CORPORATE PARTICIPANTS

Brenton Hatch, *Chief Executive Officer, President, Chairman of the Board of Directors*

Ryan Oviatt, *Chief Financial Officer*

Cameron Tidball, *Vice President Sales & Marketing*

CONFERENCE CALL PARTICIPANTS

Rob Brown, *Lake Street Capital Markets, LLC*

John White, *ROTH Capital Partners, LLC*

Jim McIlree, *Cardan Capital Partners, LLC*

Michael Townley, *Merryweather Securities*

Scott Billeadeau, *Walrus Partners, LLC*

Dean Trottier, *Private Investor*

PRESENTATION

Operator:

Good afternoon, everyone, and thank you for participating in today's conference call to discuss Profire Energy's Second Fiscal Quarter Ended September 30, 2017. Joining us today is the President and CEO of Profire Energy, Brenton Hatch, and CFO, Ryan Oviatt.

Before we begin today's call, I would like to take a moment to read the Company's Safe Harbor statement. Cautionary notes regarding forward-looking statements. Statements made during this call that are not historical are forward-looking statements. This call contains forward-looking statements, including, but not limited to, statements regarding the Company's plan to make internal investments; the Company's R&D investments that will deliver new products and features; the Company's intent to execute its share repurchase program; the Company's ability to increase 3100 product sales; the Company's ability to follow up with customers interested in the CMS products; the Company's process certification that will allow sales to expanded customer base; and the Company's cost structure is scalable with growth. All such forward-looking statements are subject to uncertainty and changes in circumstances. Forward-looking statements are not guarantees of future results or performance and involve risks, assumptions and uncertainties that could cause actual events or results to differ materially from the events or results described in, or anticipated by, the forward-looking statements.

Factors that could materially affect such forward-looking statements include certain economic, business, public market and regulatory risks and factors identified in the Company's periodic reports filed with the Securities and Exchange Commission. All forward-looking statements are made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. All forward-looking statements are made only as of the date of this release and the Company assumes no obligation to update forward-looking statements to reflect subsequent events or circumstances, except as required by law. Readers should not place undue reliance on these forward-looking statements.

I would like to remind everyone that this call is being recorded and it will be available for replay through November 16, 2017, starting later this evening. It will be accessible via the link provided in yesterday's press release, as well as on the Company's website at www.profireenergy.com.

Following the remarks by Mr. Hatch and Mr. Oviatt, we will open the call to your questions. As part of the question-and-answer session, Misters Hatch and Oviatt will be joined by Profire Energy's VP of Sales, Cameron Tidball.

Now, I would like to turn the call over to the President and Chief Executive Officer of Profire Energy, Mr. Brenton Hatch.

Brenton Hatch:

Thank you very much. Good day, everyone. Thanks for joining us today as we provide an update on our third quarter. Profire continues to perform well in a volatile oil and gas industry. In the previous quarter, we reported that we expected our performance in the third quarter to remain flat with the results of our second quarter. In this quarter we are happy to report that we realized an increase in revenue. During the quarter, we saw increased sales activity in the Permian and Northeast regions.

Throughout the third quarter, oil prices varied in the mid- to high-$40 range. Within this price range, many of our customers had some cap ex budget to spend. This, along with well-completion activity, drove our increase in sales. The market remains unpredictable; however, our products and solutions continue to be a critical component of our customers' safety and operational processes.

Despite the volatility, we realized some great success during the quarter. Total revenues for the quarter surpassed $10 million. This represents a 101% increase in revenues over the same quarter a year ago, and a 6% growth in revenues over the previous quarter. This marks the first time our revenue has exceeded $10 million since the quarter ending December 31, 2014.

Profire continues to be debt free. This approach allows us to be flexible and to respond to market opportunities. At quarter-end, we held just over $21 million in cash and liquid investments and once again generated positive operating cash flows for the period.

With the increase in revenues, we have hired strategically to keep up with the demand. We are working with vendors to manage lead-times and inventory levels sufficient to satisfy recent and future growth. Profire is committed to lean management to keep our costs down. The increase in revenue requires some internal investment; however, management of these costs remains a priority.

As a technology company, R&D continues to be a strategic focus. Last quarter we announced that our R&D Team is working to achieve a product certification, SIL, which is Safety Integrity Level, that will ensure a more reliable and repeatable product development process. This certification will enable us to sell to customers whose requirements are more stringent than our traditional product certifications.

In addition to working toward this certification, the R&D Team continues to augment the features of our 3100 product. We recently issued a press release discussing the new features of the 3100. It's important for us to develop new technology to remain an industry leader. Our team of engineers works closely with customers to produce products that meet and exceed market expectations.

