

PROFIRE ENERGY INC  
Form 10-Q  
February 11, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the Quarterly Period Ended December 31, 2009

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-52376

PROFIRE ENERGY, INC.

(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

20-0019425  
(I.R.S. Employer  
Identification No.)

1245 Brickyard Road, Suite 590  
Salt Lake City, Utah  
(Address of principal executive  
offices)

84106  
(Zip Code)

(801) 433-2000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes  No

As of February 10, 2010, the registrant had 45,000,000 shares of common stock, par value \$0.001, issued and outstanding.



PROFIRE ENERGY, INC.  
FORM 10-Q  
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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Information

PROFIRE ENERGY, INC. AND SUBSIDIARY  
Condensed Consolidated Balance Sheets

## ASSETS

|  | December 31,<br>2009<br>(Unaudited) | March 31,<br>2009   |
|--|-------------------------------------|---------------------|
| <b>CURRENT ASSETS</b>                    |                                     |                     |
| Cash and cash equivalents                | \$ 559,180                          | \$ 226,559          |
| Accounts receivable, net                 | 2,407,147                           | 989,313             |
| Marketable securities-available for sale | 3,716                               | 3,110               |
| Inventories                              | 664,213                             | 691,900             |
| Prepaid expenses                         | 1,968                               | 812                 |
| Total Current Assets                     | 3,636,224                           | 1,911,694           |
| PROPERTY AND EQUIPMENT, net              | 423,221                             | 357,613             |
| <b>TOTAL ASSETS</b>                      | <b>\$ 4,059,445</b>                 | <b>\$ 2,269,307</b> |

The accompanying notes are an integral part of these condensed unaudited consolidated financial statements.

PROFIRE ENERGY, INC. AND SUBSIDIARY  
Condensed Consolidated Balance Sheets

LIABILITIES AND STOCKHOLDERS' EQUITY

|   | December 31,<br>2009<br>(Unaudited) | March 31,<br>2009   |
|---|-------------------------------------|---------------------|
| <b>CURRENT LIABILITIES</b>  |                                     |                     |
| Accounts payable  | \$ 366,378                          | \$ 147,552          |
| Accrued liabilities   | 93,733                              | 26,926              |
| Income taxes payable  | 466,884                             | 413,862             |
| Total Current Liabilities   | 926,995                             | 588,340             |
| <b>TOTAL LIABILITIES</b>  | <b>926,995</b>                      | <b>588,340</b>      |
| <b>STOCKHOLDERS' EQUITY</b>   |                                     |                     |
| Preferred shares: \$0.001 par value,<br>10,000,000 shares authorized: no shares<br>issues and outstanding       | -                                   | -                   |
| Common shares: \$0.001 par value,<br>100,000,000 shares authorized: 45,000,000<br>shares issues and outstanding | 45,000                              | 45,000              |
| Additional paid-in capital  | (61,505)                            | (73,237)            |
| Accumulated other comprehensive income (loss)   | 169,993                             | (224,828)           |
| Retained earnings   | 2,978,962                           | 1,934,032           |
| Total Stockholders' Equity  | 3,132,450                           | 1,680,967           |
| <b>TOTAL LIABILITIES AND<br/>STOCKHOLDERS' EQUITY</b>   | <b>\$ 4,059,445</b>                 | <b>\$ 2,269,307</b> |

The accompanying notes are an integral part of these condensed unaudited consolidated financial statements.

