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FLEXIBLE SOLUTIONS INTERNATIONAL INC
Form 10KSB
March 24, 2003

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15 (D) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

COMMISSION FILE NUMBER 0-29649

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
(Name of Small Business Issuer in its charter)

NEVADA
(State or other jurisdiction of
incorporation or organization)

91-1922863
(IRS Employer Identification No.)

2614 QUEENSWOOD DR.
VICTORIA, B.C.
V8N 1X5, CANADA
(Address of principal executive offices)

250-477-9969
(Issuers telephone number)

Securities registered pursuant to Section 12 (b) of the Act: None

Securities registered pursuant to Section 12 (g) of the Act: Common Stock

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act during the past 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()

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10 - KSB or any amendment to this Form 10 - KSB (X)

Issuer's revenues for its most recent fiscal year \$1,112,192

The aggregate market value of the voting common stock held by non-affiliates of the Company as of March 2, 2003 was approximately \$26,083,000 based on the closing price for shares of the Company's common stock on the American Stock Exchange for that date.

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On March 17, 2003, approximately 11,621,919 shares of the Company's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

No documents are incorporated by reference.

Transitional Small Business Disclosure Format (check one):

Yes () No (X)

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Flexible Solutions International, Inc. was incorporated in the State of Nevada in May 1998. It acquired all of the outstanding shares of Flexible Solutions, Ltd., a British Columbia corporation, in June 1998 in exchange for 7,000,000 shares of common stock, which represented all of the issued and outstanding shares of Flexible Solutions International at the conclusion of such acquisition. Flexible Solutions International had no other business and was incorporated in order to acquire Flexible Solutions, Ltd. Flexible Solutions, Ltd. was organized in 1991 to develop and market a swimming pool chemical product designed to reduce heat loss.

We completed the development of our HEAT\$AVR product and introduced it into the commercial marketplace in 1998, achieving sales of \$84,252 that year. Since that time we have been expanding our distribution network and working to complete the development of our WATER\$AVR product.

In 2002 we established WATER\$AVR Global Solutions, Inc., an Illinois corporation, as a wholly owned subsidiary to concentrate on marketing of WATER\$AVR.

Flexible develops, manufactures and markets specialty chemicals which slow down the evaporation of water. Our initial product, Heat\$avr, 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. Our newest product, Water\$avr, is marketed for water conservation in irrigation canals, aquaculture, and reservoirs where its use slows down water loss due to evaporation. We also make and sell dispensers which automate the deployment of our chemical products.

OUR HEAT\$AVR PRODUCT

The primary product of Flexible is HEAT\$AVR which represents substantially all of our sales. HEAT\$AVR is a chemical product for use in swimming pools and spas that forms a thin, invisible layer on the surface of water which reduces the amount of water evaporation and heat loss from the pool. The product is marketed as a cost effective and convenient way to save on the cost of energy required to heat pools and spas. Approximately 70% of the energy lost from a swimming pool occurs through evaporation.

HEAT\$AVR is a mixture of chemicals which are lighter than water. The solution floats to the surface when introduced into a pool or spa to form a very thin layer on the surface of the water which slows down evaporation of water from the surface of the pool. The product is not visible on the pool surface and it cannot be seen, felt or tasted by swimmers. After a swimmer stops disturbing the pool water, the product reforms to a complete layer on the pool surface.

We market HEAT\$AVR to the residential market primarily in the form of our "Tropical Fish" dispenser. Each Tropical Fish dispenser is made of molded plastic in the form of a ten inch long colorful Tropical Fish that is filled with enough HEAT\$AVR solution to cover the surface of a

400 square foot swimming pool for about one month. The Tropical Fish is deployed by snipping the fin and tossing the fish into the pool where it submerges to the bottom of the pool. Water pressure causes the HEAT\$AVR liquid inside to escape

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into the water where it rises to the surface and forms an invisible layer on the surface of the water. The empty dispenser can remain on the bottom of the pool for decoration and use as a pool toy or be removed. The Tropical Fish product has a suggested retail price of \$9.95 in the United States.

BENEFITS OF HEAT\$AVR USE IN OUTDOOR POOLS

In outdoor swimming pools HEAT\$AVR provides savings on pool heating costs and provides convenience of use when compared to pool blankets.

