for funding the remainder of the developmental funding. The agreement with Diatom also provides for a royalty that entitles Planktos and the Company to 75% of future net sales revenue generated by Diatom from the sale of CER credits until the Company recoups its costs. Thereafter, Planktos and the Company will be entitled to 25% of net sales revenue generated by Diatom from the sale of CER credits. Diatom has advanced \$250,000 pursuant to this agreement to date.

Planktos is committed to the implementation of the iron-fertilization prove out program during 2006. The process of stimulating plankton growth and the overall mission of Planktos can be viewed on its website: www.planktosinc.com.

Planktos continues to explore other business opportunities afforded it by the Kyoto Accords and the production of inexpensive CER credits. In March of 2006, Planktos announced a partnership with Klimafa, Inc., (“Klimafa”), a Hungarian based eco-restoration firm dedicated to afforestation and reforestation projects in Central and Eastern Europe. Within the partnership, Planktos and Klimafa are conducting studies to develop an ecologically sound indigenous species mix and planting model of flora to maximize wildlife habitat and biodiversity. The Kyoto Protocol recognizes a variety of mechanisms to reduce atmospheric CO₂ and other greenhouse gases, and has approved carbon sequestration from new forests. The development of forests ultimately produces valuable CRE credits

Klimafa is currently involved in several government-assisted carbon forest projects in Hungary that intend to restore native mixed growth forests in national parks and then afforest vast tracts of retired agricultural lands.

The science and news surrounding eco-restoration can be viewed on Kilmafa’s website: www.klimafa.com.

D2Fusion

On August 18, 2005, the Company acquired D2Fusion, a Foster City, California, and Los Alamos, New Mexico, based research and development company staffed by scientists and engineers working toward the delivery of proprietary solid-state fusion aimed at entry level heat and energy applications for homes and industry. Solid-state fusion is a technology more widely recognized under the name “cold-fusion.” Unlike the reactions in “cold-fusion,” D2Fusion technology uses much simpler and more reliable solid state processes more akin to high temperature super-conductor physics to produce and control radiation-free fusion reactions. In this simplest form of fusion two deuterium atoms that are contained and constrained under solid-state conditions fuse to form a single helium atom. Each new helium atom created is accompanied by an enormous energy release. To put this into a more common perspective, under ideal conditions one gram of hydrogen fuel holds the equivalent to billions of watts of energy.

Russ George and Dr. Tom Passell (formerly of the Nuclear Power Division of the Electric Power Research Institute of Palo Alto), who head the company, have been involved with solid-state fusion research since 1989. George's successful experimental prototypes have been tested at Stanford Research Institute. The immediate intention of D2Fusion is to produce kilowatt scale thermal prototypes that will be further tested and refined by collaborating research groups in the Silicon Valley, Los Alamos, the US Navy and Frascati, Italy. D2Fusion's ultimate goal is to produce heat and electricity at a fraction of today's cost, with no emissions.

The Company is well aware of the controversy surrounding "cold fusion" technology. However, the Company believes that there is sufficient global evidence that the risk/reward ratio merits investment. As D2Fusion's prototype technology is scaled to commercial size it could help solve much of the world's energy, water, and pollution problems.

The science and news surrounding solid-state fusion and D2Fusion can be viewed on its website: www.D2Fusion.com.

Current operations are focused on the engineering and development of practical solid-state fusion thermal energy modules. The teams are lead by Dr. Thomas Claytor (of the Los Alamos National Laboratory) at the Los Alamos facility and Dr. Passell at the Foster City facility. Both locations are engaged in the design and testing of solid state fusion energy devices derived from work sometimes referred to as LENR (Low Energy Nuclear Reactions) or CANR (Chemically Assisted Nuclear Reactions).

Other Operations

The Company is the owner of intellectual property rights related to the acquisition of Hydro-Air Technologies, Inc., ("HAT"), from Dr. Melvin Prueitt. HAT has certain intellectual property rights that the Company had intended to develop for the purpose of generating commercially viable electrical power using the energy generated by the heat of evaporation of water. Unfortunately, these projects proved difficult to develop into working prototypes that caused the Company to abandon research and development specific to these technologies. However, preliminary work, experiments completed and test results generated from the projects did prove useful to derivative projects that the Company expects may become commercially viable at some future date.

