

PROFIRE ENERGY INC  
Form 10-K  
March 07, 2018

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-K  
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended \_\_December 31, 2017\_\_  
OR  
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period

Commission File Number 001-36378  
PROFIRE ENERGY, INC.  
(Name of registrant as specified in its charter)  
Nevada 20-0019425  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

321 South 1250 West Suite 1  
Lindon, UT 84042  
(Registrant's principal executive offices)

(801) 796-5127  
(Registrant's telephone number, including area code)

Securities registered pursuant to section 12(b) of the Exchange Act:  
Common Stock, \$0.001 par value NASDAQ  
(Title of each class) (Name of each exchange on which registered)  
Securities registered pursuant to section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes x No

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. x Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) x Yes No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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.

Large accelerated Filer

Accelerated Filer

Non-accelerated Filer (Do not check if a smaller reporting company) Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes  No

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The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which our common stock was last sold as of the last business day of the our most recently completed second fiscal quarter was approximately \$31,908,809.

As of March 6, 2018, the registrant had 54,155,321 shares of common stock, par value \$0.001, issued and 48,830,579 shares outstanding.

Documents Incorporated by Reference: Portions of the Profire Energy, Inc. Definitive Proxy Statement for the 2018 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

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PROFIRE ENERGY, INC.  
FORM 10-K  
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## Explanatory Note

Unless otherwise indicated by the context, any reference herein to the "Company", "Profire", "we", "our" or "us" means Profire Energy, Inc., a Nevada corporation, and its corporate subsidiaries and predecessors. Unless otherwise indicated by the context, all dollar amounts stated in this report on Form 10-K are in U.S. dollars.

On December 22, 2016, our board of directors approved a resolution to change our fiscal year from the period beginning April 1 and ending on March 31 to the period beginning on January 1 and ending on December 31 of each year. Accordingly, on March 9, 2017 we filed a transition report on Form 10-K to include audited consolidated financial information for the nine-month transition period from April 1, 2016 through December 31, 2016. Any references to the "transition period" throughout this report refer to that nine-month period. The current fiscal year refers to the period beginning on January 1, 2017 and ending on December 31, 2017.

## Cautionary Note Regarding Forward-Looking Statements

This annual report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are based on Managements' beliefs and assumptions and on information currently available to Management. For this purpose, any statement contained in this report that is not a statement of historical fact may be deemed to be forward-looking, including, but not limited to, statements relating to our future actions, intentions, plans, strategies, objectives, results of operations, cash flows and the adequacy of or need to seek additional capital resources and liquidity. Without limiting the foregoing, words such as " may ", " should ", " expect ", " project ", " plan ", " anticipate ", " believe ", " estimate ", " intend ", " budget ", " forecast ", " predict ", " potential ", " continue ", " should ", " could ", " will " or comparable terminology or the negative of such terms are intended to identify forward-looking statements; however, the absence of these words does not necessarily mean that a statement is not forward-looking. These statements by their nature involve known and unknown risks and uncertainties and other factors that may cause actual results and outcomes to differ materially depending on a variety of factors, many of which are not within our control. Such factors include, but are not limited to, economic conditions generally and in the industry in which we and our customers participate; competition within our industry; legislative requirements or changes which could render our products or services less competitive or obsolete; our failure to successfully develop new products and/or services or to anticipate current or prospective customers' needs; price increases; limits to employee capabilities; delays, reductions, or cancellations of contracts we have previously entered into; sufficiency of working capital, capital resources and liquidity; conflicts of interest between our significant investors and our other stakeholders; volatility of our operating results and share price and other factors detailed herein and in our other filings with the United States Securities and Exchange Commission (the "SEC" or "Commission"). Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated. The foregoing factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report. For a more detailed discussion of the principal factors that could cause actual results to be materially different, you should read our risk factors in Item 1A. Risk Factors, included elsewhere in this report.

Forward-looking statements are predictions and not guarantees of future performance or events. Forward-looking statements are based on current industry, financial and economic information which we have assessed but which by its nature is dynamic and subject to rapid and possibly abrupt changes. Our actual results could differ materially from those stated or implied by such forward-looking statements due to risks and uncertainties associated with our business. 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. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements and we hereby qualify all our forward-looking statements by these cautionary statements.

These forward-looking statements speak only as of their dates and should not be unduly relied upon. We undertake no obligation to amend this report or publicly revise these forward-looking statements (other than pursuant to reporting obligations imposed on registrants pursuant to the Exchange Act) to reflect subsequent events or circumstances, whether as the result of new information, future events or otherwise.

The following discussion should be read in conjunction with our financial statements and the related notes contained elsewhere in this report and in our other filings with the Commission.

## PART I

### Item 1. Business

#### Overview

Profire is an oilfield technology company, providing products that enhance the efficiency, safety, and compliance of the oil and gas industry. We specialize in the creation of burner-management systems used on a variety of oilfield forced-air and natural-draft fire tube vessels. We sell our products and services primarily throughout North America. Our experienced team of industry service professionals also provides supporting services for our products. We were originally incorporated in the State of Nevada on May 5, 2003. Since October 2008, we have been primarily engaged in the business of developing burner-management technologies for the oil and gas industry.

#### Principal Products and Services

In the oil and natural gas industry, there are numerous demands for heat generation and control. Oilfield vessels of all kinds, including line-heaters, dehydrators, separators, treaters, amine reboilers, and free-water knockout systems require heat to satisfy their various functions, which is provided by a burner flame inside the vessel. This burner flame is integral to the operation of the vessel because these vessels use the flame's heat to facilitate the proper function of the vessel. Such functions include separating, storing, transporting and purifying oil and gas (or even water). For example, the viscosity of oil and moisture content (and temperature) of gas are critical to a number of oilfield processes, and are directly affected by the heat provided by the burner flame inside the vessel. Our burner-management systems help ignite, monitor, and manage this burner flame, reducing the need for employee interaction with the burner, such as for the purposes of re-ignition or temperature monitoring.

As a result, oil and gas producers can achieve increased safety, greater operational efficiencies, and improved compliance with industry regulations. We believe there is a growing trend in the oil and gas industry toward enhanced control, process automation, and data logging, partly for potential regulatory-satisfaction purposes. We believe that enhanced burner-management products and services can help our customers be compliant with such regulatory requirements, where applicable. In addition to selling products, we train and dispatch service technicians to service burner flame installations in Canada and throughout the United States.

We initially developed our first burner-management system in 2005. Since 2005, we have released several iterations of our initial burner-management system to increase features and capabilities, while maintaining compliance with Canadian Standards Association (CSA) and Underwriters Laboratories (UL) ratings.

Our burner-management systems have become widely used in Western Canada, and throughout many regions in the United States. We have sold our burner-management systems to many large energy companies, including Anadarko, Chesapeake Energy, ConocoPhillips, Devon Energy, Encana, Exxon-Mobil, Petro-Canada, Shell and others. Our systems have also been sold or installed in other parts of the world, including France, Italy, Ukraine, India, Nigeria, the Middle East, Australia, and Brazil. While we have an interest in expanding our international distribution capabilities, our current principal focus is on the North American oil and gas market.

#### Recent Product Extension: PF3100

In September 2015, the Company unveiled its next generation burner-management system which is designed to operate, monitor, and control more complex, multi-faceted oilfield applications. The PF3100 is an advanced management system designed to work with a number of Profire-engineered modules, specific to different applications, thus allowing the system to expertly manage a wide variety of applications.



Throughout the industry, Programmable Logic Controllers (PLCs) are used to operate and manage custom-built oilfield applications. Though capable, PLCs can be expensive, tedious, and difficult to use. Our unique solution, the PF3100, helps manage and synchronize custom applications, allowing oilfield producers to meet more deadlines and improve profitability through an off-the-shelf solution with dynamic customization. The Company is selling the PF3100 for use in the oil and gas industry's natural-draft and forced-air markets.

The Company frequently assesses market needs by participating in industry conferences, soliciting feedback from existing and potential customers, and looking for opportunities to provide quality solutions to the oil and gas producing companies it serves. Upon identifying a potential market need, the Company begins researching the market and developing products that might be feasible for future sale.

### Additional Complementary Products

In addition to our burner-management systems, we also sell complementary oilfield products to help facilitate improved oilfield safety and efficiency. Such products help manage fuel flow (e.g., valves and fuel-trains), meter air flow (e.g., airplates), generate power on-site (e.g., solar packages), ignite and direct flame (e.g., flare stack igniter and nozzles), and other necessary functions. We continue to develop innovative complementary products, which we anticipate will help bolster continued long-term growth. Some of the complementary products we sell are purchased from third parties (e.g., solar packages), while some are proprietary (e.g., flare stack igniter) or patent-pending (e.g. inline pilot and valve technologies).

### Chemical-Management Systems

Chemical injection is used for a wide variety of purposes in the oil and gas industry including down-hole inhibition of wax, hydrates, and corrosion agents, to allow product to flow more efficiently to the wellhead. Once at the wellhead, chemical injection can also be used to further process the oil or gas before it is sent into a pipeline, and with other applications.

Currently, a variety of pumps are available in the market that can be used to meter the chemicals injected, but most are often inaccurate in injecting the proper amount of chemical as they may not account for all of the variables that affect how much chemical should be injected (e.g., pressure, hydrogen sulfide concentration, etc.), nor the optimal efficiency rates of varying pump systems.

Inaccurate injection levels are problematic because the chemicals injected are expensive, and over-injection causes unnecessary expense for producers. Under-injection can also be problematic because it often results in the creation of poor product (i.e., with wax, hydrate, or corrosion agents), and causes problems with pipeline audits.

Our chemical-management systems monitor and manage the chemical-injection process to ensure that optimal levels of chemicals are injected. This improves pump efficiency and production quality of the well. Our chemical-management systems also reduce the risk of exposure to chemicals, which results in increased worker safety and greater compliance with pipeline regulations. Like our burner-management systems, our chemical-management systems can be monitored and managed remotely via SCADA or other remote-communication systems. We hold a U.S. patent related to our chemical management system and its process for supplying a chemical agent to a process fluid.

### Principal Markets and Distribution Methods

Our principal markets include Canada and the United States, specifically the Marcellus, Permian, Bakken, STACK, SCOOP, and Eagle Ford areas. In our experience, the oil and gas industry does not typically centralize purchasing decisions of relatively inexpensive products and services like those we provide. Therefore, we place a strong emphasis on developing relationships with customers at the field-level. Because of this relationship-based purchasing structure, most of our sales are made directly to producers rather than through distributors.

We have also had success in working with Original Equipment Manufacturers (OEMs) who manufacture the production and processing equipment on which our products are utilized. These products can be used in new wells or as replacements for former old or defective products. In addition, we have had success in working with strategic partners that deliver instrumentation and electrical (I&E) services in the industry. When drilling activity is high, these OEMs and I&Es provide us with a relatively easy-to-scale sales channel.

In addition to developing a larger presence in international markets in future years, we believe the PF3100 platform will serve as the base for applications outside of the oil and gas industry (as well as for new applications within the oil and gas industry). Although our primary focus is on serving the oil and gas industry, we continue to look for opportunities to expand and diversify our product footprint to other industries. For example, the PF3100 could have applications in the agricultural industry. We intend to continue to explore these opportunities.

#### Competition

We believe most of our competitors have limited sales and service departments to promote and support their products. Most of our competitors are regionally focused, with operations that are limited to areas close to their headquarters. There are several companies marketing burner-management products similar to ours. Our direct competitors include Combustex, SureFire, Platinum, and ACL.

While price is a significant method of competition within our industry, we believe the most important competitive factors are performance, quality, reliability, durability, and installation/service expertise. To that end, we have primarily sought to first create high-quality and innovative products, then to constrain costs without compromising those primary characteristics. Relative to our competition, we believe our product-offering tends to be about average in price, but with above-average capability, reliability, and product-support.

We believe this quality-focused approach will help us continue to remain competitive in the industry. To help assure our customers of our commitment to quality and safety, our burner-management systems have been certified to comply with CSA and UL ratings. Additionally, because we were an early-mover in the burner-management market, we have the advantage of established relationships with both suppliers and customers, which help create a barrier to new entrants.

#### Sources and Availability of Raw Materials

We operate under release date purchase orders with the majority of our suppliers. This allows for our procurement team to work closely with our suppliers to navigate the market fluctuations and the changing needs of our customers. In the past, we have not experienced any sudden or dramatic increase in the prices of the major parts or components needed for our systems. However, as the industry activity increases, there could be greater upward pressure on the price of system components.

Some of the components that we resell, such as some of our valve products, are available from a limited number of suppliers. If our access to such products became constricted, we could experience a material adverse impact on our results of operations or financial condition. We continue to develop proprietary products that could reduce some of our dependency on these limited componentry items. As we anticipate continued development of proprietary products, we expect to review vendor relationships to help ensure we are working with suppliers that best meet our needs and the needs of our customers. Because many of the component parts we use are relatively low-priced and readily available, we do not anticipate that a sudden or dramatic increase in the price (or decrease in supply) of any particular part would have a material adverse effect on our results of operations or financial condition, even if we were unable to increase our sales prices proportionate to any particular price increase.

We contract with a third-party fabricator, Logican Technologies, to manufacture our burner-management and chemical-management systems, along with other proprietary products. We believe this has provided us with improved manufacturing efficiencies. Additionally, the use of a third-party fabricator enables us to concentrate our capital on liquidity maintenance, research and development projects, and other strategies that align with our core competencies instead of investments in manufacturing equipment. Under the direction of our product engineers, the manufacturer is able to procure all electronic parts, specialty cases and components, and from those components assemble the complete system. Using specialty equipment and processes provided by us, the system is tested on-site by the manufacturer, and if the finished product is acceptable, it is shipped to us for distribution. We subsequently perform our own quality-control testing, and ensure the programming for each system is ready for the anticipated environment of the customer. Shipments to us from our manufacturer are usually limited to approximately 300 systems, so that in the event any one shipment is lost or damaged, inventory levels are not seriously impacted. The entire manufacturing process is typically completed within 90 to 120 days of the manufacturer receiving our purchase order.

Our manufacturer is located in Alberta, Canada. While we have a contract in place with this manufacturer, should we lose its services, we believe we keep enough inventory on hand to meet our customers' needs in the event of short-term supply chain disruptions. We also believe we have adequate alternative manufacturing sources available, and that while such a loss might result in a temporary short-term disruption, we do not anticipate it would result in a materially adverse impact in our ability to meet demand for our products or results of operations, financial condition and cash flows for a significant period of time. We periodically seek alternative manufacturing options to ensure our

current fabricator is competitive in price, manufacturing quality and fulfillment speed, and to ensure we have the ability to scale our production levels based on customer demand and market conditions.

#### Dependence upon Major Customers

During the fiscal year ended December 31, 2017 no single customer accounted for more than 10% of our total revenues. During the nine-month transition period ended December 31, 2016, the following customer accounted for more than 10% of our total revenues. The loss of a major customer could have a material adverse effect on our business, financial condition, results of operations and cash flows:

| Customer          | Year<br>Ended<br>December<br>31, 2017 | Nine-Month<br>Transition<br>Period |
|-------------------|---------------------------------------|------------------------------------|
| Chesapeake Energy | 4 %                                   | 11 %                               |

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## Patents, Trademarks and Other Intellectual Property

We have filed or acquired several patent applications for various product innovations, both domestically and internationally. Management will continue to assess the strategic and financial value of each potential patent as we develop various intellectual properties. The provisional and/or non-provisional applications we have filed thus far are intended to protect:

- inline pilot technologies to increase efficiency and reliability of pilot-light performance in a variety of climates;
- software technology within a modular burner-management system; and
- certain valve-related technologies.

We have a patent that covers our proprietary coil which expires on December 2, 2035, a patent related to our chemical-management system and its process which expires on March 9, 2036, and a patent over the temperature control valve which expires on November 16, 2036.

## Need for Governmental Approval of our Principal Products or Services

We are required to obtain certain safety certifications/ratings for our combustion- and chemical-management systems before they are released to the market. We have received the appropriate certifications including CSA, Intertek and UL certifications for our burner-management and chemical-management systems.

Although sales of our products and services have not been dependent on industry regulations, we believe industry regulations have enhanced our sales environment in certain geographies. We believe that increased regulation of our customers—especially when coupled with consistent enforcement—may influence potential customers to purchase our products or services.

## Effects of Existing or Probable Governmental Regulation on our Business

We believe that our products can improve regulatory compliance for our customers. Regulations concerning emissions, safe burner ignition methods, data logging, or other regulatory dimensions that could be related to our products, may impact our customers and markets. Examples of such regulations include:

B149.3-10, which has evolved in recent years and is effective for Alberta, governs the safety precautions that must be met concerning the ignition of the pilot and the main burner in Canada. It requires a programmable control to be used, if the controller complies with certain certification requirements promulgated by the CSA.

Regulation 7, which was passed during fiscal year 2014 by the Colorado Department of Public Health and Environment, required that combustion devices installed after May 1, 2014, be equipped with an auto-igniter and all existing combustion devices to be equipped with an auto-igniter by May 1, 2016.