With superior products and a dedicated team of employees, Profire has successfully navigated a volatile market. Our policies and strategies have allowed us to react quickly to industry changes and have positioned us well to remain a technology leader.

I will now turn the call over to Ryan Oviatt, our CFO, to discuss the financial results for the quarter. Ryan?

Ryan Oviatt:

Thanks, Brent. Yesterday, after the market closed, we filed our 10-Q with the SEC, and discussed the quarter's highlights in a press release. As always, both of those documents are available on the Investor section of our website. The transcript of this call will be posted there in the coming days. In this quarter, we were able to exceed expectations as we continued to execute the fundamentals of our strategic plan. This quarter we experienced further revenue growth and continued to position the Company for the future.

Let's begin by looking at the income statement. In our third quarter of 2017, our total revenues increased to over $10 million or a 101% increase over the same year-ago quarter. This increase in revenue is partly attributable to the increase in oil prices and the larger customer base we've built up over the last two years.

With the increase in revenues, our gross profit increased to just over $5 million or 50.4% of total revenues as compared to $2.6 million or 52.6% of total revenues in the same quarter of last year. Gross profit margin remains strong but varies quarterly due to product mix, overhead allocations, and inventory allowances.

Total operating expenses increased to $3.2 million from $2.8 million in the same year-ago quarter. This 16.9% increase in operating expenses is a modest increase when compared with the 101% increase in revenue over the same period. Profire has been able to manage costs throughout the downturn and the initial recovery, and will continue to do so as the Company invests in additional resources to keep up with demand.

Operating expenses for general and administrative increased 19%, R&D increased 21%, and depreciation decreased 21% as compared to the same quarter a year ago. The increase in expenses is primarily due to staffing increases in the Operations and Quality Control departments. We increased our spending in R&D to speed up the delivery of product enhancements, new product development, and certifications. These investments are strategic and will enable us to deliver a superior product to our customers.

Total other income during the period was $82,000, the majority of which was attributable to interest income and gains on the sale of assets.

Our net income was $1.2 million or $0.03 per share compared to net income of $74,000 or $0.00 per share in the same year-ago quarter.

Now shifting to the balance sheet, cash and liquid investments totaled $21.4 million as compared to $20 million at the end of the last fiscal year. In the past year-and-a-half, we have been actively repurchasing our own stock as part of our previously communicated capital allocation strategy. We continue to purchase shares pursuant to this plan while maintaining our cash reserves at appropriate levels. These purchases were enabled through operating cash flows. Generating positive cash flows will continue to be a key area of focus for the Company. Nevertheless, we will continue to seek for other strategic opportunities.

Inventory levels decreased from $7.8 million to $6.9 million from the end of the fiscal year. This decrease is largely due to the increase in sales volume. Our Operations Team works closely with the Sales Team to ensure our inventory on hand will satisfy projected sales.

Accounts receivable collections remain strong and the balance of accounts over 90 days old remains below 10% of total accounts receivable at the end of the period.

The cost and Company structures we now have remain scalable. We have seen significant year-over-year increases in revenue. With this sustained increase, we plan to invest internally to meet market demand, to retain key employees, and to hire new personnel when needed. We are committed to maintaining an appropriate cost structure as we continue to grow and will remain vigilant in the pursuit of other opportunities that will be accretive to our Company and its Shareholders.

With that, thanks, and I'll send it back to you, Brent.

Brenton Hatch:

Thank you, Ryan. As Ryan has highlighted, our execution of strategic planning has contributed to our continued success. Throughout the quarter, we hired a few employees in the Operations department and invested in R&D. Our R&D investment is largely focused on supporting our 3100 product and certification of current and future products. We believe that the 3100 product sales will increase in coming quarters. As mentioned earlier, we continue to add features to the 3100 in order to offer a competitive product that meets customer expectations. In addition to the 3100, other new products are presently being developed. The new certification will allow us to sell products to midstream and downstream operators that are not currently customers.

Recent industry events and the uptick in oil prices over the last few days contribute to the market volatility and make it difficult for us to forecast future revenues. In the previous quarter, we announced that we expected the final two quarters of 2017 to remain relatively flat. Historically, November and December are challenging months for Profire, largely due to the downtime associated with the holiday season.

Fourth quarter cap ex spend is unpredictable. We plan to attend conferences and work with customers to understand their cap ex budgets for the coming year. We remain optimistic that oil prices will stabilize within a range that allows our customers to accelerate their cap ex spend. We believe that new technology, including Profire products, will be a part of our customers' long-term strategies.

