

FLEXIBLE SOLUTIONS INTERNATIONAL INC  
Form 10-Q  
November 14, 2018

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 September 30, 2018

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 registrant as Specified in Its Charter)

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Nevada  
(State or other jurisdiction  
of incorporation or organization)

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

6001 54 Ave.  
Taber, Alberta, Canada  
(Address of Principal Executive Offices)

T1G 1X4  
(Zip Code)

Registrant's telephone number: (403) 223-2995

N/A

(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 [X]

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 [X] No [ ]

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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.

Large accelerated filer [ ] Accelerated filer [ ]

Non-accelerated filer [X] Smaller reporting company [X]

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	11,630,991	November 14, 2018

**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 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/A for the year ended December 31, 2017.



**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.**

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

(U.S. Dollars — Unaudited)

	September 30, 2018	December 31, 2017
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$8,594,174	\$6,912,138
Accounts receivable (see Note 3)	2,736,362	2,105,471
Inventory (see Note 4)	5,271,360	4,686,852
Prepaid expenses	198,989	255,080
Total current assets	16,800,885	13,959,541
<b>Property, plant and equipment (see Note 5)</b>	1,787,138	1,938,509
Patents (see Note 6)	67,123	79,452
Long term deposits (see Note 7)	20,744	18,531
Investment (see Note 8)	-	13,414
Deferred tax asset	1,028,145	1,763,923
<b>Total Assets</b>	<b>\$19,704,035</b>	<b>\$17,773,370</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$474,105	\$939,116
Deferred revenue	2,605	208,608
Taxes payable	1,234,726	1,101,596
Line of credit (see Note 9)	250,000	250,000
Current portion of long term debt (see Note 10)	201,194	201,193
Total current liabilities	2,162,630	2,700,513
Long term debt (see Note 10)	-	150,896
Total Liabilities	2,162,630	2,851,409
<b>Stockholders' Equity</b>		
<b>Capital stock</b>		
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 11,630,991 (December 31, 2017: 11,597,991) common shares	11,631	11,598



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Capital in excess of par value	15,228,477	15,114,835
Accumulated other comprehensive loss	(844,424 )	(656,093 )
Retained earnings (Deficit)	3,145,721	451,621
Total Stockholders' Equity	17,541,405	14,921,961
Total Liabilities and Stockholders' Equity	\$ 19,704,035	\$ 17,773,370
Commitments (Note 14)		

— See Notes to Unaudited Interim Condensed Consolidated Financial Statements —

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND  
COMPREHENSIVE INCOME (LOSS)****For the Three Months Ended September 30, 2018 and 2017****(U.S. Dollars — Unaudited)**

	Three Months Ended September 30,	
	2018	2017
Sales	\$3,816,626	\$3,269,386
Cost of sales	2,859,130	2,274,150
Gross profit	957,496	995,236
Operating expenses		
Wages	383,964	428,335
Administrative salaries and benefits	273,735	256,676
Advertising and promotion	3,296	2,192
Investor relations and transfer agent fee	33,921	37,403
Office and miscellaneous	75,575	84,809
Insurance	76,535	81,124
Interest expense	7,735	11,402
Rent	61,196	62,630
Consulting	30,758	32,771
Professional fees	46,791	52,290
Travel	13,975	21,506
Telecommunications	8,175	5,707
Shipping	5,388	4,262
Research	32,698	38,691
Commissions	11,629	5,816
Currency exchange	86,813	47,606
Utilities	4,052	4,466
Total operating expenses	1,156,236	1,177,686
Income (loss) before other items and income tax	(198,740 )	(182,450 )
Gain on investment	5,336	-
Loss on involuntary disposition (net of tax)	-	(307,432 )
Interest income	10,566	241
Income (loss) before income tax	(182,838 )	(489,641 )

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Provision for income taxes (recovery)	(37,368 )	(210,717 )
Net income (loss)	(145,470 )	(278,924 )
Other comprehensive income	117,351	305,428
Comprehensive income	(28,119 )	26,504
	\$ (0.01 )	\$ (0.02 )
<b>Net income (loss) per share (basic and diluted)</b>		
Weighted average number of common shares - basic	11,630,991	11,498,491
Weighted average number of common shares – diluted	11,794,766	11,769,792

