

FLEXIBLE SOLUTIONS INTERNATIONAL INC
Form 10-Q
May 15, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2017

OR

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

For the transition period from _____ to _____

Commission File Number: 001-31540

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
(Exact Name of Issuer as Specified in Its Charter)

Nevada
(State or other jurisdiction of incorporation
or organization)

91-1922863
(I.R.S. Employer Identification No.)

#206 – 920 Hillside Ave.
Victoria, British Columbia, Canada
(Address of Issuer's Principal Executive Offices)

V8T 1Z8
(Zip Code)

Issuer's telephone number: (250) 477-9969

NA

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

Indicate by check mark whether the registrant 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

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to submit and post such files). Yes No

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

Large accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Accelerated filer
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

Class of Stock	No. Shares Outstanding	Date
Common	11,460,991	May 15, 2017

FORM 10-Q

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are “forward-looking statements” for the purposes of the federal and state securities laws, including, but not limited to: any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing.

Forward-looking statements may include the words “may,” “could,” “will,” “estimate,” “intend,” “continue,” “believe,” “expect,” “anticipate” or other similar words. These forward-looking statements present our estimates and assumptions only as of the date of this report. Except for our ongoing obligation to disclose material information as required by the federal securities laws, we do not intend, and undertake no obligation, to update any forward-looking statement.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties. The factors impacting these risks and uncertainties include but are not limited to:

Increased competitive pressures from existing competitors and new entrants;

Increases in interest rates or our cost of borrowing or a default under any material debt agreement;

Deterioration in general or regional economic conditions;

Adverse state or federal legislation or regulation that increases the costs of compliance, or adverse findings by a regulator with respect to existing operations;

Loss of customers or sales weakness;

Inability to achieve future sales levels or other operating results;

The unavailability of funds for capital expenditures; and

Operational inefficiencies in distribution or other systems.

For a detailed description of these and other factors that could cause actual results to differ materially from those expressed in any forward-looking statement, please see “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016.

PART I
FINANCIAL INFORMATION

Item 1.
Financial Statements.

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS
(U.S. Dollars - Unaudited)

	March 31, 2017	December 31, 2016
Assets		
Current		
Cash and cash equivalents	\$4,869,420	\$2,470,066
Accounts receivable (see Note 3)	3,393,166	3,008,153
Interim insurance proceeds receivable (see Note 5)	1,570,531	-
Inventory (see Note 4)	4,539,129	3,786,093
Prepaid expenses	182,087	228,699
Total current assets	14,554,333	9,493,011
Property, plant and equipment (see Note 5)	1,713,723	3,393,944
Patents (see Note 6)	91,781	95,890
Long term deposits (see Note 7)	26,248	26,163
Investment (see Note 8)	116,230	122,480
Deferred tax asset	2,473,595	2,026,999
Total Assets	\$18,975,910	\$15,158,487
Liabilities		
Current		
Accounts payable and accrued liabilities	\$758,027	\$902,037
Deferred revenue	42,098	95,308
Taxes payable	1,190,742	893,867
Line of credit (see Note 9)	700,000	250,000
Current portion of long term debt (see Note 10)	201,193	201,193
Total current liabilities	2,892,060	2,342,405
Long term debt (see Note 10)	301,791	352,089
Total Liabilities	3,193,851	2,694,494
Stockholders' Equity		
Capital stock		
Authorized		
50,000,000 Common shares with a par value of \$0.001 each		
1,000,000 Preferred shares with a par value of \$0.01 each		
Issued and outstanding		
11,460,991 (December 31, 2016: 11,457,991) common shares	11,460	11,458

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Capital in excess of par value	14,868,593	14,842,863
Accumulated other comprehensive loss	(1,047,541)	(1,087,208)
Retained earnings (Deficit)	1,949,547	(1,303,120)
Total Stockholders' Equity	15,782,059	12,463,993
Total Liabilities and Stockholders' Equity	\$18,975,910	\$15,158,487

Commitments (Note 14)

-- See Notes to Unaudited Interim Condensed Consolidated Financial Statements --

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE LOSS
(U.S. Dollars -- Unaudited)

	Three Months Ended March 31,	
	2017	2016
Sales	\$4,663,708	\$5,312,635
Cost of sales	2,569,675	3,073,932
Gross profit	2,094,033	2,238,703
Operating expenses		
Wages	358,417	354,090
Administrative salaries and benefits	249,082	204,745
Advertising and promotion	9,577	9,305
Investor relations and transfer agent fee	37,341	19,457
Office and miscellaneous	34,902	35,729
Insurance	81,609	73,648
Interest expense	11,567	10,944
Rent	55,514	21,983
Consulting	34,296	29,836
Professional fees	57,552	19,909
Travel	33,899	38,515
Telecommunications	6,296	4,591
Shipping	3,862	3,394
Research	11,144	35,728
Commissions	40,655	55,534
Bad debt expense	380	-
Currency exchange	9,004	17,995
Utilities	6,695	3,500
Total operating expenses	1,042,062	938,903
Income before other items and income tax	1,051,971	1,299,800
Gain on involuntary disposition	2,572,288	-
Write down of inventory	(51,346)	-
Interest income	33	-
Income before income tax	3,572,946	1,299,800
Deferred income tax expense	23,404	-
Provision for income taxes	296,875	558,006
Net income	3,252,667	741,794