R307-503-4(1) (b) & (c), which was passed during fiscal year 2014 by the Utah Department of Air Quality, mandated that all new open and enclosed flare have an auto-igniter. The rule required the two largest oil- and gas-producing counties in the state to retrofit all existing enclosed flare with auto-igniters by December 1, 2015, and all other counties to comply by April 1, 2017.

Order 25417, which was passed by North Dakota's Industrial Council, is rule that became effective April 1, 2015, requires producers to condition crude oil before transportation and prove oil temperature is above 110 degrees Fahrenheit, to burn off toxic gases from the oil.

Our burner-management system's design enables our products to help companies become compliant with the aforementioned and other regulations. While these industry requirements are relatively new, we intend to continue

following their implementation and enforcement. We have assigned sales and service professionals to these specific geographic areas to ensure we have a strong presence in the States and Provinces with specific regulations.

In light of this regulatory environment, we are focused on providing products and services that exceed existing regulatory and industry safety standards; therefore, we believe demand for our products may increase as regulators continue to tighten safety and efficiency standards in the industry. In addition to satisfying regulatory and safety requirements, we believe oil and gas companies continue to recognize the operational efficiencies that can be realized through the use of our burner-management systems and related products. However, significant changes in the regulatory environment could materially impact our results of operations and financial condition. For example, a significant portion of our historical Canadian sales has been aided by such regulation, resulting in a higher estimated penetration rate for our products there, and we anticipate such regulatory pressures to continue. Consequently, if the regulatory environment were to become significantly less stringent, we may experience a decline

in the demand for our products, which could materially and adversely impact our results of operations and financial condition. As of the date of this report, we are not aware of any pending or anticipated major regulatory changes.

#### Research and Development

We place strong emphasis on product-oriented research and development relating to the development of new or improved products and systems. During the fiscal year ended December 31, 2017 and the nine-month transition period ended December 31, 2016, we spent \$1,221,211 and \$757,880, respectively, on research and development programs.

#### Cost and Effects of Compliance with Federal, State and Local Environmental Laws

Our business is affected by local, provincial, state, federal and foreign laws and other regulations relating to the gas and electric safety standards and codes presently existing in the oil and gas industry, as well as laws and regulations relating to worker safety and environmental protection.

During the fiscal year ended December 31, 2017 and the nine-month transition period ended December 31, 2016, respectively, we did not incur material direct costs to comply with applicable environmental laws. There can be no assurance, however, that this will continue to be the case in the future as environmental laws and regulations relating to the oil and natural gas industry are routinely subject to change.

#### Employees

As of December 31, 2017, we had a total of 98 employees, 86 of whom were full-time employees.

#### Executive Officers of the Registrant

| Name             | Age | Positions Held                            |
|------------------|-----|---|
| Brenton W. Hatch | 67  | Chief Executive Officer (2008 to present) |
| Ryan Oviatt      | 44  | Chief Financial Officer (2015 to present) |

#### Item 1A. Risk Factors

In addition to the risks discussed throughout this report we are subject to the following risks.

Forward-looking statements may prove to be inaccurate.

In our effort to make the information in this report more meaningful, this report contains both historical and forward-looking statements. All statements other than statements of historical fact are forward-looking statements within the meanings of Section 27A of the Securities Act of 1933 and Section 21E of the 1934 Act. Forward-looking statements in this report are not based on historical facts, but rather reflect the current expectations of our management concerning future results and events. We have attempted to qualify our forward-looking statements with appropriate cautionary language to take advantage of the judicially-created doctrine of "bespeaks caution" and other protections.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance and achievements to be different from any future results, performance and achievements expressed or implied by these statements. These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in the forward-looking statements in this annual report. Other unknown or unpredictable factors also could have material adverse effects on our future results.



Risks Relating to our Business

Changes in the level of capital-spending by our customers could materially and adversely impact our business and financial condition.

Our principal customers are oil and natural gas exploration and production companies and the OEM's that supply the exploration and production companies with burner related equipment. Thus, the results of our operations and financial condition depend on the level of capital spending by our customers. The energy industry's level of capital spending is tied to the prevailing

commodity prices of natural gas and crude oil. Low commodity prices have the potential to reduce the amount of crude oil and natural gas that our customers can economically produce, and volatility in commodity prices may make our customers reluctant to invest in oilfields where our products would be used. Although our products can enhance the operational efficiency of producing wells, a prolonged or substantial downturn in market price could lead to reductions or delays in the capital spending of our clients and therefore reduce the demand for our products and services, which could materially and adversely impact our results of operations, financial condition and cash flow.

We depend on our customers' willingness to make operating and capital expenditures to transport, refine and produce oil and natural gas. Industry conditions are influenced by numerous factors over which we have no control, such as:

- the level of oil and gas production;
- the demand for oil and gas related products;
- domestic and worldwide economic conditions;
- political instability in the Middle East and other oil producing regions;
- the actions of the Organization of Petroleum Exporting Countries;
- the price of foreign imports of oil and gas, including liquefied natural gas;
- natural disasters or weather conditions, such as hurricanes;
- technological advances affecting energy consumption;
- the level of oil and gas inventories;
- the cost of producing oil and gas;
- the price and availability of alternative fuels;
- merger and divestiture activity among oil and gas producers; and
- governmental regulations.

The volatility of the oil and gas industry and the consequent impact on the transportation, refinement and production of oil and natural gas could cause a decline in the demand for our products and services, which could have a material adverse effect on our business. Major declines in oil and natural gas prices since July 2014 (when prices were at approximately \$100 per barrel) have resulted in substantial declines in capital spending and drilling programs across the industry. As a result of these declines in oil and natural gas prices over the last couple years, most exploration and production companies have reduced drilling programs from the historic levels seen in 2014.

Our assets and operations, as well as the assets and operations of our customers, could be adversely affected by weather and other natural phenomena.

Our assets and operations could be adversely affected by natural phenomena, such as tornados, earthquakes, wildfire, floods, and landslides. A significant disruption in our operations or the operations of our customers due to weather or other natural phenomena could adversely affect our business and financial condition.

Changes in foreign exchange rates in countries where our business operates could have a material adverse impact on our business and financial condition.

A portion of our consolidated revenue and consolidated operating income is in Canadian dollars. As a result, we are subject to significant risks, including:

- foreign currency exchange risks resulting from changes in foreign currency exchange rates and the execution of controls in this area;
- limitations on our ability to reinvest earnings from operations in one country to fund our operations in other countries.

The Canadian Dollar (CAD) lost substantial value compared to the United States Dollar (USD) during the nine-month transition period ended December 31, 2016 and negatively impacted our financial results; however, rates rebounded

during the

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year ended December 31, 2017, which positively impacted our financial results. If the volatility in the CAD/USD exchange rate causes another devaluation, it could have a material adverse impact on our business and financial condition.

The competitive nature of the oilfield services industry could lead to an increase of direct competitors.

As our segment within the oil and gas exploration and production industry grows and matures we expect additional companies will seek to enter this market. New entrants to our industry may be more highly capitalized, better recognized or better situated to take advantage of market opportunities. Any failure by us to adequately compete against current and future competitors could have a material adverse effect on our business, financial condition and results of operations.

We may not realize all of the anticipated benefits of our acquisitions, joint ventures or divestitures, or these benefits may take longer to realize than expected.

Our future business strategies may include growth through the acquisitions of other businesses. We may not be able to identify attractive acquisition opportunities or successfully acquire those opportunities that are identified. Even if there is success in integrating future acquisitions into existing operations, we may not derive the benefits, such as administrative or operational synergy or earnings obtained, that were expected from such acquisitions, which may result in the commitment of capital resources without the expected returns on the capital. The competition for acquisition opportunities may increase which in turn would increase our cost of making acquisitions.

In pursuing our business strategy, from time to time we evaluate targets and enter into agreements regarding possible acquisitions. To be successful, we conduct due diligence to identify valuation issues and potential loss contingencies, negotiate transaction terms, complete transactions and manage post-closing matters such as the integration of acquired businesses. We may incur unanticipated costs or expenses following a completed acquisition, including post-closing asset impairment charges, expenses associated with eliminating duplicate facilities, litigation, and other liabilities.

The risks associated with our past or future acquisitions also include the following:

- the business culture of the acquired business may not match well with our culture;
- we may fail to retain, motivate and integrate key management and other employees of the acquired business;
- we may experience problems in retaining customers and integrating customer bases;
- we may experience complexities associated with managing the combined businesses; and
- consolidating multiple physical locations.

There can be no assurance as to the extent to which the anticipated benefits of these acquisitions will be realized, if at all, or that significant time and costs beyond those anticipated will not be required with the integration of new acquisitions to the existing business. If we are unable to accomplish the integration and management successfully, or achieve a substantial portion of the anticipated benefits of these acquisitions within the time frames anticipated by management, it could have a material adverse effect on our business and financial condition.

Many of these factors will be outside of our control and any one of them could result in increased costs, decreases in the amount of expected revenues and diversion of management's time and attention. They may also delay the realization of the benefits we anticipate when we enter into a transaction. Failure to implement our acquisition strategy, including successfully integrating acquired businesses, could have a material adverse effect on our business and financial condition.

Our operations involve operating hazards, which, if not insured or indemnified against, could harm our results of operations and financial condition.

Our operations are subject to hazards inherent in our technology's use in oilfield service operations, oilfield development and oil production activities, including fire, explosions, blowouts, spills and damage or loss from natural disasters, each of which could result in substantial damage to the oil-producing formations and oil wells, production facilities, other property, equipment and the environment or in personal injury or loss of life. These hazards could also result in the suspension of purchasing, or in claims by employees, customers or third parties which could have a material adverse effect on our financial condition.

Some of these risks are either not insurable or insurance is available only at rates that we consider uneconomical. Although we will maintain liability insurance in an amount that we consider consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits. We may not always be successful in obtaining contractual indemnification from

our customers, and customers who provide contractual indemnification protection may not maintain adequate insurance or otherwise have the financial resources necessary to support their indemnification obligations. Our insurance or indemnification arrangements may not adequately protect us against liability or loss from all the hazards of our operations. The occurrence of a significant event that we have not fully insured or indemnified against or the failure of a customer to meet its indemnification obligations to us could materially and adversely affect our results of operations and financial condition.

Changes to governmental regulation of the oil and gas industry could materially and adversely affect our business.

If the laws and regulations governing oil and natural gas exploration and production were to become less stringent, we could experience a decline in the demand for our products, which we would expect would materially and adversely impact our results of operations and financial condition. These regulations are subject to change and new regulations may curtail or eliminate customer activities in certain areas where we currently operate. We cannot determine the extent to which new legislation may impact customer activity levels, and ultimately, the demand for our products and services.

Furthermore, our operations are affected by local, provincial, state, federal and foreign laws and other regulations relating to oil, gas and electric standards. Such standards can be related to safety, environmental protection, or other regulatory dimensions for the oil and gas industry. We cannot predict the level of enforcement of existing laws and regulations, how such existing laws and regulations may be interpreted by enforcement agencies or court rulings, whether additional laws and regulations will be adopted, or the effect such changes may have on us, our business or financial condition.

Our international operations involve additional risks not associated with our domestic operations. We intend to continue our expansion into international oil and gas producing areas. The effect on our international operations from the risks we describe will not be the same in all countries and jurisdictions. Risks associated with our operations outside of the United States include risks of:

- multiple, conflicting, and changing laws and regulations, export and import restrictions, and employment laws;
- regulatory requirements, and other government approvals, permits, and licenses;
- potentially adverse tax consequences;
- political and economic instability, including wars and acts of terrorism, political unrest, boycotts, curtailments of trade and sanctions, and other business restrictions;
- expropriation, confiscation or nationalization of assets;
- renegotiation or nullification of existing contracts;
- difficulties and costs in recruiting and retaining individuals skilled in international business operations;
- foreign exchange restrictions;
- foreign currency fluctuations;
- foreign taxation;
- the inability to repatriate earnings or capital;
- changing foreign and domestic monetary policies;
- cultural and communication challenges;
- industry-process changes in heating and flow of oil;
- regional economic downturns;
- foreign governmental regulations favoring or requiring the awarding of contracts to local contractors or requiring foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction that may harm our ability to compete; and
- compliance with anti-corruption and anti-bribery laws, including the U.S. Foreign Corrupt Practices Act.

Our business has potential liability for litigation, personal injury and property damage claims assessments.

Most of our products are used in hazardous production applications and involve exposure to inherent risks, including explosions and fires, where an accident or a failure of a product could result in liability for personal injury, loss of life, property damage, pollution or other environmental hazards or loss of production. Litigation may arise from a catastrophic occurrence at

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a location where our equipment and services are used. This litigation could result in large claims for damages, including consequential damages, and could impair the market's acceptance of our products. The frequency and severity of such incidents could affect our operating costs, insurability and relationships with customers, employees and regulators. These occurrences could result in substantial costs and diversion of our management's attention and resources, which could have an adverse effect on our business.

Our business may be subject to product liability claims or product recalls, which could be expensive and could result in a diversion of management's attention.

The oil industry experiences significant product liability claims. As an installer and servicer of oilfield combustion management technologies and related products, we face an inherent business risk of exposure to product liability claims in the event that our products, or the equipment into which our products are incorporated, could malfunction and result in personal injury or death. We may be named in product liability claims even if there is no evidence that our technology, products or services caused or contributed to the accidents. Product liability claims could result in significant losses as a result of expenses incurred in defending claims or the awarding of damages. In addition, we may be required to participate in recalls involving our products if any of our products prove to be defective, or we may voluntarily initiate a recall or make payments related to such claims as a result of various industry or business practices, or in an effort to maintain good customer relationships. We cannot be certain that our product liability insurance will be sufficient to cover all product liability claims, that such claims will not exceed our insurance coverage limits or that such insurance will continue to be available on commercially reasonable terms, if at all. Any product liability claim brought against us could have a material adverse effect on our reputation and business.

Uninsured or underinsured claims or litigation or an increase in our insurance premiums could adversely impact our results of operations.

Although we maintain insurance protection for certain risks in our business and operations, we are not fully insured against all possible risks, nor are all such risks insurable. It is possible an unexpected judgment could be rendered against us in cases in which we could be uninsured or underinsured and beyond the amounts we currently have reserved or anticipate incurring. Significant increases in the cost of insurance and more restrictive coverage may have an adverse impact on our results of operations. In addition, we may not be able to maintain adequate insurance in the future at rates we consider reasonable or that our insurance coverage will be adequate to cover future claims and assessments that may arise.

Liability to customers under warranties may materially and adversely affect our earnings.

We provide warranties as to the proper operation and conformance to specifications of the products we sell. Failure of our products to operate properly, or to meet specifications may increase our costs by requiring additional engineering resources and services, replacement of parts and equipment or monetary reimbursement to a customer. We have in the past received warranty claims and we expect to continue to receive them in the future. To the extent that we incur substantial warranty claims in any period, our reputation, our ability to obtain future business and our earnings could be adversely affected.

Some of our products use equipment and materials that are available from a limited number of suppliers.

We purchase equipment provided by a limited number of manufacturers. During periods of high demand, these manufacturers may not be able to meet our requests for timely delivery, resulting in delayed deliveries of equipment and higher prices for equipment. There are a limited number of suppliers for certain materials used in burner management systems, our largest product line. Although these materials are generally available, supply disruptions may occur due to factors beyond our control. Such disruptions, delayed deliveries, and higher prices could limit our



ability to meet our customers' needs, or could increase the related costs, thus possibly reducing revenues and profits.

Dependence on contract manufacturing and outsourcing other portions of our supply chain may adversely affect our ability to bring products to market and damage our reputation.

As part of our efforts to streamline operations and to cut costs, we outsource our manufacturing processes and other functions and continue to evaluate additional outsourcing. If our contract manufacturers or other outsourcers fail to perform their obligations in a timely manner or at satisfactory quality levels, our ability to bring products to market and our reputation could suffer. For example, during a market upturn, our contract manufacturers may be unable to meet our demand requirements, which may preclude us from fulfilling our customers' orders on a timely basis. The ability of these manufacturers to perform is largely outside of our control. Additionally, changing or replacing our contract manufacturers or other outsourcers could cause disruptions or delays.

Historically, we have depended on a few major customers for a significant portion of our revenue, and our revenue could decline if we are unable to maintain those relationships, if customers reduce their orders for their products, or if we are unable to secure new customers.

Historically, we have derived a significant portion of our revenue from a limited number of customers. While we continually seek to broaden our customer base, it is likely that for the foreseeable future we will remain dependent on these customers to supply a substantial portion of our revenue. Relationships with our customers are based on purchase orders rather than long-term formal supply agreements, and customers can discontinue or materially reduce orders without warning or penalty. Demand for our products is tied directly to the health of the oil industry. Accordingly, factors that affect the oil industry have a direct effect on our business, including factors outside of our control, such as sales slowdowns due to economic concerns, or as a result of natural disasters. The loss of one or more of our significant customers, or reduced demand from one or more of our significant customers, would result in an adverse effect on our revenue, our profitability, and our ability to continue our business operations.

We are exposed to risks of delay, cancellation, and nonpayment by customers in the ordinary course of our business activities.