— See Notes to Unaudited Interim Condensed Consolidated Financial Statements —

## FLEXIBLE SOLUTIONS INTERNATIONAL, INC.

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND

**COMPREHENSIVE INCOME (LOSS)**

For the Nine Months Ended September 30, 2018 and 2017

(U.S. Dollars — Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Sales	\$ 12,155,351	\$ 12,655,460
Cost of sales	7,693,981	7,684,828
Gross profit	4,461,370	4,970,632
Operating expenses		
Wages	1,184,290	1,225,037
Administrative salaries and benefits	811,646	752,879
Advertising and promotion	10,209	15,487
Investor relations and transfer agent fee	107,378	111,480
Office and miscellaneous	183,395	190,258
Insurance	207,387	218,661
Interest expense	22,222	35,698
Rent	185,991	183,638
Consulting	93,134	100,717
Professional fees	141,600	168,215
Travel	103,005	94,668
Telecommunications	21,083	19,093
Shipping	13,117	13,035
Research	87,251	70,229
Commissions	11,629	59,983
Bad debt expense	-	1,191
Currency exchange	(113,826 )	89,350
Utilities	13,032	15,976
	3,082,543	3,365,595
Income before other items and income tax	1,378,827	1,605,037
Gain on investment	5,336	-
Gain on involuntary disposition (net of tax)	1,714,261	1,938,286
Write down of inventory	-	(51,346 )
Interest income	17,459	323

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Income before income tax	3,115,883	3,492,300
Deferred tax expense	-	23,404
Provision for income taxes	421,783	221,530
Net income	2,694,100	3,247,366
Other comprehensive income	(188,331 )	531,857
Comprehensive income	2,505,769	3,779,223
Net income per share (basic and diluted)	\$0.23	\$0.28
Weighted average number of common shares - basic	11,627,464	11,470,196
Weighted average number of common shares – diluted	11,802,193	11,715,934

— See Notes to Unaudited Interim Condensed Consolidated Financial Statements —

## FLEXIBLE SOLUTIONS INTERNATIONAL, INC.

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30, 2018 and 2017

(U.S. Dollars — Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Operating activities		
Net income	\$2,694,100	\$3,247,366
Stock compensation expense	77,315	68,750
Depreciation	180,560	189,513
Decrease in deferred tax asset	-	17,512
Gain on involuntary disposition	(1,714,261)	(1,938,286)
Changes in non-cash working capital items:		
(Increase) Decrease in accounts receivable	(634,517 )	95,318
(Increase) Decrease in inventory	(603,378 )	(664,985 )
(Increase) Decrease in prepaid expenses	55,280	73,351
Increase (Decrease) in accounts payable	(447,182 )	(341,517 )
Increase (Decrease) in taxes payable	133,130	(612,236 )
Increase (Decrease) in deferred revenue	(205,920 )	(95,400 )
Cash provided by operating activities	(464,873 )	39,386
Investing activities		
Investment	13,414	18,750
Proceeds from insurance	2,407,325	3,419,610
Sale (purchase) of property and equipment	(32,259 )	(57,876 )
Cash provided by (used in) investing activities	2,388,480	3,380,484
Financing activities		
Loan repayment	(150,895 )	(150,895 )
Proceeds from issuance of common stock	36,360	55,580
Cash (used in) financing activities	(114,535 )	(95,315 )
Effect of exchange rate changes on cash	(127,036 )	522,943
Inflow of cash	1,682,036	3,847,498
Cash and cash equivalents, beginning	6,912,138	2,470,066

Cash and cash equivalents, ending	\$8,594,174	\$6,317,564
Supplemental disclosure of cash flow information:		
Income taxes paid	\$288,653	\$833,766
Interest paid	\$21,755	\$34,107

— See Notes to Unaudited Interim Condensed Consolidated Financial Statements —

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**

**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**For the Period Ended September 30, 2018**

**(U.S. Dollars — Unaudited)**

**1. Basis of Presentation.**

These unaudited condensed interim 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.

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 condensed interim 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 consolidated 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, 2017 Annual Report on Form 10-K/A. 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 necessary to present fairly the Company’s consolidated financial position at September 30, 2018, the consolidated results of operations for the three and nine months ended September 30, 2018 and 2017, and



the consolidated statements of cash flows for the nine months ended September 30, 2018 and 2017. The results of operations for the three and nine months ended September 30, 2018 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: completed goods, work in progress and raw materials and supplies. In all classes, inventories are stated at the lower of cost and net realizable value. 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, Leaseholds and Intangible Assets.*

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

Computer hardware	30% Declining balance
Trailer	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
Patents	Straight-line over 17 years
Technology	Straight-line over 10 years
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, equipment and leaseholds, 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 in the consolidated statements of income and comprehensive income.