**PROFIRE ENERGY, INC. AND SUBSIDIARY**  
**Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)**  
(Unaudited)

|  | For the Three Months Ended<br>December 31, |                    | For the Nine Months Ended<br>December 31, |                   |
|--|--|--------------------|---|-------------------|
|  | 2009                                       | 2008               | 2009                                      | 2008              |
| <b>REVENUES</b>  |  |                    |   |                   |
| Sales of goods, net  | \$ 2,434,3018                              | \$ 1,355,482       | \$ 4,023,208                              | \$ 4,235,396      |
| Sales of services, net   | 202,124                                    | 233,548            | 510,306                                   | 664,144           |
| Total Revenues   | 2,636,442                                  | 1,589,030          | 4,533,514                                 | 4,899,540         |
| <b>COST OF SALES</b>   |  |                    |   |                   |
| Cost of goods sold   | 572,445                                    | 624,441            | 1,253,810                                 | 2,113,328         |
| <b>GROSS PROFIT</b>  | <b>2,063,997</b>                           | <b>964,589</b>     | <b>3,279,704</b>                          | <b>2,786,212</b>  |
| <b>OPERATING EXPENSES</b>  |  |                    |   |                   |
| General and administrative expenses                                    | 516,100                                    | 459,033            | 1,262,778                                 | 1,293,688         |
| Payroll expenses   | 187,472                                    | 154,884            | 510,353                                   | 389,394           |
| Depreciation expense   | 11,138                                     | 9,158              | 32,056                                    | 31,273            |
| Total Operating Expenses   | 714,710                                    | 623,075            | 1,805,187                                 | 1,714,355         |
| <b>INCOME FROM OPERATIONS</b>  | <b>1,349,287</b>                           | <b>341,514</b>     | <b>1,474,517</b>                          | <b>1,071,857</b>  |
| <b>OTHER INCOME (EXPENSE)</b>  |  |                    |   |                   |
| (Loss) gain on sale of fixed assets                                    | -  | (20)               | -   | 346               |
| Interest expense   | (77)                                       | (4,209)            | (3,633)                                   | (5,016)           |
| Interest income  | 56   | -                  | 133                                       | -                 |
| Total Other Income (Expense)   | (21)                                       | (4,229)            | (3,500)                                   | (4,670)           |
| <b>NET INCOME BEFORE INCOME TAXES</b>                                  | <b>1,349,266</b>                           | <b>337,285</b>     | <b>1,471,017</b>                          | <b>1,067,187</b>  |
| <b>INCOME TAX EXPENSE</b>  | <b>396,508</b>                             | <b>151,216</b>     | <b>426,087</b>                            | <b>365,893</b>    |
| <b>NET INCOME</b>  | <b>\$ 952,758</b>                          | <b>\$ 186,069</b>  | <b>\$ 1,044,930</b>                       | <b>\$ 701,294</b> |
| <b>UNREALIZED HOLDING LOSS ON AVAILABLE FOR SALE SECURITIES</b>        |  |                    |   |                   |
|  | \$ 1,764                                   | \$ -               | \$ 789                                    | \$ -              |
| <b>FOREIGN CURRENCY TRANSLATION GAIN (LOSS)</b>                        |  |                    |   |                   |
|  | 98,500                                     | (218,174)          | 394,032                                   | (267,090)         |
| <b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>                               | <b>\$ 1,053,022</b>                        | <b>\$ (32,105)</b> | <b>\$ 1,439,751</b>                       | <b>\$ 434,204</b> |
| <b>BASIC AND DILUTED EARNINGS PER SHARE</b>                            |  |                    |   |                   |
|  | \$ 0.02                                    | \$ 0.00            | \$ 0.02                                   | \$ 0.02           |
| <b>BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b> |  |                    |   |                   |
|  | 45,000,000                                 | 45,000,000         | 45,000,000                                | 45,000,000        |

The accompanying notes are an integral part of these condensed unaudited consolidated financial statements.



## PROFIRE ENERGY, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flows  
(Unaudited)

|  | For the Nine Months Ended<br>December 31, |            |
|--|---|------------|
|  | 2009                                      | 2008       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |   |            |
| Net income   | \$ 1,044,930                              | \$ 701,294 |
| Adjustments to reconcile net income to<br>net cash provided by (used in) operating activities: |   |            |
| Depreciation expense   | 32,056                                    | 31,273     |
| Impairment of available for sale securities  | -   | -          |
| Stock options issued for services  | 11,732                                    | -          |
| Changes in operating assets and liabilities:   |   |            |
| Changes in accounts receivable   | (1,158,988)                               | (515,991)  |
| Changes in inventories   | 153,831                                   | (330,279)  |
| Changes in prepaid expenses  | (944)                                     | (52)       |
| Changes in income taxes payable  | (26,178)                                  | 346,778    |
| Changes in accounts payable and accrued<br>liabilities   | 246,066                                   | (261,919)  |
| Net Cash Provided by (Used in) Operating<br>Activities   | 302,505                                   | (28,896)   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |   |            |
| Purchase of fixed assets   | (28,162)                                  | (8,078)    |
| Net Cash Used in Investing Activities  | (28,162)                                  | (8,078)    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |   |            |
| Repayment of related party payables  | -   | (91,937)   |
| Proceeds from revolving credit line  | -   | 128,296    |
| Net Cash Provided by Financing Activities  | -   | 36,359     |
| Effect of exchange rate changes on cash  | 58,278                                    | (5,207)    |
| NET INCREASE (DECREASE) IN CASH  | 332,621                                   | (5,822)    |
| CASH AT BEGINNING OF PERIOD  | 226,559                                   | 33,097     |
| CASH AT END OF PERIOD  | \$ 559,180                                | \$ 27,275  |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>                                       |   |            |
| <b>CASH PAID FOR:</b>  |   |            |
| Interest   | \$ 3,633                                  | \$ 5,016   |
| Income taxes   | \$ 454,163                                | \$ 118,397 |