We are exposed to risks of loss in the event of delay, cancellation, and nonpayment by our customers. Our customers are subject to their own operating and regulatory risks and may be highly leveraged. We may experience financial losses in our dealings with other parties. Any delay and any increases in the cancellation of contracts or nonpayment by our customers and/or counterparties could adversely affect our results of operations and financial condition. In addition, the same factors that may lead to a reduction in our potential customers' spending may also increase our exposure to the risks of nonpayment and nonperformance by our customers. A significant reduction in our customers' liquidity may result in a decrease in their ability to pay or otherwise perform their obligations to us. Any increase in nonpayment or nonperformance by our customers, either as a result of recent changes in financial and economic conditions or otherwise, could have an adverse impact on the operating results and adversely affect liquidity.

Our ability to successfully commercialize our technology and products may be materially adversely affected if we are unable to obtain and maintain effective intellectual property rights for our technologies and planned products, or if the scope of the intellectual property protection is not sufficiently broad.

Our success depends in part on our ability to obtain and maintain patent and other intellectual property protection with respect to our proprietary technology and products. In recent years, patent rights have been the subject of significant litigation. As a result, the issuance, scope, validity, enforceability and commercial value of the patent rights is highly uncertain. Pending and future patent applications may not result in patents being issued which protect our technology or products or which effectively prevent others from commercializing competitive technologies and products. Changes in either the patent laws or interpretation of the same, especially in jurisdictions which we hope to secure protection, may diminish the value of patents or narrow the scope of patent protection. Publications of discoveries in the scientific literature often lag behind the actual discoveries, and patent applications, in the U.S. and other jurisdictions, such discoveries are typically not published until 18 months after filing, or in some cases not at all. Therefore, we cannot be certain that we were the first to make the inventions claimed in our patents or pending patent applications, or that we or were the first to file for patent protection of such inventions.

Even if the patent applications we rely on are issued as patents, they may not issue in a form that will provide us with any meaningful protection, prevent competitors from competing with us or otherwise provide us with any competitive advantage. Our competitors may be able to circumvent our patents by developing similar or alternative technologies or products in a non-infringing manner. The issuance of a patent is not conclusive as to its scope, validity or enforceability, and patents may be challenged in the courts or patent offices in the U.S. and abroad. Such challenges may result in patent claims being narrowed, invalidated or held unenforceable, which could limit our ability to stop, or

prevent us from stopping, others from using or commercializing similar or identical technology and products, or limit the duration of the patent protection of our technology and products. As a result, our patent portfolio may not provide us with sufficient rights to exclude others from commercializing products similar or identical to ours, or otherwise provide us with a competitive advantage.

While we are not currently engaged in any material intellectual property litigation, in the future we may commence lawsuits against others if we believe they have infringed our rights. We cannot be assured that we would be successful in any such litigation. Our involvement in any intellectual property litigation could require the expenditure of substantial time and other resources, may adversely affect the development of sales of our products or intellectual property, our capital resources, or may divert the efforts of our technical and management personnel, and could have a material adverse effect on our business, results of operations and financial condition.

We may not be able to protect or enforce our intellectual property rights throughout the world.

Filing, prosecuting and defending our patents throughout the world would be prohibitively expensive to us. Competitors may use our technologies, in jurisdictions where we have not obtained patent protection to develop their own products, and may export otherwise infringing products to territories where we have patent protection but where enforcement is not as strong as in the U.S. These products may compete with our products in jurisdictions where we do not have any issued patents, and our intellectual property rights may not be effective or sufficient to prevent them from so competing. Many companies have encountered significant problems in protecting and defending intellectual property rights in foreign jurisdictions. The legal systems of certain countries may not favor the enforcement of patents and other intellectual property protection, which could make it difficult for us to stop the infringement of any patents or marketing of competing products in violation of our proprietary rights generally. Proceedings to enforce any patent rights in foreign jurisdictions could result in substantial cost and divert our efforts and attention from other aspects of our business.

If we are unable to protect the confidentiality of our trade secrets, the value of our technology could be materially adversely affected, harming our business and competitive position.

Some of our proprietary intellectual property is not protected by any patent, copyright or patent or copyright applications, and, despite our precautions, it may be possible for third parties to obtain and use such intellectual property without authorization. We rely upon confidential proprietary information, including trade secrets, unpatented know-how, technology, software, and other proprietary information, to develop and maintain our competitive position. Any disclosure to, or misappropriation by, third parties of our confidential proprietary information could enable competitors to quickly duplicate or surpass our technological achievements, thus eroding our competitive position in the market. We seek to protect our confidential proprietary information, in part, by confidentiality agreements with our employees and our collaborators and consultants. We also have agreements with our employees and selected consultants that obligate them to assign their inventions to us.

These agreements are designed to protect our proprietary information; however, we cannot be certain that our trade secrets and other confidential information will not be disclosed or that competitors will not otherwise gain access to our trade secrets, or that technology relevant to our business will not be independently developed by a person that is not a party to such agreements. Furthermore, if the employees, consultants or collaborators that are parties to these agreements breach or violate the terms of these agreements, we may not have adequate remedies for any such breach or violation, and we could lose our trade secrets through such breaches or violations. Further, our trade secrets could be disclosed, misappropriated or otherwise become known or be independently discovered by our competitors. In addition, intellectual property laws in foreign countries may not protect trade secrets and confidential information to the same extent as the laws of the U.S. If we are unable to prevent disclosure of the intellectual property related to our technologies to third parties, we may not be able to establish or maintain a competitive advantage in our market, which would harm our ability to protect our rights and have a material adverse effect on our business.

Third parties may initiate legal proceedings alleging that we are infringing their intellectual property rights, the outcome of which would be uncertain and could have a material adverse effect on the success of our business.

Our commercial success depends upon our ability and the ability of our distributors, contract manufacturers, and suppliers to manufacture, market, and sell our products, and to use our proprietary technologies without infringing, misappropriating or otherwise violating the proprietary rights or intellectual property of third parties. While we are not aware of any issued or pending patent applications that could restrict our ability to operate, we may in the future become party to, or be threatened with, adversarial proceedings or litigation regarding intellectual property rights with respect to our products and technology. Third parties may assert infringement claims against us based on existing or future intellectual property rights. If we are found to infringe a third party's intellectual property rights, we may be

temporarily or permanently prohibited from commercializing our products that are held to be infringing. We might, if possible, also be forced to redesign our products so that we no longer infringe the third party intellectual property rights, or we could be required to obtain a license from such third party to continue developing and marketing our products and technology. We may also elect to enter into such a license in order to settle pending or threatened litigation. However, we may not be able to obtain any required license on commercially reasonable terms or at all. Even if we were able to obtain a license, it could be non-exclusive, thereby giving our competitors access to the same technologies licensed to us, and could require us to pay significant royalties and other fees. We could be forced, including by court order, to cease commercializing the infringing technology or product. In addition, we could be found liable for monetary damages. A finding of infringement could prevent us from commercializing our products or force us to cease some of our business operations, which could materially harm our business.

Even if we are successful in defending against intellectual property claims, litigation or other legal proceedings relating to such claims may cause us to incur significant expenses, and could distract our technical and management personnel from their normal responsibilities. Such litigation or proceedings could substantially increase our operating losses and reduce our resources

available for development activities. We may not have sufficient financial or other resources to adequately conduct such litigation or proceedings. As a result of their substantially greater financial resources, some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively than we can. Uncertainties resulting from the initiation and continuation of litigation or other intellectual property related proceedings could have a material adverse effect on our ability to compete in the marketplace.

If we do not develop and commercialize new competitive products, our revenue may decline.

To remain competitive in the market for oilfield combustion management technologies, we must continue to develop and commercialize new products. If we are not able to develop commercially competitive products in a timely manner in response to industry demands, our business and revenues will be adversely affected. Our future ability to develop new products depends on our ability to:

- design and commercially produce products that meet the needs of our customers;
- attract and retain talented research-and-development management and personnel;
- successfully market new products; and
- protect our proprietary designs from our competitors.

We may encounter resource constraints or technical or other difficulties that could delay introduction of new products and services. Our competitors may introduce new products before we do and achieve a competitive advantage.

Additionally, the time and expense invested in product development may not result in commercial products or provide revenues. Our inability to enhance existing products in a timely manner or to develop and introduce new products that incorporate new technologies, conform to stringent regulatory standards and performance requirements, and achieve market acceptance in a timely manner could negatively impact our competitive position. New product development or modification is costly, involves significant research, development, time and expense and may not necessarily result in the successful commercialization of any new products. Moreover, we may experience operating losses after new products are introduced and commercialized because of high start-up costs, unexpected manufacturing costs or problems, or lack of demand.

New technologies could render our existing products obsolete.

New developments in technology may negatively affect the development or sale of some or all of our products or make our products obsolete. Our success depends upon our ability to design, develop and market new or modified combustion management technologies and related products.

Our business and financial condition could be negatively impacted if we lose the services of certain members of senior management.

Our development to date has largely depended, and in the future will continue to largely depend, on the efforts of our senior management. We currently do not have key-person insurance on any of our senior management team. Thus, the loss of any member of our senior management could impair our ability to execute our business plan and could therefore have a material adverse effect on our business, results of operations and financial condition.

Failing to attract and retain skilled employees could impair our growth potential and profitability.

Our ability to remain productive and profitable depends substantially on our ability to attract and retain skilled employees. Our ability to scale our operations is in part, and at times, impacted by our ability to increase our labor force. The demand for skilled oilfield employees is high and the supply is limited. As a result of the volatility of the oil field services industry, our ability to offer competitive wages and retain skilled employees may be diminished.

If we are unable to expand in existing or into new markets, our ability to grow our business as profitably as planned could be materially and adversely affected.

While it remains our primary focus there can be no assurance that we will be able to expand our market share in our existing markets or successfully enter new or contiguous markets especially in light of industry volatility. Nor can there be any assurance that such expansion will not adversely affect our profitability and results of operations. If we are unable to enter into new markets, our business could be materially and adversely affected.

If we are unable to manage growth effectively, our business, results of operations and financial condition could be materially and adversely affected.

Our ability to successfully expand to new markets, or expand our penetration in existing markets, depends on a number of factors including:

- our ability to market our products and services to new customers;
- our ability to provide large-scale support and training materials for a growing customer base;
- our ability to hire, train and assimilate new employees;
- the adequacy of our financial resources; and
- our ability to correctly identify and exploit new geographical markets and to successfully compete in those markets.

There can be no assurance that we will be able to achieve our planned expansion, that our products will gain access to new markets or be accepted in new marketplaces, that we will achieve greater market penetration in existing markets or that we will achieve planned operating results, or results comparable to those we experience in existing markets, in the new markets we enter.

Disruptions, failures or security breaches of our information technology infrastructure could have a negative impact on our operations.

Information technology is critically important to our business operations. We use information technology to manage all business processes including manufacturing, financial, logistics, sales, marketing and administrative functions. These processes collect, interpret and distribute business data and communicate internally and externally with employees, suppliers, customers and others.

We invest in industry standard security technology to protect the Company's data and business processes against risk of data security breach and cyber-attack. Our data security management program includes identity, trust, vulnerability and threat management business processes as well as adoption of standard data protection policies. We measure our data security effectiveness through industry accepted methods and remediate significant findings. Additionally, we certify our major technology suppliers and any outsourced services through accepted security certification standards.

While we believe that our security technology and processes provide adequate measures of protection against security breaches and reduce cybersecurity risks, disruptions in, or failures of, information technology systems are possible and could have a negative impact on our operations or business reputation. Failure of our systems, including failures due to cyber-attacks that would prevent the ability of systems to function as intended, could cause transaction errors, loss of customers and sales, and could have negative consequences to our Company, our employees, and those with whom we do business.

#### Risks Relating to our Stock

Our stock options and other equity-based awards to employees may not have their intended effect.

A portion of our total compensation program for key personnel has historically included awards of options to buy our common stock or other equity-based awards. If the price of our common stock performs poorly, such performance may adversely affect our ability to retain or attract key personnel. In addition, if we are unable to continue to provide attractive equity compensation awards or other compensation incentives for any reason, we may be unable to retain and motivate existing personnel and recruit new personnel.

Our common stock lacks liquidity.



A significant percentage of our outstanding common stock is "restricted" and therefore subject to the resale restrictions set forth in Rule 144 of the rules and regulations promulgated by the SEC under the Securities Act of 1933. These factors could adversely affect the liquidity, trading volume, price and transferability of our common stock.

The market price of our common stock has been and may continue to be volatile.

The market price of our common stock has been volatile, and fluctuates widely in price in response to various factors which are beyond our control. The price of our common stock is not necessarily indicative of our operating performance or long-term business prospects. In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock. Factors such as the following could cause the market price of our common stock to fluctuate substantially:

- the underlying price of the commodities in the oil and gas industry;
- announcements of capital budget changes by a major customer;
- the introduction of new products by our competitors;
- announcements of technology advances by us or our competitors;
- current events affecting the political and economic environment in the United States or Canada;
- conditions or industry trends, including demand for our products, services and technological advances;
- changes to financial estimates by us or by any securities analysts who might cover our stock;
- additions or departures of our key personnel;
- government regulation of our industry;
- seasonal, economic, or financial conditions;
- our quarterly operating and financial results; or
- litigation or public concern about the safety of our products.

The realization of any of these risks and other factors beyond our control could cause the market price of our common stock to decline significantly. In particular, the market price of our common stock may be influenced by variations in oil and gas prices, because demand for our products and services is closely related to those products. The stock market in general experiences, from time to time, extreme price and volume fluctuations. Periodic and/or continuous market fluctuations could result in extreme volatility in the price of our common stock, which could cause a decline in the value of our common stock. Price volatility may be worse if the trading volume of our common stock is low.

Our existing shareholders could experience further dilution if we elect to raise equity capital to meet our liquidity needs or to finance strategic transactions.

As part of our future growth strategy, we may desire to raise capital, issue stock to employees pursuant to our 2014 Equity Incentive Plan, and or utilize our common stock to effect strategic business transactions, any of which will likely require that we issue equity (or debt) securities which would result in dilution to our existing stockholders. Although we anticipate attempting to minimize the dilutive impact of any future capital-raising activities or business transactions, we cannot offer any assurance that we will be effectively able to do so.

Future sales of our common stock, or the perception that future sales may occur, may cause the market price of our common stock to decline, even if our business is doing well.

If any significant number of our outstanding shares are sold, such sales could have a depressive effect on the market price of our stock. We are unable to predict the effect, if any, that the sale of shares, or the availability of shares for future sale, will have on the market price of the shares prevailing from time to time. Sales of substantial amounts of shares in the public market, or the perception that such sales could occur, could depress prevailing market prices for the shares. Such sales may also make it more difficult for us to sell equity securities or equity-related securities in the future at a time and price which we deem appropriate.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results, and current and potential stockholders may lose confidence in our financial reporting.

We are required by the SEC to establish and maintain adequate internal control over financial reporting that provides reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. We are likewise required, on a quarterly basis, to evaluate the effectiveness of our internal controls and to disclose any changes and material weaknesses in those internal controls. In Item 9A, we disclose that with

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respect to the standards of Sarbanes-Oxley Section 404, the internal controls-standard to which we were subjected to, we reported material weaknesses in our internal controls over financial reporting. For additional information on this item, please see Item 9A. Controls and Procedures.

Although we believe our historical efforts have strengthened our internal control over financial reporting (and we concluded that our financial statements were reliable, notwithstanding the material weakness we reported), we cannot be certain that our revised internal control practices will ensure that we will have or maintain adequate internal control over our financial reporting in future periods. Any failure to have or maintain such internal controls could adversely impact our ability to report our financial results accurately and on a timely basis. If our financial statements are not accurate, investors may not have a complete understanding of our operations.

We could issue "blank check" preferred stock without stockholder approval with the effect of diluting existing stockholders and impairing their voting rights, and provisions in our charter documents and under Nevada corporate law could discourage a takeover that stockholders may consider favorable.

Our articles of incorporation authorize the issuance of up to 10,000,000 shares of "blank check" preferred stock with designations, rights and preferences as may be determined from time to time by our Board. Our Board is empowered, without stockholder approval, to authorize the issuance of a series of preferred stock with dividend, liquidation, conversion, voting or other rights which could dilute the interest of, or impair the voting power of, our common stockholders. The issuance of a series of preferred stock could be used as a method of discouraging, delaying or preventing a change in control. For example, it would be possible for the Board to authorize preferred stock with voting or other rights or preferences that could impede the success of any attempt to effect a change in control of our company. Any aspect of the foregoing, alone or together, could delay or prevent unsolicited takeovers and changes in control or changes in our management.

We do not anticipate paying cash dividends for the foreseeable future, and therefore investors should not buy our stock if they wish to receive cash dividends.

We have never declared or paid any cash dividends or distributions on our common stock. We currently intend to retain our future earnings to support operations and to finance expansion and, therefore, we do not anticipate paying any cash dividends on our common stock in the foreseeable future. Any payment of cash dividends in the future will be dependent on the amount of funds legally available, our earnings, financial condition, capital requirements and other factors that our Board may deem relevant. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends should not purchase our common stock.