Other comprehensive income (loss)	39,667	(77,142)
Comprehensive income (loss)	3,292,334	664,652
Net income per share (basic and diluted)	\$0.28	\$0.06
Weighted average number of common shares (basic)	11,458,170	11,543,376
Weighted average number of common shares (diluted)	11,638,732	11,566,717

-- See Notes to Unaudited Interim Condensed Consolidated Financial Statements --

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2017 and 2016
(U.S. Dollars -- Unaudited)

	Three Months Ended March 31,	
	2017	2016
Operating activities		
Net income	\$3,252,667	\$741,794
Stock compensation expense	23,482	11,730
Depreciation and amortization	80,375	131,587
Decrease in deferred tax asset	23,404	-
Gain on involuntary disposition	(2,572,288)	-
Changes in non-cash working capital items:		
(Increase) in accounts receivable	(1,975,550)	(1,695,504)
Decrease (Increase) in inventory	(925,992)	676,187
Decrease in prepaid expenses	47,193	107,492
Increase (decrease) in accounts payable	(91,874)	103,305
Increase in taxes payable	296,875	109,872
Decrease in deferred revenue	(52,499)	-
Cash (used in) provided by operating activities	(1,894,207)	186,463
Investing activities		
Long term deposits	-	350
Investment	6,250	-
Proceeds from insurance	4,053,612	-
Acquisition of property and equipment	(29,903)	(90,701)
Cash (used in) provided by investing activities	4,029,959	(91,051)
Financing activities		
Short term line of credit	450,000	250,000
Loan Repayment	(50,298)	(50,298)
Proceeds from sale of common stock	2,250	-
Repurchase of common stock	-	(1,575,000)
Cash provided (used) by financing activities	401,952	(1,375,298)
Effect of exchange rate changes on cash	(138,350)	29,785
(Outflow) Inflow of cash	2,399,354	(1,250,101)

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Cash and cash equivalents, beginning	2,470,066	2,498,738
Cash and cash equivalents, ending	\$4,869,420	\$1,248,637

Supplemental disclosure of cash flow information:

Income taxes paid	\$-	\$448,330
Interest paid	\$11,567	\$10,944

-- See Notes to Unaudited Interim Condensed Consolidated Financial Statements --

FLEXIBLE SOLUTIONS INTERNATIONAL INC.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2017

(U.S. Dollars)

1. Basis of Presentation.

These unaudited interim condensed consolidated financial statements include the accounts of Flexible Solutions International Inc. (the “Company”), and its wholly-owned subsidiaries Flexible Fermentation Ltd. (“Flexible Ltd.”), NanoChem Solutions Inc. (“NanoChem”), Flexible Solutions Ltd., Flexible Biomass LP, FS Biomass Inc., NCS Deferred Corp., Conserve H2O Ltd. and Natural Chem SEZC Ltd. All inter-company balances and transactions have been eliminated. The company was incorporated May 12, 1998 in the State of Nevada and had no operations until June 30, 1998.

Flexible Solutions International Inc. and its subsidiaries develop, manufacture and market specialty chemicals which slow the evaporation of water. One product, HEATSAVR®, is marketed for use in swimming pools and spas where its use, by slowing the evaporation of water, allows the water to retain a higher temperature for a longer period of time and thereby reduces the energy required to maintain the desired temperature of the water in the pool. Another product, WATERSAVR®, is marketed for water conservation in irrigation canals, aquaculture, and reservoirs where its use slows water loss due to evaporation. In addition to the water conservation products, the Company also manufactures and markets water-soluble chemicals utilizing thermal polyaspartate biopolymers (hereinafter referred to as “TPAs”), which are beta-proteins manufactured from the common biological amino acid, L-aspartic. TPAs can be formulated to prevent corrosion and scaling in water piping within the petroleum, chemical, utility and mining industries. TPAs are also used as proteins to enhance fertilizers in improving crop yields and can be used as additives for household laundry detergents, consumer care products and pesticides.

These unaudited interim condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States for interim financial statements. These unaudited interim financial statements are condensed and do not include all disclosures required for annual financial statements. The organization and business of the Company, accounting policies followed by the Company and other information are contained in the notes to the Company’s audited consolidated financial statements filed as part of the Company’s December 31, 2016 Annual Report on Form 10-K. This quarterly report should be read in conjunction with such annual report.

In the opinion of the Company’s management, these unaudited interim condensed consolidated financial statements reflect all adjustments, all of which are of normal recurring nature, necessary to present fairly the Company’s consolidated financial position at March 31, 2017, the consolidated results of operations for the three months ended March 31, 2017 and 2016, and the consolidated statements of cash flows for the three months ended March 31, 2017 and 2016. The results of operations for the three months ended March 31, 2017 are not necessarily indicative of the results to be expected for the entire fiscal year.