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 payment 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 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.*

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 is primarily comprised of unrealized foreign exchange gains and losses.

(k) *Income Per Share.*

Basic earnings per share are 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, comprised 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 and nine months ended September 30, 2018 and 2017.

(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, equipment and leaseholds, 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.

(n) *Fair Value of Financial Instruments*

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 September 30, 2018, 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 consolidated statements of income and comprehensive income.

(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. Credit exposure is minimized by dealing with only credit worthy counterparties. Accounts receivable for the Company's three primary customers totaled \$1,617,995 (59%) at September 30, 2018 (December 31, 2017 - \$1,247,374 or 65%).

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. The Company maintains cash balances at financial institutions which at times exceed federally insured amounts. The Company has not experienced any 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.

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 and accrued liabilities. 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 the Company 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 income and comprehensive income.

*(s) Adoption of new accounting principles*

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. The Company is currently evaluating the impact the adoption of this standard will have on its 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 is effective January 1, 2018. Adoption of this standard had no material impact on the Company's consolidated financial statements.

**3. Accounts Receivable.**

	September 30, 2018	December 31, 2017
Accounts receivable	\$2,775,449	\$2,145,803
Allowances for doubtful accounts	(39,087 )	(40,332 )
	\$2,736,362	\$2,105,471

**4. Inventory.**

	September 30, 2018	December 31, 2017
Completed goods	\$2,026,525	\$2,530,914
Work in progress	-	183,944
Raw materials	3,244,835	1,971,994
	\$5,271,360	\$4,686,852

**5. Property, Plant & equipment.**

	September 30, 2018 Cost	Accumulated Depreciation	September 30, 2018 Net
Buildings and Improvements	\$3,400,375	\$ 2,482,922	\$917,453
Computer hardware	43,549	40,034	3,515
Furniture and fixtures	21,420	12,414	9,006
Office equipment	1,833	387	1,446
Manufacturing equipment	2,603,672	2,177,233	426,439
Trailer	9,267	3,162	6,105
Boat	34,400	17,558	16,842
Leasehold improvements	88,872	46,353	42,519
Technology	105,532	105,532	-
Land	363,813	-	363,813
	\$6,672,733	\$ 4,885,595	\$ 1,787,138

	December 31, 2017 Cost	Accumulated Depreciation	December 31, 2017 Net
Buildings and Improvements	\$3,400,792	\$ 2,409,179	\$991,613
Computer hardware	40,904	39,398	1,506
Furniture and fixtures	17,673	11,156	6,517
Office equipment	1,480	148	1,332
Manufacturing equipment	2,590,158	2,104,137	486,021
Trailer	9,562	1,434	8,128
Boat	34,400	14,586	19,814
Leasehold improvements	85,432	32,506	52,926
Technology	101,748	101,748	-
Land	370,652	-	370,652
	\$6,652,801	\$ 4,714,292	\$ 1,938,509

Amount of depreciation expense for 2018: \$168,231 (2017: \$177,184).



**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.

	September 30, 2018	Accumulated Amortization	September 30, 2018
	Cost		Net
Patents	\$ 204,791	\$ 137,668	\$ 67,123

	December 31, 2017	Accumulated Amortization	December 31, 2017
	Cost		Net
Patents	\$ 212,426	\$ 132,974	\$ 79,452

Decrease in 2018 cost was due to currency conversion. 2018 cost in Canadian dollars - \$265,102 (2017 - \$265,102 in Canadian dollars).

Amount of amortization for 2018 - \$12,329 (2016 - \$12,329)

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

2019	\$ 16,438
2020	16,438
2021	16,438
2022	16,438
2023	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.

	September 30, 2018	December 31, 2017
Long term deposits	\$ 20,744	\$ 18,531

### 8. Equity Method Investment

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

Balance, January 1, 2017	\$ 122,480
Return of equity	(25,000 )
Loss in equity method investment	(84,066 )
Balance, December 31, 2017	\$ 13,414
Return of equity	(13,414 )
Balance, September 30, 2018	\$-

### **9. Short-Term Line of Credit.**

In September 2018, 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) \$2,500,000, or (ii) 80% of eligible domestic accounts receivable and certain foreign accounts receivable plus 60% of inventory. The loan has an annual interest rate of 5.75%.

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 September 30, 2018, 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 September 30, 2018 were \$250,000 (December 31, 2017 - \$250,000).