NON CASH FINANCING ACTIVITIES:

|  |    |   |    |        |
|--|----|---|----|--------|
| Related party payables assumed in merger | \$ | - | \$ | 46,288 |
|--|----|---|----|--------|

The accompanying notes are an integral part of these condensed unaudited consolidated financial statements.

PROFIRE ENERGY, INC. AND SUBSIDIARY  
Notes to the Condensed Unaudited Consolidated Financial Statements

NOTE 1 - CONDENSED FINANCIAL STATEMENTS

The accompanying financial statements have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at December 31, 2009 and for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's March 31, 2009 audited financial statements. The results of operations for the periods ended December 31, 2009 and 2008 are not necessarily indicative of the operating results for the full years.

NOTE 2 – EQUITY TRANSACTIONS

On September 30, 2008 the Company entered into an Acquisition Agreement with Profire Combustion, Inc. (“Profire”) and the shareholders of Profire Combustion, Inc., subject to customary closing conditions. All conditions for closing were satisfied or waived and the transaction closed on October 9, 2008.

Pursuant to the terms and conditions of the Acquisition Agreement, 35,000,000 shares of restricted common stock of the Company were issued to the three shareholders of Profire Combustion, Inc., (the “Profire Shareholders”) in exchange for all of the issued and outstanding shares of Profire. As a result of the transaction, Profire became a wholly-owned subsidiary of the Company. For accounting purposes, Profire is considered the accounting acquirer.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

PROFIRE ENERGY, INC. AND SUBSIDIARY  
Notes to the Condensed Unaudited Consolidated Financial Statements

## NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## Inventory

In accordance with ASC Topic 605 “Inventory Pricing,” the Company’s inventory is valued at the lower of cost (the purchase price, including additional fees) or market based on using the entire value of inventory. Inventories are determined based on a weighted-average price basis.

Inventory consisted of the following:

|                          | December 31,<br>2009 | December 31,<br>2008 |
|--------------------------|----------------------|----------------------|
| Raw materials            | \$ -                 | \$ -                 |
| Finished goods           | 711,109              | 738,796              |
| Reserve for obsolescence | (46,896)             | (46,896)             |
| Total                    | \$ 664,213           | \$ 691,900           |

## Foreign Currency and Comprehensive Income

The Company’s functional currency is the Canadian dollar (CAD). The financial statements of the Company were translated to United States Dollar (USD) using year-end exchange rates for the balance sheet, and average exchange rates for the statements of operations. Equity transactions were translated using historical rates. The period-end exchange rates of 1.04940 and 1.025376 were used to convert the Company’s December 31, 2009 and March 31, 2009 balance sheets, respectively, and the statements of operations used weighted average rates of 1.108914 and 1.07194 for the nine months ended December 31, 2009 and 2008, respectively. All amounts in the financial statements and footnotes are presumed to be stated in USD, unless otherwise identified. Foreign currency translation gains or losses as a result of fluctuations in the exchange rates are reflected in the Statement of Operations and Total Comprehensive Income.