2. Significant Accounting Policies.

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States applicable to a going concern and reflect the policies outlined below.

(a)

Cash and Cash Equivalents.

The Company considers all highly liquid investments purchased with an original or remaining maturity of less than three months at the date of purchase to be cash equivalents. Cash and cash equivalents are maintained with several financial institutions.

(b)

Inventories and Cost of Sales

The Company has three major classes of inventory: finished goods, work in progress and raw materials and supplies. In all classes, inventory is valued at the lower of cost or market. Cost is determined on a first-in, first-out basis. Cost of sales includes all expenditures incurred in bringing the goods to the point of sale. Inventory costs and costs of sales include direct costs of the raw material, inbound freight charges, warehousing costs, handling costs (receiving and purchasing) and utilities and overhead expenses related to the Company's manufacturing and processing facilities.

(c) Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts when management estimates collectability to be uncertain. Accounts receivable are continually reviewed to determine which, if any, accounts are doubtful of collection. In making the determination of the appropriate allowance amount, the Company considers current economic and industry conditions, relationships with each significant customer, overall customer credit-worthiness and historical experience.

(d) Property, Equipment and Leaseholds.

The following assets are recorded at cost and depreciated using the methods and annual rates shown below:

Computer hardware	30% Declining balance
Furniture and fixtures	20% Declining balance
Manufacturing equipment	20% Declining balance
Office equipment	20% Declining balance
Boat	20% Declining balance
Building and improvements	10% Declining balance
Technology	20% Declining balance
Leasehold improvements	Straight-line over lease term

Property and equipment are written down to net realizable value when management determines there has been a change in circumstances which indicates its carrying amount may not be recoverable. No write-downs have been necessary to date.

(e) Impairment of Long-Lived Assets.

In accordance with FASB Codification Topic 360, "Property, Plant and Equipment (ASC 360), the Company reviews long-lived assets, including, but not limited to, property and equipment, patents and other assets, for impairment annually or whenever events or changes in circumstances indicate the carrying amounts of assets may not be recoverable. The carrying value of long-lived assets is assessed for impairment by evaluating operating performance and future undiscounted cash flows of the underlying assets. If the expected future cash flows of an asset is less than its carrying value, an impairment measurement is indicated. Impairment charges are recorded to the extent that an asset's carrying value exceeds its fair value. Accordingly, actual results could vary significantly from such estimates. There were no impairment charges during the periods presented.

(f)

Foreign Currency.

The functional currency of three of the Company's subsidiaries is the Canadian Dollar. The translation of the Canadian Dollar to the reporting currency of the Company, the U.S. Dollar is performed for assets and liabilities using exchange

rates in effect at the balance sheet date. Revenue and expense transactions are translated using average exchange rates prevailing during the year. Translation adjustments arising on conversion of the Company's financial statements from the subsidiary's functional currency, Canadian Dollars, into the reporting currency, U.S. Dollars, are excluded from the determination of income (loss) and are disclosed as other comprehensive income (loss) in the condensed interim consolidated statements of operations and comprehensive income (loss).

Foreign exchange gains and losses relating to transactions not denominated in the applicable local currency are included in operating income (loss) if realized during the year and in comprehensive income (loss) if they remain unrealized at the end of the year.

(g)

Revenue Recognition.

Revenue from product sales is recognized at the time the product is shipped since title and risk of loss is transferred to the purchaser upon delivery to the carrier. Shipments are made F.O.B. shipping point. The Company recognizes revenue when there is persuasive evidence of an arrangement, delivery to the carrier has occurred, the fee is fixed or determinable, collectability is reasonably assured and there are no significant remaining performance obligations. When significant post-delivery obligations exist, revenue is deferred until such obligations are fulfilled. To date, there have been no such significant post-delivery obligations.

Since the Company's inception, product returns have been insignificant; therefore, no provision has been established for estimated product returns.

Deferred revenues consist of products sold to distributors with payment terms greater than the Company's customary business terms due to lack of credit history or operating in a new market in which the Company has no prior experience. The Company defers the recognition of revenue until the criteria for revenue recognition has been met, and payments become due or cash is received from these distributors.

(h) Stock Issued in Exchange for Services.

The Company's common stock issued in exchange for services is valued at estimated fair market value based upon trading prices of the Company's common stock on the dates of the stock transactions. The corresponding expense of the services rendered is recognized over the period that the services are performed.

(i) Stock-based Compensation.

The Company recognizes compensation expense for all share-based payments in accordance with FASB Codification Topic 718, Compensation — Stock Compensation, (ASC 718). Under the fair value recognition provisions of ASC 718, the Company recognizes share-based compensation expense, net of an estimated forfeiture rate, over the requisite service period of the award.

The fair value at grant date of stock options is estimated using the Black-Scholes-Merton option-pricing model. Compensation expense is recognized on a straight-line basis over the stock option vesting period based on the estimated number of stock options that are expected to vest. Shares are issued from treasury upon exercise of stock options.

(j)

Comprehensive Income (Loss).

Other comprehensive income refers to revenues, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income, but are excluded from net income as these amounts are recorded directly as an adjustment to stockholders' equity. The Company's other comprehensive income (loss) is primarily comprised of unrealized foreign exchange gains and losses.

