FLOORING ZONE INC
Form 8-K
October 14, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (date of earliest event reported): **October 9, 2008**

Commission File Number 000-28638

THE FLOORING ZONE, INC.
(Exact Name of Registrant as Specified in its Charter)

Nevada	20-0019425
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number.)

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

84106
(Zip code)

(801) 433-2000
(Registrant's Executive Office Telephone Number)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01 Entry into a Material Definitive Agreement

The information set forth in Item 2.01 is incorporated by reference herein

Item 2.01 Completion of Acquisition or Disposition of Assets

ACQUISITION OF PROFIRE COMBUSTION, INC.

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

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

As discussed in more detail herein, at the closing, Andrew Limpert resigned as the Company’s interim Chief Executive Officer and President. The board of directors appointed Brenton W. Hatch, the Chief Executive Officer of Profire, as the Chief Executive Officer and President of the Company. The board of directors appointed Harold Albert, the President and Chief Operating Officer of Profire, as the Chief Operating Officer of the Company. Mr. Limpert, who had also been acting as the Company’s interim Chief Financial Officer has now been named as the Chief Financial Officer on a permanent basis. Mr. Limpert will continue as a director of the Company.

As discussed in more detail in Item 5.02 below, on October 9, 2008, Joel Arline tendered his resignation as a director of the Company. The Acquisition Agreement provides for the appointment of two individuals designated by Profire to be appointed to the board of directors. Mr. Hatch and Mr. Albert will be appointed to fill vacancies on the Company’s board of directors 10 days after the mailing of a Schedule 14F-1 to the Company’s shareholders.

The description of the Acquisition Agreement contained in this Current Report on Form 8-K is only a summary of that document and is qualified in its entirety by reference to the terms of the Acquisition Agreement among The Flooring Zone, Inc. and Profire Combustion, Inc. and the Shareholders of Profire Combustion, Inc., dated September 30, 2008, a copy of which is attached as an exhibit to this Current Report on Form 8-K.

DESCRIPTION OF BUSINESS

Business and History of The Flooring Zone, Inc.

The Flooring Zone, Inc. incorporated in the State of Nevada on May 5, 2003. From May 2003 through the fourth quarter 2007, Flooring Zone was engaged in the retail floor covering business. During the fourth quarter 2007, due to ongoing poor performance, Flooring Zone discontinued its retail floor covering operations.

Business and History of Profire Combustion, Inc.

Profire Combustion, Inc. incorporated in the province of Alberta, Canada on March 6, 2002. Profire provides products and services for burners and heaters for the oil and gas industry.

The following is a description of the business of Profire.

Principal Products and Services

Profire is a provider of safe and efficient burner-management systems and services for use in oilfield combustion.

In the oil and natural gas industry there are numerous demands for heat generation and control. The product in pipelines and storage tanks must be kept sufficiently warm to flow efficiently. Equipment of all kinds, including line-heaters, dehydrators, dewaterers, separators, treaters, amine reboilers, free-water knockout systems, etc. require sources of heat to satisfy their various functions. In addition to the need for combustion products to meet heating demands, there is also a need for skilled combustion technicians. Profire was founded to try to meet some of these needs.

Initially, Profire’s primary focus was on providing installation and maintenance services to service the products and systems of other manufacturers. Management soon determined, however, that it would be in Profire’s best interest to also establish itself as a product supplier. Management also recognized the need to develop its own proprietary burner-management systems to monitor and control combustion. The principal developmental goal of Profire in building its own system was to ensure that the system would meet or exceed the highest safety and quality standards in the industry and that the system would be functional and easily controlled by oilfield operators. With this goal in mind, Profire developed the Profire 1100 combustion-management system. This system has become widely popular in Western Canada, with sales to such companies as Exxon-Mobil, Shell, ConocoPhillips, Devon Energy, Petro-Canada, Encana and many others. This system has also been sold and installed in various parts of the world, including the United States, France, Italy, England, the Middle East, Australia, China and Brazil.