Our management has a substantial ownership interest in our common stock and the availability of our common stock to the investing public may be limited.

The availability of our common stock to the investing public may be limited to those shares not held by our executive officers, directors and their affiliates, which could negatively impact our trading prices and affect the ability of our minority stockholders to sell their shares. Future sales by executive officers, directors and their affiliates of all or a portion of their shares could also negatively affect the trading price of our common stock.

Our insiders have significant influence over matters requiring shareholder approval.

Our insiders own over 50% of our common stock as of December 31, 2017. As a result, our insiders have sufficient voting power to control the outcome of many matters requiring shareholder approval. These matters may include:

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the composition of our Board, which has the authority to direct our business, appoint and remove our officers, and declare dividends;

• approving or rejecting a merger, consolidation or other business combination;

• raising future capital; and

• amending our articles of incorporation and bylaws.

This concentration of ownership of our common stock could delay or prevent proxy contests, mergers, tender offers, open-market purchase programs or other purchases of our common stock that might otherwise give our other stockholders the opportunity to realize a premium over the then-prevailing market price of our common stock. This concentration of ownership may also adversely affect our share price. The interests of our insiders may differ from the interests of our other stockholders.

Furthermore, this concentration of ownership may delay, prevent or deter a change in control, or deprive investors of a possible premium for owned common stock as part of a sale of our company.

We may not be able to maintain compliance with The NASDAQ Capital Market's continued listing requirements.

Our common stock is listed on The NASDAQ Capital Market. There are a number of continued listing requirements that we must satisfy in order to maintain our listing on The NASDAQ Capital Market. If we fail to maintain compliance with all applicable continued listing requirements for The NASDAQ Capital Market and NASDAQ determines to delist our common stock, the delisting could adversely affect the market liquidity of our common stock, our ability to obtain financing, to repay any future debt we could incur and fund our operations.

If our common stock were to be delisted from NASDAQ, trading of our common stock most likely would be conducted in the over-the-counter market on an electronic bulletin board established for unlisted securities such as the OTC Bulletin Board. Such trading would likely reduce the market liquidity of our common stock. As a result, an investor would find it more difficult to dispose of, or obtain accurate quotations for the price of, our common stock. If our common stock is delisted from NASDAQ and the trading price remains below \$5.00 per share, trading in our common stock might also become subject to the requirements of certain rules promulgated under the Exchange Act, which require additional disclosure by broker-dealers in connection with any trade involving a stock defined as a "penny stock" (generally, any equity security not listed on a national securities exchange or quoted on NASDAQ that has a market price of less than \$5.00 per share, subject to certain exceptions). Many brokerage firms are reluctant to recommend low-priced stocks to their clients. Moreover, various regulations and policies restrict the ability of stockholders to borrow against or "margin" low-priced stocks, and declines in the stock price below certain levels may trigger unexpected margin calls. Additionally, because brokers' commissions on low-priced stocks generally represent a higher percentage of the stock price than commissions on higher priced stocks, the current price of the common stock can result in an individual stockholder paying transaction costs that represent a higher percentage of total share value than would be the case if our share price were higher. This factor may also limit the willingness of institutions to purchase our common stock. Finally, the additional burdens imposed upon broker-dealers by these requirements could discourage broker-dealers from facilitating trades in our common stock, which could severely limit the market liquidity of the stock and the ability of investors to trade our common stock. As a result, the ability of our stockholders to resell their shares of common stock, and the price at which they could sell their shares, could be adversely affected. The delisting of our stock from NASDAQ would also make it more difficult for us to raise additional capital.

#### Item 1B. Unresolved Staff Comments

Not applicable.

#### Item 2. Properties

The following table lists the location and description of each of our facilities, the current lease expiration date (when applicable), and the facility's principal use, and approximate square footage:

| Location               | Lease Expiration | Use                               | Square Footage |
|------------------------|------------------|-----------------------------------|----------------|
| Lindon, Utah           | Owned            | Corporate HQ & Warehouse Assembly | 50,500         |
| Spruce Grove, Alberta  | Owned            | Office & Warehouse Assembly       | 16,000         |
| Greeley, Colorado      | Owned            | Office & Warehouse Storage        | 2,750          |
| Houston, Texas         | August 31, 2018  | Office & Warehouse Assembly       | 3,250          |
| Shelocta, Pennsylvania | January 31, 2018 | Office & Warehouse Storage        | 2,100          |

#### Item 3. Legal Proceedings

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in matters may arise from time to time that may harm our business. As of December 31, 2017, Management is not aware of any pending legal, judicial or administrative proceedings to which the Company or any of its subsidiaries is a party or of which any properties of the Company or its subsidiaries is the subject that we believe could have a material impact on our operations or financial statements.

Item 4. Mine Safety Disclosures

Not applicable.

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## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

## Market Information for Registrant's Common Equity and Holders

The Company's common stock is traded on the NASDAQ Capital Market under the symbol "PFIE." As of March 6, 2018, there were approximately 91 shareholders of record for our common stock. The number of record shareholders was determined from the records of our stock transfer agent and does not include beneficial owners of common stock whose shares are held in the names of various security brokers, dealers, registered clearing houses or agencies, banks, or other fiduciaries. We have never declared dividends and we have no intention of doing so in the foreseeable future.

The table below displays the high and low closing prices of our common stock as quoted by the NASDAQ Capital Market during each quarter presented:

| Quarter Ended      | High   | Low    |
|--------------------|--------|--------|
| June 30, 2016      | \$1.11 | \$0.86 |
| September 30, 2016 | \$1.32 | \$1.11 |
| December 31, 2016  | \$1.43 | \$1.08 |
| March 31, 2017     | \$1.62 | \$1.18 |
| June 30, 2017      | \$1.48 | \$1.16 |
| September 30, 2017 | \$1.99 | \$1.20 |
| December 31, 2017  | \$2.09 | \$1.75 |

## Dividends

The Company has not declared or paid any dividends in the past two years and does not intend to do so in the foreseeable future.

## Securities Authorized for Issuance Under Equity Compensation Plans

The table below displays information relating to equity compensation:

| Plan category  | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|--|---|---|---|
|  | (a)   | (b)   | (c)   |
| Equity compensation plans approved by security holders     | 2,152,402   | \$ 1.49   | 3,014,249   |
| Equity compensation plans not approved by security holders | —   | —   | —   |
| Total  | 2,152,402   | \$ 1.49   | 3,014,249   |



Unregistered Sales of Securities and Related Stockholder Matters

As previously reported, on June 26, 2014, the SEC declared effective our registration statement on Form S-1 (File No. 333-196462). The registration statement related to the offer and sale of 6,000,000 shares of our common stock; 4,500,000 shares were sold by the Company and 1,500,000 shares were sold by certain selling stockholders. On July 2, 2014, we sold 4,500,000 shares of our common stock at the price of \$4.00 per share, for an aggregate sale price of \$18,000,000.

Although we have used a portion of the proceeds from the offering to fund our operations, to acquire new technologies and physical assets, and to repurchase shares, a portion of our existing cash balance continues to reflect unused proceeds from the offering. We expect to use the remaining proceeds from the offering for expansion of our sales and service teams to match regional demand for our products and for other working capital purposes. We may also use a portion of the remaining proceeds to fund

possible investments in, or acquisitions of, complementary businesses, solutions or additional technologies. The amount and timing of what we actually spend for these purposes may vary significantly and will depend on a number of factors, including our future revenue and cash generated by operations and other factors. Accordingly, our management will have discretion and flexibility in applying the remaining proceeds of the offering. Pending any uses, as described above, we intend to invest the net proceeds in high quality, investment grade, short-term fixed income instruments which include corporate, financial institution, federal agency or U.S. government obligations.

#### Issuer Purchases of Equity Securities

On May 26, 2016, the Company announced that its Board of Directors had approved a share repurchase program authorizing the Company to repurchase up to \$2,000,000 worth of the Company's common stock from time to time through May 25, 2017. In order to avoid the appearance of market manipulations, the Company set up a 10b5-1 plan to facilitate many of the repurchases and began repurchasing stock in July of 2016. On May 25, 2017, when the original repurchase program expired, the Board of Directors approved another repurchase program authorizing the Company to repurchase up to another \$2,000,000 worth of common stock through May 31, 2018. As of December 31, 2017, the Company had repurchased 1,624,742 shares pursuant to both of the repurchase programs approved by the Board for an aggregate purchase price of \$2,187,349.

The table below sets forth additional information regarding our share repurchases during the three months ended December 31, 2017:

| Period   | (a) Total Number of Shares Purchased | (b) Weighted Average Price Paid Per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans | (d) Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans |
|----------|--------------------------------------|---|--|--|
| October  | 51,670                               | \$ 1.80                                   | 51,670   | \$1,497,293  |
| November | 960                                  | \$ 1.80                                   | 960  | \$1,495,565  |
| December | 51,542                               | \$ 1.79                                   | 51,542   | \$1,403,223  |
| Total    | 104,172                              |   | 104,172  |  |

#### Item 6. Selected Financial Data

As a smaller reporting company, this section is not required.

#### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

On December 22, 2016, our board of directors approved a resolution to change our fiscal year from the period beginning April 1 and ending on March 31 to the period beginning on January 1 and ending on December 31 of each year. Accordingly, on March 9, 2017 we filed a transition report on Form 10-K to include audited consolidated financial information for the nine-month transition period from April 1, 2016 through December 31, 2016. In view of this change, this discussion summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and capital resources during the year ended December 31, 2017 and the unaudited comparable year ended December 31, 2016. For a complete understanding, this Management's Discussion and Analysis should be read in conjunction with the Financial Statements and Notes to the Financial Statements contained in this annual

report on Form 10-K.

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## Results of Operations

## Revenues, Cost of Goods Sold, and Gross Profit

The table below presents information regarding revenues, cost of goods sold, and gross profit.

|                          | For the<br>Year<br>Ended<br>December<br>31, 2017 | % of<br>Revenue | (Unaudited)<br>For the<br>Year Ended<br>December<br>31, 2016 | % of<br>Revenue | \$ Change     | %<br>Change |
|--------------------------|--|-----------------|--|-----------------|---------------|-------------|
| Total Revenues           | 38,286,376                                       | 100 %           | 20,530,840   | 100 %           | \$ 17,755,536 | 86 %        |
| Total Cost of Goods Sold | 18,022,469                                       | 47 %            | 10,130,441   | 49 %            | \$ 7,892,028  | 78 %        |
| Gross Profit             | 20,263,907                                       | 53 %            | 10,400,399   | 51 %            | \$ 9,863,508  | 95 %        |

Total revenues increased 86% due to the hard work of our sales and service teams to capitalize on the rebound of oil prices and increased capital spending from our customers. We are continuing to focus our resources in geographic areas that we believe have the greatest potential for improved revenues and return on investment.

Total cost of goods sold increased as expected due to the increase in revenues. As a percentage of revenue, cost of goods sold decreased by 2%, which is largely attributable to product mix and improved inventory management. We continue to work with our suppliers to control our inventory costs, which has the largest impact on margin. As a result of the aforementioned changes, total gross profit increased by \$9,863,508 or 2% as a percentage of revenues between the periods.

## Operating Expenses

The table below presents information on operating expenses:

|  | For the<br>Year<br>Ended<br>December<br>31, 2017 | % of<br>Revenue | (Unaudited)<br>For the<br>Year Ended<br>December<br>31, 2016 | % of<br>Revenue | \$ Change    | %<br>Change |
|--|--|-----------------|--|-----------------|--------------|-------------|
| General and administrative expenses                                  | 11,676,693                                       | 30 %            | 10,071,009   | 49 %            | \$ 1,605,684 | 16 %        |
| Research and development   | 1,221,211  | 3 %             | 708,385  | 3 %             | \$ 512,826   | 72 %        |
| Depreciation and amortization expense (inclusive of amounts in COGS) | 890,018  | 2 %             | 983,936  | 5 %             | \$ (93,918 ) | (10 )%      |

General and administrative expenses increased by \$1,605,684 or 16% between the periods, as compared with the 86% increase in revenues. The majority of the increase in general and administrative expenses was due to an expanding labor force required to meet the demand from our customers.

Research and development expenses increased between the periods, but remained the same as a percentage of revenue. We are continuing to prioritize research and development projects to ensure that we remain a leader in technology and automation in the oil and gas industry.

Depreciation and amortization expense decreased in 2017 compared to 2016 due to some assets becoming fully depreciated during the year. We did invest in several new fixed assets during the year, but most of those purchases occurred near the end of the year, so only a small amount of depreciation expense was recorded for those assets during the year. Refer to Note 2 of the financial statements for further details on property and equipment and depreciation

expense.

#### Liquidity and Capital Resources

Management is committed to maintaining strong liquidity in an effort to be conservative and be able to respond quickly to any unforeseen changes in the industry. The Company currently has no long-term debt, and does not have any immediate plans that would require long-term financing. While Management believes sources of financing are available if needed, we cannot be

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certain that financing would be available to us on favorable terms, or at all. We currently do not expect any material changes to our capital resource mix during the next year. In addition, we do not have any material commitments for capital expenditures.

The table below presents information on cash and investments:

|                                | December<br>31, 2017 | December<br>31, 2016 | \$ Change     | %<br>Change |
|--------------------------------|----------------------|----------------------|---------------|-------------|
| Cash and cash equivalents      | 11,445,799           | 7,679,621            | \$3,766,178   | 49 %        |
| Short term investments         | 300,817              | 2,965,536            | \$(2,664,719) | (90 )%      |
| Short term investments - other | 4,009,810            | 2,993,825            | \$1,015,985   | 34 %        |
| Long Term Investments          | 8,517,182            | 5,504,997            | \$3,012,185   | 55 %        |
| Long term investments - other  | —                    | 892,590              | \$(892,590)   | (100)%      |
| Total                          | 24,273,608           | 20,036,569           | 4,237,039     | 21 %        |

During the nine-month transition period ended December 31, 2016, we changed our cash management policy, which enabled us to better utilize our excess cash by investing in certificates of deposit, bonds, and mutual funds. The Company has implemented a conservative investment program that Management believes should provide a better return than a savings account while keeping the principal as safe as reasonably possible. In addition, although we do not anticipate liquidating our investments in the short term, all of the investments either mature within one year or can be sold quickly in response to liquidity needs, if necessary. During the year ended December 31, 2017, we continued to utilize our excess cash by increasing our conservative investments.

The table below presents information regarding cash flows:

|   | For the Year<br>Ended<br>December<br>31, 2017 | (Unaudited)<br>For the Year<br>Ended<br>December 31,<br>2016 | \$ Change    | %<br>Change |
|---|---|--|--------------|-------------|
| Net Cash Provided by Operating Activities | \$7,712,811                                   | \$3,937,035  | \$3,775,776  | 96 %        |
| Net Cash Used in Investing Activities     | \$(805,508)                                   | \$(10,645,025)   | \$9,839,517  | 92 %        |
| Net Cash Used in Financing Activities     | \$(3,239,007)                                 | \$(3,597,904)  | \$358,897    | 10 %        |
| Effect of exchange rate on cash           | \$97,882                                      | \$340,429  | \$(242,547)  | (71)%       |
| Net Increase (Decrease) in Cash           | \$3,766,178                                   | \$(9,965,465)  | \$13,731,643 | 138 %       |

Despite the economic difficulties that have faced our industry, we have continued to maintain positive cash flows from operations. The overall increase in operating cash flows during 2017 was primarily due to increased revenues. Net cash used in investing activities increased primarily as a result of the change in our cash management policy and large purchase of investments in 2016 discussed above. During the year ended December 31, 2017 we purchased \$334,910 in investments and \$611,060 in fixed assets. These purchases were partially offset by proceeds from sales of fixed assets of \$140,462. The increase in cash used in financing activities was due to an increase in employee options being exercised and repurchasing fewer shares of our own stock. As discussed in Note 3 to the financial statements, during the year the Company repurchased 2,448,425 shares of our common stock for a total price of \$3,307,544. The net increase in cash was caused primarily by the aforementioned activities.

#### Off-Balance Sheet Arrangements

We have not engaged in any off-balance sheet arrangements, nor do we plan to engage in any in the foreseeable future.

## Contingencies

During 2017, we became aware of a mechanical issue affecting one of the actuators we manufacture and sell. The actuator is an ancillary product sold separately from our burner-management systems (BMS) and chemical-management systems (CMS). We do not believe the mechanical issue presents any significant safety concerns for customers. During Q4 we identified a solution that resolved the mechanical issue at a minimal cost; however, subsequent to year-end it was determined that the solution was not effective for some customers in very cold climates. Therefore a new solution is necessary to fully address the issue with these actuators. To date, we have had to replace less than 2% of the affected actuators sold and the costs were immaterial. Depending on the number of replacements required, we estimate that the total replacement costs could be in the range of \$150,000 to \$675,000. We expect that all costs associated with the repair or replacement of the affected actuators will be incurred during 2018.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, this section is not required.

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Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Profire Energy, Inc.:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Profire Energy, Inc. (“the Company”) as of December 31, 2017 and 2016, and the related consolidated statements of operations and other comprehensive income (loss), stockholders’ equity, and cash flows for the year ended December 31, 2017 and the nine-month transition period ended December 31, 2016 and the related notes (collectively referred to as the “financial statements”). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the year and nine-month transition period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our Audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Sadler, Gibb & Associates, LLC

We have served as the Company’s auditor since 2011.