(k) Income Per Share.

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding in the period. Diluted earnings per share are calculated giving effect to the potential dilution of the exercise of options and warrants. Common equivalent shares, composed of incremental common shares issuable upon the exercise of stock options and warrants are included in diluted net income per share to the extent that these shares are dilutive. Common equivalent shares that have an anti-dilutive effect on net income per share have been excluded from the calculation of diluted weighted average shares outstanding for the three months ended March 31, 2017 and 2016.

(l) Use of Estimates.

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

Estimates and underlying assumptions are reviewed at each period end. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring the use of management estimates include assumptions and estimates relating to the asset impairment analysis, share-based payments and warrants, valuation allowances for deferred income tax assets, determination of useful lives of property, plant and equipment, and the valuation of inventory.

(m) Financial Instruments.

The fair market value of the Company's financial instruments comprising cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and short term line of credit were estimated to approximate their carrying values due to immediate or short-term maturity of these financial instruments. The Company maintains cash balances at financial institutions which at times exceed federally insured amounts. The Company has not experienced any material losses in such accounts.

The Company is exposed to foreign exchange and interest rate risk to the extent that market value rate fluctuations materially differ from financial assets and liabilities, subject to fixed long-term rates.

(n) Fair Value of Financial Instruments

In August 2009, an update was made to Fair Value Measurements and Disclosures — “Measuring Liabilities at Fair Value.” This update permits entities to measure the fair value of liabilities, in circumstances in which a quoted price in an active market for an identical liability is not available, using a valuation technique that uses a quoted price of an identical liability when traded as an asset, quoted prices for similar liabilities or similar liabilities when traded as assets or the income or market approach that is consistent with the principles of Fair Value Measurements and Disclosures. Effective upon issuance, the Company has adopted this guidance with no material impact to the Company's consolidated financial statements.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of

observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs described below, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Unobservable inputs that are supported by little or no market activity which is significant to the fair value of the assets or liabilities.

The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and the short term line of credit for all periods presented approximate their respective carrying amounts due to the short term nature of these financial instruments

(o) Contingencies

Certain conditions may exist as of the date the financial statements are issued which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed. Legal fees associated with loss contingencies are expensed as incurred.

(p) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance so that the assets are recognized only to the extent that when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will be realized.

Per FASB ASC 740 "Income taxes" under the liability method, it is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. At December 31, 2016, the Company believes it

has appropriately accounted for any unrecognized tax benefits. To the extent the Company prevails in matters for which a liability for an unrecognized benefit is established or is required to pay amounts in excess of the liability, the Company's effective tax rate in a given financial statement period may be affected. Interest and penalties associated with the Company's tax positions are recorded as interest expense in the condensed interim consolidated statements of operations and comprehensive income (loss).

(q) Risk Management.

The Company's credit risk is primarily attributable to its accounts receivable. The amounts presented in the accompanying consolidated balance sheets are net of allowances for doubtful accounts, estimated by the Company's management based on prior experience and the current economic environment. The Company is exposed to credit-related losses in the event of non-payment by customers to the financial instruments. Credit exposure is minimized by dealing with only credit worthy counterparties. Accounts receivable for the Company's three primary customers totaled \$1,889,159 (56%) at March 31, 2017 (December 31, 2016 - \$2,032,646 or 67%).

The credit risk on cash and cash equivalents is limited because the Company limits its exposure to credit loss by placing its cash and cash equivalents with major financial institutions.

In order to manage its exposure to foreign exchange risks, the Company is closely monitoring the fluctuations in the foreign currency exchange rates and the impact on the value of cash and cash equivalents, accounts receivable, and accounts payable. The Company has not hedged its exposure to currency fluctuations.

(r) Equity Method Investment

The Company accounts for investments using the equity method of accounting if the investment provides us the ability to exercise significant influence, but not control, over the investee. Significant influence is generally deemed to exist if the Company's ownership interest in the voting stock of the investee ranges between 20% and 50%, although other factors, such as representation on the investee's board of directors, are considered in determining whether the equity method of accounting is appropriate. Under the equity method of accounting, the investment is recorded at cost in the consolidated balance sheets under other assets and adjusted for dividends received and the Company's share of the investee's earnings or losses together with other-than-temporary impairments which are recorded through interest and other loss, net in the consolidated statements of operations and comprehensive income (loss).

(s) Adoption of new accounting principles

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory. The standard will require inventory to be measured at the lower of cost or net realizable value. The guidance will not apply to inventories for which cost is determined using the last-in, first-out method or the retail inventory method. The standard is effective for annual and interim reporting periods beginning after December 15, 2016. Adoption of this standard had no effect on our consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). This standard was issued as part of the FASB's Simplification Initiative that involve several aspects of the accounting for share based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities. For public business entities, ASU 2016-09 is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The method of adoption is dependent on the specific aspect of accounting addressed in this new guidance. Early adoption is permitted in any interim or annual period. Adoption of this standard had no effect on our consolidated financial statements.