Throughout the quarter we saw an increase in sales activity, primarily in the Permian and Northeast. Our preventative maintenance program continues to perform well in the STACK and the SCOOP regions and is gaining traction in other areas.

Last quarter we reported renewed interest in our CMS product. We are pleased to report that a customer that tested the product previously purchased multiple units in this quarter and we currently have quotes for the product with a number of other customers. In the quarter, we were invited to present in Houston, Texas at a technology conference for the oil and gas industry. Specifically, we were asked to present on the CMS product and its capabilities. Since that conference, we have been able to meet with a number of interested new customers and will continue to follow up with them throughout this quarter.

Thank you for investing and showing interest in Profire. We have a staff that is dedicated to Profire's continued success. We are actively attending investor conferences to increase our visibility and investor awareness, as well as strengthen our relationships with existing investors. We believe we are in a great position to serve our customers and deliver products that meet or exceed their expectations.

Now, with that I will open the call up to questions. Operator, would you please provide the appropriate instructions so that we can get the Q&A started?

Operator:

Certainly. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate that your line is in the question queue and you may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star key. Again, that's star, one to ask a question at this time.

Our first question comes from the line of Rob Brown, Lake Street Capital. Please go ahead with your questions.

Brenton Hatch:

Morning, Mr. Brown.

Rob Brown:

Good morning. Congratulations on a nice quarter.

Brenton Hatch:

Thank you, sir.

Rob Brown:

Just wanted to get a little more of your thoughts on the 3100 in terms of the sales pipeline there, how that's shaping up for 2018 and how these new product offerings have been received in the market.

Brenton Hatch:

You bet. We'll ask Mr. Tidwell to cover that in a second, or some of that. Let me just say that one of the things that we found with the 3100 is it is a bit seasonal in that, as we have explained before there, it takes some engineering in advanced of actually doing installs of this product, and especially when it's involved in big projects. Many of those big projects are done in the spring and summer time, and so we find that when these companies are going into their shutdown, their turnaround periods, that they will schedule the installs at that point. We expect it to be a bit seasonal that way.

But, Cam, why don't you address the issue of the 3100?

Cameron Tidball:

You bet. One word I can use to describe how customers are reacting to our feature sets that we've released recently had a press release on is it's really refreshing is what were getting from customers based on the status quo of what's currently there. The way that we are handling fuel/air ratio control, the way that we are integrating features in different I/O, it's really turning some heads. So far, a lot of focus has been going to the OEMs who've been dealing in this environment for years and years and dealing with the products that have been out for, really, without much movement for over two decades.

I'll throw the word out there again: refreshing. They like our spin on it. They like our approach to it. They find that the cost of ownership is going to be one that is attractive, meaning the what is the reoccurring, what am I going to have to do to keep this thing going, and it's very attractive and interesting to them.

As far as the pipeline, Brent hit it right on the head. We will see more seasonality for this; however, the interest for 2018 projects has been strong and we feel confident in how our 2018 is going to shape up.

Brenton Hatch:

Thank you, Cam. The other thing I might add as well is working on the SIL, as I expressed earlier in my comments, this SIL certification will be very positive for us. It will allow us to approach some customers, especially in the refining areas and so on, that we haven't here to or have been able to, and that will only increase the interest in the product it seems.

Rob Brown:

Okay. On that certification, when do you expect that to get completed, and do you have a sense on how much investment that is for you?

Brenton Hatch:

The investment itself, it won't involve a lot of dollars. It's more a time investment. We would hope that early in the year, springtime, this ought to be in place. We have our fingers crossed for that one, but it does take a little time, but we're actively working on that, pretty aggressively actually right now.

Rob Brown:

Okay. Good. Then, I just wanted to kind of step back. I know you don't have perfect visibility, but 2018, how do you sort of view it more generally? Do you view it as a growth here; do you view it as sort of stable at the current run rates, or what's your sort of thinking on early year in 2018?

Brenton Hatch:

Any indications we have, Rob, are that the market's going to remain very steady. Certainly with the upsurge uptick in oil prices, it's been very positive and we have no reason to believe that we won't have a very good year. We are attending a conference of some of the major E&Ps later this month where they're going to talk about their cap ex spend for the coming year, and so we will be interested to see what they're saying. But certainly, we have seen them be very positive in the high 40s with their cap ex spend and we have to assume that it's only going to be a little better if we can see some stability in oil prices. We're very optimistic about where we're going for this coming year.

Rob Brown:

Great. Thank you. I'll turn it over.