### **10. Long Term Debt.**

In September 2014, NanoChem Solutions Inc. signed a \$1,005,967 promissory note with Harris Bank with a rate of prime plus 0.5% (September 30, 2018 – 5.75%; December 31, 2017 – 5%) to be repaid over 5 years with equal monthly installments plus interest. This money was used to retire the previously issued and outstanding debt obligations. The balance owing at September 30, 2018 was \$201,194 (December 31, 2017 - \$352,089).

The Company has committed to the following repayments:

2018 \$50,299



2019 \$150,895

As of September 30, 2018, Company was in compliance with all loan covenants.

	September 30, 2018	December 31, 2017
Continuity		
Balance, beginning of year	\$352,089	\$553,282
Less: Payments on loan	150,895	201,193
Balance, end of year	\$201,194	\$352,089
Less: current portion	(201,194)	(201,193)
Long term balance	\$-	\$150,896

### 11. Stock Options.

The Company has a stock option plan (“Plan”), the purpose of which 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 following table summarizes the Company's stock option activity for the year ended December 31, 2017 and the nine month period ended September 30, 2018:

	Number of shares	Exercise price per share	Weighted average exercise price
Balance, December 31, 2016	813,000	\$0.75 - \$2.22	\$ 1.19
Granted	154,000	\$1.70	\$ 1.70
Cancelled or expired	(114,000)	\$1.00 - 2.22	\$ 1.75
Exercised	(140,000)	\$0.75 - 1.21	\$ 1.11
Balance, December 31, 2017	713,000	\$0.75 - 1.70	\$ 1.21
Granted	5,000	\$1.48	\$ 1.48
Cancelled or expired	(3,000 )	\$1.70	\$ 1.70
Exercised	(33,000 )	\$1.00 - 1.42	\$ 1.10
Balance, September 30, 2018	682,000	\$0.75 - 1.70	\$ 1.22
Exercisable, September 30, 2018	526,000	\$0.75 - 1.42	\$ 1.08

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

	2018	2017
Expected life – years	3.0	3.0
Interest rate	2.69 %	2.23 %
Volatility	54.00 %	73.09 %
Dividend yield	— %	— %
Weighted average fair value of options granted	\$0.6656	\$0.8344

The Company granted 5,000 stock options to employees during the nine months ended September 30, 2018 (2017 – nil). This resulted in \$2,219 in expenses. Vesting of options granted in previous years resulted in expenses in the amount of \$55,070 for employees (2017 - \$51,775) during the nine months ended September 30, 2018 and \$20,026 for consultants (2017 - \$16,975). There were 23,000 employee and 10,000 consultant stock options exercised during the during the nine months ended September 30, 2018 (2017 – 28,000 employee stock options).

As of September 30, 2018, there was approximately \$26,308 of compensation expense related to non-vested awards. This expense is expected to be recognized over a weighted average period of 0.25 years.

The aggregate intrinsic value of vested options outstanding at September 30, 2018 is \$205,610.

## **12. Capital Stock.**

During the nine months ended September 30, 2018, 23,000 shares were issued upon the exercise of employee stock options (2017 – 28,000) and 10,000 shares were issued upon the exercise of consultant stock options (2017 – nil).

**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 “TPA” below). These chemical additives can also be used 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.

Nine months ended September 30, 2018:	EWCP	TPA	Total
Revenue	\$291,789	\$11,863,562	\$12,155,351
Interest revenue	16,969	490	17,459
Interest expense	-	22,222	22,222
Depreciation and amortization	38,348	142,212	180,560
Segment profit (loss)	1,349,007	1,345,093	2,694,100
Segment assets	541,681	1,312,580	1,854,261
Expenditures for segment assets	(15,125 )	(17,134 )	(32,259 )

Nine months ended September 30, 2017:	EWCP	TPA	Total
Revenue	\$606,476	\$12,048,984	\$12,655,460
Interest revenue	183	140	323
Interest expense	54	35,644	35,698

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Depreciation and amortization	44,302	145,211	189,513
Segment profit (loss)	1,980,968	1,266,398	3,247,366
Segment assets	354,851	1,385,465	1,740,316
Expenditures for segment assets	(50,470 )	(7,406 )	(57,876 )

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

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Canada	\$230,055	\$265,175
United States and abroad	11,925,296	12,390,285
Total	\$12,155,351	\$12,655,460

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

	September 30, 2018	December 31, 2017
Canada	\$541,681	\$580,304
United States	1,312,580	1,437,657
Total	\$1,854,261	\$2,017,961

Three customers accounted for \$5,730,269 (47%) of sales during the nine months ended September 30, 2018 (2017 - \$7,527,184 or 59%). Three customers accounted for \$1,617,995 of accounts receivable (59%) at September 30, 2018 (December 31, 2017 – \$1,247,374 or 65%).