The Company is the owner of a 33% interest in Renewable Energy Limited ("RECO"). The primary asset of RECO is a project called SOLAREC (Solar Reduction of Carbon Dioxide.) This project, lead by Dr. Reed Jensen involves the task of recycling carbon dioxide into fuel using focused ultraviolet and visible light from the sun. One of the goals of the SOLAREC project is to use solar energy and CO₂ to produce a clean usable fuel (gasoline, diesel, etc.) with electricity and oxygen as the only by-products. RECO has also developed three solar driven methods for the environmentally friendly production of hydrogen, utilizing atmospheric or industrially produced CO₂ or coal. The Company believes that the SOLAREC project has the potential to significantly address today's global energy and pollution problems but as a minority interest holder is no longer involved in on a day-to-day basis.

Plan of Operation

During the three month period ended March 31, 2006, the Company was focused on the operation of both Planktos and D2Fusion.

Planktos

Planktos is currently working with U.S. and European marine research teams to plan and launch significant ocean iron fertilization projects during 2006. Initial efforts will be modest in scope and research-intensive, but are still designed to verifiably sequester carbon between hundreds of thousands and millions of tonnage per voyage.

Planktos is approaching this work with a unique array of qualifications:

- Years of experience in the basic science of the field;
- Collaborative arrangements and working relationships with internationally recognized marine science project partners required for certification;
- Sustainable resource maximization plan designs;
- Expertise in resource value computation and certification procedures;
- Market access for resource commodification and trade; and
- Experience in structuring all preceding factors into viable binding business plans.

D2Fusion

D2Fusion is currently working with eminent U.S. and international research teams to continue product development projects. Using the know-how as well as collaborative expertise from the U.S. government's top nuclear science labs, D2Fusion is prepared to build, demonstrate, and test small (kilowatt-scale) thermal module prototypes. D2Fusion intends to achieve the following:

- Pilot project to compellingly demonstrate the commercial promise of D2Fusion technology, producing prototype kilowatt-scale thermal modules for use in many applications;
- Coordinate design, assembly, and testing of these prototype modules with leading national laboratory scientific and engineering teams to demonstrate these devices deliver safe clean solid-state fusion energy in a commercially useful form. This will both legitimate and publicize the field as well as generating important intellectual properties;
- Design of a licensing and development plan obtain the highest possible return on our products and technologies;
- Grow the business to develop and deliver new products and processes.

Results of Operations

Virtually all of the capital raised by the Company to date has been allocated for research and the development activities and for administrative costs. All projects under development by the Company are experimental in nature and are recorded as research and development expenses with related general and administrative expenses.

The Company did not generate any revenues from operations during this period.

The Company does not expect to receive revenues through 2006 as both D2Fusion and Planktos remain in developmental stages with no revenues.

Net Losses

For the period from January 5, 1994 to March 31, 2006, the Company recorded a net loss of \$10,627,566. The Company's net losses are attributable to general and administrative expenses, research and development expenses and acquisitions costs. The general and administrative expenses include accounting expenses, professional fees consulting fees and costs associated with the preparation of public disclosure documentation. The research and development expenses include costs associated with the pursuit of numerous non-fossil fuel energy technologies including solar power, cold fusion nuclear power and the sequestration of CO₂ in the marine environment. The acquisition costs include expenses associated with the acquisition of Planktos and D2Fusion.

The Company expects to continue to operate at a loss through fiscal 2006 due to the nature of the Company's operations.

Liquidity and Capital Resources

As of March 31, 2006, the Company had current assets totaling \$154,091 and a working capital deficit of \$515,393. We will require new debt or equity transactions to satisfy cash needs over the next twelve months to fund the research & development efforts of both Planktos and D2Fusion.

The Company will require a minimum of \$2,000,000 to fund the ongoing development of cold fusion technology and \$1,500,000 to fund the "iron fertilization" prove-out program in addition to funding for administrative expenses. Since the Company has no revenues and a substantial need for significant capital, operations will continue to rely upon our ability to raise capital from private debt or equity placements. However, we cannot provide any assurance that our current financing efforts will be sufficient. Should the financing fail to provide sufficient capital over the next twelve months, the Company may have to abandon or, at a minimum, curtail ongoing research and development efforts. Further, equity financing will result in dilution to the Company shareholders and any debt financing could involve restrictive covenants with respect to future capital raising activities or other financial or operational matters.