Salt Lake City, UT

March 7, 2018

## PROFIRE ENERGY, INC. AND SUBSIDIARIES

## Consolidated Balance Sheets

|  | As of<br>December<br>31, 2017 | December<br>31, 2016 |
|--|-------------------------------|----------------------|
| <b>ASSETS</b>  |                               |                      |
| <b>CURRENT ASSETS</b>  |                               |                      |
| Cash and cash equivalents  | \$ 11,445,799                 | \$ 7,679,621         |
| Accounts receivable, net   | 8,069,255                     | 5,633,802            |
| Inventories, net   | 6,446,083                     | 7,839,503            |
| Income tax receivable  | —                             | 180,981              |
| Short term investments   | 300,817                       | 2,965,536            |
| Investments - other  | 4,009,810                     | 2,993,825            |
| Prepaid expenses & other current assets  | 437,304                       | 410,558              |
| Total Current Assets   | 30,709,068                    | 27,703,826           |
| <b>LONG-TERM ASSETS</b>  |                               |                      |
| Long term investments - other  | —                             | 892,590              |
| Long term investments  | 8,517,182                     | 5,504,997            |
| Property and equipment, net  | 7,197,499                     | 7,458,723            |
| Deferred tax asset, net  | 72,817                        | 60,940               |
| Goodwill   | 997,701                       | 997,701              |
| Intangible assets, net   | 494,792                       | 490,082              |
| Total Long-Term Assets   | 17,279,991                    | 15,405,033           |
| <b>TOTAL ASSETS</b>  | <b>\$ 47,989,059</b>          | <b>\$ 43,108,859</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                               |                      |
| <b>CURRENT LIABILITIES</b>   |                               |                      |
| Accounts payable   | 1,780,977                     | 1,220,478            |
| Income taxes payable   | 919,728                       | 61,543               |
| Accrued vacation   | 196,646                       | 154,307              |
| Accrued liabilities  | 1,044,284                     | 284,214              |
| Total Current Liabilities  | 3,941,635                     | 1,720,542            |
| <b>TOTAL LIABILITIES</b>   | <b>3,941,635</b>              | <b>1,720,542</b>     |
| <b>STOCKHOLDERS' EQUITY</b>  |                               |                      |
| Preferred shares: \$0.001 par value, 10,000,000 shares authorized: no shares issued and outstanding  | —                             | —                    |
| Common shares: \$0.001 par value, 100,000,000 shares authorized: 53,931,167 issued and 48,606,425 outstanding at December 31, 2017 and 53,582,250 issued and 50,705,933 outstanding at December 31, 2016 | 53,931                        | 53,582               |
| Treasury stock, at cost  | (6,890,349 )                  | (3,582,805 )         |
| Additional paid-in capital   | 27,535,469                    | 26,628,983           |
| Accumulated other comprehensive loss   | (2,200,462 )                  | (2,810,743 )         |
| Retained earnings  | 25,548,835                    | 21,099,300           |
| Total Stockholders' Equity   | 44,047,424                    | 41,388,317           |

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$47,989,059 \$43,108,859

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

## PROFIRE ENERGY, INC. AND SUBSIDIARIES

## Consolidated Statements of Operations and Other Comprehensive Income (Loss)

|  | For the Year<br>Ended<br>December<br>31, 2017 | For the<br>Nine-Month<br>Transition<br>Period Ended<br>December<br>31, 2016 |
|--|---|---|
| <b>REVENUES</b>                              |   |   |
| Sales of goods, net                          | \$35,502,510                                  | \$14,336,618  |
| Sales of services, net                       | 2,783,866                                     | 1,650,568   |
| Total Revenues                               | 38,286,376                                    | 15,987,186  |
| <b>COST OF SALES</b>                         |   |   |
| Cost of goods sold-product                   | 16,116,161                                    | 6,732,822   |
| Cost of goods sold-services                  | 1,906,308                                     | 1,154,326   |
| Total Cost of Goods Sold                     | 18,022,469                                    | 7,887,148   |
| <b>GROSS PROFIT</b>                          | 20,263,907                                    | 8,100,038   |
| <b>OPERATING EXPENSES</b>                    |   |   |
| General and administrative expenses          | 11,676,693                                    | 7,198,081   |
| Research and development                     | 1,221,211                                     | 757,880   |
| Depreciation and amortization expense        | 526,583                                       | 482,311   |
| Total Operating Expenses                     | 13,424,487                                    | 8,438,272   |
| <b>INCOME (LOSS) FROM OPERATIONS</b>         | 6,839,420                                     | (338,234 )  |
| <b>OTHER INCOME (EXPENSE)</b>                |   |   |
| Gain (loss) on sale of fixed assets          | 62,492  | (2,680 )  |
| Other income                                 | 40,992  | 102,206   |
| Interest income                              | 180,325                                       | 90,028  |
| Total Other Income                           | 283,809                                       | 189,554   |
| <b>NET INCOME (LOSS) BEFORE INCOME TAXES</b> | 7,123,229                                     | (148,680 )  |
| <b>INCOME TAX EXPENSE (BENEFIT)</b>          | 2,673,694                                     | (226,733 )  |
| <b>NET INCOME</b>                            | \$4,449,535                                   | \$78,053  |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>     |   |   |
| Foreign Currency Translation Gain (Loss)     | \$587,951                                     | \$(415,698 )  |
| Unrealized Gains (Losses) on Investments     | 22,330  | (112,363 )  |
| Total Other Comprehensive Income (Loss)      | 610,281                                       | (528,061 )  |
| <b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>     | \$5,059,816                                   | \$(450,008 )  |

|   |              |              |
|---|--------------|--------------|
| BASIC EARNINGS (LOSS) PER SHARE                         | \$0.09       | \$—          |
| FULLY DILUTED EARNINGS (LOSS) PER SHARE                 | \$0.09       | \$—          |
| BASIC WEIGHTED AVG NUMBER OF SHARES OUTSTANDING         | \$49,365,592 | \$52,857,299 |
| FULLY DILUTED WEIGHTED AVG NUMBER OF SHARES OUTSTANDING | \$49,858,435 | \$53,483,110 |

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

## PROFIRE ENERGY, INC. AND SUBSIDIARY

## Consolidated Statements of Stockholders' Equity

|   | Common Stock |          | Additional         | Other                   | Treasury      | Retained     | Total                   |
|---|--------------|----------|--------------------|-------------------------|---------------|--------------|-------------------------|
|   | Shares       | Amount   | Paid-In<br>Capital | Comprehensive<br>Income | Stock         | Earnings     | Stockholders'<br>Equity |
| Balance, March 31, 2016   | 53,256,296   | \$53,256 | \$26,164,622       | \$ (2,282,682 )         | \$—           | \$20,849,932 | \$44,785,128            |
| Fair value of options vested  | —            | —        | 242,801            | —                       | —             | —            | 242,801                 |
| Stock issued in exercise of stock options                               | 86,808       | 87       | 112,913            | —                       | —             | —            | 113,000                 |
| Stock issued in settlement of RSUs                                      | 239,146      | 239      | 279,962            | —                       | —             | —            | 280,201                 |
| Treasury stock repurchased  | (2,876,317 ) | —        | —                  | —                       | (3,582,805 )  | —            | (3,582,805 )            |
| Foreign currency translation  | —            | —        | —                  | (415,698 )              | —             | —            | (415,698 )              |
| Unrealized losses on investments  | —            | —        | —                  | (112,363 )              | —             | —            | (112,363 )              |
| Net Income For the Nine-Month Transition Period Ended December 31, 2016 | —            | —        | —                  | —                       | —             | 78,053       | 78,053                  |
| Implementation of ASU 2016-09   | —            | —        | (171,315 )         | —                       | —             | 171,315      | —                       |
| Balance, December 31, 2016  | 50,705,933   | \$53,582 | \$26,628,983       | \$ (2,810,743 )         | \$(3,582,805) | \$21,099,300 | \$41,388,317            |
| Stock based compensation  | —            | —        | 838,298            | —                       | —             | —            | 838,298                 |
| Stock issued in exercise of stock options                               | 86,333       | 86       | 111,590            | —                       | —             | —            | 111,676                 |
| Stock issued in settlement of RSUs                                      | 262,584      | 263      | (263 )             | —                       | —             | —            | —                       |
| Tax withholdings paid related to stock based compensation               | —            | —        | (43,139 )          | —                       | —             | —            | (43,139 )               |
| Treasury stock repurchased  | (2,448,425 ) | —        | —                  | —                       | (3,307,544 )  | —            | (3,307,544 )            |
| Foreign currency translation  | —            | —        | —                  | 587,951                 | —             | —            | 587,951                 |
| Unrealized gains on investments   | —            | —        | —                  | 22,330                  | —             | —            | 22,330                  |
| Net Income For the Year Ended December 31, 2017                         | —            | —        | —                  | —                       | —             | 4,449,535    | 4,449,535               |

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|                            |            |          |              |                 |               |              |              |
|----------------------------|------------|----------|--------------|-----------------|---------------|--------------|--------------|
| Balance, December 31, 2017 | 48,606,425 | \$53,931 | \$27,535,469 | \$ (2,200,462 ) | \$(6,890,349) | \$25,548,835 | \$44,047,424 |
|----------------------------|------------|----------|--------------|-----------------|---------------|--------------|--------------|

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

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PROFIRE ENERGY, INC. AND SUBSIDIARIES  
Consolidated Statements of Cash Flows

|   | For the Year<br>Ended<br>December<br>31, 2017 | For the<br>Nine-Month<br>Transition<br>Period<br>Ended<br>December<br>31, 2016 |
|---|---|--|
| <b>OPERATING ACTIVITIES</b>   |   |  |
| Net Income  | \$4,449,535                                   | \$ 78,053  |
| Adjustments to reconcile net income to net cash provided by operating activities: |   |  |
| Depreciation and amortization expense   | 889,724                                       | 756,927  |
| (Gain) Loss on sale of fixed assets   | (62,574                                       | ) 3,480  |
| Bad debt expense  | 262,766                                       | 272,807  |
| Stock options issued for services   | 841,166                                       | 616,802  |
| Changes in operating assets and liabilities:                                      |   |  |
| Changes in accounts receivable  | (2,591,392                                    | ) (2,063,449 )   |
| Changes in income taxes receivable/payable  | 1,040,713                                     | (190,746 )   |
| Changes in inventories  | 1,346,919                                     | 3,304,972  |
| Changes in prepaid expenses   | (49,923                                       | ) (95,156 )  |
| Changes in deferred tax asset/liability   | (11,876                                       | ) (241,241 )   |
| Changes in accounts payable and accrued liabilities                               | 1,597,753                                     | (58,736 )  |
| Net Cash Provided by Operating Activities   | 7,712,811                                     | 2,383,713  |
| <b>INVESTING ACTIVITIES</b>   |   |  |
| Proceeds from sale of equipment   | 140,462                                       | 16,896   |
| Purchase of investments   | (334,910                                      | ) (10,685,553)   |
| Purchase of fixed assets  | (611,060                                      | ) (18,485 )  |
| Net Cash Used in Investing Activities   | (805,508                                      | ) (10,687,142)   |
| <b>FINANCING ACTIVITIES</b>   |   |  |
| Value of equity awards surrendered by employees for tax liability                 | (43,139                                       | ) (30,000 )  |
| Cash received in exercise of stock options  | 111,676                                       | 15,000   |
| Purchase of Treasury stock  | (3,307,544                                    | ) (3,582,805 )   |
| Net Cash Used in Financing Activities   | (3,239,007                                    | ) (3,597,805 )   |
| Effect of exchange rate changes on cash   | 97,882  | (75,325 )  |
| NET INCREASE (DECREASE) IN CASH   | 3,766,178                                     | (11,976,559)   |
| CASH AT BEGINNING OF PERIOD   | 7,679,621                                     | 19,656,180   |
| CASH AT END OF PERIOD   | \$ 11,445,799                                 | \$ 7,679,621   |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION



CASH PAID FOR:

|              |             |           |
|--------------|-------------|-----------|
| Interest     | \$—         | \$—       |
| Income taxes | \$1,710,135 | \$255,769 |

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

PROFIRE ENERGY, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2017 and December 31, 2016

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Line of Business

This Organization and Summary of Significant Accounting Policies of Profire Energy, Inc. and Subsidiary (the "Company") is presented to assist in understanding the Company's consolidated financial statements. The Company's accounting policies conform to accounting principles generally accepted in the United States of America ("US GAAP").

Profire Energy, Inc. was established on October 9, 2008 upon the closing of transactions contemplated by an Acquisition Agreement between The Flooring Zone, Inc. and Profire Combustion, Inc. and the shareholders of Profire Combustion, Inc. (the "Subsidiary"). Following the closing of the transactions, The Flooring Zone, Inc. was renamed Profire Energy, Inc. (the "Parent").

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 the Subsidiary in exchange for all of the issued and outstanding shares of the Subsidiary. As a result of the transaction, the Subsidiary became a wholly-owned subsidiary of the Parent and the shareholders of the Subsidiary became the controlling shareholders of the Company. The Parent was incorporated on May 5, 2003 in the State of Nevada. The Subsidiary was incorporated on March 6, 2002 in the Province of Alberta, Canada.

The Company provides burner- and chemical-management products and services for the oil and gas industry primarily in the US and Canadian markets.

Reclassification

Certain balances in previously issued consolidated financial statements have been reclassified to be consistent with the current period presentation. The reclassification had no impact on total financial position, net income, or stockholders' equity.

Recent Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, "Revenue from Contracts with Customers," which changes the model used for revenue recognition. The FASB has also issued a few clarifying ASU's regarding this update. The standard will be effective for public companies with annual periods beginning after December 15, 2017. We have begun evaluating the impact this standard will have on our revenue recognition and we do not believe it will have a material impact on our business. The new standard requires companies to identify contracts with customers, performance obligations within those contracts, and the transaction price. Once those are identified, companies must allocate the transaction price among performance obligations so that revenue can be recognized when the performance obligation is satisfied. The majority of our revenue comes from selling our product and we do not typically have multiple performance obligations within contracts. Currently we recognize revenue once a product has been delivered, which would be considered a performance obligation under the new standard, so revenue recognition is not expected to change materially under the new revenue standard.

On February 25, 2016, the FASB issued ASU 2016-02, "Leases," which makes many changes to accounting for leases. The standard will be effective for public companies with interim and annual periods beginning after December 15, 2018. One of the most notable changes is many of the leases that are currently accounted for as operating leases will have to be capitalized and accounted for similarly to how capital leases are currently accounted for, unless certain criteria are met. We have begun evaluating the impact this standard will have on our lease accounting and we do not believe it will have a material impact on us because we do not have many lease agreements. We will continue to evaluate the impact of this standard as the effective date approaches.

The Company has evaluated all other recent accounting pronouncements and determined that the adoption of pronouncements applicable to the Company has not had or is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

#### Use of Estimates

The preparation of financial statements in accordance with US GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date

of the financial statements and the reportable amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Principles of Consolidation

The consolidated financial statements include our wholly-owned subsidiary. Intercompany balances and transactions have been eliminated.

#### Foreign Currency and Comprehensive Income

The functional currencies of the Company and its Subsidiary in Canada are the U.S. Dollar ("USD") and the Canadian Dollar ("CAD"), respectively. The financial statements of the Subsidiary were translated to 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 0.7954 and 0.7439 were used to convert the Company's December 31, 2017 and December 31, 2016 balance sheets, respectively, and the statements of operations used weighted average rates of 0.7713 and 0.7638 for the year ended December 31, 2017 and the nine-month transition period ended December 31, 2016, 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 Consolidated Statement of Income and Comprehensive Income (Loss), and the Consolidated Statements of Stockholders' Equity.

In addition to foreign currency translation gains and losses, the Company recognizes unrealized holding gains and losses on available-for-sale securities as part of comprehensive income, as discussed in the investments policy below.

#### Cash and Cash Equivalents

The Company considers highly liquid investments with original maturities of three months or less to be cash equivalents. Certificates of deposit held for investment that are not debt securities are included in "investments—other." Certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified as "short term investments—other." Certificates of deposit with remaining maturities greater than one year are classified as "long term investments—other." Our cash and cash equivalents held in FDIC insured institutions can exceed the federally insured limit periodically and at the end of reporting periods. Our balances exceeded federally insured amounts by \$8,892,402 and \$5,454,811 as of December 31, 2017 and December 31, 2016, respectively.

#### Accounts Receivable

Receivables from the sale of goods and services are stated at net realizable value. This value includes an appropriate allowance for estimated uncollectible accounts. The allowance is calculated based on past collectability and customer relationships. The Company recorded an allowance for doubtful accounts of \$133,884 and \$161,815 as of December 31, 2017 and December 31, 2016, respectively. Uncollectible accounts are written off after all collection efforts have been exhausted and Credit Committee approval is granted. Bad debt expense recognized was \$262,654 and \$272,773 for the year ended December 31, 2017 and the nine-month transition period ended December 31, 2016, respectively.