## Recent Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update 2010-02, Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary. This amendment to Topic 810 clarifies, but does not change, the scope of current US GAAP. It clarifies the decrease in ownership provisions of Subtopic 810-10 and removes the potential conflict between guidance in that Subtopic and asset de-recognition and gain or loss recognition guidance that may exist in other US GAAP. An entity will be required to follow the amended guidance beginning in the period that it first adopts FAS 160 (now included in Subtopic 810-10). For those entities that have already adopted FAS 160, the amendments are effective at the beginning of the first interim or annual reporting period ending on or after December 15, 2009. The amendments should be applied retrospectively to the first period that an entity adopted FAS 160. The Company does not expect the provisions of ASU 2010-02 to have a material effect on the financial position, results of operations or cash flows of the Company.

PROFIRE ENERGY, INC. AND SUBSIDIARY  
Notes to the Condensed Unaudited Consolidated Financial Statements

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (continued)

In January 2010, the FASB issued Accounting Standards Update 2010-01, Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash (A Consensus of the FASB Emerging Issues Task Force). This amendment to Topic 505 clarifies the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a limit on the amount of cash that will be distributed is not a stock dividend for purposes of applying Topics 505 and 260. Effective for interim and annual periods ending on or after December 15, 2009, and would be applied on a retrospective basis. The Company does not expect the provisions of ASU 2010-01 to have a material effect on the financial position, results of operations or cash flows of the Company.

In December 2009, the FASB issued Accounting Standards Update 2009-17, Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This Accounting Standards Update amends the FASB Accounting Standards Codification for Statement 167.

In December 2009, the FASB issued Accounting Standards Update 2009-16, Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets. This Accounting Standards Update amends the FASB Accounting Standards Codification for Statement 166.

In October 2009, the FASB issued Accounting Standards Update 2009-15, Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing. This Accounting Standards Update amends the FASB Accounting Standard Codification for EITF 09-1.

In October 2009, the FASB issued Accounting Standards Update 2009-14, Software (Topic 985): Certain Revenue Arrangements That Include Software Elements. This update changed the accounting model for revenue arrangements that include both tangible products and software elements. Effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company does not expect the provisions of ASU 2009-14 to have a material effect on the financial position, results of operations or cash flows of the Company.

In October 2009, the FASB issued Accounting Standards Update 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements. This update addressed the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than a combined unit and will be separated in more circumstances that under existing US GAAP. This amendment has eliminated that residual method of allocation. Effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company does not expect the provisions of ASU 2009-13 to have a material effect on the financial position, results of operations or cash flows of the Company.

PROFIRE ENERGY, INC. AND SUBSIDIARY  
Notes to the Condensed Unaudited Consolidated Financial Statements

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (continued)

In September 2009, the FASB issued Accounting Standards Update 2009-12, Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). This update provides amendments to Topic 820 for the fair value measurement of investments in certain entities that calculate net asset value per share (or its equivalent). It is effective for interim and annual periods ending after December 15, 2009. Early application is permitted in financial statements for earlier interim and annual periods that have not been issued. The Company does not expect the provisions of ASU 2009-12 to have a material effect on the financial position, results of operations or cash flows of the Company.

In July 2009, the FASB ratified the consensus reached by EITF (Emerging Issues Task Force) issued EITF No. 09-1, (ASC Topic 470) "Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance" ("EITF 09-1"). The provisions of EITF 09-1, clarifies the accounting treatment and disclosure of share-lending arrangements that are classified as equity in the financial statements of the share lender. An example of a share-lending arrangement is an agreement between the Company (share lender) and an investment bank (share borrower) which allows the investment bank to use the loaned shares to enter into equity derivative contracts with investors. EITF 09-1 is effective for fiscal years that beginning on or after December 15, 2009 and requires retrospective application for all arrangements outstanding as of the beginning of fiscal years beginning on or after December 15, 2009. Share-lending arrangements that have been terminated as a result of counterparty default prior to December 15, 2009, but for which the entity has not reached a final settlement as of December 15, 2009 are within the scope. Effective for share-lending arrangements entered into on or after the beginning of the first reporting period that begins on or after June 15, 2009. The Company does not expect the provisions of EITF 09-1 to have a material effect on the financial position, results of operations or cash flows of the Company.