During the three months ended March 31, 2006, the Company issued 805,000 shares of common stock for cash of \$204,249.

Subsequent to March 31, 2006, we commenced the process of offering the private placement of our common stock pursuant to a Regulation S Stock Purchase Agreement, dated March 31, 2006, as amended May 8, 2006 (the "Agreement"), with Page Holdings Assets Ltd., a British Virgin Islands company and resident of a non-USA jurisdiction ("Page") and Omega Financial Services LLC, a Delaware limited liability corporation, as escrow agent. Pursuant to the Agreement, Page has the right to purchase up to \$2,000,000 of the Company's common stock pursuant to the exemption from registration provided under Regulation S of the Securities Act. Page's per share purchase price equals 40% of the previous day's last trade price as traded on the OTCBB and is subject to certain conditions, including: (i) a minimum trade price of \$0.45 per share, or (ii) as amended on May 8, 2006, a minimum of \$0.39 consideration to the Company subject to a ten percent (10%) finder's fee. The ten percent (10%) finder's fee is to be paid to Coventry Windsor, Inc., pursuant to a Consulting Agreement dated March 31, 2006. The term of the Agreement expires on December 31 from which offering we have authorized the issuance of 1,876,726 common shares to date in exchange for net cash proceeds of \$540,752.96.

Subsequent to March 31, 2006, we also sold 500,000 shares of common stock for consideration of \$175,000 or \$0.35 a share.

The Company has no current plans for the purchase or sale of any plant or equipment.

The Company has no current plans to make any changes in the number of employees.

Critical Accounting Policies

In the notes to the audited consolidated financial statements for the year ended December 31, 2005 included in the Company's Form 10-KSB, the Company discussed those accounting policies that are considered to be significant in determining the results of operations and our financial position. We believe that the accounting principles utilized by us conform to accounting principles generally accepted in the United States of America.

The preparation of financial statements requires management to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. By their nature, these judgments are subject to an inherent degree of uncertainty. On an on-going basis, we evaluate our estimates, including those related to bad debts, inventories, intangible assets, warranty obligations, product liability, revenue, and income taxes. We base our estimates on historical experience and other facts and circumstances that are believed to be reasonable, and the results form the basis for making judgments about the carrying value of assets and liabilities. The actual results may differ from these estimates under different assumptions or conditions.

Forward Looking Statements and Factors That May Affect Future Results and Financial Condition

The statements contained in the section titled "Plan of Operation", with the exception of historical facts, are forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which reflect our current expectations and beliefs regarding our future results of operations, performance, and achievements. These statements are subject to risks and uncertainties and are based upon assumptions and beliefs that may or may not materialize. These forward looking statements include, but are not limited to, statements concerning:

- our anticipated financial performance;
- the sufficiency of existing capital resources;
- our ability to fund cash requirements for future operations;
- uncertainties related to the development of our technologies;
- the volatility of the stock market; and
- general economic conditions.

We wish to caution readers that the Company's operating results are subject to various risks and uncertainties that could cause our actual results to differ materially from those discussed or anticipated in this report. We also wish to advise readers not to place any undue reliance on the forward looking statements contained in this report, which reflect our beliefs and expectations only as of the date of this report. We assume no obligation to update or revise these forward looking statements to reflect new events or circumstances or any changes in our beliefs or expectations, other than that is required by law.

Risks Related to Our Business

Our future operating results are highly uncertain. Before deciding to invest in us or to maintain or increase your investment, you should carefully consider the risks described below, in addition to the other information contained in this annual report. If any of these risks actually occur, our business, financial condition or results of operations could be seriously harmed. In that event, the market price for our common stock could decline and you may lose all or part of your investment.

We have a history of significant operating losses and such losses may continue in the future.

Since our inception in 1994, our operations have resulted in a continuation of losses and an accumulated deficit which reached \$9,538,518 at December 31, 2005 and increased to \$10,627,566 at March 31, 2006. The Company has never realized revenue from operations. We will continue to incur operating losses as we fund our subsidiaries' operations. Our only expectation of future profitability is dependent upon the success of our subsidiaries' programs and research and development. Therefore, we may never be able to achieve profitability.

Our subsidiaries will not likely be profitable in the next twelve months and may never be profitable.