Pool personnel often find it inconvenient to use conventional pool blankets correctly and consistently. Pool blankets are plastic covers which are cut to the size and shape of the surface of the pool or spa. They float on the surface and perform the same purpose as HEAT\$AVR of reducing energy cost by inhibiting evaporation. Of course the blanket must be removed and stored prior to swimmers entering the pool and provide no energy savings when not in the pool. HEAT\$AVR eliminates the necessity of installing, removing and storing the blanket and works 24 hours a day. We believe that the ease of use provided by HEAT\$AVR results in more consistent usage.

BENEFITS OF HEAT\$AVR USE IN INDOOR POOLS

Use of HEAT\$AVR in indoor pools results in even greater energy savings. Indoor pool locations use energy not only to heat the pool water but to air condition the pool environment. By slowing the transfer of heat and water vapor from the pool to the atmosphere of the pool enclosure atmosphere less energy is required to maintain a pool at the desired temperature, there is a reduced load on the air--conditioning system because less is heat transferred from the pool water to the surrounding air and less water vapor will have to be removed from the air to maintain the required comfort level. Air--conditioned indoor pools are very high users of energy because swimmers and loungers have differing temperature expectations which require both water heat, generally by gas, and electric air cooling to keep both groups happy in the same room.

MARKET FOR HEAT\$AVR

We market our HEAT\$AVR product to both the residential market made up of individual homeowners with pools and spas and the commercial market consisting of operators of commercial swimming pools such as those located in hotels, motels, schools, and municipal and private recreational facilities.

Pool and Spa Marketing Magazine has published the following estimates concerning the swimming pool market and their 2002 reference and directory:

2000 U.S in--ground pool sales-- 170,700

2000 U.S. above--ground pool sales-- 345,000

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Existing pools in U.S.-- 4,210,000

Existing above--ground pools in U.S.-- 3,219,000

2000 sales for new pools in U.S.-- \$3,950,000,000

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1999 residential pool sales in Europe-- 95,740 pools

We have received reports from some of our commercial customers documenting energy savings of \$2,400 to \$6,000 per year. We also make and sell programmable dispenser for automatically dispensing HEAT\$AVR into a pool. The dispenser has a reservoir holding a one week supply of HEAT\$AVR. The unit is programmed to inject the appropriate amount of the product into the pool at the rate of 1 oz. per 400 square feet of pool surface per day.

MARKETING AND SALES

The HEAT\$AVR and Tropical Fish products are sold in Canada and the United States by Flexible's exclusive distributor, Sun Solar Energy Technologies, and in Australia by Hydro--Flexible Solutions PTY. Flexible also sells HEAT\$AVR directly into the United States to both wholesale and retail accounts. We have about 155 active customers. However, in the nine months ended September 30, 2002 Sun Solar Energy Technologies represented 94.7% of our total sales.

OUR AGREEMENT WITH SUN SOLAR ENERGY TECHNOLOGIES

We have a written agreement with Sun Solar Energy Technologies, our exclusive distributor for our Tropical Fish product in the U.S. and Canada. This customer represented 95% of our total sales in 2002. In February 1998 we entered into an exclusive distributorship with Sun Solar Technologies for our Tropical Fish product. The agreement gives Sun Solar exclusive right to distribute our Tropical Fish product in the United States and Canada. In order to maintain the exclusivity of such distribution, Sun Solar must order and pay for at least 720,000 units in the year ending February 28, 2003. Such exclusive agreement terminates on February 29, 2004. We have agreed to give Sun Solar a right of first refusal in the event we propose to sell our Flexible Solutions Ltd. subsidiary. If such subsidiary is sold we must require the purchaser to fulfill the exclusive distribution contract with Sun Solar and Sun Solar can veto the proposed sale to an entity which it reasonably believes may have an intent to discontinue manufacture of our Tropical Fish product. The agreement also provides that Sun Solar will sell its veto for a reasonable premium arrived at by mutually agreed upon by a mediator. The agreement also provides that Flexible has a right of first refusal if Sun Solar proposes to sell its exclusive distributorship. If such distributorship is sold Sun Solar's sales performance minimums are required to be binding on the new owner. The agreement also provides that if such exclusive distribution rights are sold by Sun Solar, the buyer must advance to Flexible \$1.00 US for each Tropical Fish which must be bought in the year of sale to maintain the distribution agreement exclusivity, which payment will be credited to future orders of Tropical Fish at the rate of \$1.00 US per fish as the orders are made. We have also agreed to offer distribution rights on new

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swimming pool products to Sun Solar in the US and Canada if it is up-to-date on its sales performance requirements. Flexible is satisfied with the performance of Sun Solar as exclusive distributor of Tropical Fish and believes our relationship with Sun Solar is satisfactory. There can be no assurance that our exclusive distributorship with Sun Solar will be renewed past its current expiration on February 29, 2004. We grant Sun Solar 45 days to pay for product ordered after shipment.