Brenton Hatch:

Thanks, Rob.

Operator:

Our next questions come from the line of John White with ROTH Capital. Please go ahead with your questions.

Brenton Hatch:

Good morning, John.

Ryan Oviatt:

Good morning, John.

John White:

Good morning, guys. Good to talk to you again. I'm on the call on behalf of Joe Reagor and just had a couple of quick ones. We watch the rig count like you probably do, and going back to June until last week it was down about 60 rigs in the U.S. Has have you seen that in your order book?

Brenton Hatch:

Cam, have we've seen much difference there? I guess we'd have to bring the whole question of ducks (phon) into this thing as well. Cam?

Cameron Tidball:

Yes. So far a drop in 60 is—well, it's the biggest we've seen for a while. We haven't seen it hit our books as of yet. There could be some changes up. But the duck inventory is still huge and as long as they start keep on chipping away at that, which in all the numbers show that they're not chipping away at it for the most part, but we should be good. But, no, we haven't seen an impact yet on reduction in drills. This is somewhat to a degree, if you can look back in history, you'll see some seasonality with that as well as to somewhat normal.

Brenton Hatch:

Right. I might mention that that—more than the drill count, the ducks have more to do with our operations, the drilled but uncompleted wells coming on. That's when these vessels go in that have our equipment on it and so that's really of greater interest to us in some ways than just the drill count.

John White:

I can appreciate that and I think a lot of the drilled uncompleted are going to roll into 2018 to fill. People have that there as kind of a cushion to meet their targets on production. Also, would you want to comment on chemical management system and how that compares to total sales so far?

Brenton Hatch:

Ryan's just sitting here anxious to talk and hasn't had a chance. We'll maybe let him tackle that one for a second.

John White:

Let's let Ryan go.

Brenton Hatch:

Okay.

Ryan Oviatt:

Thanks, John. Yes. Great question. Chemical continues to be an area where we struggle. We wish it was much better than where it has been. However, in this quarter, we've actually seen some great activity that we haven't seen so far this year. We've sold to a number of systems. Overall the total is still less than 1%

of total revenues for the quarter, but we did see a significant increase in the number of systems sold during the quarter. It was with two customers, each of them buying multiple units. Kind of looking forward into what's in our pipeline, we've got a lot of—well, say 10 or so customers that have expressed interest in taking product this next quarter where we've got pretty high confidence that many of those, if not all of those, will go through.

One great thing that happened just recently for us was that we were invited to present at a conference down in Houston where it was focused on presenting new technologies to E&P producers. Cam was a part of that and was there at that presentation, so maybe I will allow him to maybe just talk briefly about how that went and what we're seeing since that event.

Cameron Tidball:

Yes. You bet. That was a very interesting take on, I'll call it a tradeshow, but it really wasn't. But, really, this company is paid by E&Ps and operators to find technology. They found us. They interviewed us. They had us give a mock presentation and then we were selected based on the customer testimonials that we provided as being one of the six vendors that would participate in this conference. At that conference there was approximately—I think there was 15 to 20 different E&Ps. You got up, you gave a 15-minute shotgun presentation, and then after they allowed for speed dating where these companies could come up and chat with you, ask more particulars with respect to what the technology could do with their specific application. We were able to have some great feedback, one from a customer who was at that, that was currently using our technology. We've been able to secure some great meetings from that.

The fallout from it, we've actually seen some chemical companies contact us saying, hey, we really think that you guys have something here; maybe we want to put this solution in our stuff. But, really, we know that they've been told that they'll probably have to do something, so we hope for some good trial systems to get out here in this quarter or next quarter and hopefully some volume to follow. But very positive reception by—we received definitely the most questions out of anybody on all the presentations, and we received almost—everybody that was at that conference came and saw us after to ask specific questions.

Brenton Hatch:

Cam, I chuckled at the one customer that was there that uses this, as you were presenting statistics. You might tell that as well.

Cameron Tidball:

Yes. One of the customers, they told us that we would have to update our slides because the savings that they were able to achieve had drastically eclipsed what we had posted on the presentation, and this engineer was actually a great advocate for us after the original meeting in the reception later where he was going around and really being an unpaid sales guy for Profire. Some really good news, positive news, welcomed news for us I'm sure for shareholders. We'd love to see this do what we fully intended it to do and that's to be a significant contributor to Profire.

Brenton Hatch:

Thanks, Cam.

John White:

Well, that's a good amount of color and I really appreciate it when your customer helps you with the pitches. You can't ask for much more.

Brenton Hatch:

That's true.