Income Taxes

The Parent is subject to U.S. income taxes on its world-wide income with a credit provided for foreign taxes paid however; the U.S. parent company recorded a net loss and thus is not subject to U.S. income tax during either period being reported. The Canadian subsidiary is subject to Canadian income taxes. The effective Canadian income tax rates are 29.0% and 34.3% for the nine months ended December 31, 2009 and 2008, respectively.

Subsequent Events

In accordance with ASC 855-10 Company management reviewed all material events through February 10, 2010 and there are no material subsequent events to report other than those reported.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and capital resources during the three and nine months ended December 31, 2009 and 2008. For a complete understanding, this Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Financial Statements and Notes to the Financial Statements contained in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended March 31, 2009.

### Forward-Looking Statements

This quarterly report contains forward-looking statements as that term is defined in Section 27A of the United States Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "could" and negative of these terms or other comparable terminology. Such statements are based on currently available financial and competitive information and are subject to various risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations. Undue reliance should not be placed on such forward-looking statements as such statements speak only as of the date on which they are made. These statements are only predictions and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

### General

On September 30, 2008 the Company entered into an Acquisition Agreement with Profire Combustion, Inc., an Alberta, Canada corporation, under which the Company acquired 100% of the outstanding common shares of Profire Combustion, Inc. in exchange for the issuance of 35,000,000 common shares.

Following the closing of the Acquisition Agreement, the three Profire Combustion, Inc. shareholders held 78% of the Company's common stock outstanding after the transaction. As a result, Profire Combustion, Inc. is considered the acquirer for financial reporting purposes. Accordingly, the accompanying financial statements are the financial statements of Profire Combustion, Inc. for all periods presented.

## Results of Operations

Comparison of the three months ended December 31, 2009 and 2008.

### Total Revenues

Our total revenues during the quarter ended December 31, 2009 increased 66% compared to the quarter ended December 31, 2008. We have worked to expand our operations during the past quarter with continuing efforts to research the sales possibilities in the U.S. We believe the rise in revenues compared to the same quarter of 2008 is primarily attributable to current economic conditions and in reaction to the rise in oil prices. We know some customers were delaying projects as they waited to see what would happen with oil prices and demand before committing to new capital expenditures.

During the quarter ended December 31, 2008, product sales accounted for 85% of total revenues and service sales accounted for 15% of total revenue. During the quarter ended December 31, 2009 the mix of product and service sales shifted, with product sales at 92% of total revenues and service sales accounting for 8% of total revenue.

We believe the increase in product revenues as a percentage of total revenues is the result of the effects of the rising oil prices, which encouraged some clients to fulfill product purchases they had been delaying. In the most recently completed quarter, we realized a large spike in sales. We believe this was due to pent-up demand resulting from the slower previous three quarters combined with more favorable oil prices during the current quarter. We expect total revenues will continue to grow as we expand our operations, however, with the volatility in oil prices and the general economic slowdown, we expect revenue growth to be more modest than it was during the quarter ended December 31, 2009.

### Cost of Goods Sold

Cost of goods sold during the three months ended December 31, 2009 was \$572,445 compared to \$624,441 during the three months ended December 31, 2008. This 8% decrease is a result two main factors. First, due to high and steady demand, a large portion of our orders were on back order. This resulted in virtually no holding costs as units were received, assembled and shipped in less time, sometimes on the same day. The high demand also allowed our workers to increase overall productivity as they were able to produce more units in less time. These conditions substantially lowered the fixed costs that are allocated to our cost of goods sold. Second, because we had steady and reliable orders to place with vendors, we were able to negotiate more favorable prices and terms.

As a percentage of revenue, cost of goods sold decreased 17% during the three months ended December 31, 2009 compared to the same three month period in 2008, as a result of pricing volume discounts from certain suppliers that offered incentives to buy inventory in greater quantity during the period and more efficiency relating to assembly of components before sale and installation. During the three months ended December 31, 2009, cost of goods sold as a percentage of total revenues was 22% of total revenue compared to 39% during the three months ended December 31, 2008. Much of this decrease was due to the favorable conditions mentioned above which may not continue. We do believe that as we expand and continue to improve our operations that an overall improvement in our margins will persist over prior years.