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We also have nonexclusive distributors in Canada and the United States for HEAT\$AVR not packaged in our Tropical Fish dispenser and exclusive distributors in Australia, Korea and Great Britain. We support our distributors and seek additional market opportunities by attending the major pool industry trade shows in the United States yearly. We advertise in trade magazines and directly to buyer associations. We maintain an Internet presence with a website containing information about our products. We also write and publish a newsletter to 5,000 customers and potential customers twice a year.

OUR WATER\$AVR PRODUCT

We introduced our WATER\$AVR product in June 2002. This product utilizes our core technology to reduce water evaporation. It is marketed as a water conservation product for use where water is standing or gently flowing and the need for water conservation can justify the cost of purchase and deployment of the product. We believe that our WATER\$AVR product may find a market for use in

Reservoirs, Potable water storage, Aqueducts and canals, Agricultural irrigation, Flood water crops, Lawn and turf care, Potted and bedding plants, Stock watering ponds, Mining

WATER\$AVR is sold in granulated form. It can be provided in shaker containers holding 3/4 pound or in 44 pound weatherproof bags. We also offer a dispenser for WATER\$AVR to automate deployment of the product. The product can be applied in various ways from hand dispersal to fully automated scheduled metering.

CURRENT STATUS OF OUR WATER\$AVR PRODUCT

We anticipate our initial market for WATER\$AVR will be in India and China. We have provided quantities of the product for testing in these countries and if successful anticipate that substantial orders may be received. The product will also be marketed in both developed and lesser developed countries to address water conservation concerns. We are seeking to establish strategic relationships with companies in the water processing industry who have marketing and manufacturing operations in countries with water conservation concerns. We have a full time employee dedicated to establishing sales channels throughout the world for WATER\$AVR.

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In September, 2002 we granted Ondeo Nalco Company, a subsidiary of Suez, of Naperville, Illinois exclusive and non-exclusive distribution rights as follows:

| Exclusive Market ----- | Countries ----- |
|---------------------------|---|
| Market | Canada and USA |
| Municipal | All, except India, Pakistan, |
| Mineral and Mining | Bangladesh, Sri Lanka, Nepal, Bhutan, Mauritania, Malaysia and |

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Singapore.

Non-Exclusive Market

All except agriculture
and large retail

Countries

All, except India, Pakistan,
Bangladesh, Sri Lanka, Nepal,
Bhutan, Mauritania, Malaysia and
Singapore.

We have also granted Ondeo Nalco an option to purchase 1,000,000 shares of our common stock at \$4.25 per share and they will receive additional options to purchase 1,000,000 shares at \$5.50 per share by meeting certain sales targets. The distributor is not required to purchase any quantity of WATER\$AVR and there can be no assurance that we will achieve substantial sales of WATER\$AVR to this distributor. The exclusive markets convert to non-exclusive if the distributor does not meet certain thresholds of sales.

COMPETITION

We are not aware of any chemical evaporation reduction products on the market or under development which compete with our HEAT\$AVR product. HEAT\$AVR does compete against plastic pool blanket products. We compete against pool blankets on the basis of convenience of use of HEAT\$AVR versus the inconvenience of deploying and storing pool blankets. Pool owners and operators may also decide that no evaporation control product is needed for their pools. We are aware of one chemical product manufactured by Aegis Chemical Industries Ltd. of India which competes with our WATER\$AVR product. We believe WATER\$AVR is a superior product for the following reasons:

- o Easier Application. WATER\$AVER may be deployed directly to the water surface by hand. The Aegis product requires premixing to dilute it to usable strength.
- o Cost. In order to achieve comparable water savings levels, the Aegis product would cost more than the WATER\$AVER product.

Specialty chemicals are a highly competitive industry with many huge multi-national firms with large research and development operations. There are a number of firms which develop and market chemical products for the pool and spa industry. Therefore, we can expect competition to arise at any time.