In addition to the Profire 1100 combustion management system, Profire manufactures other systems and products for sale, including a burner management system specific to incinerator systems, called the Profire 1100i and “fuel-trains” or “valve-trains” to accompany system installations.

These fuel-trains include piping, valves, controls, etc relating to the process of safely providing fuel to burners, as well as having safety controllers to monitor operations. Profire has also developed and is currently testing a more advanced burner-management system prototype that it believes will soon be market ready.

Principal Markets

Since inception, Profire has focused its sales efforts primarily in Western Canada. Given its success in that market, management has determined to expand its sales efforts to other markets, especially the U.S. market. At present, management believes the best way to penetrate foreign markets is to retain well-established supply companies to represent Profire products and market them to their existing customers. Management hopes to take advantage of those existing relationships to rapidly establish market share in new markets. Management also believes this strategy will be less costly than to establish its own in-house sales force in each new market it wishes to enter. Profire is currently contacting product supply houses in various new markets to represent its products.

Demand for Profire Products

As government and industry continue to heighten safety standards, demand for combustion safety controllers and management systems, such as those produced by Profire, continues to grow. The arena of mixing fire and gas is an area of obvious focus for safety regulators. Governing bodies have historically been reticent to establish standards that were too demanding, as safety products and policing capabilities were not readily available. Profire has always focused on providing products and services that exceed existing safety standards. Profire believes that as it continues to enhance the safety features of its products, the safety standards and codes in the industry will become more stringent, further increasing demand for its products. Oil companies too are seeing the significant benefits of the enhanced safety Profire's products provide. In addition to the safety benefits, oil companies are beginning to recognize the significant increases in efficiency that can be realized through the use of Profire's burner management systems and products.

Suppliers and Availability of Raw Materials

Profire has contracted with a third-party manufacturer, to manufacture its burner management systems, specifically the Profire 1100 and the Profire 1100i. This has helped to improve manufacturing efficiencies. Under the direction of Profire's product engineer, the manufacturer is able to procure all electronic parts, specialty cases and components, and from those, assemble the complete system. Using specialty equipment and processes provided by Profire, the system is tested on-site by the manufacturer and if the finished product is acceptable, it is shipped to Profire for distribution. Orders to the manufacturer are typically for 500 to 1,000 systems. The shipments are usually limited to 250 systems, so that in the event any one shipment is lost or damaged, inventory levels are not seriously impacted. The entire process is typically completed within sixty days of issuing the purchase order.

While Profire has a contract in place with this manufacturer, should it lose their services, for whatever reason, Profire believes it has adequate alternative manufacturing sources available. Profire does not have contracts in place with the parties from whom it acquires parts and products. But Profire believes it has adequate alternative sources available should they be needed. In the past, Profire has not experienced any sudden and dramatic increases in the prices of the major components for its systems. Because the component parts Profire uses are all low priced (none are currently higher than $40), Profire does not anticipate that a sudden or dramatic increase in the price of any particular component part would have a material adverse effect on the results of its operations and financial condition, particularly if Profire were unable to increase its sale prices proportionate to any such component price increases.

Dependence upon Major Customers

During the fiscal year ended March 31, 2007, only one customer, Grit Industries Inc./A-Fire Holdings Ltd. accounted for more than 10% of Profire's revenues. During that year, this client accounted for 16.3% of total revenues. During the fiscal year ended March 31, 2008, Profire had two customers that accounted for more than 10% of its revenues. Grit Industries Inc./A-Fire Holdings Ltd. accounted for 31.6% of revenues and Heating Solutions International Inc. accounted for 11.6% of revenues.

Often Profire's customers, as is the case with Grit Industries Inc./A-Fire Holdings Ltd. and Heating Solutions International Inc., are contractors for large oil companies who specify the use Profire equipment. Typically, Profire's customers bid for the same jobs, so if one does not get the job, another will. Regardless, of who wins the contract, if the oil company bidding out the job requires Profire equipment the winning bidder will have to acquire the equipment from Profire. Of course, the loss of any one or both of Grit Industries Inc./A-Fire Holdings Ltd. or Heating Solutions International Inc as customers,could have a material adverse effect on Profire's business, consolidated financial condition, results of operations and cash flows.