#### Inventories

The Company's inventories are valued at the lower of cost (the purchase price, including additional fees) or market. Inventory costs are determined based on the average cost basis. A reserve for slow moving and potentially obsolete inventories is recorded as of each balance sheet date and total inventories are presented net of that reserve.

## Investments

Investments consist of available-for-sale debt securities and mutual funds invested in debt securities that the Company carries at fair value. Investments with original maturities of greater than three months at the date of purchase are classified as investments. Of these, bonds with maturities of less than one year, and mutual funds expected to be liquidated within one year from the balance sheet date, are classified as Short Term Investments. Bonds with maturities of greater than one year or mutual funds not expected to be liquidated within one year as of the balance sheet date are classified as Long Term Investments.

The Company accumulates unrealized gains and losses, net of tax, on the Company's available-for-sale securities in Accumulated Other Comprehensive Income in the Shareholders' Equity section of its balance sheets. Such unrealized gains or losses do not increase or decrease net income for the applicable accounting period. The Company includes realized gains and

losses on its available-for-sale securities in other income (expense), in its Statements of Operations. Dividend and interest income earned on all investments is included in earnings as other income.

#### Long-Lived Assets

The Company periodically reviews the carrying amount of long-lived assets for impairment. An asset is considered impaired when estimated future cash flows are less than the asset's carrying amount. In the event the carrying amount of such asset is not considered recoverable, the asset is adjusted to its fair value. Fair value is generally determined based on discounted future cash flow.

#### Goodwill

Goodwill represents the difference between the total purchase price and the fair value of assets (tangible and intangible) and liabilities at the date of acquisition. Goodwill is reviewed for impairment annually, and more frequently as circumstances warrant, and written down only in the period in which the recorded value of such assets exceed their fair value. The Company does not amortize goodwill in accordance with Financial Accounting Standards Board (the "FASB") Accounting Standards Codification ("ASC") 350, "Intangibles—Goodwill and Other" ("ASC 350"). Goodwill is tested for impairment at the reporting unit level. The Company's two operating segments comprise the reporting unit for goodwill impairment testing purposes.

#### Other Intangible Assets

The Company accounts for Other Intangible Assets under the guidance of ASC 350, "Intangibles—Goodwill and Other". The Company capitalizes certain costs related to patent technology, as a substantial portion of the purchase price related to the Company's acquisition transactions has been assigned to patents. Under the guidance, other intangible assets with definite lives are amortized over their estimated useful lives. Intangible assets with indefinite lives are tested annually for impairment.

#### Treasury Stock

Treasury stock repurchased and held by the Company is recorded as a separate line item on the Consolidated Balance Sheets. Treasury stock is held at cost until retired or reissued. Legal, brokerage, and other costs to acquire shares are not included in the cost of treasury stock. When treasury stock is reissued or retired, any gains are included as part of additional paid-in capital. Losses upon reissuance or retirement reduce additional paid-in capital to the extent that previous net gains from the same class of stock have been recognized and any losses above that are recognized as part of retained earnings.

#### Revenue Recognition

The Company records sales when a firm sales agreement is in place, delivery has occurred or services have been rendered, the sales price is fixed or determinable, and collectability is reasonably assured. If customer acceptance of products is not assured, the Company records sales only upon formal customer acceptance.

#### Cost of Sales

The Company includes product costs (i.e., material, direct labor and overhead costs), shipping and handling expense, production-related depreciation expense and product license agreement expense in cost of sales.

#### Advertising Costs

The Company classifies expenses for advertising as general and administrative expenses and recognizes the expense when incurred. The Company incurred advertising costs of \$102,845 and \$79,996 during the year ended December 31, 2017 and the nine-month transition period ended December 31, 2016, respectively.

#### Stock-Based Compensation

The Company follows the provisions of ASC 718, "Share-Based Payments," which requires all share-based payments to employees to be recognized in the income statement based on their fair values. The Company uses the Black-Scholes pricing model for determining the fair value of stock options. The intrinsic value method is used to value restricted stock and restricted stock units.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share Based Payment Accounting. Several aspects of the accounting for share based payment awards are simplified with this update, including accounting for and classification of various taxes, classification of awards as equity or liabilities, classification of various amounts on the statement of cash flows, and accounting for forfeitures. This standard became effective for the Company on January 1, 2017.

As part of this standard, companies can choose whether to recognize forfeitures as they occur or continue to estimate forfeitures with periodic true-ups. The Company has elected to recognize forfeitures as they occur. This election was made on a modified retrospective basis with the cumulative effect recognized in beginning retained earnings of the current period; therefore, amounts in prior periods have not been restated. The total adjustment was \$171,315 as a reduction of APIC and an increase in retained earnings.

#### Concentration of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses. Sales to the Company's four largest customers represented approximately 15% and 23% of total sales during the year ended December 31, 2017 and the nine-month transition period ended December 31, 2016, respectively.

#### Income Taxes

The Parent is subject to US income taxes on a stand-alone basis. The Parent and its Subsidiary file separate stand-alone tax returns in each jurisdiction in which they operate. The Subsidiary is a corporation operating in Canada and is subject to Canadian income taxes on its stand-alone taxable income.

The Company utilizes an asset and liability approach for financial accounting and reporting for income taxes. Deferred income taxes are provided for temporary differences in the basis of assets and liabilities as reported for financial statement and income tax purposes. Deferred income taxes reflect the tax effects of net operating loss and tax credit carryovers and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Realization of certain deferred tax assets is dependent upon future earnings, if any. The Company makes estimates and judgments in determining the need for a provision for income taxes, including the estimation of our taxable income for each full fiscal year.

#### Shipping and Handling Fees and Costs

The Company records all amounts billed to customers related to shipping and handling fees as revenue. The Company classifies expenses for shipping and handling costs as cost of goods sold.

#### Defined Contribution Retirement Plan

The Company matches employee contributions to our 401(k) plan up to 4% of their annual salary. The expense is recognized as part of general and administrative expenses on the income statement and was \$123,949 and \$79,487 for the year ended December 31, 2017 and the nine-month transition period ended December 31, 2016, respectively. There were no changes made to the plan during either period.

#### Property and Equipment



Property and equipment are stated at historical cost and depreciated over the useful life of the asset using the straight-line method. Useful lives are assigned to assets depending on their category. For details regarding property and equipment, refer to Note 2.

#### Research and Development

The Company's policy is to expense all costs associated with research and development ("R&D") that have no future alternative uses when those costs are incurred. Costs incurred to acquire assets currently used in R&D that do have future alternative uses are capitalized and the cost of depreciation is included in R&D expense. To date, no R&D-related assets have been acquired.

## Fair Value of Financial Instruments

The carrying value of cash, cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments. Bond and mutual fund investments are presented at fair value as of the balance sheet date and accumulated gains or losses on those investments are reported in other comprehensive income. Refer to Note 4 for further details regarding instruments recorded at fair value.

## Earnings Per Share

Basic earnings per share is calculated by dividing net income by the weighted average number of shares of common stock outstanding during each period. Diluted earnings per share is calculated by adjusting the weighted average number of shares of common stock outstanding for the dilutive effect, if any, of common stock equivalents. Common stock equivalents whose effect would be antidilutive are not included in diluted earnings per share. The Company uses the treasury stock method to determine the dilutive effect, which assumes that all common stock equivalents have been exercised at the beginning of the period and that the funds obtained from those exercises were used to repurchase shares of common stock of the Company at the average closing market price during the period. Refer to Note 8 for further details on the earning per share calculation.

## NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment and their estimated useful lives are as in the table below:

|                              | As of                |                      |                  |
|------------------------------|----------------------|----------------------|------------------|
|                              | December<br>31, 2017 | December<br>31, 2016 | Est. Useful Life |
| Furniture and fixtures       | \$458,643            | \$450,197            | 7 Years          |
| Computers                    | 331,422              | 297,038              | 3 Years          |
| Software                     | 231,526              | 214,378              | 2 Years          |
| Machinery and equipment      | 651,143              | 557,666              | 7 Years          |
| Vehicles                     | 2,719,026            | 2,671,714            | 5 Years          |
| Land and buildings           | 6,933,903            | 6,699,540            | 30 Years         |
| Total property and equipment | 11,325,663           | 10,890,533           |                  |
| Accumulated depreciation     | (4,128,164 )         | (3,431,810 )         |                  |
| Net property and equipment   | \$7,197,499          | \$7,458,723          |                  |

The table below shows total depreciation and amortization expense and how depreciation is allocated between cost of goods sold and operating expenses:

|                              | For the<br>Year<br>Ended<br>December<br>31, 2017 | For the<br>Nine-Month<br>Transition<br>Period<br>Ended<br>December<br>31, 2016 |
|------------------------------|--|--|
| Cost of goods sold - product | \$ 250,369                                       | \$ 188,579   |
| Cost of goods sold - service | 113,066  | 85,892   |
| Operating expenses           | 497,940  | 461,357  |

|   |            |            |
|---|------------|------------|
| Amortization expense                      | 28,643     | 20,954     |
| Total depreciation & amortization expense | \$ 890,018 | \$ 756,782 |

NOTE 3 – STOCKHOLDERS' EQUITY

As described in Note 1, treasury stock is recorded at cost until reissued or retired. As of December 31, 2017 and December 31, 2016, the Company held 5,324,742 and 2,876,317 shares in treasury at a total cost of \$6,890,349 and \$3,582,805, respectively. All purchases of treasury stock have been made at market prices.

## NOTE 4 - FINANCIAL INSTRUMENTS AND INVESTMENTS

The fair value of a financial instrument is the amount that could be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements do not include transaction costs.

A fair value hierarchy is used to prioritize the quality and reliability of the information used to determine fair values. Categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is divided into the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair value. Management is of the opinion that the Company is not exposed to significant interest or credit risks arising from financial instruments and any declines in the value of investments are temporary in nature.

The following tables show the adjusted cost, unrealized gains (losses) and fair value of the Company's cash and cash equivalents and investments held as of December 31, 2017 and 2016:

|                         | December 31, 2017 |                                 |               |                                 |              |              |
|-------------------------|-------------------|---------------------------------|---------------|---------------------------------|--------------|--------------|
|                         | Adjusted<br>Cost  | Pre-Tax<br>Unrealized<br>Losses | Fair Value    | Cash<br>and Cash<br>Equivalents | Short Term   | Long Term    |
| Level 1                 |                   |                                 |               |                                 |              |              |
| Money Market Funds      | \$ 888,942        | \$—                             | \$ 888,942    | \$ 888,942                      | \$—          | \$—          |
| Mutual Funds            | 1,626,236         | (29,679 )                       | 1,596,557     | —                               | —            | 1,596,557    |
| Subtotal                | 2,515,178         | (29,679 )                       | 2,485,499     | 888,942                         | —            | 1,596,557    |
| Level 2                 |                   |                                 |               |                                 |              |              |
| Certificates of Deposit | \$ 4,009,810      | \$—                             | \$ 4,009,810  | \$ —                            | \$ 4,009,810 | \$—          |
| Corporate Bonds         | 2,228,855         | (30,081 )                       | 2,198,774     | —                               | 300,817      | 1,897,957    |
| Municipal Bonds         | 5,084,573         | (61,905 )                       | 5,022,668     | —                               | —            | 5,022,668    |
| Subtotal                | 11,323,238        | (91,986 )                       | 11,231,252    | —                               | 4,310,627    | 6,920,625    |
| Total                   | \$ 13,838,416     | \$(121,665)                     | \$ 13,716,751 | \$ 888,942                      | \$ 4,310,627 | \$ 8,517,182 |

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|                         | December 31, 2016 |                                 |               |                                 |              |              |
|-------------------------|-------------------|---------------------------------|---------------|---------------------------------|--------------|--------------|
|                         | Adjusted<br>Cost  | Pre-Tax<br>Unrealized<br>Losses | Fair Value    | Cash<br>and Cash<br>Equivalents | Short Term   | Long Term    |
| Level 1                 |                   |                                 |               |                                 |              |              |
| Money Market Funds      | \$ 1,053,844      | \$—                             | \$ 1,053,844  | \$ 1,053,844                    | \$—          | \$—          |
| Mutual Funds            | 1,473,536         | (90,495 )                       | 1,383,041     | —                               | —            | 1,383,041    |
| Subtotal                | 2,527,380         | (90,495 )                       | 2,436,885     | 1,053,844                       | —            | 1,383,041    |
| Level 2                 |                   |                                 |               |                                 |              |              |
| Certificates of Deposit | \$ 3,886,415      | \$—                             | \$ 3,886,415  | \$—                             | \$ 2,993,825 | \$ 892,590   |
| Corporate Bonds         | 2,246,956         | (29,419 )                       | 2,217,537     | —                               | 400,053      | 1,817,484    |
| Municipal Bonds         | 4,929,249         | (59,294 )                       | 4,869,955     | —                               | 2,565,483    | 2,304,472    |
| Subtotal                | 11,062,620        | (88,713 )                       | 10,973,907    | —                               | 5,959,361    | 5,014,546    |
| Total                   | \$ 13,590,000     | \$(179,208)                     | \$ 13,410,792 | \$ 1,053,844                    | \$ 5,959,361 | \$ 6,397,587 |

Pre-tax unrealized gains (losses) on investments incurred during the periods are presented below:

|                                      | For the Year Ended December<br>31, 2017 | For the Nine-Month Transition Period Ended<br>December 31, 2016 |
|--------------------------------------|---|---|
| Unrealized Holding Gains<br>(Losses) | 57,543                                  | (179,208)   |

The maturities for bonds held by the Company as of December 31, 2017 are presented in the table below:

| Maturity           | Fair<br>Value |
|--------------------|---------------|
| Less Than One Year | 302,189       |
| 1-2 years          | 1,685,858     |
| 2-5 years          | 4,983,823     |
| 5-10 years         | 250,944       |
| Over 10 years      | —             |
|                    | 7,222,814     |

NOTE 5 – SEGMENT INFORMATION

The Company operates in the United States and Canada. Segment information for these geographic areas is as follows:

| Revenues           | For the Year<br>Ended<br>December<br>31, 2017 | For the<br>Nine-Month<br>Transition<br>Period<br>Ended<br>December<br>31, 2016 |
|--------------------|---|--|
| Canada             | \$ 7,490,252                                  | \$ 3,962,774   |
| United States      | 30,796,124                                    | 12,024,412   |
| Total Consolidated | \$ 38,286,376                                 | \$ 15,987,186  |

Profit (Loss)

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|                    | For the Year<br>Ended<br>December<br>31, 2017 | For the<br>Nine-Month<br>Transition<br>Period<br>Ended<br>December<br>31, 2016 |
|--------------------|---|--|
| Canada             | \$(189,865 )                                  | \$(356,623 )   |
| United States      | 4,639,399                                     | 434,676  |
| Total Consolidated | \$4,449,535                                   | \$ 78,053  |

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| Long-lived assets  | As of             |                   |
|--------------------|-------------------|-------------------|
|                    | December 31, 2017 | December 31, 2016 |
| Canada             | \$1,508,943       | \$982,124         |
| United States      | 15,771,048        | 14,422,909        |
| Total Consolidated | \$17,279,991      | \$15,405,033      |

#### NOTE 6 – STOCK-BASED COMPENSATION

Periodically the Company issues stock-based awards to employees and independent directors. Vesting terms for outstanding grants vary by grant ranging from immediate to ratably over six years. Typically, grants expire one year after the final vesting. The Board has authorized 4,812,000 shares to be granted for such awards under the Company's 2014 Equity Incentive Plan (the "Plan"). Historically, the Company has only issued non-qualified stock options, restricted stock, and restricted stock units; however, the Plan does allow for other types of awards to be granted in the future. Most awards have been exercisable or convertible based solely on meeting service conditions; however, one grant was made convertible based on meeting both service and performance conditions. Upon exercise or conversion, the Company may issue new shares or reissue shares held in treasury, at the discretion of Management. The Company has elected to recognize forfeitures as they occur.

The Company uses the Black-Scholes method for measuring compensation cost of stock options and the intrinsic value method for measuring compensation cost of restricted stock and restricted stock units. Total compensation cost for share-based payments recognized in income was \$794,939 and \$654,366 during the year ended December 31, 2017 and nine-month transition period ended December 31, 2016, respectively. As of December 31, 2017, the Company had \$637,872 in unamortized compensation expense with a weighted average of 1.19 years remaining. The Company received \$111,676 and \$15,000 in cash from the exercise of share options during the year ended December 31, 2017 and nine-month transition period ended December 31, 2016, respectively. For the tax effect on total compensation expense and the exercise of options, see note 11 for the income tax provision.

During the year ended December 31, 2017, the Company did not issue any stock options to employees. During the period, the Company issued 96,081 RSUs to members of the Board of Directors for their service. The grant date fair value of that award was \$177,750 and half of those RSUs vested immediately with the remaining vesting on June 15, 2018. The Company also issued a performance based RSU award to its CFO. The award grants a maximum of 66,758 RSUs to be issued upon meeting certain performance metrics over three years and had a grant date fair value of \$126,840. The intrinsic value of options exercised during the period was \$42,532. The total fair value of options, restricted stock, and restricted stock units vested during the period was \$861,737

During the nine-month transition period ended December 31, 2016, the Company issued 848,000 stock options to employees with a weighted-average grant-date fair value of \$0.49. The fair value of those options was calculated assuming volatility of 64-69% and an expected term of 3-3.34 years. The intrinsic value of options exercised during the period was \$109,900. The total fair value of options, restricted stock, and restricted stock units vested during the period was \$712,297.