Water conservation is an important priority throughout the world and numerous researchers in industry and academia are seeking to develop solutions which may compete with or be superior

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to our products. Climate changes which relieve water shortage conditions or a technological breakthrough in water desalination could reduce the need for water conservation products.

MANUFACTURING

Our HEAT\$AVR products and dispensers are made from chemicals, plastic and other materials and parts which are readily available from multiple suppliers. We have never experienced any shortage in the availability of raw materials and parts for our products and we do not have any long term supply contracts for any such items. We manufacture our products in an 11,000 square foot plant in Calgary,

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Alberta, Canada.

We have agreed to purchase all our requirements for WATER\$AVER from Ondeo Nalco Company under a five year agreement effective April 2002, but are not required to purchase any minimum quantity of such product.

GOVERNMENTAL REGULATIONS

Chemical products for use in swimming pools are covered by a variety of governmental regulations in the countries where we sell our products. Such regulations cover such matters as packaging, labeling and product safety. We believe our products are in compliance with such regulations. Our WATER\$AVR product will be subject to additional regulation in some countries particularly for agricultural and drinking water uses. We will address these issues on a country--by--country basis. We do not anticipate that governmental regulations will be an impediment to marketing WATER\$AVR because the major ingredient has been used in agriculture for many years. We will require approval to sell WATER\$AVR in the United States for agricultural or drinking water users. We have not yet applied for any such approvals in the U.S.

PROPRIETARY RIGHTS

Our success and ability to compete is dependent in part upon our proprietary technology. We rely on a combination of patent, copyright and trade secret laws and nondisclosure agreements to protect our proprietary technology. We currently hold two U.S. patent and are seeking to extend these patents to certain other countries. We also have seven patent applications pending. There can be no assurance that our pending patent applications will be granted on that any issued patent will be upheld as valid or prevent the development of competitive products which may be equivalent or superior to our products. We have not received any claims alleging infringement of the intellectual property rights of others, but there can be no assurance that we may not be subject to such claims in the future.

EMPLOYEES

As of December 31, 2002, we employed 15 persons including one officer, five sales and customer support and four in manufacturing. None of our employees is represented by a labor union and we have experienced no work stoppages to date.

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ITEM 2. DESCRIPTION OF PROPERTY

Our President provides use of space in his residence to conduct his administrative duties and we do not reimburse him for such use. We rent 1,400 sq. ft. of sales and research space in Victoria BC for \$1050 a month and 500 sq. ft. of office space in Chicago IL for \$500 a month. We lease an 11,000 sq. foot building in Calgary, Alberta, Canada for \$3,150 per month until September 2003 for manufacture of our products. We also maintain a warehouse facility in St. Laurent, Quebec, Canada which is provided by our distributor at no cost.

ITEM 3. LEGAL PROCEEDINGS

On January 15, 2002 we filed a lawsuit in the Supreme Court of British Columbia

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against John Wells and Equity Trust, S.A. seeking return of 100,000 shares of our common stock and repayment of a \$25,000 loan which were provided to defendants for investment banking services to be provided to Flexible consisting of providing a \$5 million loan and a \$25 million stock offering. Such services were not performed and we filed suit for the return of such shares after they were not returned voluntarily and the note was not paid.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to the vote of our shareholders in the quarter ended December 31, 2002.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET FOR SECURITIES

Our common stock began trading on the American Stock Exchange under the symbol FSI on November 19, 2002. Prior to that, our stock traded on the over-the-counter market and was quoted on the NASD Electronic Bulletin Board.

The following is the range of high and low closing sales or bid prices for Flexible common stock for the periods indicated:

SALES OR BID PRICES

| 2001 ---- | High ---- | Low --- |
|-------------------------|--------------|------------|
| January 2-March 30 | \$2.75 | \$.6875 |
| April 2- June 29 | 2.30 | 1.50 |
| | | |
| July 2 - September 28 | 1.75 | .67 |
| October 1 - December 31 | 1.45 | .73 |
| | | |
| 2002 ---- | | |
| January 2 - March 28 | 3.57 | 1.30 |
| April 1 - June 28 | 4.10 | 2.50 |
| July 1 - September 30 | 3.85 | 1.95 |
| October 1 - December 31 | 3.85 | 2.77 |

Prices since November 19,2002 represent high and low prices on the American Stock Exchange. Prices prior to November 19, 2002 represent inter-dealer quotations which do not include retail mark-ups, markdowns, or commissions, and do not necessarily represent actual transactions. We had 75 record holders of our common stock on December 31, 2002. Such shares are owned by approximately

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350 beneficial owners.