Patents, Trademarks and Other Intellectual Property

Profire believes that the success of its business depends more on the technical competence, creativity and marketing abilities of its employees than on any individual patent, trademark, or copyright. Historically, the cost, both in time and dollars, of seeking patents, has not made sense for Profire. Nevertheless, as part of its ongoing research, development and manufacturing activities, in the future Profire may seek patents when appropriate on inventions concerning new products and product improvements.

Backlog

The dollar amount of backlog believed to be firm was approximately $370,407 at September 30, 2008 and $278,426 at September 30, 2007. The backlog existing at September 30, 2007 was fulfilled by December 31, 2007. Profire expects to fulfill substantially all of the backlog that existed at September 30, 2008 by December 31, 2008. Sales backlog consists of firm customer orders for which a purchase or work order has been received, satisfactory credit or a financing arrangement exists, and delivery is scheduled. There can be no assurance, however, that the orders representing such backlog will not be cancelled.

Competition

Based on Profire's experience, it believes most of the other companies in its industry are small one or two man service companies or product retailers who sell products, but have no service department to support their products. As Profire offers both product sales and service, it believes it holds a competitive advantage over many of its competitors, having said that, the oilfield services industry is highly competitive. As this industry grows and matures we anticipate other companies may seek to enter the market. Some of these companies may be more highly capitalized or better situated to take advantage of market opportunities.

Research and Development

Profire places strong emphasis on product-oriented research and development relating to the development of new or improved products and systems. During the years ended March 31, 2008 and March 31, 2007 Profire spent $86,378 and $285,007, respectively, on company-sponsored research and development programs. None of these research and development costs were paid by Profire's customers.

Effects of Compliance with Federal, State and Local Laws

Profire's 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 extant in the oil and gas industry, as well as laws and regulations relating to worker safety and potentially environmental protection. We cannot predict the level of enforcement of existing laws and regulations or how such 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 it, its businesses or financial condition.

In addition, Profire's customers are affected by laws and regulations relating to the exploration for and production of natural resources such as oil and natural gas. These regulations are subject to change, and new regulations may curtail or eliminate customer activities in certain areas where Profire currently operates. We cannot determine the extent to which new legislation may impact customer activity levels, and ultimately, the demand for Profire products and services.

Government Contracts

No material portion of Profire's business is subject to renegotiation of profits or termination of contracts by the United States or other governments.

Employees

As of October 10, 2008, Profire had approximately 11 employees.

Available Information

We file annual, quarterly and current reports, proxy statements and information statements and any amendments to those reports or statements, with the United States Securities and Exchange Commission ("SEC"). The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Alternatively, you may access these reports at the SEC's internet website: http://www.sec.gov/.

6

RISK FACTORS

In addition to the risks discussed under the heading "*Description of Business*" Profire is subject to the following risks.

Risks Relating to Profire's Business

Profire's business and financial condition could be materially impacted if it loses the services of certain employees. Profire's success depends to a significant extent upon the expertise and continued service of Harold Albert, its President and COO and Alan Johnson, its development engineer. While Profire is endeavoring to train other individuals who could provide the services and expertise of Mr. Albert or Mr. Johnson, the loss of their services at the present time would have a material adverse impact on Profire's growth, product development, revenues and prospective business. Profire does not currently have employment agreements with Mr. Albert or Mr. Johnson, nor does it currently maintain key-man insurance on any of its employees. Although it does not solve the potential problem of a loss of the services of Mr. Albert or Mr. Johnson, Profire intends to seek key-man insurance on these individuals, and perhaps others, to help in the case of such an event.

Profire's inability to attract and retain skilled workers may impair growth potential and profitability. Profire's ability to remain productive and profitable will depend substantially on its ability to attract and retain skilled workers. Profire's ability to expand its operations is in part impacted by its ability to increase its labor force. The demand for skilled oilfield employees is high, and the supply is very limited. A significant increase in the wages paid by competing employers could result in a reduction in its skilled labor force, increases in the wage rates paid by it, or both. If either of these events were to occur, Profire's capacity and profitability could be diminished, and its growth potential could be impaired.