John White:

The only thing I'm upset about is you didn't call me when you came to Houston. Next time you come to Houston, you give me a call.

Cameron Tidball:

I was there for a whopping—I got there at 3:00 in the morning from Chicago and then we presented and then I flew to New York, so my apologies, but next time we'll grab lunch.

John White:

Yes.

Brenton Hatch:

We'll have to let you know when our Christmas party is down there, John.

John White:

All right, sounds good. Well, congratulations on a very nice quarter and it's good to talk to you gentlemen again.

Brenton Hatch:

Thanks so much.

Cameron Tidball:

Thank you, John.

Brenton Hatch:

See you.

Operator:

Thank you. Our next questions come from the line of Jim McIlree with Cardan Capital. Please go ahead with your questions.

Brenton Hatch:

Jim, how are you?

James McIlree:

Hey, Brent. I'm well. Thank you. How are you?

Brenton Hatch:

Doing great.

James McIlree:

I'm trying to figure—I think last quarter you guys gave a percentage of sales for the 3100. Can you do the same for this quarter?

Ryan Oviatt:

Yes. We certainly can. This quarter sales for the 3100 were lower than last quarter. As we've talked, it'll be a cyclical thing for us, but the percentage this quarter was 2.8% of total revenue.

James McIlree:

Great. Thank you. Do you have to get the SIL certification before you're going to be able to put these units in trials or tests that open up in the spring and summer?

Brenton Hatch:

Cam, why don't you, since you're on the front lines with that?

Cameron Tidball:

Yes. SIL really does what the 3100 originally did, or does for Profire expands the ability of getting into different application. Really what SIL will do for us is help us in more of the downstream and high spec midstream jobs, which currently right now we really don't even want to show up to the party because you're just going to get your head padded and say see you later. We don't want to show up without that. We'll still be very aggressive in midstream, upstream as we are right now and some special applications with the 3100 with its current certifications, but in order to play with, as coining the (phon) phrase, the big boys, you're going to need that SIL and it really just ups the game for Profire and it'll expand who we can go after, which system integrators will talk to us, which engineering companies will open the door, and which end-users will build to actually even say, okay, checkmark, I can let you in the door, because without it, you're just kind of—you're not even making friends. They're not going to give us the time.

James McIlree:

Yes. I get that. I guess I'm more interested or as interested in the timing of all this. I thought you said that a lot of this work for the, as you called it big boys, happens in the spring and summer, and so if you don't have the SIL certification before then, they'll say thanks a lot, see next year. Is that kind of right or not?

Cameron Tidball:

Well, your springtime is really for your northern climate spring, summer. The rest of the United States, it can be whenever they're not making a lot of money. That's when they'll do their turnarounds. Yes, if there's a project that's going in for 2018 spring, even if—it would be too late now even because you wouldn't even be in the bid spec. Really, for our bigger turnarounds that we'll be looking to get into, the ones that are more the higher spec that will be longer planned lead times, we'll be probably looking more into the 2019, but that doesn't mean—SIL should have an impact next year as well.

James McIlree:

Okay. I see. I think I got it. Ryan, it looks like inventory turns have been—well, not looks like, they have been—they've been improving actually over the past few quarters. Was there some issue that you finally worked your way through? Was there some—didn't you have some old inventory you were trying to work through? Is that kind of gone now and we're at normal turnover levels or is there room for more improvement?

Ryan Oviatt:

That's a great question and good observation. Unfortunately, I will say there is still room for some more improvement. We do still have some slow-moving inventory that we've been holding for quite a while. We believe that it's still valuable and has its purpose, but the combination of customers who were using it in the past is different now and so there are some dynamics there. There is some areas of our inventory where we definitely hope to bring the numbers down. One key component or maybe even the biggest component of that would be in relation to our CMS product. We do have a lot of that product on hand and as we're able to realize more sales there, that'll be an opportunity for further improvement.

One of the key challenges that we are having right now is that as we've been able to ramp up very quickly in this last year, we're finding that our vendors are maybe struggling to keep pace with us and that lead times on all of the product that we're using that it's moving, that it's in high demand for us right now, the lead times are getting longer, so we continue to work very, very closely with our vendors to solve that challenge and to make sure that we can have the right amount of inventory on hand. Our Operations Manager and I frequently discuss this topic and he frequently has heartburn over the fact that the inventory is as low as it is while in other ways I'm excited that it is. But it's a balance of having decreased in the right areas and carrying the right amount in the other areas, and that's still a challenge for us that we're still working through, but overall, we are happy just to be making progress in that regard.