### General and Administrative Expenses

General and administrative expenses for the three months ended December 31, 2009 were \$516,100, a \$57,067 or 12% increase from \$459,033 for the same three month period ended December 31, 2008. This increase in general and administrative expense was largely due to our planned expansion and the recent rise in demand for our products and services. Our company has hired additional sales and administrative staff and increased spending on product development and general costs related to the expansion. We expect overall general and administrative expenses will continue to increase as we continue our efforts to expand our business.

### Payroll Expense

Payroll expense during the three months ended December 31, 2009 increased 21% to \$187,472 from \$154,884 for the three months ended December 31, 2008. We anticipate payroll expense will continue to be somewhat higher through the remainder of the current fiscal year as compared to our prior fiscal year due to the hiring of management and marketing personnel during 2009.

### Income from Operations

The 8% decrease in cost of goods sold compared to the December 31, 2008 numbers coupled with the 66% increase in revenue was somewhat offset by a 15% increase in total operating expense. As a result we realized a net income before income taxes and foreign currency gain of \$1,349,266 during the three months ended December 31, 2009 compared to net income before income taxes of \$337,285 during the three months ended December 31, 2008.

### Income Tax Expense

During the quarter ended December 31, 2009, we realized an income tax expense of \$396,508, compared to an income tax expense of \$151,216 during the quarter ended December 31, 2008. This increase was due to the spike in sales mentioned previously.

### Foreign Currency Translation Gain (Loss)

The consolidated financial statements are presented in U.S. dollars. Our functional currency is Canadian dollars. The financial statements of the Company were translated to U.S. dollars using year-end exchange rates for the balance sheet and weighted average exchange rates for the statements of operations. Equity transactions were translated using historical rates. Foreign currency translation gains or losses as a result of fluctuations in the exchange rates are reflected in the statement of operations and comprehensive income.

Therefore, the translation adjustment in the consolidated financial statements represents the translation differences from translation of our financial statements. As a result, the translation adjustment is commonly, but not always, positive if the average exchange rates are lower than exchange rates on the date of the financial statements and negative if the average exchange rates are higher than exchange rates on the date of the financial statements.

During the three months ended December 31, 2009, we recognized a foreign currency translation gain of \$98,500 compared to foreign currency translation loss of \$218,174 during the three months ended December 31, 2008 due to the decline of the value of the U.S. dollar against the Canadian dollar during the quarter ended December 31, 2009.

#### Total Comprehensive Income (Loss)

For the foregoing reasons, we realized total comprehensive income of \$1,053,022 during the three months ended December 31, 2009 compared to total comprehensive loss of \$32,105 during the three months ended December 31, 2008.

Comparison of the nine months ended December 31, 2009 and 2008.

#### Total Revenues

During the nine months ended December 31, 2009 total revenues were \$4,533,514 compared to \$4,899,540 during the nine months ended December 31, 2008. The decrease in total revenues is primarily attributable to a 5% decrease in sales of goods during the nine month period ended December 31, 2009. This decrease in sales was primarily attributable to current economic conditions and a reaction to the decline in oil prices since 2008. The decline in sales resulting from negative economic conditions and falling oil prices has been partially offset by the recent economic rally and firming up of oil prices.

The 66% increase in total revenues during the 2009 third quarter over the 2008 third quarter noted above was insufficient to completely offset the decreases we experienced in the first two quarters of the fiscal year. Customers who previously were delaying projects have begun to resume buying however, we know some customers continue to delay projects as they wait to see what will happen with oil prices and demand before committing to new capital expenditures.

During the nine months ended December 31, 2008, product sales accounted for 86% of total revenues. By comparison, during the nine months ended December 31, 2009, product sales accounted for 89% of total revenues. Service revenue decreased 23% from 2008 to 2009 and accounted for 11% of total revenue, compared to 14% during 2008. We believe the decrease in services revenues as a percentage of total revenues is related to our efforts to establishing ourselves as a product manufacturer and retailer. We expect total revenues will grow as oil prices recover.

### Cost of Goods Sold

Cost of goods sold during the nine months ended December 31, 2009 was \$1,253,810 compared to \$2,113,328 during the nine months ended December 31, 2008. This 41% decrease for the nine month period is primarily the result of the positive outcomes of the most recent fiscal quarter. During the nine month period ended December 31, 2009, cost of goods sold as a percentage of total revenues was 28% compared to 43% during the nine months ended December 31, 2008. As we continue to develop our business, we anticipate that our cost of goods sold ratios will begin to stabilize. While the efficiencies and high demand mentioned earlier may not continue at the same rate as what was experienced this quarter, as we grow and develop our company, we believe the much of the achieved improvements will persist over time.