The concentration of Profire's customers in one industry and one region may impact overall exposure to credit risk. Substantially all of Profire's customers operate in the energy industry in Western Canada. This concentration of customers in one industry and one region may impact Profire's overall exposure to credit risk, either positively or negatively, in that customers may be similarly affected by changes in economic and industry conditions. Profire performs ongoing credit evaluations of its customers and does not generally require collateral in support of its trade receivables.

Profire's business has potential liability for litigation, personal injury and property damage claims assessments. Profire's operations involve exposure to inherent risks, including explosions and fires. If any of these events were to occur, it could result in liability for personal injury and property damage, pollution or other environmental hazards or loss of production. Litigation may arise from a catastrophic occurrence at a location where Profire's equipment and services are used. This litigation could result in large claims for damages. The frequency and severity of such incidents could affect Profire's operating costs, insurability and relationships with customers, employees and regulators. These occurrences could have a material adverse effect on Profire. Profire maintains what it believes is prudent insurance protection. We cannot assure you that Profire will be able to maintain adequate insurance in the future at rates it considers reasonable or that its insurance coverage will be adequate to cover future claims and assessments that may arise.

Some of Profire's products use equipment and materials that are available from a limited number of suppliers. Profire purchases equipment provided by a limited number of manufacturers who specialize in combustion burner equipment. During periods of high demand, these manufacturers may not be able to meet its 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, Profire's largest product line. While these materials are generally available, supply disruptions can occur due to factors beyond Profire's control. Such disruptions, delayed deliveries, and higher prices could limit its ability to provide services, or increase the costs of providing services, thus reducing revenues and profits.

If Profire is unable to expand into new markets, its ability to grow its business and profitably as planned could be materially adversely effected. Profire intends to pursue an aggressive growth strategy for the foreseeable future. Projected future operating results will depend largely upon Profire's ability to expand to new markets and increase sales. To support this growth, Profire will increase its marketing expenditures, add new employees and open additional offices. There can also be no assurance that Profire will be able to expand its market share in its existing markets or successfully enter new or contiguous markets. Nor can there be any assurance that such expansion will not adversely affect its profitability and results of operations. If Profire is unable to manage its growth effectively, its business, results of operations and financial condition could be materially adversely affected.

If Profire is unable to manage growth effectively, its business, results of operations and financial condition could be materially adversely affected. Its ability to successfully expand to new markets is dependent on a number of factors including:

- the ability to hire, train and assimilate new employees;
- the adequacy of our financial resources;
- the ability to correctly identify and exploit new geographical markets and to successfully compete in those markets

There can be no assurance that Profire will be able to achieve the planned expansion, that its products will gain access to new markets or be accepted in new marketplaces or that in new markets it will achieve planned operating results or results comparable to those it experiences in existing markets.

Changes in the level of capital spending by its customers could negatively impact Profire's business and financial condition. Profire's principal customers are oil and natural gas exploration and production companies. Profire's results of operations are dependent on the level of capital spending by the energy industry. The energy industry's level of capital spending is substantially related to the prevailing commodity price of natural gas and crude oil. Low commodity prices have the potential to reduce the amount of crude oil and natural gas that Profire's customers can produce economically. While its products actually enhance the efficiency of their wells, we believe a prolonged downturn in the levels of the capital spending of Profire's customers could lead to reductions in the capital spending budgets of its clients and reductions in the demand for its products and services.

Risks Relating to our Stock

Liquidity of Common Stock. Our common stock has limited trading volume on the Over-the-Counter Bulletin Board and is not listed on a national exchange. Moreover, a significant percentage of the 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. These factors could adversely affect the liquidity, trading volume, price and transferability of our common stock.

Our management has a substantial ownership interest, and the availability of the Company’s common stock to the investing public may be limited. The availability of Flooring Zone 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 its trading prices and affect the ability of 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.