Information regarding outstanding options, restricted stock awards, and restricted stock units is summarized in the tables below:

#### Total Outstanding and Exercisable Awards December 31, 2017

| Grant Price<br>High<br>Low | Awards Outstanding |          |                                    |                | Awards Exercisable |                                    |                |
|----------------------------|--------------------|----------|------------------------------------|----------------|--------------------|------------------------------------|----------------|
|                            | Grant Price        | Quantity | Remaining Contractual Life (Years) | Exercise Price | Quantity           | Remaining Contractual Life (Years) | Exercise Price |

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|        |      |           |      |        |           |      |        |
|--------|------|-----------|------|--------|-----------|------|--------|
| \$—    | 1.09 | 510,402   | 2.26 | \$0.55 | 80,666    | 2.40 | \$1.01 |
| \$1.10 | 1.27 | 525,000   | 1.84 | \$1.17 | 262,500   | 1.84 | \$1.17 |
| \$1.28 | 1.56 | 546,000   | 1.35 | \$1.37 | 439,500   | 1.36 | \$1.37 |
| \$1.57 | 2.8  | 305,000   | 0.18 | \$1.75 | 305,000   | 0.18 | \$1.75 |
| \$2.81 | 4.03 | 266,000   | 1.97 | \$3.89 | 239,600   | 1.93 | \$3.88 |
|        |      | 2,152,402 | 1.60 | \$1.49 | 1,327,266 | 1.35 | \$1.85 |



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Total Outstanding and Exercisable Awards December 31, 2016

| Strike Price | Outstanding Options (1 share/option) | Average Remaining Life (Years) | Exercisable Shares | Weighted Average Exercise Price |
|--------------|--------------------------------------|--------------------------------|--------------------|---------------------------------|
| \$1.01       | 303,500                              | 3.40                           | —                  | \$ 1.01                         |
| \$1.17       | 525,000                              | 2.84                           | —                  | \$ 1.17                         |
| \$1.37       | 644,000                              | 2.34                           | 419,000            | \$ 1.37                         |
| \$1.75       | 320,000                              | 1.18                           | 255,000            | \$ 1.75                         |
| \$3.85       | 200,000                              | 2.85                           | 200,000            | \$ 3.85                         |
| \$3.95       | 100,000                              | 3.10                           | 100,000            | \$ 3.95                         |
| \$4.03       | 72,500                               | 3.30                           | 29,000             | \$ 4.03                         |
|              | 2,165,000                            |                                | 1,003,000          |                                 |

Information regarding stock options for the year ended December 31, 2017 is summarized in the tables below:

|  | Number of Awards | Weighted Average Exercise Price | Weighted Average Fair Value | Weighted Average Contractual Life (Years) | Aggregate Intrinsic Value |
|--|------------------|---------------------------------|-----------------------------|---|---------------------------|
| Outstanding, beginning of period               | 2,023,500        | \$ 1.66                         | \$ 1.23                     |   | \$228,180                 |
| Exercised/Released                             | (86,333 )        | \$ 1.29                         | \$ 1.41                     |   | \$42,532                  |
| Cancelled/Forfeited                            | (16,500 )        | \$ 1.62                         | \$ 1.38                     |   | \$2,348                   |
| Outstanding, end of period                     | 1,920,667        | \$ 1.67                         | \$ 1.22                     | 1.53                                      | \$999,487                 |
| Vested and exercisable, end of the period      | 1,327,266        | \$ 1.85                         | \$ 1.39                     | 1.35                                      | \$563,856                 |
| Vested and expected to vest, end of the period | 1,920,667        | \$ 1.67                         | \$ 1.22                     | 1.53                                      | \$999,487                 |

|   | Number of Awards | Weighted Average Exercise Price | Weighted Average Grant Date Fair Value | Weighted Average Remaining Amortization Period (Years) |
|---|------------------|---------------------------------|--|--|
| Unvested Outstanding, beginning of period | 1,145,500        | \$ 1.30                         | \$ 0.87                                |  |
| Cancelled/Forfeited                       | (5,267)          | \$ 1.42                         | \$ 1.06                                |  |
| Vested, outstanding shares                | (546,832)        | \$ 1.32                         | \$ 0.90                                |  |
| Unvested Outstanding, end of period       | 593,401          | \$ 1.28                         | \$ 0.84                                | 0.97   |

Information regarding restricted stock awards for the year ended December 31, 2017 is summarized in the tables below:

|                                  | Number of Awards | Weighted Average Exercise Price | Weighted Average Fair Value | Weighted Average Remaining Contractual Life (Years) |
|----------------------------------|------------------|---------------------------------|-----------------------------|---|
| Outstanding, beginning of period | 73,002           | \$                              | -\$ 4.02                    |   |
| Exercised/Released               | (24,334)         | \$                              | -\$ 4.02                    |   |
| Outstanding, end of period       | 48,668           | \$                              | -\$ 4.02                    | 2.33  |

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|  |           |    |               |   |
|--|-----------|----|---------------|---|
| Vested and exercisable, end of the period      | —         |    |               |   |
| Vested and expected to vest, end of the period | 48,668    | \$ | -\$ 4.02      | 2.33                                    |
|  |           |    | Weighted      |   |
|  |           |    | Average       |   |
|  | Number of |    | Average Grant | Weighted Average Remaining Amortization |
|  | Awards    |    | Exercise Date | Period (Years)                          |
|  |           |    | Price Fair    |   |
|  |           |    | Value         |   |
| Unvested Outstanding, beginning of period      | 73,002    | \$ | -\$ 4.02      |   |
| Vested, outstanding shares                     | (24,334)  | \$ | -\$ 4.02      |   |
| Unvested Outstanding, end of period            | 48,668    | \$ | -\$ 4.02      | 1.33                                    |

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Information regarding restricted stock units for the year ended December 31, 2017 is summarized in the tables below:

|  | Number<br>of<br>Awards | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Fair<br>Value | Weighted Average Remaining<br>Life (Years) | Contractual |
|--|------------------------|--|--------------------------------------|--|-------------|
| Outstanding, beginning of period               | 281,244                | \$                                       | —\$ 1.35                             |  |             |
| Granted  | 162,839                | \$                                       | —\$ 1.87                             |  |             |
| Exercised/Released                             | (261,016)              | \$                                       | —\$ 1.36                             |  |             |
| Outstanding, end of period                     | 183,067                | \$                                       | —\$ 1.80                             | 2.04                                       |             |
| Vested and exercisable, end of the period      | —                      |  |                                      |  |             |
| Vested and expected to vest, end of the period | 160,815                | \$                                       | —\$ 1.79                             | 2.01                                       |             |

|   | Number of<br>Awards | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Grant<br>Date<br>Fair<br>Value | Weighted Average Remaining<br>Amortization<br>Period (Years) |
|---|---------------------|--|---|--|
| Unvested Outstanding, beginning of period | 206,533             | \$                                       | —\$ 1.44  |  |
| Granted                                   | 162,839             | \$                                       | —\$ 1.87  |  |
| Vested, outstanding shares                | (186,305)           | \$                                       | —\$ 1.46  |  |
| Unvested Outstanding, end of period       | 183,067             | \$                                       | —\$ 1.80  | 1.40   |

#### NOTE 7 – INVENTORIES

Inventories consisted of the following at each balance sheet date:

|                          | As of                |                      |
|--------------------------|----------------------|----------------------|
|                          | December<br>31, 2017 | December<br>31, 2016 |
| Raw materials            | \$225,735            | \$940,527            |
| Finished goods           | 6,417,494            | 7,112,098            |
| Work in process          | —                    | —                    |
| Subtotal                 | 6,643,229            | 8,052,625            |
| Reserve for Obsolescence | (197,146 )           | (213,122 )           |
| Total                    | \$6,446,083          | \$7,839,503          |

## NOTE 8 – BASIC AND DILUTED EARNINGS PER SHARE

The following table is a reconciliation of the numerator and denominators used in the earnings per share calculation:

|   | For the Year Ended December 31,<br>2017 |  |                     | For the Nine-Month Transition<br>Period Ended December 31, 2016 |  |                     |
|---|---|--|---------------------|---|--|---------------------|
|   | Income<br>(Numerator)                   | Weighted<br>Average<br>Shares<br>(Denominator) | Per-Share<br>Amount | Income<br>(Numerator)   | Weighted<br>Average<br>Shares<br>(Denominator) | Per-Share<br>Amount |
| <b>Basic EPS</b>  |   |  |                     |   |  |                     |
| Net income available to common stockholders                       | \$4,449,535                             | 49,365,592                                     | \$ 0.09             | \$78,053  | 52,857,299                                     | \$ 0.00             |
| <b>Effect of Dilutive Securities</b>                              |   |  |                     |   |  |                     |
| Stock options & RSUs  | —                                       | 492,843  |                     | —   | 625,811  |                     |
| <b>Diluted EPS</b>  |   |  |                     |   |  |                     |
| Net income available to common stockholders + assumed conversions | \$4,449,535                             | 49,858,435                                     | \$ 0.09             | \$78,053  | 53,483,110                                     | \$ 0.00             |

Options to purchase 1,569,730 shares of common stock at a weighted average exercise price of \$3.17 per share were outstanding during the year ended December 31, 2017, but were not included in the computation of diluted EPS because the effect would be anti-dilutive. These options, which expire between March 2018 and May 2020, were still outstanding at December 31, 2017.

Options to purchase 1,861,500 shares of common stock at a weighted average exercise price of \$1.89 per share were outstanding during the nine-month transition period ended December 31, 2016, but were not included in the computation of diluted EPS because the effect would be anti-dilutive.

## NOTE 9 – INTANGIBLE ASSETS

Definite-lived intangible assets consist of distribution agreements, patents, trademarks, copyrights, and domain names. The costs of the distribution agreements are amortized over the remaining life of the agreements. The costs of the patents are amortized over 20 years once the patent is approved. Indefinite-lived intangible assets consist of goodwill. In accordance with ASC 350, goodwill is not amortized but tested for impairment annually or more frequently when events or circumstances indicate that the carrying value of a reporting unit more likely than not exceeds its fair value. We test goodwill for impairment as of each balance sheet date. Intangible assets consisted of the following:

## Definite-lived intangible assets

|  | As of                |                      |
|--|----------------------|----------------------|
|  | December<br>31, 2017 | December<br>31, 2016 |
| Distribution agreements                                | \$41,984             | \$39,264             |
| Less: Accumulated amortization                         | \$(41,984)           | (39,264)             |
| Distribution agreements, net                           | —                    | —                    |
| Patents, trademarks, copyrights, and domain names      | \$584,980            | 547,071              |
| Less: Accumulated amortization                         | \$(90,188)           | (56,989)             |
| Patents, trademarks, copyrights, and domain names, net | 494,792              | 490,082              |

|   |           |           |
|---|-----------|-----------|
| Total definite-lived intangible assets, net | \$494,792 | \$490,082 |
|---|-----------|-----------|

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Estimated amortization expense for the next five years related to the definite-lived intangible assets is displayed in the following table:

| For the Years Ending December 31, | Amount   |
|-----------------------------------|----------|
| 2018                              | \$28,103 |
| 2019                              | 28,103   |
| 2020                              | 28,103   |
| 2021                              | 28,103   |
| 2022                              | 28,103   |

#### Indefinite-lived intangible assets

| As of             |                   |
|-------------------|-------------------|
| December 31, 2017 | December 31, 2016 |
| Goodwill          | \$997,701         |

The Company determined on a qualitative basis that it was not more likely than not that the fair value of the goodwill arising from the acquisition of VIM Injection Management in November 2014 was less than its carrying value. As such, the Company did not have any impairment for the year ended December 31, 2017.

#### NOTE 10 – QUARTERLY INFORMATION (UNAUDITED)

Quarterly data for the periods below consisted of the following:

| Fiscal Year 2017                  | For the Quarters Ending |                 |                 |                 |
|-----------------------------------|-------------------------|-----------------|-----------------|-----------------|
|                                   | Mar 31,<br>2017         | Jun 30,<br>2017 | Sep 30,<br>2017 | Dec 31,<br>2017 |
| Total revenues                    | \$7,824,495             | \$9,464,951     | \$10,050,192    | \$10,946,738    |
| Gross profit                      | 4,367,173               | 4,976,832       | 5,061,795       | 5,858,107       |
| Income from operations            | 1,071,042               | 1,831,163       | 1,845,407       | 2,091,808       |
| Income tax expense                | 498,936                 | 638,528         | 709,169         | 827,061         |
| Net income                        | 600,071                 | 1,312,647       | 1,217,918       | 1,318,899       |
| Basic earnings per common share   | \$0.01                  | \$0.03          | \$0.03          | \$0.03          |
| Diluted earnings per common share | \$0.01                  | \$0.03          | \$0.02          | \$0.03          |

| Nine-Month Transition Period             | For the Quarters Ending |                 |                 |
|--|-------------------------|-----------------|-----------------|
|  | Jun 30,<br>2016         | Sep 30,<br>2016 | Dec 31,<br>2016 |
| Total revenues                           | \$3,974,043             | \$4,990,813     | \$7,022,330     |
| Gross profit                             | 1,914,250               | 2,624,659       | 3,561,129       |
| Income (loss) from operations            | (881,278 )              | (127,369 )      | 670,413         |
| Income tax expense (benefit)             | (245,877 )              | (99,701 )       | 118,845         |
| Net income (loss)                        | (605,295 )              | 74,452          | 608,896         |
| Basic earnings (loss) per common share   | \$(0.01 )               | \$0.00          | 0.01            |
| Diluted earnings (loss) per common share | \$(0.01 )               | \$0.00          | 0.01            |

Basic and diluted earnings per share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly amounts may not equal the total computed for the year.



## NOTE 11 – PROVISION FOR INCOME TAXES

The Company recognizes interest related to underpayment of income taxes in interest expense and recognizes penalties in operating expenses. During the year ended December 31, 2017 and nine-month transition period ended December 31, 2016, the Company recognized no interest or penalties related to income taxes. Accordingly, the Company had no accruals for interest and penalties at December 31, 2017 nor December 31, 2016.

The Company is current on its U.S. and Canadian income tax filings. Tax years that remain open for examination are 2015 through 2017 in the U.S. and 2012 through 2017 in Canada. At December 31, 2017 and December 31, 2016, the Company did not have any operating loss carryforwards nor tax credit carryforwards. The Company invests in available-for-sale securities that are reported on the balance sheet at fair value, with the gains/losses reported net of tax as part of Other Comprehensive Income (OCI). The tax expense allocated to OCI during the year ended December 31, 2017 was \$14,961.

The Company has not provided a valuation allowance at December 31, 2017 nor December 31, 2016. The valuation allowance did not change between December 31, 2016 and December 31, 2017. Realization of the deferred tax asset is dependent on generating sufficient taxable income to offset the tax items that will be deductible in the future. Although realization is not assured, Management believes it is more likely than not that all of the deferred tax asset will be realized. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

On December 22, 2017, President Trump signed a tax reform bill into law that decreased the US Federal corporate income tax rate to 21%. Because the rate change was enacted in 2017, the deferred portion of our tax provision was impacted. This rate change resulted in a reduction of our net deferred tax assets (and reduction in deferred income tax benefit) of approximately \$32,000.