(t) Accounting Pronouncements Not Yet Adopted

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment. The standard eliminates step two in the current two-step impairment test under ASC 350. Under the new standard, a goodwill impairment will be recorded for any excess of a reporting unit's carrying value over its fair value. A prospective transition approach is required. The standard is effective for annual and interim reporting periods beginning after December 15, 2019 with early adoption permitted for annual and interim goodwill impairment testing dates after January 1, 2017. We do not expect the standard to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. The standard will require lessees to recognize most leases on their balance sheet and makes selected changes to lessor accounting. The standard is effective for annual and interim reporting periods beginning after December 15, 2018. A modified retrospective transition approach is required, with certain practical expedients available. We are currently evaluating the impact the adoption of this standard will have on our consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory. The standard will require inventory to be measured at the lower of cost or net realizable value. The guidance will not apply to inventories for which cost is determined using the last-in, first-out method or the retail inventory method. The standard is effective for annual and interim reporting periods beginning after December 15, 2016. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which has been updated through several revisions and clarifications since its original issuance. The standard will require revenue recognized to represent the transfer of promised goods or services to customers at an amount that reflects the consideration which a company expects to receive in exchange for those goods or services. The standard also requires new, expanded disclosures regarding revenue recognition. The standard will be effective January 1, 2018 with early adoption permissible beginning January 1, 2017. We are currently evaluating the transition method we will elect and the effect on our consolidated financial statements.

3. Accounts Receivable

	March 31, 2017	December 31, 2016
Accounts receivable	\$3,430,391	\$3,044,652
Allowances for doubtful accounts	(37,225)	(36,499)
	\$3,393,166	\$3,008,153

4. Inventory

	March 31, 2017	December 31, 2016
Completed goods	\$1,885,611	\$1,646,465
Work in progress	-	2,572
Raw materials	2,653,518	2,137,056
	\$4,539,129	\$3,786,093

In February 2017, the Company lost \$367,331CAD (\$277,482USD) in inventory in a fire at the Taber, AB location. Insurance was in place, see Note 5.

5. Property, Plant & equipment

	March 31, 2017	Accumulated	March 31, 2017
	Cost	Depreciation	Net
Buildings	\$3,164,847	\$2,333,427	\$831,420
Computer hardware	40,904	38,913	1,991
Furniture and fixtures	17,673	9,934	7,739
Manufacturing equipment	2,430,642	2,005,424	425,218
Boat	34,400	10,871	23,529
Leasehold Improvements	85,432	19,691	65,741
Land	358,085	-	358,085
	\$6,131,983	\$4,418,260	\$1,713,723

December 31, 2016 Accumulated December 31, 2016

	Cost	Depreciation	Net
Buildings	\$4,762,094	\$2,967,370	\$1,794,724
Computer hardware	89,480	85,784	3,696
Furniture and fixtures	32,439	23,142	9,297
Office equipment	17,745	16,788	957
Manufacturing equipment	5,236,404	4,102,635	1,133,769
Trailer	12,859	12,250	609
Boat	34,400	9,632	24,768
Leasehold improvements	85,432	15,419	70,013
Technology	101,748	101,748	-
Land	356,111	-	356,111
	\$10,728,712	\$7,334,768	\$3,393,944

Amount of depreciation expense for three months ended March 31, 2017: \$76,265 (2016: \$127,896) and is included in cost of sales in the unaudited interim condensed consolidated statements of comprehensive income (loss).

In February 2017, the Company lost a net carrying value total of \$2,196,722CAD (\$1,659,404USD) in building and manufacturing equipment in a fire at the Taber, AB location. Insurance was in place. During the quarter ended March 31, 2017, the Company was approved for interim insurance proceeds of \$5,570,000CAD (\$4,207,578USD). \$1,570,531USD of the insurance proceeds was receivable at March 31, 2017 and was collected subsequent to the quarter end.

6. Patents

In fiscal 2005, the Company started the patent process for additional WATER\$AVR® products. Patents associated with these costs were granted in 2006 and they have been amortized over their legal life of 17 years.

	March 31, 2017 Cost	Accumulated Amortization	March 31, 2017 Net
Patents	\$199,330	\$107,549	\$91,781

	December 31, 2016 Cost	Accumulated Amortization	December 31, 2016 Net
Patents	\$197,448	\$101,558	\$95,890

Increase in 2017 cost was due to currency conversion. The 2017 cost in Canadian dollars - \$265,102 (2016 - \$265,102 in Canadian dollars).

Amount of amortization for 2017 - \$4,110 (2016 - \$3,691) and is included in cost of sales in the consolidated statements of operations and comprehensive income (loss).

Estimated amortization expense over the next five years is as follows:

2017	\$16,438
2018	16,438
2019	16,438
2020	16,438
2021	16,438

7. Long Term Deposits

The Company has reclassified certain security deposits to better reflect their long term nature. Long term deposits consist of damage deposits held by landlords and security deposits held by various vendors.