James McIlree:

Right. Okay. Good. Brent, I'm trying to reconcile what you were talking about in terms of your customers' budget flush versus seasonality in Q4. The question is do you have a sense as to how much capacity your customers have to spend their cap ex dollars this year? Can we see a big budget flush that would outweigh the normal seasonality downturn in Q4?

Brenton Hatch:

Yes. Our fingers are always crossed, Jim. It seems to change year-by-year. We don't know at this point. For sure we do see some spending that's gone on in this last month or so that seems to indicate that there was some budgets left over for the year-end spend and we may very well see some of that, as we have on occasion in past years in December. It's really a bit of a challenge. One of the things that we have found on the years when there was a lot of spend at the year-end when there was some cap ex budget left and they did spend it, things were down a little bit the first quarter because they had purchased so much product in December or November, anticipating that they would need this at some point. That's the challenge.

The other problem, of course, and you referred to this, is the whole holiday thing. There's a couple of weeks around Christmas and certainly Thanksgiving week when it's really—we just don't know, but things do shut down for a lot of operations just because of holidays. This is really a tough quarter to quarter to predict. The one thing I can tell you, though, is it doesn't seem that there is any negative change in interest in purchasing and in cap ex spending now compared to where we have been. It seems to be steady as it goes and that's very positive. The only question will be, as you alluded to, if there's some left over cap ex or the whole holiday thing.

James McIlree:

For modeling purposes, it sounds like it's best to just assume that we're going to have a typical seasonal Q4 decline, if I try to summarize what you said?

Brenton Hatch:

Yes. We wouldn't be surprised at that at all. Again, I want to stress that the day by day operations and sales haven't changed at all, but it will be because of the holiday events. We're preparing for that, but we, again, are very optimistic that things will keep going in a very positive way for us as oil prices stay up.

James McIlree:

Right. Right. I think that's all I have today. Thanks a lot and good luck with everything.

Brenton Hatch:

Great, Jim. Good to talk to you.

Ryan Oviatt:

Thanks, Jim.

Operator:

Thank you. Once again, as a reminder, you may press star, one to ask a question at this time. Our next questions come from the line of Michael Townley with Merryweather Securities. Please go ahead with your question.

Michael Townley:

Hey, guys. Great quarter.

Brenton Hatch:

Thank you.

Michael Townley:

To start with, one for Ryan; I noticed that your gross margins ticked down a little bit this quarter and you kind of alluded to that fluctuation. Can you just dig into that a little bit? We've got more sales of third-party product that has the lower gross margins, or what was driving that? Then I guess going forward, kind of what do you think a stable range for gross margins is on the product side?

Ryan Oviatt:

Yes. Thanks, Mike. Great question. As we've said in the past, our margins vary a little bit each quarter and one of the key contributors there is just the overall product mix, as you alluded to. Our Service division has lower margins this quarter. Their revenues were a little bit higher than last quarter, so that had a downward effect. Within the product side of things, our 3100 revenues were down. They carry higher margins, so the combination of those two factors also had a downward driving effect on gross margins. Another thing that in a way has been very positive for us is we've seen a significant increase in the number of fuel trains or valve trains that our customers are interested in, in purchasing from us. That's a product where it's an assembled product where we put together basically the fuel line that leads up to the burner and which our boxes control. The majority of the products on that fuel train are purchased from a third party, then we assemble them and send it out. It is a good money-maker for us, but it does have a lower margin or lower than our systems, so that had a downward effect on the overall margin as well. From a product mix, those are a couple of the key changes that we have seen.

Then also in this quarter, probably the bigger impact was that we started to allow a little bit more inventory reserve for some of our slow-moving items that we still carry in inventory. Again, we're continuing to work with those and with the Sales Team to make sure that we can find ways to utilize them and find customers for them, but some of them that have been sitting there longer, we increase the reserves that we have set against those. The combination of those products mix changes with a little bit of additional inventory reserve is what brought the margin down to what it was for this quarter.

Michael Townley:

Got you. I appreciate that color. Turning kind of to the top line side, just—sorry to ask another question about Q4—but to clarify, it sounds like all things considered, you're sort of expecting it to be flat, but what could cause it not be flat would be if there's just time off for the holidays and things like that, but your day-to-day sales trends are sort of consistent with what you've seen in Q2 and Q3 so far?

Brenton Hatch:

I would say that's an accurate statement, Mike, yes.