Planktos is in the process of its iron-fertilization prove-out program and D2Fusion remains in the research and development stage with no significant revenues and will not likely be profitable within the next twelve months. While both operations have very high potential profit, it cannot be assured that iron-fertilization will live up to our expectations or whether our research into solid state fusion will ever be successful. Therefore, the possibility of future profits by our subsidiaries is purely speculative.

We will need additional financing to fund our subsidiaries

We will need additional capital to fund Planktos for its iron-fertilization prove-out program and D2Fusion's research and development. In our efforts to raise capital or obtain additional financing, we may be obligated to issue additional shares of common stock or warrants or other rights to acquire common stock on terms that will result in dilution to existing shareholders or place restrictions on operations. If adequate funds are not available or are not available on acceptable terms, our ability to fund our subsidiaries would be significantly limited.

We are dependent upon key people, who would be difficult to replace.

Our continued operations will be largely dependent upon the efforts of our executive officer and our directors as well as Russ George and our other engineers. Our future success also will depend in large part upon the Company's ability to identify, attract and retain other highly qualified managerial and engineering personnel. Competition for these individuals is intense. The loss of the services of our managers and engineers, the inability to identify, attract or retain qualified personnel in the future, or delays in hiring qualified personnel could make it more difficult for us to maintain our operations and meet our key objectives.

The market for our stock is limited and our stock price may be volatile.

The market for our common stock has been limited due to low trading volume and the small number of brokerage firms acting as market makers. Because of the limitations of our market and volatility of the market price of our stock, investors may face difficulties in selling shares at attractive prices when they want to. The average daily trading volume for our stock has varied significantly from week to week and from month to month, and the trading volume often varies widely from day to day.

We may incur significant expenses as a result of being quoted on the Over the Counter Bulletin Board, which may negatively impact our financial performance.

We may incur significant legal, accounting and other expenses as a result of being listed on the Over the Counter Bulletin Board. The Sarbanes-Oxley Act of 2002, as well as related rules implemented by the Commission, have required changes in corporate governance practices of public companies. We expect that compliance with these laws, rules and regulations, including compliance with Section 404 of the Sarbanes-Oxley Act of 2002 as discussed in the following risk factor, may substantially increase our expenses, including our legal and accounting costs, and make some activities more time-consuming and costly. As a result, there may be a substantial increase in legal, accounting and certain other expenses in the future, which would negatively impact our financial performance and could have a material adverse effect on our results of operations and financial condition.

Our internal controls over financial reporting may not be considered effective, which could result in a loss of investor confidence in our financial reports and in turn have an adverse effect on our stock price.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with our annual report for the year ending December 31, 2007, we may be required to furnish a report by our management on our internal controls over financial reporting. Such report will contain, among other matters, an assessment of the effectiveness of our internal controls over financial reporting as of the end of the year, including a statement as to whether or not our internal controls over financial reporting are effective. This assessment must include disclosure of any material weaknesses in our internal controls over financial reporting identified by management. The report will also contain a statement that our independent registered public accounting firm has issued an attestation report on management's assessment of internal controls. If we are unable to assert that our internal controls are effective as of December 31, 2007, or if our independent registered public accounting firm is unable to attest that our management's report is fairly stated or they are unable to express an opinion on our management's evaluation or on the effectiveness of our internal controls, investors could lose confidence in the accuracy and completeness of our financial reports, which in turn could cause our stock price to decline.

Going Concern

The Company's audit expressed substantial doubt as to the Company's ability to continue as a going concern as a result of recurring losses, lack of revenue-generating activities and an accumulated deficit of \$9,538,518 as of December 31, 2005. The Company's ability to continue as a going concern is subject to the ability of the Company to realize a profit and /or obtain funding from outside sources. Management's plan to address the Company's ability to continue as a going concern, include: (1) obtaining funding from private placement sources; (2) obtaining additional funding from the sale of the Company's securities; (3) establishing revenues from commercializing of its projects; and (4) obtaining loans and grants from various financial institutions, where possible. Although management believes that it will be able to obtain the necessary funding to allow the Company to remain a going concern through the methods discussed above, there can be no assurances that such methods will prove successful.

ITEM 3. CONTROLS AND PROCEDURES

The Company's president acts both as the chief executive officer and the chief financial officer and is responsible for establishing and maintaining disclosure controls and procedures.

a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of management, including the chief executive officer and chief financial officer, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of March 31, 2006. Based on this evaluation, the chief executive officer and chief financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective and adequately designed to ensure that the information required to be disclosed in the reports which the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms and that such information was accumulated and communicated to our chief executive officer and chief financial officer, in a manner that allowed for timely decisions regarding required disclosure.