	March 31, 2017	December 31, 2016
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Long term deposits	\$26,248	\$26,163
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8. Equity Method Investment

The Company has a 42% ownership interest in ENP Peru Investments LLC (“ENP Peru”), which we acquired in fiscal 2016. ENP Peru is located in the state of Illinois and leases warehouse space. We account for this investment using the equity method of accounting. A summary of our investment is as follows:

Balance, January 1, 2016	-
Capital contributions	\$150,066
Return of equity	(12,500)
Loss in equity method investment	(15,086)
Balance, December 31, 2016	\$122,480
Return of equity	(6,250)
Balance, March 31, 2017	\$116,230

9. Short-Term Line of Credit

In May 2016, the Company signed a new agreement with Harris Bank (“the Bank”) to renew the expiring credit line. The revolving line of credit is for an aggregate amount of up to the lesser of (i) \$3,000,000, or (ii) 75% of eligible domestic accounts receivable and certain foreign accounts receivable plus 40% of inventory. The loan has an annual interest rate of 4.0%.

The Revolving Line of Credit contains customary affirmative and negative covenants, including the following: compliance with laws, provision of financial statements and periodic reports, payment of taxes, maintenance of inventory and insurance, maintenance of operating accounts at the Bank, the Bank’s access to collateral, formation or acquisition of subsidiaries, incurrence of indebtedness, dispositions of assets, granting liens, changes in business, ownership or business locations, engaging in mergers and acquisitions, making investments or distributions and affiliate transactions. The covenants also require that the Company maintain a minimum ratio of qualifying financial assets to the sum of qualifying financial obligations. As of March 31, 2017, the Company was in compliance with all loan covenants.

To secure the repayment of any amounts borrowed under the Revolving Line of Credit, the Company granted the Bank a security interest in substantially all of the assets of NanoChem Solutions Inc., exclusive of intellectual property assets.

Short-term borrowings outstanding under the Revolving Line as of March 31, 2017 were \$700,000 (December 31, 2016 - \$250,000).

10. Long Term Debt

In September 2014, NanoChem Solutions Inc. signed a US\$1,005,967 promissory note with

Harris Bank with a rate of prime plus 0.5% to be repaid over 5 years with equal monthly installments plus interest. This money was used to retire prior outstanding debt obligations. The balance owing at March 31, 2017 was \$502,984 (December 31, 2016 - US\$553,282).

The Company has committed to the following repayments:

2017 \$150,896
 2018 \$201,193
 2019 \$150,895

As of March 31, 2017, Company was in compliance with all loan covenants.

March 31, 2017 December 31, 2016

Continuity

Balance, beginning of period	\$553,282	\$754,475
Plus: Proceeds from loans	--	-
Less: Payments on loan	50,298	201,193
Balance, end of period	\$502,984	\$553,282

March 31, 2017 December 31, 2016

Outstanding balance at:

Long term debt – Harris	502,984	553,282
Long term debt	\$502,984	\$553,282
Less: current portion	(201,193)	(201,193)
Balance	\$301,791	\$352,089

11. Stock Options

The Company adopted a stock option plan ("Plan"). The purpose of this Plan is to provide additional incentives to key employees, officers, directors and consultants of the Company and its subsidiaries in order to help attract and retain the best available personnel for positions of responsibility and otherwise promote the success of its business. It is intended that options issued under this Plan constitute non-qualified stock options. The general terms of awards under the option plan are that 100% of the options granted will vest the year following the grant. The maximum term of options granted is 5 years.

The Company may issue stock options to provide incentives to directors, key employees and other persons who contribute to the success of the Company. The exercise price of all incentive options are issued for not less than fair market value at the date of grant.

The following table summarizes the Company's stock option activity for the year ended December 31, 2016 and the three-month period ended March 31, 2017:

	Number of shares	Exercise price per share	Weighted average exercise price
Balance, December 31, 2015	1,190,000	\$0.75 - \$2.45	\$1.34
Granted	168,000	\$1.42	\$1.42
Cancelled or expired	(515,000)	\$0.75 - 2.45	\$1.61
Exercised	(30,000)	\$1.00 - 1.21	\$1.09
Balance, December 31, 2016	813,000	\$0.75 - 2.22	\$1.19
Cancelled or expired	(84,000)	\$1.00 - 2.22	\$1.99
Exercised	(3,000)	\$0.75	\$0.75
Balance, March 31, 2017	726,000	\$0.75 - 2.00	\$1.10
Exercisable, March 31, 2017	560,000	\$0.75 - 2.00	\$1.01

The fair value of each option grant is calculated using the following weighted average assumptions:

	2016
Expected life – years	3.0
Interest rate	1.37%
Volatility	75.64%
Dividend yield	--%
Weighted average fair value of options granted	\$0.7073

The Company did not grant any options during the three months ended March 31, 2017 or 2016. Options granted in previous quarters resulted in expenses in the amount of \$5,658 for consultants (2016 - \$2,970) and \$17,824 for employees (2016 - \$8,760) during the quarter ended March 31, 2017. There were 3,000 employee stock options exercised during the during the three months ended March 31, 2017 (2016 – nil).

As of March 31, 2017, there was approximately \$70,447 of compensation expense related to non-vested awards. This expense is expected to be recognized over a weighted average period of 0.75 years.