You may face significant restrictions on the resale of our common stock due to federal regulations of penny stocks. Once common stock is subject to the requirements of Rule 15(g)9, promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as long as the price of our common stock is below $4.00 per share. Under such rule, broker-dealers who recommend low-priced securities to persons other than established customers and accredited investors must satisfy special sales practice requirements, including a requirement that they make an individualized written suitability determination for the purchaser and receive the purchaser's consent prior to the transaction. The Securities Enforcement Remedies and Penny Stock Reform Act of 1990, also requires additional disclosure in connection with any trades involving a stock defined as a penny stock. Generally, the Commission defines a penny stock as any equity security not traded on an exchange or quoted on NASDAQ that has a market price of less than $4.00 per share. The required penny stock disclosures include the delivery, prior to any transaction, of a disclosure schedule explaining the penny stock market and the risks associated with it. Such requirements could severely limit the market liquidity of the securities and the ability of purchasers to sell their securities in the secondary market.

There is no assurance that our common stock will remain on the OTC Bulletin Board. In order to maintain the quotation of our shares of common stock on the OTC Bulletin Board, we must remain a reporting company under the Exchange Act. This requires us to comply with the periodic reporting and proxy statement requirements of the Exchange Act. If we fail to do so, it is possible that our common stock could be removed from the OTC Bulletin Board and then be traded on the Pink Sheets. In either venue, an investor may find it difficult to obtain accurate quotations as to the market value of the common stock. In addition, if we fail to meet the criteria set forth in SEC regulations, various requirements would be imposed by law on broker-dealers who sell our securities to persons other than established customers and accredited investors. Consequently, such regulations may deter broker-dealers from recommending or selling the common stock, which may further affect its liquidity. This would also make it more difficult for us to raise additional capital.

FINANCIAL INFORMATION

Selected Financial Data

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

Management’s Discussion and Analysis

This discussion summarizes the significant factors affecting Profire’s consolidated operating results, financial condition, liquidity and capital resources during the years ended March 31, 2008 and 2007 and the three months ended June 30, 2008 and 2007. For a complete understanding, this Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the *Financial Statements* and *Notes to the Financial Statements* contained in this Current Report on Form 8-K.

Forward-Looking Statements

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

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

Overview

The Flooring Zone, Inc. was incorporated in the State of Nevada on May 5, 2003. On September 30, 2008 the Flooring Zone, Inc. entered into an Acquisition Agreement with Profire Combustion, Inc., an Alberta, Canada corporation, under which The Flooring Zone, Inc. acquired 100% of the outstanding common shares of Profire Combustion, Inc. in exchange for the issuance of 35,000,000 common shares.

10

Following closing of the exchange, the three Profire Combustion, Inc. shareholders held 78% of The Flooring Zone, Inc. common stock outstanding after the transaction and therefore Profire Combustion, Inc. is considered the acquirer for financial reporting purposes. Accordingly, the accompanying financial statements are the financial statements of Profire Combustion, Inc. for all periods presented.

Results of Operations

Comparison of the years ended March 31, 2008 and 2007

Total Revenues

During the year ended March 31, 2008 total revenues were $4,352,536, compared to $2,158,115 during the year ended March 31, 2007. The increase in total revenues is primarily attributable to a 102% increase in sales of goods during the year ended March 31, 2008. During the year ended March 31, 2007, product sales accounted for 66% of total revenues and service accounted for 34% of total revenue. During the year ended March 31, 2008, product sales increased 150% compared to 2007 and accounted for 82% of total revenues. Services revenue increased 7% compared to 2007, but accounted for only 18% of total revenue. The decrease in services revenues as a percentage of total revenues is directly related to a shift in our business model to focus our efforts to establishing ourselves as a product manufacturer and retailer. We expect total revenues will continue to grow as we continue to expand our operations.

Cost of Goods Sold

Cost of goods sold during the twelve months ended March 31, 2008 was $2,591,562 compared to $1,008,215 during the twelve months ended March 31, 2007. This 57% increase is the result of the increase of sales of certain systems needing assembly, certain specialized components, storage and factory space and the associated labor to perform these functions. During the year ended March 31, 2008, cost of goods sold as a percentage of total revenues increased to 60% of total revenue compared to 47% during the year ended March 31, 2007. The principle reason for the increase in cost of goods sold as a percentage total revenues during the 2008 year was the shift of our business focus from service to place greater emphasis on manufacturing and product sales. We anticipate as product sales increase cost of goods sold will also increase, although we expect as a percentage of total revenues cost of goods sold will remain fairly consistent.