The auditors did not test the effectiveness of nor relied on the internal controls of the Company for the fiscal quarters ended March 31, 2006 and 2005.

(b) Changes in internal controls over financial reporting.

During the quarter ended March 31, 2006 there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

The Company's management, including the chief executive officer and chief financial officer, does not expect that its disclosure controls or internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake.

Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management's override of the control. The design of any systems of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Individual persons perform multiple tasks which normally would be allocated to separate persons and therefore extra diligence must be exercised during the period these tasks are combined. It is also recognized the Company has not designated an audit committee and no member of the board of directors has been designated or qualifies as a financial expert. The Company should address these concerns at the earliest possible opportunity.

PART II

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES

On May 15, 2006, the Company authorized the issuance of restricted shares pursuant to the exemptions from registration provided by Regulation S of the Securities Act of 1933 for cash consideration of \$0.75 per share reduced by 60% to \$0.30 per share to the following investors in the following amounts:

Investor	Number Of Shares	Gross Amount	Discounted Amount
Mr. Peter Goucher	7,000	5250.00	2100.00
Mr. Phillip Shillabeer	12,000	9000.00	3600.00
Mr. Gordon Stock	15,000	11250.00	4500.00
Mrs. Margaret Beveridge	55,000	41250.00	16500.00
Mr. John Maurice Stack	25,000	18750.00	7500.00

Regulation S provides generally that any offer or sale that occurs outside of the United States is exempt from the registration requirements of the Securities Act, provided that certain conditions are met. Regulation S has two safe harbors. One safe harbor applies to offers and sales by issuers, securities professionals involved in the distribution process pursuant to contract, their respective affiliates, and persons acting on behalf of any of the foregoing (the “issuer safe harbor”), and the other applies to resales by persons other than the issuer, securities professionals involved in the distribution process pursuant to contract, their respective affiliates (except certain officers and directors), and persons acting on behalf of any of the foregoing (the “resale safe harbor”). An offer, sale or resale of securities that satisfied all conditions of the applicable safe harbor is deemed to be outside the United States as required by Regulation S. The distribution compliance period for shares sold in reliance on Regulation S is one year.

The Company complied with the requirements of Regulation S by having no directed selling efforts made in the United States, by selling only to offerees who were outside the United States at the time of the offering, and ensuring that the entities to whom the stock were issued were non-U.S. persons with addresses in foreign countries.

On May 15, 2006, the Company authorized the issuance of restricted shares pursuant to the exemptions from registration provided by Regulation S of the Securities Act of 1933 for cash consideration of \$0.76 per share reduced by 60% to \$0.304 per share to the following investors in the following amounts:

Investor	Number of Shares	Gross Amount	Discounted Amount
Mr. Micheal Andrew Rhodes	3,484	2648.00	1059.20
Mr. Michael White	8,205	6236.00	2494.40
Mrs. Barbara Dowson	3,536	2688.00	1075.20
Mr. Charles Brazier	11,776	8950.00	3580.00
Mr. Colin Edward Milton	3,480	2645.00	1058.00
Mr. Pravin Kumar Patel	11,725	8911.00	3564.40
Dr. Eric Curless	32,526	24720.00	9888.00
Mr. Michael Keane	14,973	11380.00	4552.00
Mr. John William Noble	12,460	9470.00	3788.00
Mr. Stephen Francis Fullerton	5,013	3810.00	1524.00
Mr. Colin B. Taylor	5,036	3828.00	1531.20
Mr. Anthony Connor	9,506	7225.00	2890.00

The Company complied with the requirements of Regulation S by having no directed selling efforts made in the United States, by selling only to offerees who were outside the United States at the time of the offering, and ensuring that the entities to whom the stock were issued were non-U.S. persons with addresses in foreign countries.