12. Capital Stock.

On March 10, 2017, the Company issued 3,000 shares upon the exercise of employee stock options.

On January 6, 2016, the Company repurchased 1,750,000 shares of its common stock at \$0.90 per share for a total purchase price of \$1,575,000. The shares were returned to treasury and cancelled.

13. Segmented, Significant Customer Information and Economic Dependency.

The Company operates in two segments:

(a) Energy and water conservation products (as shown under the column heading “EWCP” below), which consists of a (i) liquid swimming pool blanket which saves energy and water by inhibiting evaporation from the pool surface, and (ii) food-safe powdered form of the active ingredient within the liquid blanket and which is designed to be used in still or slow moving drinking water sources.

(b) Biodegradable polymers and chemical additives used within the petroleum, chemical, utility and mining industries to prevent corrosion and scaling in water piping (as shown under the column heading “BPCA” below). These chemical additives are also manufactured for use in laundry and dish detergents, as well as in products to reduce levels of insecticides, herbicides and fungicides.

The accounting policies of the segments are the same as those described in Note 2, Significant Accounting Policies. The Company evaluates performance based on profit or loss from operations before income taxes, not including nonrecurring gains and losses and foreign exchange gains and losses.

The Company’s reportable segments are strategic business units that offer different, but synergistic products and services. They are managed separately because each business requires different technology and marketing strategies.

Three months ended March 31, 2017:

	EWCP	BPCA	Total
Revenue	\$247,726	\$4,415,982	\$4,663,708
Interest expense	55	11,512	11,567
Depreciation and amortization	31,971	48,404	80,375
Segment profit (loss)	1,770,391	593,545	3,252,667
Segment assets	323,228	1,482,276	1,805,504
Expenditures for segment assets	(22,497)	(7,406)	(29,903)

Three months ended March 31, 2016:

	EWCP	BPCA	Total
Revenue	\$327,713	\$4,984,922	\$5,312,635
Interest expense	-	10,944	10,944
Depreciation and amortization	78,478	53,109	131,587
Segment profit (loss)	(130,408)	872,202	741,794
Segment assets	2,274,377	1,717,392	3,991,769
Expenditures for segment assets	-	(90,701)	(90,701)

The sales generated in the United States and Canada are as follows:

	Three months ended March 31, 2017	Three months ended March 31, 2016
Canada	\$74,835	\$135,779
United States and abroad	4,588,873	5,176,856
Total	\$4,663,708	\$5,312,635

The Company's long-lived property and equipment, and patents are located in Canada and the United States as follows:

	March 31, 2017	December 31, 2016
Canada	\$323,232	\$1,966,564
United States	1,482,276	1,523,270
Total	\$1,805,504	\$3,489,834

Three customers accounted for \$2,642,973 (57%) of sales during the three-month period ended March 31, 2017 (2016 - \$3,273,817 or 62%). Three customers accounted for \$1,889,159 of accounts receivable (56%) at March 31, 2017 (December 31, 2016 - \$2,032,646 or 67%).

14. Commitments.

The Company is committed to minimum rental payments for property and premises aggregating approximately \$882,550 over the term of three leases, the last expiring on October 31, 2021.

Commitments in the next five year are as follows:

2017 \$154,630
2018 \$201,840
2019 \$205,580
2020 \$209,400
2021 \$111,100

15. Comparative Figures.

Certain of the comparative figures have been reclassified to conform with the current period's presentation.

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Item 2.

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

Overview

The Company develops, manufactures and markets specialty chemicals that slow the evaporation of water. The Company also manufactures and markets biodegradable polymers which are used in the oil, gas and agriculture industries.

Results of Operations

The Company has two product lines:

Energy and Water Conservation products - The Company's HEAT\$AVR® product is used in swimming pools and spas. The product forms a thin, transparent layer on the water's surface. The transparent layer slows the evaporation of water, allowing the water to retain a higher temperature for a longer period of time and thereby reducing the energy required to maintain the desired temperature of the water. WATER\$AVR®, a modified version of HEAT\$AVR®, can be used in reservoirs, potable water storage tanks, livestock watering ponds, canals, and irrigation ditches.

BCPA products - The second product, TPA's (i.e. thermal polyaspartate biopolymers), are biodegradable polymers used by the petroleum, chemical, utility and mining industries to prevent corrosion and scaling in water piping. This product can also be used in detergents to increase biodegradability and in agriculture to increase crop yields by enhancing fertilizer uptake.

Material changes in the Company's Statement of Operations for the three months ended March 31, 2017 compared to the same period in the prior year are discussed below:

Item	Increase (I) or Decrease (D)	Reason
Sales		
EWCP products	D	Loss of Taber, AB manufacturing facility to fire.
BPCA products	D	Lower customer orders.
Gross profit, as a % of sales	I	Lower oil prices reduced aspartic acid costs.
Administrative salaries and benefits	I	Increased wages to retain employees.
Rent	I	Additional storage and capacity space for BCPS products.
Professional fees	I	Increased legal fees associated with IP and general legal representation along with increased accounting costs.
Commissions	D	Uncommissioned sales increased against commissioned sales.