#### 14. Commitments.

The Company is committed to minimum rental payments for property and premises aggregating approximately \$584,605 over the term of three leases, the last expiring on October 31, 2021.

Commitments in the next four years are as follows:

2018	\$50,775
2019	\$205,580
2020	\$209,400
2021	\$118,850

**15. Comparative Figures.**

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

## **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.

TPA 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 and nine months ended September 30, 2018 are discussed below:

#### Nine Months ended September 30, 2018

Increase (I)  
or



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Item	Decrease (D)	Reason
Administrative salaries and benefits	I	Increased wages to retain employees.
Professional fees	D	Decreased legal fees related to intellectual property and general legal representation
Research	I	New research projects started.
Commissions	D	Uncommissionable sales increased against commissionable sales.

Three months ended September 30, 2018

Item	Increase (I) or Decrease (D)	Reason
Sales EWCP products	D	Customer orders were lower than prior period.
BCPA products	I	Increased sales across all market verticals due to increased success in sales activity.
Administrative salaries and benefits	I	Increased wages to retain employees.
Professional fess	D	Reduced litigation resulted in reduced professional fees.
Commissions	I	Commissionable sales increased against uncommissionable sales.

Three customers accounting for 50% of our sales during the three months ended September 30, 2018 (2017 – 57%) and 47% of our sales during the nine months ended September 30, 2018 (2017 - 59%). The amount of revenue attributable to each customer is shown below.

Customer	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
A	\$1,075,573	\$648,720	\$2,707,900	\$2,094,490
B	\$332,344		\$1,512,443	\$1,169,522
C	\$491,852		\$1,509,926	
D		\$307,434		
E		\$1,213,179		\$4,263,172

Customers with balances greater than 10% of our receivables as of September 30, 2018 and 2017 are shown below:

	September 30,	
	2018	2017
Company A	969,267	317,544

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Company B	235,907*	95,688	*
Company C	412,820	-	
Company D	96,265 *	204,835	*
Company E	98,073 *	1,436,247	

\*less than 10%

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 increased 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 were 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 TPA products. If tariffs are maintained or expanded and if relief is not available, some customers may experience price increases;

activity in the oil and gas industry, as we sell our TPA products to oil and gas companies; and

drought conditions, since we also sell our TPA products 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 nine months ended September 30, 2018 and 2017 are shown below:

	2018	2017
Cash provided by (used by) operations	(464,873 )	39,386
Investment	13,414	18,750
Insurance proceeds from fire loss	2,407,325	3,419,610
Sales (purchases) of equipment	(32,259 )	(57,876 )
Repayment of loans	(150,895 )	(150,895 )
Proceeds from issuance of common stock	36,360	55,580
Changes in exchange rates	(127,036 )	522,943

The Company has sufficient cash resources to meet its future commitments and cash flow requirements for the coming year. As of September 30, 2018, working capital was \$14,638,255 (December 31, 2017 - \$11,259,028) 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 \$584,605 over the term of three leases, the last expiring on October 31, 2021.

Commitments in the next four years are as follows:

2018	\$50,775
2019	\$205,580
2020	\$209,400
2021	\$118,850

Other than as disclosed above, the Company does not anticipate any capital requirements for the twelve months ending September 30, 2019.

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 September 30, 2018. 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 September 30, 2018.

##### 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 September 30, 2018. 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 September 30, 2018 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  | <u>Amended and Restated Certificate of Incorporation of the registrant. (1)</u>  |
| 3.2  | <u>Bylaws of the registrant. (1)</u>   |
| 31.1 | <u>Certification of Principal Executive Officer Pursuant to §302 of the Sarbanes-Oxley Act of 2002.*</u>                                   |
| 31.2 | <u>Certification of Principal Financial Officer Pursuant to §302 of the Sarbanes-Oxley Act of 2002.*</u>                                   |
| 32.1 | <u>Certification of Principal Executive and Financial Officer Pursuant to 18 U.S.C. §1350 and §906 of the Sarbanes-Oxley Act of 2002.*</u> |

\* 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 of Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

November 14, 2018

### **Flexible Solutions International, Inc.**

By: */s/ Daniel B. O'Brien*

Name: Daniel B. O'Brien

Title: President and Principal Executive Officer

By: */s/ Daniel B. O'Brien*

Name: Daniel B. O'Brien

Title: Principal Financial and Accounting Officer