On May 15, 2006, the Company authorized the issuance of restricted shares pursuant to the exemptions from registration provided by Regulation S of the Securities Act of 1933 for cash consideration of \$0.77 per share reduced by 60% to \$0.308 per share to the following investors in the following amounts:

Investor	Number Of Shares	Gross Amount	Discounted Amount
Dr. Tom Browne	10,000	7700.00	3080.00
Mrs. Dorothea O'Shea	9,913	7633.00	3053.20
Mr. Geoffrey Denis Brandon	5,057	3894.00	1557.60
Mr. Eric Hirst	3,352	2581.00	1032.40
Mr. Alan Russ	2,509	1932.00	772.80
Mr. Alan John Mcculloch Miller	5,000	3850.00	1540.00
Mr. David Cavell Stevens	19,980	15385.00	6154.00
Mr. David Morrison	10,000	7700.00	3080.00
Mr. John Madson Scottorn	8,465	6518.00	2607.20
Lt. Col John Coutts D. Montgomery	15,000	11550.00	4620.00
Mr. Edwin Cheng	5,727	4410.00	1764.00
Mr. Leslie Tucker	13,000	10010.00	4004.00
Mr. John Hull	13,000	10010.00	4004.00
Mr. John Reid	3,506	2700.00	1080.00

The Company complied with the requirements of Regulation S by having no directed selling efforts made in the United States, by selling only to offerees who were outside the United States at the time of the offering, and ensuring that the entities to whom the stock were issued were non-U.S. persons with addresses in foreign countries.

On May 15, 2006, the Company authorized the issuance of restricted shares pursuant to the exemptions from registration provided by Regulation S of the Securities Act of 1933 for cash consideration of \$0.78 per share reduced by 60% to \$0.312 per share to the following investors in the following amounts:

Investor	Number Of Shares	Gross Amount	Discounted Amount
Mr. Michael Geoffrey Cooper	3,391	2645.00	1058.00
Mr. Kenneth Carpin	15,979	12464.00	4985.60
Mr. Martyn Ellis	4,500	3510.00	1404.00
Mrs. Pamela Watson	59,894	46718.00	18687.20
Mr. Leonard James Irvine	55,000	42900.00	17160.00
Mr. Donald Hoole	25,000	19500.00	7800.00
Mrs. Jean Koefman	20,000	15600.00	6240.00
Mr. James Youngman	14,000	10920.00	4368.00
Mr. John Middle Miss	5,000	3900.00	1560.00
Mr. John Broadbent	40,000	31200.00	12480.00
Ms. Sophia Gray Brown	19,000	14820.00	5928.00
Mr. John Pearsall	30,000	23400.00	9360.00
Mrs. Jill Eshelby	3,967	3095.00	1238.00
Mr. Roland Denny	3,500	2730.00	1092.00
Mr. Adrian Kemp	3,500	2730.00	1092.00
Mr. Emyl Talsan James	3,400	2652.00	1060.80
Mr. William Campbell	3,400	2652.00	1060.80

The Company complied with the requirements of Regulation S by having no directed selling efforts made in the United States, by selling only to offerees who were outside the United States at the time of the offering, and ensuring that the entities to whom the stock were issued were non-U.S. persons with addresses in foreign countries.

On May 15, 2006, the Company authorized the issuance of restricted shares pursuant to the exemptions from registration provided by Regulation S of the Securities Act of 1933 for cash consideration of \$0.79 per share reduced by 60% to \$0.316 per share to the following investors in the following amounts:

Investor	Number of Shares	Gross Amount	Discounted Amount
Mr. Cornelius Michael Charles Foy	10,000	7900.00	3160.00

The Company complied with the requirements of Regulation S by having no directed selling efforts made in the United States, by selling only to an offeree who was outside the United States at the time of the offering, and ensuring that the entity to whom the stock was issued was a non-U.S. person with an address in a foreign country.

On May 15, 2006, the Company authorized the issuance of restricted shares pursuant to the exemptions from registration provided by Regulation S of the Securities Act of 1933 for cash consideration of \$0.81 per share reduced by 60% to \$0.324 per share to the following investors in the following amounts:

Investor	Number of Shares	Gross Amount	Discounted Amount
Mr. Malcolm Alastair Innes	3,999	3240.00	1296.00

The Company complied with the requirements of Regulation S by having no directed selling efforts made in the United States, by selling only to an offeree who was outside the United States at the time of the offering, and ensuring that the entity to whom the stock was issued was a non-U.S. person with an address in a foreign country.