Three customers accounted for 57% of the Company's sales during the three months ended March 31, 2017 (2016 - 62%). The amount of revenue (all from the sale of BCPA products) attributable to each customer is shown below.

Three Months Ended
March 31,

	2017	2016
Company A	\$1,458,352	\$1,423,418
Company B	\$704,375	\$1,311,532
Company C	\$480,247	\$538,867

Customers with balances greater than 10% of our receivables as of March 31, 2016 and 2015 are shown below:

March 31,

	2017	2016
Company A	1,448,600	891,348
Company B	-	685,364
Company C	-	478,998

In 2007, we began construction of a plant in Taber, AB, Canada. The plant came on line during 2012 and we began depreciating the plant and related equipment effective January 2012.

In February 2014, we suspended production of aspartic acid at our Taber plant. The suspension was due to the fact that since construction of the plant began in 2008, economic conditions in Alberta and worldwide have changed significantly. In particular, plant operating costs have risen and the price of aspartic acid derived from oil was less than forecast. On February 11, 2017, the Taber plant was destroyed in a fire. The building and contents with a carrying value of \$1,936,886 are a total loss. Insurance was in place.

Other factors that will most significantly affect future operating results will be:

the sale price of crude oil which is used in the manufacture of aspartic acid we import from China. Aspartic acid is a key ingredient in our BCPA product;

activity in the oil and gas industry, as we sell our BCPA product to oil and gas companies; and

drought conditions, since we also sell our BCPA product to farmers.

Other than the foregoing we do not know of any trends, events or uncertainties that have had, or are reasonably expected to have, a material impact on our revenues or expenses.

Capital Resources and Liquidity

The Company's sources and (uses) of cash for the three months ended March 31, 2016 and 2015 are shown below:

	2017	2016
Cash provided (used) by operations	(1,894,207)	186,463
Long term deposits	-	350
Investment	6,250	-
Loss from fire	4,053,612	-
Acquisition of equipment	(29,903)	(90,701)
Borrowings from line of credit	450,000	250,000
Repayment of loans	(50,298)	(50,298)
Proceeds of issuance of common stock	2,250	-
Repurchase of common stock	-	(1,575,000)
Changes in exchange rates	(138,350)	29,785

The Company has sufficient cash resources to meet its future commitments and cash flow requirements for the coming year. As of March 31, 2017, working capital was \$11,662,273 (December 31, 2016 - \$7,150,606) and the Company has no substantial commitments that require significant outlays of cash over the coming fiscal year.

The Company is committed to minimum rental payments for property and premises aggregating approximately \$882,550 over the term of three leases, the last expiring on October 31, 2021.

Commitments in the next five year are as follows:

2017	\$154,630
2018	\$201,840
2019	\$205,580
2020	\$209,400
2021	\$111,100

Other than as disclosed above, the Company does not anticipate any capital requirements for the twelve months ending December 31, 2017.

Other than as disclosed in Item 2 of this report, the Company does not know of any trends, demands, commitments, events or uncertainties that will result in, or that are reasonable likely to result in, its liquidity increasing or decreasing in any material way.

Other than as disclosed in Item 2 of this report, the Company does not know of any significant changes in its expected sources and uses of cash.

The Company does not have any commitments or arrangements from any person to provide it with any equity capital.

See Note 2 to the financial statements included as part of this report for a description of the Company's significant accounting policies.

Item 4.

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the direction and with the participation of our management, including our Principal Executive and Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2017. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic reports with the Securities and Exchange Commission is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations, and that such information is accumulated and communicated to our management, including our principal executive and financial officer, as appropriate, to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are designed to provide a reasonable level of assurance of reaching desired disclosure control objectives. Based on the evaluation, our Principal Executive and Financial Officer concluded that these disclosure controls and procedures are effective as of March 31, 2017.

Changes in Internal Control over Financial Reporting

Our management, with the participation of our Principal Executive and Financial Officer, evaluated whether any change in our internal control over financial reporting occurred during the three months ended March 31, 2017. Based on that evaluation, it was concluded that there has been no change in our internal control over financial reporting during the three months ended March 31, 2017 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 6.
Exhibits.

Number	Description
3.1	Amended and Restated Articles of Incorporation. (1)
3.2	Bylaws (1)
31.1	Certification of Principal Executive Officer Pursuant to §302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Principal Financial Officer Pursuant to §302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Principal Executive and Financial Officer Pursuant to 18 U.S.C. §1350 and §906 of the Sarbanes-Oxley Act of 2002.*

*

Filed with this report.

(1) Incorporated by reference to the registrant's Registration Statement on Form 10-SB (SEC File. No. 000-29649) filed February 22, 2000.

SIGNATURES

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

Flexible Solutions International, Inc.

May 15, 2017 By: /s/ Daniel B. O'Brien
Daniel B. O'Brien
President and Principal Executive Officer

May 15, 2017 By: /s/ Daniel B. O'Brien
Daniel B. O'Brien
Principal Financial and Accounting Officer