Our common stock also trades on the Frankfurt Germany stock market under the symbol FXT.

DIVIDEND POLICY

Flexible has not paid any dividends on its common stock, and it is not anticipated that any dividends will be paid in the foreseeable future. The Board of Directors intends to follow a policy of retaining earnings, if any, to finance the growth of the company. The declaration and payment of dividends in the future will be determined by the Board of Directors in light of conditions then existing, including the company's earnings, financial condition, capital requirements and other factors.

Sales of unregistered shares in 2002

In January 2002 we issued 30,000 shares of our common stock to Patrick Grant, an employee, for services for the period from January 1, 2002 to June 30, 2002. Such shares were issued pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933. Such shares were issued pursuant to an investment letter under which the shareholder acknowledged that the shares were restricted securities and would not be sold without registration or an exemption from registration. The certificate for such shares contained a legend restricting transfer without such registration or exemption and a stop transfer order was lodged against the shares with our transfer agent.

In April 2002 we sold 400,000 shares of our common stock in a private placement to managed accounts of Sprott Asset Management, Inc. for \$2.50 per share. We paid a commission of \$50,000 in connection with such placement. Such shares were issued pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933. Such shares were issued pursuant to an investment letter under which the shareholder acknowledged that the shares were restricted securities and would not be sold without registration or an exemption from registration. The certificate for such shares contained a legend restricting transfer without such registration or exemption and a stop transfer order was lodged against the shares with our transfer agent.

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In July 2002 we sold 1,000,000 shares of our common stock in a private placement to managed accounts of Sprott Asset Management, Inc. and 428,600 shares to Pictet Global Sector Fund for \$3.50 per share. Such shares were issued pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933. Such shares were issued pursuant to an investment letter under which the shareholder acknowledged that the shares were restricted securities and would not be sold without registration or an exemption from registration. The certificate for such shares contained a legend restricting transfer without such registration or exemption and a stop transfer order was lodged against the shares with our transfer agent.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our operating activities are related primarily to manufacturing and marketing our swimming pool chemical product called "HEAT\$AVR", including the consumer version packed in our "Tropical Fish" dispenser. In June 2002 we introduced a

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fresh water evaporation control chemical product called "WATER\$AVR" which has not achieved substantial sales to date.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The SEC has recently issued Financial Reporting Release No. 60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies" ("FRR 60"), suggesting companies provide additional disclosure and commentary on those accounting policies considered most critical. A critical accounting policy is one that is both very important to the portrayal of our financial condition and results, and requires management's most difficult, subjective or complex judgments. Typically, the circumstances that make these judgments difficult, subjective and/or complex have to do with the need to make estimates about the effect of matters that are inherently uncertain. We believe the accounting policies below represent our critical accounting policies as contemplated by FRR 60. See Note 3 of the Notes to Consolidated Financial Statements for a detailed discussion on the application of these and other accounting policies.

Allowances for Product Returns. We still grant certain of our customers the right to return product which they are unable to sell. Upon sale, we evaluate the need to record a provision for product returns based on our historical experience, economic trends and changes in customer demand.

Allowances for Doubtful Accounts Receivable. We evaluate our accounts receivable to determine if they will ultimately be collected. This evaluation includes significant judgments and estimates, including an analysis of receivables aging and a review of large accounts. If, for example, the financial condition of our customers deteriorates resulting in an impairment of their ability to pay or a pattern of late payment develops, allowances may be required.

Provisions for Inventory Obsolescence. We may need to record a provision for estimated obsolescence and shrinkage of inventory. Our estimates would consider the cost of inventory, the estimated market value, the shelf life of the inventory and our historical experience. If there are changes to these estimates, provisions for inventory obsolescence may be necessary.

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RESULTS OF OPERATIONS

Year ended December 31, 2002 and 2001

Sales for the year ended December 31, 2002 were \$1,112,192 compared to \$1,334,273 for the 2001 period, a decrease of \$222,081 or 16.6%. Our sales decline was primarily the result of poor weather conditions in the Eastern U.S. and Canada which reduced the outdoor swimming season and therefore the demand for our tropical fish product. There were no price changes in this period.