On May 15, 2006, the Company authorized the issuance of restricted shares pursuant to the exemptions from registration provided by Regulation S of the Securities Act of 1933 for cash consideration of \$0.85 per share reduced by 60% to \$0.34 per share to the following investors in the following amounts:

Investor	Number of Shares	Gross Amount	Discounted Amount
Mr. David Bass	3,500	2975.00	1190.00
Mr. Thomas Kernoghan	4,089	3476.00	1390.40

The Company complied with the requirements of Regulation S by having no directed selling efforts made in the United States, by selling only to offerees who were outside the United States at the time of the offering, and ensuring that the entities to whom the stock were issued were non-U.S. persons with addresses in foreign countries.

On May 15, 2006, the Company authorized the issuance of restricted shares pursuant to the exemptions from registration provided by Regulation S of the Securities Act of 1933 for cash consideration of \$0.87 per share reduced by 60% to \$0.348 per share to the following investors in the following amounts:

Investor	Number of Shares	Gross Amount	Discounted Amount
Mr. Bernard Frederick Burford & Mrs. Florence Elizabeth Burford	5,158	4488.00	1795.20

The Company complied with the requirements of Regulation S by having no directed selling efforts made in the United States, by selling only to offerees who were outside the United States at the time of the offering, and ensuring that the entities to whom the stock were issued were non-U.S. persons with addresses in foreign countries.

On May 15, 2006, the Company authorized the issuance of restricted shares pursuant to the exemptions from registration provided by Regulation S of the Securities Act of 1933 for cash consideration of \$0.90 per share reduced by 60% to \$0.36 per share to the following investors in the following amounts:

Investor	Number Of Shares	Gross Amount	Discounted Amount
Dr. Muneir Mohammed Khan	3,475	3127.50	1251.00
Mr. George Sinclair	9,967	8970.30	3588.12
Mr. Robert Stoneage	3,000	2700.00	1080.00
Mr. Stephen Bett	4,111	3700.00	1480.00
Mr. Nigel Whittome	30,000	27000.00	10800.00
Mr. Thomas Kavanagh	11,000	9900.00	3960.00
Mr. Peter Furniss	8,000	7200.00	2880.00

The Company complied with the requirements of Regulation S by having no directed selling efforts made in the United States, by selling only to offerees who were outside the United States at the time of the offering, and ensuring that the entities to whom the stock were issued were non-U.S. persons with addresses in foreign countries.

On May 2, 2006, the Company issued 500,000 shares of common stock valued at \$0.35 per share to Northland Properties Corporation for cash consideration in the amount of \$175,000 pursuant to the exemptions from registration provided by Regulation S and Section 4(2) of the Securities Act of 1933.

The Company made this offering based on the following factors: (1) the issuance was an isolated private transaction by the Company which did not involve a public offering; (2) there was only one offeree who was issued the Company's stock for cash; (3) the offeree stated an intention not to resell the stock; (4) there were no subsequent or contemporaneous public offerings of the stock; (5) the stock was not broken down into smaller denominations; and (6) the negotiations that lead to the issuance of the stock took place directly between the offeree and the Company.

The Company complied with the requirements of Regulation S by having no directed selling efforts made in the United States, by selling only to an offeree who was outside the United States at the time of the offering, and ensuring that the entity to whom the stock was issued was a non-U.S. person with an address in a foreign country.

On March 1, 2006, the Company authorized the issuance of 80,000 shares of common stock valued at \$0.25 per share to Robert Fisher upon the exercise of warrants in the amount of \$20,000 pursuant to the exemptions from registration provided by Regulation S and Section 4(2) of the Securities Act of 1933.

The Company made this offering based on the following factors: (1) the issuance was an isolated private transaction by the Company which did not involve a public offering; (2) there was only one offeree who was issued the Company's stock upon the exercise of warrants; (3) the offeree stated an intention not to resell the stock; (4) there were no subsequent or contemporaneous public offerings of the warrants; and (5) the negotiations that lead to the issuance of the warrants took place directly between the offeree and the Company.

The Company complied with the requirements of Regulation S by having no directed selling efforts for the warrants in the United States, by offering the warrants only to an offeree who was outside the United States at the time of the offering, and ensuring that the entity to whom the warrants were offered and stock was issued was a non-U.S. offeree with an address in a foreign country.

On February 23, 2006, the Company authorized the issuance of 20,000 shares of common stock valued at \$0.40 per share to Gustav Boehm on the exercise of stock options for consulting services in the amount of \$8,000 pursuant to the exemptions from registration provided by Regulation S and Section 4(2) of the Securities Act of 1933.