The table below outlines the components of income tax expense (benefit):

|   | For the Year<br>Ended<br>December<br>31, 2017 | For the<br>Nine-Month<br>Transition<br>Period<br>Ended<br>December<br>31, 2016 |
|---|---|--|
| Current   |   |  |
| Federal   | \$2,482,978                                   | \$(31,983 )  |
| State   | 130,683                                       | (1,683 )   |
| Foreign   | 86,872  | 21,303   |
| Total Current                                   | 2,700,533                                     | (12,363 )  |
| Deferred  |   |  |
| Federal   | (55,563 )                                     | (203,652 )   |
| State   | (2,924 )                                      | (10,718 )  |
| Effect of tax rate change                       | 31,648  | —  |
| Total Deferred                                  | (26,839 )                                     | (214,370 )   |
| Total Provision for (Benefit from) Income Taxes | \$2,673,694                                   | \$(226,733 )   |



The table below reconciles our effective tax rate to the statutory tax rate:

|   | For the<br>Year<br>Ended<br>December<br>31, 2017 |    | For the<br>Nine-Month<br>Transition<br>Period<br>Ended<br>December<br>31, 2016 |    |
|---|--|----|--|----|
| Federal Statutory Tax Rate                      | 34.0   | %  | 34.0   | %  |
| State Statutory Tax Rate, Net of Federal Effect | 3.3  | %  | 3.3  | %  |
| Meals & Entertainment                           | 1.0  | %  | (5.2)  | )% |
| Gain/loss on Sale of PPE                        | —  | %  | (5.9)  | )% |
| Goodwill  | (2.0)  | )% | 22.0   | %  |
| Tax Exempt Interest                             | (10.0)   | )% | 20.7   | %  |
| Ending Balance True Up                          | —  | %  | 28.0   | %  |
| Tax Overpayment                                 | —  | %  | 38.3   | %  |
| Other   | 11.2   | %  | 17.3   | %  |
| Effective Tax Rate                              | 37.5   | %  | 152.5  | %  |

The table below shows the components of deferred taxes:

|                                | As of<br>December<br>31, 2017 | December<br>31, 2016 |
|--------------------------------|-------------------------------|----------------------|
| Stock Compensation             | \$238,412                     | \$277,296            |
| Bad Debt                       | 25,523                        | 46,790               |
| Inventory reserve              | 50,234                        | 53,121               |
| Unrealized loss on investments | 31,632                        | 66,844               |
| Deferred tax asset             | \$345,801                     | \$444,051            |
| Depreciation                   | \$271,871                     | \$367,490            |
| Amortization                   | 1,113                         | 15,621               |
| Goodwill                       | —                             | —                    |
| Deferred tax liability         | \$272,984                     | \$383,111            |
| Net Deferred Tax Asset         | \$72,817                      | \$60,940             |

#### NOTE 12 – COMMITMENTS AND CONTINGENCIES

During 2017, the Company became aware of a mechanical issue affecting one of the actuators the Company manufactures and sells. The actuator is an ancillary product sold separately from the Company's burner-management systems (BMS) and chemical-management systems (CMS). The Company does not believe the mechanical issue presents any significant safety concerns for customers. During Q4 the Company identified a solution that resolved the mechanical issue at a minimal cost; however, subsequent to year-end it was determined that the solution was not effective for some customers in very cold climates. Therefore a new solution is necessary to fully address the issue with these actuators. To date, the Company has had to replace less than 2% of the affected actuators sold and the costs were immaterial. Depending on the number of replacements required, the Company estimates that the total replacement costs could be in the range of \$150,000 to \$675,000. The Company expects that all costs associated with the repair or replacement of the affected actuators will be incurred during 2018.

In March 2014 the Company entered into a consulting agreement with Terra Industrial with Allen Johnson as agent in order to replace a prior royalty agreement. The agreement is for the term of 10 years with fees of \$100,000 CAD paid quarterly. The agreement expires in March of 2024.

The Company leases office space in Texas and Pennsylvania. Rent expense recognized was \$48,110 and \$40,013 for the year ended December 31, 2017 and the nine-month transition period ended December 31, 2016, respectively. In addition, during the year ended December 31, 2017, the Company entered into operating leases for office equipment. The future minimum lease payments for operating leases as of December 31, 2017, consisted of the following:

| Years ending December 31, | Operating Leases |
|---------------------------|------------------|
| 2018                      | 59,005           |
| 2019                      | 39,789           |
| 2020                      | 15,371           |
| 2021                      | 302              |
| 2022                      | —                |
| Thereafter                | —                |
| Total                     | 114,467          |

#### NOTE 13 – SUBSEQUENT EVENTS

In accordance with ASC 855 "Subsequent Events," Company management reviewed all material events through the date this report was issued and the following subsequent events took place.

On March 2, 2018, the Compensation Committee (the "Committee") of the Company's Board of Directors approved the "2018 Executive Incentive Plan," ("EIP") for Brenton W. Hatch, the Company's President and Chief Executive Officer, and Ryan Oviatt, the Company's Chief Financial Officer. The EIP provides for the potential award of bonuses to participants based on the Company's financial performance in fiscal year 2018. Under the terms of the EIP, each participating executive officer has been assigned a target bonus amount for fiscal year 2018. The target bonus amount for Mr. Hatch is \$400,000 and the target bonus for Mr. Oviatt is \$87,500. Under no circumstance can the participants receive more than two times the assigned target bonus. The bonus amounts, if any, will be paid 50% in cash and 50% in shares of restricted stock based on the volume weighted average price per share over the five trading days prior to the date of the final determination of the bonus amount. The stock portion of the bonuses is intended to constitute an award under the Company's 2014 Equity Incentive Plan. Performance metrics for the awards include revenues, net income, and free cash flow.

On March 2, 2018, the Committee approved as a long-term incentive plan (the "LTIP") the grant of a restricted stock unit award to our Chief Financial Officer, Ryan Oviatt, pursuant to the Company's 2014 Equity Incentive Plan. The agreement is similar to the Long-Term Incentive Plan that was approved in 2017, and provides for the award of up to 70,423 restricted stock units ("Units") under the Company's 2014 Equity Incentive Plan. Subject to performance vesting requirements, each Unit entitles Mr. Oviatt to receive one share of the Company's common stock. The performance period of the LTIP begins on January 1, 2018 and terminates on December 31, 2020. Performance metrics include three-year average revenue growth rate, operating income as a percentage of revenue, and return on invested capital.

On March 6, 2018, our Board of Directors approved a grant of 91,000 restricted stock units ("RSUs") issued to various employees. The awards vest annually over five years and will result in total compensation expense of \$193,830 to be recognized over the vesting period. On the same day, the Board also approved a one-time executive bonus of \$511,000 to Mr. Hatch and \$121,500 to Mr. Oviatt for a combined total value of \$632,500. The bonus was paid 50% in cash and 50% in restricted stock. The stock portion of the bonus payment was paid by granting awards of shares of restricted stock under the Company's 2014 Equity Incentive Plan, which was fully vested on the date of grant. The number of shares awarded was 119,953 for Mr. Hatch and 28,521 for Mr. Oviatt.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the design and effectiveness of our internal controls over financial reporting and disclosure controls and procedures (pursuant to Rule 13a-15(b-c) under the Securities Exchange Act of 1934 ("Exchange Act")) as of the end of the period covered by this Report. Based on this

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evaluation, Management concluded that our controls were ineffective as of such date due to material weaknesses that were identified. A material weakness is a control deficiency, or combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the registrant's financial statements will not be prevented or detected on a timely basis.

Notwithstanding this finding of ineffective internal controls, we concluded that the consolidated financial statements included in this Form 10-K present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.

During the year ended December 31, 2017 and the nine-month transition period ended December 31, 2016, the Company was not subject to requirements of Section 404(b) of the Sarbanes-Oxley Act. As such, our independent registered public accounting firm was not required to, and thus did not, audit our internal control structure.

#### Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Exchange Act). Internal control over financial reporting is a process designed by, or under the supervision of, the Company's principal executive officer and principal financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles

All internal control systems, no matter how well designed, have inherent limitations. Because of these inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the Company's management conducted an assessment of the effectiveness of our internal control over financial reporting based on the criteria set forth in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commissions (2013).

Based upon this assessment, the Company's management concluded that our internal control over financial reporting had material weaknesses and was ineffective as of December 31, 2017. A material weakness is a deficiency, or combination thereof, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

We did not maintain effective controls over our day-to-day transaction processing, including non-routine transactions and period-end financial reporting processes. Specifically, we identified material weaknesses related to (i) Revenue recognition, (ii) Sufficient documentation of review- and analytical-processes, (iii) Structuring of duties, controls, and permission within financial systems. (iv) Asset management and maintenance functions (v) Segregation of duties, and (vi) Cash disbursements.

In response to the identified material weakness, our management, with oversight from the Company's Audit Committee, has dedicated significant resources, including retaining third party consultants, to enhance the Company's internal control over financial reporting and remediate the identified material weakness. We believe that such an

emphasis, together with continued oversight of our processes and systems, will help create an increasingly strong, compliant, and thorough system of controls, which we expect will play an increasingly important role in our long-term growth.

#### Changes in Internal Control over Financial Reporting

During the period covered by this report, Management reviewed all controls and narratives with control owners. Management added controls to measure the level of precision for all review controls. Additionally, Management added inventory cycle counts with accompanying controls to improve the efficiencies of key controls over inventory.

#### Management's Remediation Initiatives

The material weaknesses mentioned above were originally discovered in an independent audit performed at the end of fiscal year 2015. Since that time the Company has not been required to have another audit on the effectiveness of internal controls, however, Management has been actively developing and implementing remediation plans for new controls and processes to address

and prepare to remove the aforementioned deficiencies in future audits. We continue to work with auditors and third party consultants to improve our control environment.

As part of the remediation efforts Management has worked with consultants to update the Company's active risk control matrix. Through this process the Company has improved the documentation of control narratives and flow charting of all controls. In addition to updated documentation, the Company is utilizing software to automate the control documentation and testing. It is anticipated that these efforts will allow the Company to streamline its internal audit efforts and provide greater confidence in the Company's overall control environment.

#### Limitations on the Effectiveness of Internal Controls

An internal 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. Further, 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 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. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by Management override of the internal control. The design of any system of controls also 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, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

#### Item 9B. Other Information

All events requiring disclosure on form 8-K were properly disclosed during the period; as such, this item is not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required under this item is incorporated herein by reference to our Definitive Proxy Statement for the Annual Meeting of Stockholders to be filed no later than 120 days after December 31, 2017 (the "Proxy Statement").

Item 11. Executive Compensation

Incorporated herein by reference to the information to be set forth in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Incorporated herein by reference to the information to be set forth in the Proxy Statement.

Item 13. Certain Relationships and Related Transactions and Director Independence

Incorporated herein by reference to the information to be set forth in the Proxy Statement.

Item 14. Principal Accounting Fees and Services

Incorporated herein by reference to the information to be set forth in the Proxy Statement.



PART IV

Item 15. Exhibits, Financial Statement Schedules

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

- Exhibit 3.1 Articles of Incorporation<sup>(1)</sup>
- Exhibit 3.2 Articles of Amendment to the Articles of Incorporation<sup>(2)</sup>
- Exhibit 3.3 Amended and Restated Bylaws<sup>(3)</sup>
- Exhibit 10.1 Stock Redemption Agreement dated November 15, 2016 between the Registrant and Harold Albert<sup>(19)</sup>
- Exhibit 10.2 Employment Agreement of Brenton W. Hatch dated June 28, 2013 <sup>(16)+</sup>
- Exhibit 10.3 Restricted Stock Unit Award Agreement between the Registrant and Ryan Oviatt dated October 12, 2017<sup>(17)+</sup>
- Exhibit 10.4 Employment Agreement of Ryan Oviatt dated September 4, 2015 <sup>(18)+</sup>
- Exhibit 10.5 Form of Indemnification Agreement between the Registrant and its Directors <sup>(4)</sup>
- Exhibit 10.6 2003 Stock Incentive Plan <sup>(5)</sup>
- Exhibit 10.7 Profire Energy, Inc. 2010 Equity Incentive Plan <sup>(6)</sup>
- Exhibit 10.8 Profire Energy, Inc. 2014 Equity Incentive Plan<sup>(20)</sup>
- Exhibit 10.9 Profire Energy, Inc. 2014 Equity Incentive Plan Amendment<sup>(7)</sup>
- Exhibit 10.10 Form of Equity Grant Agreement, Nonqualified Stock Option <sup>(8)</sup>
- Exhibit 10.11 Form of Equity Grant Agreement, Restricted Stock <sup>(9)</sup>
- Exhibit 10.12 Form of Equity Grant Agreement, Restricted Stock Units <sup>(10)</sup>
- Exhibit 10.13 Securities Purchase Agreement, dated November 12, 2013 between the Registrant and the persons listed therein as purchasers<sup>(13)</sup>
- Exhibit 10.14 Registration Rights Agreement, dated November 18, 2013 between the Registrant and the persons listed in the Securities Purchase Agreement as purchasers <sup>(14)</sup>
- Exhibit 10.15 Retirement and Release Agreement with Harold Albert dated February 23, 2017 <sup>(15)</sup>
- Exhibit 10.16 Amended and Restated Employment Agreement of Brenton W. Hatch dated August 3, 2017 <sup>(21)+</sup>
- Exhibit 10.17 Amended and Restated Employment Agreement of Ryan Oviatt dated August 3, 2017 <sup>(22)+</sup>
- Exhibit 10.18 Consulting Agreement, dated March 24, 2014, between the Registrant on the one hand and Terra Industrial Corporation and Alan Johnson on the other <sup>(12)</sup>
- Exhibit 10.19 Stock Redemption Agreement, dated May 25, 2017, between Profire Energy, Inc. and Hatch Family Holdings Company, LLC, which is wholly owned by Brenton W. Hatch <sup>(23)</sup>
- Exhibit 10.20 Restricted Stock Unit Award Agreement by and between Profire Energy, Inc. and Ryan Oviatt, dated October 12, 2017<sup>(24)+</sup>
- Exhibit 14.1 Code of Ethics <sup>(11)</sup>
- Exhibit 23.1 Consent of Sadler, Gibb & Associates, LLC, independent registered public accounting firm\*
- Exhibit 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)\*
- Exhibit 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)\*
- Exhibit 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350\*
- Exhibit 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 \*
- Exhibit 101.INS XBRL Instance Document\*\*
- Exhibit 101.SCH XBRL Taxonomy Extension Schema Document\*\*
- Exhibit 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document\*\*
- Exhibit 101.DEF XBRL Taxonomy Definition Linkbase Document\*\*
- XBRL Taxonomy Extension Label Linkbase Document\*\*

Exhibit  
101.LAB

Exhibit  
101.PRE XBRL Taxonomy Extension Presentation Linkbase Document\*\*

\* Filed herewith

\*\* The XBRL related information in Exhibit 101 shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

+ Indicates management contract, compensatory plan, or arrangement with the Company

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- (1) Incorporated by reference to the Registration Statement of the Registrant on Form SB-@ filed with the Commission on September 24, 2004.
- (2) Incorporated by reference to Exhibit 3.1 to the Registrant's quarterly Report on Form 10-Q filed with the commission on February 13, 2009.
- (3) Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Commission on December 23, 2013.
- (4) Incorporated by reference to Exhibit 10.7 to the Registrant's Form S-1 filed on December 24, 2013 (File No. 333-193086).
- (5) Incorporated by reference to Exhibit 4.01 to the Registrant's Form SB-2 filed on September 24, 2004 (File No. 000-52376).
- (6) Incorporated by reference to the Registrant's Revised Definitive Proxy Statement on Schedule 14A filed with the Commission on November 10, 2009 (File No. 000-52376).
- (7) Incorporated by reference to Appendix B to the Registrant's Revised Definitive Proxy Statement on Schedule 14A filed with the Commission on May 1, 2017.
- (8) Incorporated by reference to Exhibit 10.14 to the Registrant's Annual Report on Form 10-K filed with the Commission on June 13, 2016.
- (9) Incorporated by reference to Exhibit 10.15 to the Registrant's Annual Report on Form 10-K filed with the Commission on June 13, 2016.
- (10) Incorporated by reference to Exhibit 10.16 to the Registrant's Annual Report on Form 10-K filed with the Commission on June 13, 2016.
- (11) Incorporated by reference to Exhibit 14.1 to the Registrant's Form 8-K filed with the Commission on February 12, 2015 (File No. 000-52376).
- (12) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on March 25, 2015 (File No. 000-52376)
- (13) Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed November 18, 2013 (File No. 000-52376).
- (14) Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed November 18, 2013 (File No. 000-52376).
- (15) Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed February 27, 2017 (File No. 001-36378).
- (16) Incorporated by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 2013 filed with the Commission on July 2, 2013 (File No. 000-52376)
- (17) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on October 17, 2017 (File No. 001-36378)
- (18) Incorporated by reference to Exhibit 10.3 to the Registrant's Form 8-K filed on September 8, 2015 (File No. 001-36378)
- (19) Incorporated by reference to Exhibit 10.1 to the Registrant's Transition Report on Form 10-K filed with the Commission on March 9, 2017.
- (20) Incorporated by reference to Exhibit 10.9 to the Registrant's Transition Report on Form 10-K filed with the Commission on March 9, 2017.
- (21) Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed August 9, 2017 (File No. 001-36378).
- (22) Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed August 9, 2017 (File No. 001-36378).
- (23) Incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed with the Commission on August 9, 2017.
- (24) Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed October 17, 2017 (File No. 001-36378).

Item 16. Form 10-K Summary

The Company has chosen not to include an optional summary of the information required by this Form 10-K. For a reference to information in the Form 10-K, investors should refer to the Table of Contents to this Form 10-K.

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SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed by the undersigned, thereunto duly authorized.

PROFIRE ENERGY, INC.

| Signatures                                 | Title                   | Date          |
|--|-------------------------|---------------|
| /s/ Brenton W. Hatch<br>Brenton W. Hatch   | Chief Executive Officer | March 7, 2018 |
| /s/ Ryan Oviatt<br>Ryan Oviatt             | Chief Financial Officer | March 7, 2018 |
| /s/ Harold Albert<br>Harold Albert         | Director                | March 7, 2018 |
| /s/ Arlen B. Crouch<br>Arlen B. Crouch     | Director                | March 7, 2018 |
| /s/ Daren J. Shaw<br>Daren J. Shaw         | Director                | March 7, 2018 |
| /s/ Ronald R. Spoehel<br>Ronald R. Spoehel | Director                | March 7, 2018 |