Michael Townley:

Okay. Then as you look into 2018, I'm also trying to understand, obviously nobody can predict the market and it's volatile and so on and so forth. But from a penetration standpoint, right, you should have core increasing an option of kind of your core burner management solutions and then that combined with the new products, like 3100. I guess what I'm asking is if the market in 2018 is more or less flat to 2017, would you still expect to be able to deliver growth?

Brenton Hatch:

The answer would be yes. In addition to all of the things that you've mentioned, we are also actively working, our R&D Team is, on other new products and we would hope in this coming year to have a new product out, which could in fact add significantly to what we're doing. Overall, we expect with the oil price change in an upward direction, the optimism that we have heard and felt and seen as we've been out there with these oil companies and the different products that we have, the extra efforts that we're putting into the 3100, we expect it to be a good year.

We don't give numeric guidance at this point. We think things are still unstable enough that it's pretty difficult to do that, but overall, we're very optimistic about the coming year.

Michael Townley:

Got you. When you talk about—maybe back to Ryan—when you talk about some of the investments that you're making and the increased R&D and so on, I mean, I have to assume that you're still going to be able to maintain or even increase your EBITDA margins, right, on future growth?

Ryan Oviatt:

Yes. That's certainly the objective. If we look back to 2015, 2016, where a period for us of cost cutting, cost reductions, and really maintaining costs, and now in 2017 it's been more of we've started to recovery now and that we want to position ourselves for that recovery, again, doing that in a way that we're managing our costs very closely, that we're looking at strategic hiring in the right areas that are going to drive the greatest value for us and the greatest impact to revenues. So, very much focused on maintaining and even increasing the EBITDA margin, the net income margin, all the great things that we've been able to achieve in 2017, maintain those and hopefully even grow those into 2018.

Michael Townley:

All right. Thanks. Appreciate it.

Brenton Hatch:

Thanks, Mike.

Ryan Oviatt:

Thanks, Mike.

Operator:

Our next question comes from the line of Scott Billeadeau with Walrus Partners. Please go ahead with your question.

Brenton Hatch:

Hi, Scott.

Scott Billeadeau:

Hey. Hi, guys. Most of mine have been answered. Just a couple of quick ones. Just could you update us kind of what does the sales force, what's the size of the sales force at this point in time, and if you added there? Kind of give us an update there. Then the second question would be I think you mentioned about a little less than 3% of sales was from the 3100; maybe you could update us kind of what's carrying the water right now in terms of revs? That would be helpful. Thanks.

Brenton Hatch:

You bet. Cameron, you're front line there. Do you want to talk about those for a sec?

Cameron Tidball:

Yes. You bet. The Sales Team remained flat in number of people. We're still about 17 and then myself. We will be looking to expand that Sales Team, one for the 3100 vertical as we get closer to certifications, as well as just to expand our ability to serve the customer base that we're starting to build there. That's going to be a different hire than Profire's had previously in the past. We will look to probably bring on someone with expertise where really all of our traditional legacy team has always been—we've kind of grown them and taught them the way we wanted to do it, and so it's going to be a little different hire for us. We're also looking at perhaps expanding our existing team the deals with our legacy product. We should see some movement in the next quarter, late Q4 or Q1, on those fronts.

As far as the 3100, the revenue down, the number of projects, we're still very consistent, if not growing. It's just the dollar values were lower because they weren't your big upright process heaters which we like to get those. Those will, of course, be a higher dollar amount, a larger revenue per project. But with carrying the water right now, we've got a lot of interest. We're doing frac heaters, we're doing smaller process heaters, we're doing some forced air application. It's very diverse with what Profire can do with this technology platform of 3100 that we have. The bad news is the revenue is down. The good news is the projects are increasing, the estimates are going up, the awareness is going up.

Brenton Hatch:

Thanks, Cam. I might add too about static number in the sales force. We have had these sales people for some time now and they're getting better and better and better all the time. Obviously, they're more trained, but they're making more customer contacts. Their effectiveness out there is increasing, so it's not just—we can't just go by numbers of salespeople. Our customer base keeps increasing every quarter, including this past quarter, and so by keeping that sales force, which was a question that we had originally during the downturn, whether we should or shouldn't, we now have some very proficient, efficient salespeople, very versed in not only what the Profire products are but what the market needs are and the contacts that they have just keep growing. It's a very positive thing that we still have that same number.

Cameron Tidball:

Yes. To add to that, Brent, if it's okay, back to that conference we were at, the chemical conference, before we started, the moderator asked is there any questions for Profire. Three E&Ps put up their hand and the first question was I thought you guys were the burner guys, the BMS guys. Of course, we answered, well, we also have this, and then the next two people put their hand down. What does that say? Well, even in the world where people are not dealing with burner management, Profire's top of mind for a lot of people within our customer base. I thought it was a very good point to what Brent's saying that people know us. The brand recognition is there. The reliability that we bring, the expertise that we bring from our Sales Team, which is they're incredibly trained well now.