The Company made this offering based on the following factors: (1) the issuance was an isolated private transaction by the Company which did not involve a public offering; (2) there was only one offeree who was issued the Company's stock for consulting services; (3) the offeree stated an intention not to resell the stock; (4) there were no subsequent or contemporaneous public offerings of the shares; (5) the shares were not broken down into smaller denominations; and (6) the negotiations that lead to the issuance of the stock options took place directly between the offeree and the Company.

The Company complied with the requirements of Regulation S by offering the options only to an offeree who was outside the United States at the time of the offering, and ensuring that the entity to whom the stock was issued was a non-U.S. person with an address in a foreign country.

On February 20, 2006, the Company authorized the issuance of 705,000 shares of common stock valued at \$0.20 per share to Central Shipping Investment, Inc., for cash consideration in the amount of \$141,000 pursuant to the exemptions from registration provided by Regulation S and Section 4(2) of the Securities Act of 1933.

The Company made this offering based on the following factors: (1) the issuance was an isolated private transaction by the Company which did not involve a public offering; (2) there was only one offeree who was issued the Company's stock for cash; (3) the offeree stated an intention not to resell the stock; (4) there were no subsequent or contemporaneous public offerings of the stock; (5) the stock was not broken down into smaller denominations; and (6) the negotiations that lead to the issuance of the stock took place directly between the offeree and the Company.

The Company complied with the requirements of Regulation S by having no directed selling efforts made in the United States, by selling only to an offeree who was outside the United States at the time of the offering, and ensuring that the entity to whom the stock was issued was a non-U.S. offeree with an address in a foreign country.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibits required to be attached by Item 601 of Regulation SB are listed in the Index to Exhibits on page 34 of this Form 10-QSB, and are incorporated herein by this reference.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, hereunto duly authorized, this 19th day of May, 2006.

SOLAR ENERGY LIMITED

Andrew Wallace

Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer

EXHIBITS

<u>Exhibit No.</u>	<u>Page No.</u>	<u>Description</u>
3(i)	*	Articles of Incorporation (incorporated by reference to the Company's Form 10-SB filed with the Securities and Exchange Commission on January 28, 1999)
3(ii)	*	By-laws (incorporated by reference to the Company's Form 10-SB filed with the Securities and Exchange Commission on January 28, 1999)
10(i)	*	Acquisition Agreement with Planktos, Inc., dated August 10, 2005 (incorporated by reference to the Company's Form 8-K filed with the Commission on August 19, 2005).
10(ii)	*	Acquisition Agreement with D2Fusion Inc., dated August 18, 2005 (incorporated by reference to the Company's Form 8-K filed with the Commission on August 19, 2005).
10(iii)	*	Iron-Fertilization Prove-Out and Purchase Agreement with Diatom Corporation, dated August 18, 2005 (incorporated by reference to the Company's Form 8-K filed with the Commission on August 19, 2005).
14	*	Code of Ethics adopted March 30, 2004 (incorporated by reference to the Company's Form 10-KSB filed with the Securities and Exchange Commission on April 1, 2004)
31	35	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	36	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*	Incorporated by reference to prior filings with the Securities and Exchange Commission.	

EXHIBIT 31

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13a-14 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Andrew Wallace, chief executive officer and chief financial officer of Solar Energy Limited (“Registrant”) certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB (“Report”) of Registrant;
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the period presented in this Report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the Registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this Report is being prepared;
 - b) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
 - c) Disclosed in this Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the registrants fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls over financial reporting.

Date: May 19, 2006

Andrew Wallace, Chief Executive Officer and Chief Financial Officer

EXHIBIT 32

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-QSB of Solar Energy Limited (“Registrant”) for the quarterly period ended March 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (“Report”), I, Andrew Wallace, chief executive officer and chief financial officer, hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) This Report complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in this Report fairly represents, in all material respects, the financial condition of Registrant at the end of the period covered by this Report and results of operations of Registrant for the period covered by this Report.

Andrew Wallace
Chief Executive Officer and Chief Financial Officer
May 19, 2006

This certification accompanies this Report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by Registrant for the purposes of §18 of the Securities Exchange Act of 1934, as amended. This certification shall not be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of this Report), irrespective of any general incorporation language contained in such filing.

A signed original of this written statement required by §906 has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.