### General and Administrative Expenses

General and administrative expenses for the nine months ended December 31, 2009 were \$1,262,778, a \$30,910 or a 2% decrease compared to the same nine month period ended December 31, 2008. This decrease in general and administrative expense was largely the result of cost cutting during the first two quarters of the year in reaction to the decline in demand for our products and services. During the most recent quarter, these savings were offset as expenses increased due to the rebound in demand. We expect general and administrative expenses will continue to increase as we continue our efforts to expand our business.

### Payroll Expense

Payroll expense during the nine months ended December 31, 2009 was \$510,353 or 31% higher than during the nine months ended December 31, 2008. This increase in payroll expense was the result of both the hiring of additional employees and wage increases for existing employees. We anticipate payroll expense will remain higher during the remainder of the current fiscal year.

### Net Income (Loss) Before Income Tax

As a result of the 7% decrease in total revenue, which was more than offset by the 41% decrease in cost of goods sold, net income before income taxes increased by \$403,830 to \$1,471,017 during the nine months ended December 31, 2009 compared to the nine months ended December 31, 2008.

### Income Tax Expense

Income tax expense during the nine months ended December 31, 2009 was \$426,087 compared to \$365,893 during the nine months ended December 31, 2008. This increase in income tax expense was due to the significant jump in sales in during the three months ended December 31, 2009.

## Foreign Currency Translation Gain (Loss)

During the nine months ended December 31, 2009, we recognized a foreign currency translation gain of \$394,032 compared to foreign currency translation loss of \$267,090 during the nine months ended December 31, 2008. This gain in 2009 is a function of the appreciation of the Canadian dollar vs. the US dollar compared to a decline of the Canadian dollar vs the US dollar during 2008. The Canadian dollar rose to approximately \$0.97 per US dollar at December 31, 2009 from approximately \$0.80 at March 31, 2009.

## Total Comprehensive Income (Loss)

For the foregoing reasons, we realized a \$1,005,547 increase in total comprehensive income to \$1,439,751 during the nine months ended December 31, 2009 compared to total comprehensive income of \$434,204 during the nine months ended December 31, 2008.

## Liquidity and Capital Resources

Since inception, we have financed our business primarily from cash flows from operations and loans from Company executives. We have a \$400,000 revolving credit line with a local banking institution that we also use from time to time to satisfy short-term fluctuations in cash flows. At December 31, 2009, we had \$0 outstanding on our line of credit.

As of December 31, 2009 we had current assets of \$3,636,224 and total assets of \$4,059,445 including cash and cash equivalents of \$559,180. At December 31, 2009 total liabilities were \$926,995, all of which were current liabilities.

During the nine months ended December 31, 2009 and 2008 cash was primarily used to fund operations. See below for additional discussion and analysis of cash flow.

|   | Nine months<br>ended<br>December 31,<br>2009 | Nine months<br>ended<br>December 31,<br>2008 |
|---|--|--|
| Net cash provided by (used in) operating activities | \$ 302,505                                   | \$ (28,896)                                  |
| Net cash (used in) investing activities             | \$ (28,162)                                  | \$ (8,078)                                   |
| Net cash provided by financing activities           | \$ -   | \$ 36,359                                    |
| Effect of exchange rate changes on cash             | \$ 58,278                                    | \$ (5,207)                                   |
| <b>NET INCREASE (DECREASE) IN CASH</b>              | <b>\$ 332,621</b>                            | <b>\$ (5,822)</b>                            |

Net cash provided by our operating activities increased by \$302,505. During the nine months ended December 31, 2009 we realized increases in net income, accounts payable and accrued liabilities which was partially offset by a significant increase in accounts receivable.

We have no current capital commitments outside of general operations and do not anticipate any in the near future. We believe between cash on hand and our revolving credit line we have sufficient resources to meet our short-term cash needs.