Scott Billeadeau:

The call point is pretty similar? I mean, the idea is you don't need a CMS sales force in addition to a BMS sales force. The call point is similar or do you do have to rattle around and find a different person on the chemical side?

Cameron Tidball:

You've got to rattle around a little bit. Some are the same. It depends on the structure of the company, the size of the company, your majors, your large guys like Anadarko is totally different. Your Chesapeake's, it all comes back to skate at (phon) department anyways, so it all depends. Again, that's where I mention it's one of the areas we're investigating a potential shift in the way Profire does things and focusing more on the higher levels of engineering in the CMS world to see if we can get a little bit of push from the top.

Scott Billeadeau:

Good. All right, guys. Appreciate it. Thanks.

Brenton Hatch:

Thank you, Scott.

Ryan Oviatt:

Thanks, Scott.

Operator:

The next questions come from the line of Dean Trottier, Private Investor. Please go ahead with your questions.

Brenton Hatch:

Hi, Dean.

Dean Trottier:

Hey, guys. Congratulations navigating the downturn here. It's really nice to see the top line growing so strong.

Brenton Hatch:

Yes. Thank you.

Dean Trottier:

Yes. My question is just a little bit about the materiality of the downstream market once we're done with the certifications for the 3100. What is the size of that market for you guys relative to what you currently have, if you can provide any context?

Brenton Hatch:

I think for the next call I'll just go on vacation and turn it all over Cam because it seems that there's much focus on what he's doing. Cam, can you address that?

Cameron Tidball:

Yes. Well, the downstream market we know where you focus and you've got all up in the Gulf there. The amount of dollars that's spent there on burner management, we have and are in process of conducting further research into it. Obviously, we've done some of our own, but further research to quantify that market a little further. We believe that it is larger than what we are in total dollars spent. We know that it is less project, of course, because nothing is going to keep up with the upstream world of North American shale, but we haven't quantified exactly the figures of what it is, but we believe that it is a great market for us to go after. We believe you've got a lot of plants.

When we say downstream, I don't just think—and, Dean, I know you're an Edmonton guy, so you know that over on the east side of the city here there is that type of downstream. You've got a lot of process heaters. You've got a lot of different applications there. They're not much different than what Profire's already doing in the midstream space. It's just that that the specification to get into those plants are a little more difficult. I mean, you can't just show up at the door and say, hey, here's a box of donuts. Can I come in and talk to your engineer? It doesn't work. They've got the security at the gate. They only place that's in Canada where there's guns is at those, and so it's not the easiest place to get into.

But there is also just those other facilities of the harder, like the larger midstream operations, which there is a lot more of those to go after, and we really are excited about those.

Dean Trottier:

Okay. Thank you. How fragmented is that marketplace? Is it similar to what you guys experience currently with the 2100 and 3100?

Cameron Tidball:

Well, if I understand the question, fragment means like what kind of technology exists there already, like is there a few competitors; is that what you mean?

Dean Trottier:

Yes. That's what I'm asking.

Cameron Tidball:

You're really walking into the Honeywell world for the most part, Alan-Bradley PLCs is (phon) Honeywell Burner Management. You're walking into PLCs and really a hodgepodge of equipment that is all interlaced with intellectual capital that is going to retire sooner than later and only one or two people know how to deal with it. You're going to see a shift, our belief is, into off-the-shelf burner management that's going to be supported and that you don't require this type of intellectual capital to take care of burner management. It is very similar to the world we live in except for the very few competitors, but, again, just antiquated old way of doing things, which not everyone is going to want to change, but a lot of people are going to be forced to change and want to change.

Dean Trottier:

Okay. That's great. Thanks and congrats again, guys.

Brenton Hatch:

Thanks, Dean.

Ryan Oviatt:

Thanks, Dean.

Operator:

Thank you. This concludes our question-and-answer session. I'd like to turn our floor back over to Management for closing comments.

Brenton Hatch:

Thank you. Thanks to everyone for joining us today on this call to discuss the third quarter of this year 2017. We'd like to thank all of our customers, our employees, our Shareholders, for their constant and continuous support and encouragement. Please know that we are available at any time. If you have questions to call us directly, we would be happy to entertain your contacts at any time. Thank you all and have a great day.

Operator:

This concludes today's teleconference. You may disconnect your lines at this time and thank you for your participation.