General and Administrative Expenses

General and administrative expenses for the year ended March 31, 2008 were $985,899, a $344,761 or 54% increase compared to the same twelve month period ended March 31, 2007. This increase in general and administrative expense was largely the result of a general increase in operational activity, including increasing service personnel labor costs, increasing transportation, shipping and fuel expenses and the expansion of our distribution territory. We expect general and administrative expenses will continue to increase at the same or higher rates as we continue to expand our business.

Payroll Expense

Payroll expense during the twelve months ended March 31, 2008 was $365,640 or 119% higher than during the twelve months ended March 31, 2007. This increase in payroll expense was the result of both the hiring of additional employees and wage increases for existing employees and management coupled with a 78% increase in management bonuses. We anticipate during the year ending March 31, 2009 payroll expense will be fairly consistent with payroll expenses realized in 2008.

Total Other Expense

Total other expense was lower by $3,845 during the year ended March 31, 2007. During our 2008 fiscal year, we recognized a $20,560 impairment in the value of available for sale securities, which amount was offset by a $27,056 gain on the sale of fixed assets. We anticipate both of these events are one time occurrences and we do not expect to realize a similar impairment or gain in the upcoming months. During the 2008 fiscal year, we also paid $2,659 more in interest expense than during our 2007 fiscal year.

Foreign Currency Translation Adjustment

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

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

Total Comprehensive Income

For the foregoing reasons, our total comprehensive income was $385,898 or 62% higher during the year ended March 31, 2008 compared to the year ended March 31, 2007.

Liquidity and Capital Resources

Since inception, the operations of the Company have been financed primarily from cash flow from operations and loans from Company executives. We have a revolving credit line of approximately $200,000 with a local banking institution that we also use from time to time to satisfy short-term fluctuations in cash flows.

12

As of March 31, 2008 we had total assets of $2,227,252 including cash and cash equivalents of $33,097. At March 31, 2008 total liabilities were $1,093,029, all of which were current liabilities.

During the twelve months ended March 31, 2008 and 2007 cash was primarily used to fund operations. See below for additional discussion and analysis of cash flow.

	Twelve months ended March 31, 2008		Twelve months ended March 31, 2007	
Net cash (used in) provided by operating activities	$	(31,927)	$	193,203
Net cash (used in) provided by investing activities	$	(58,227)	$	(209,080)
Net cash provided by financing activities	$	123,155	$	6,744
Foreign currency translation adjustment	$	14	$	148
NET INCREASE (DECREASE) IN CASH	$	33,015	$	(8,985)

With our efforts to grow our business and the shift in our business model to focus more on manufacturing and product sales, net cash used in our operating activities increased. This increase was primarily the result of increases in inventory and trade receivables, which was partially offset by an increase in accounts payable. As noted above, from time to time we may also draw down on our revolving credit line to meet short-term cash needs. Accounts receivable continue to increase year to year and these could be factored if needed to provide cash flow but to date have not been needed. We have no current capital commitments outside of general operations and do not anticipate any in the near future.

Cash flow used in investing activities decreased during the year ended March 31, 2008 primarily because we made significant property and equipment acquisitions during the year ended March 31, 2007. Also during the 2008 year we realized $6,776 from the sale of equipment. We sold no equipment during the 2007 year.

During the twelve months ended March 31, 2008 we realized $123,155 net cash from financing activities as we entered into certain debt obligations that resulted in proceeds to the Company of $193,603. These funds were partially offset by repayment of certain obligations.

Summary of Material Contractual Commitments

The following table lists our significant commitments as of March 31, 2008.

	Payments Due by Fiscal Year				
					More than
	Total	Less than 1 year	1-3 years	3-5 years	5 years
Short term debt-related parties	$ 194,571	$ 194,571	$ -	$ -	$ -