Our accounts receivables were 143% higher over the period ended March 31, 2009 as several of our customers have commenced ordering products as they deem conditions to be improving somewhat. We anticipate these accounts will be converted to cash on normal terms. Inventory may fluctuate as we have opportunities to stock at favorable rates as we buy in scale. This may ebb and flow from quarter to quarter. Accrued liabilities will fluctuate as liabilities accrue.

During the nine months ended December 31, 2009 we realized a net cash gain of \$332,621.

#### Summary of Material Contractual Commitments

The Company had no material contractual commitments as of December 31, 2009.

#### Inflation

We believe that inflation has not had a significant impact on our operations since inception.

#### Seasonality

Activity of our customers will sometimes be affected by weather and season. As the majority of our operations currently are in western Canada, sales may slow due to winter conditions that may hamper the ability of our customers to build out new locations or maintain and access current locations. We typically have our strongest revenue growth cycles in the non-winter months, however the economic conditions that prevailed during this past year and the abnormal jump in sales this last quarter this effect was not as pronounced as in past years. As our Company begins to expand southward into the United States we anticipate this effect to diminish.

#### Off-Balance Sheet Arrangements

As of December 31, 2009 and March 31, 2009 we had no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

We are a smaller reporting company, as defined in Rule 12b-2 promulgated under the Securities Exchange Act of 1934, and accordingly we are not required to provide the information required by this Item.

Item 4T. Controls and Procedures

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure and to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

As of December 31, 2009 we conducted an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of our internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control — Integrated Framework," issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based upon this assessment, we determined that there are material weaknesses affecting our internal control over financial reporting.

The matters involving internal controls and procedures that our management considers to be material weaknesses under COSO and SEC rules are: (1) lack of a functioning audit committee and lack of independent directors on the Company's board of directors, resulting in ineffective oversight in the establishment and monitoring of required internal controls and procedures; (2) inadequate segregation of duties consistent with control objectives; (3) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of US GAAP and SEC disclosure requirements; and (4) ineffective controls over period end financial disclosure and reporting processes. The aforementioned potential material weaknesses were identified by our Chief Financial Officer in connection with the preparation of our financial statements as of December 31, 2009, who communicated the matters to our management and board of directors.

Management believes that the material weaknesses set forth in items (2), (3) and (4) above did not have an effect on our financial results. However, the lack of a functioning audit committee and lack of a majority of independent directors on our board of directors, resulting in ineffective oversight in the establishment and monitoring of required internal controls and procedures, can impact our financial statements for the future years.

### Management's Remediation Initiatives

Although we are unable to meet the standards under COSO because of the limited funds available to a company of our size, we are committed to improving our financial organization. As funds become available, we will undertake to: (1) create a position to segregate duties consistent with control objectives, (2) increase our personnel resources and technical accounting expertise within the accounting function (3) appoint one or more outside directors to our board of directors who shall be appointed to the audit committee of the Company resulting in a fully functioning audit committee who will undertake the oversight in the establishment and monitoring of required internal controls and procedures; and (4) prepare and implement sufficient written policies and checklists which will set forth procedures for accounting and financial reporting with respect to the requirements and application of US GAAP and SEC disclosure requirements.

We will continue to monitor and evaluate the effectiveness of our internal controls and procedures and our internal control over financial reporting on an ongoing basis and are committed to taking further action and implementing additional enhancements or improvements, as necessary and as funds allow. However, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the 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. The design of any system of controls is based in part on 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. Projections of any evaluation of controls effectiveness to future periods are subject to risks.

## PART II - OTHER INFORMATION

### Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the risks discussed in our Annual Report on Form 10-K for the year ended March 31, 2009, which risks could materially affect our business, financial condition or future results. These risks are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

Item 6. Exhibits

Exhibits. The following exhibits are included as part of this report:

|              |  |
|--------------|--|
| Exhibit 31.1 | Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 31.2 | Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 32.1 | Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 32.2 | Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

SIGNATURES

In accordance with Section 12 of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf, thereunto duly authorized.

PROFIRE ENERGY, INC.

Date: February 11, 2010

By: /s/ Brenton W. Hatch  
Brenton W. Hatch  
Chief Executive Officer

Date: February 11, 2010

By: /s/ Andrew Limpert  
Andrew Limpert  
Chief Financial Officer