Our overall gross profit margin on product sales decreased slightly to 47.7% in 2002 from 50.3% in 2001. This decrease was primarily due to higher fixed costs related to additional production facilities and equipment which we have added in the 2002 period.

Operating expenses for fiscal 2002 were \$3,701,899, up from \$806,020 in 2001. We issued over 2 million stock options to employees and consultants which resulted in a non-cash expense recognition of \$2,736,608 in 2002. In 2002 we also

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increased sales and marketing costs in connection with our WATER\$AVR product and this was reflected in increased wages, office, rent, telephone and travel expenses. We incurred higher professional fees in the 2002 period primarily due to increased legal and accounting expenses. Depreciation expense was \$24,683 for the 2002 period compared to \$18,910 for the 2001 reflecting depreciation for additional property and equipment added in 2002. Our expenses to increase investor awareness of our company was significantly less than in 2001 and this resulted in a decrease in stock promotion and transfer agent's fee in 2002. We also had an expense of \$19,180 in 2002 for currency exchange. There was income of \$2,368 from such item in 2001.

Our income tax provision for 2002 reflected a benefit of \$21,456 due to the net loss while we had income tax expense of \$100,264 in 2001. We had interest income of \$67,228 in 2002 reflecting earnings on the proceeds of stock sales during the year. There was a net loss of \$3,082,445 in the 2002 period compared to a net loss of \$233,955 in 2001.

Year Ended December 31, 2001 and 2000

Fiscal 2001 revenue rose 30% to \$1,334,273 because of more effective marketing with the preponderance of sales continuing to be in Canada to our Montreal-based distributor. The distributor reports that 75% of his sales are in the USA. Gross profit margins were stable at 50.3%. Product mix shifted little during the year with a continued emphasis on "Tropical Fish". There were no price changes in this period.

Operating expenses for 2001 were \$806,020 up from \$289,860 in the 2000 period. Wages increased to \$313,918 in 2001 from \$87,907 in 2000. In 2001 this included \$173,750 related to granting of stock options rather than cash expense. Cash expense also increased due to increased production levels and to further introduction of WATER\$AVR. In the 2001 period we increased sales and marketing costs in connection with our WATER\$AVR product and this was reflected in increased wages, office, rent, telephone and travel expenses. We incurred lower professional

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fees in the 2001 period primarily due decreased legal and accounting expenses. Depreciation expense was \$18,910 for the 2001 period compared to \$13,489 for 2000 reflecting additional depreciation for additional property and equipment added in 2001. We also undertook a program to increase investor awareness of our company and this program resulted in an increase in stock promotion and transfer agent's fee in 2001. We also had income of \$2,368 in 2001 for currency exchange. There was \$19,344 of such income in 2000.

There was a net loss of \$233,955 in 2001 compared to net income of \$138,971 in 2000.

Liquidity and Capital Resources

We sold 1,828,600 shares of common stock to investors in 2002 for net proceeds of \$5,750,000. We believe we have sufficient capital to support our business and operations for at least the next 12 months. We anticipate utilizing approximately \$2 million in the next twelve months to attempt to increase the sales of our products by adding sales and marketing professionals, increase advertising and promotion expenses, improve our products, develop additional uses for our core technology and make additional patent applications. There can

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be no assurance that such expenditures will result in significant increase in sales of our products. Approximately \$1,900,000 of such expenditures are related to our recently introduced WATER\$AVR product. There can be no assurance that any of the expenditures will result in additional sales revenues.

SEASONALITY

Our operations are subject to seasonal fluctuations. Use of our products increase in summer months in most markets and result in our sales from January to June being greater than in July through November. Additionally, cooler summer weather patterns lead to lower sales volume, particularly of our Tropical Fish product which is geared to residential pools, due to shorter swimming season while hotter weather results in increased sales volume due to a longer swimming season. We believe we are able to adequately respond to these seasonal fluctuations by reducing or increasing production as needed.

RISK FACTORS

We have identified the following as the most material risks of our business.

Our business would be adversely affected if we lost the services Dan O'Brien, our chief executive officer.

We are dependent upon the services of Dan O'Brien, who serves as our president and chief executive officer. Our business would be adversely affected if the executive services of Mr. O'Brien ceased to be available as because none of our other employees could take over the management activities of Mr. O'Brien. Therefore we would have to recruit one or more new executives but there can be no assurance that we would be able to engage a replacement executive with the required skills on satisfactory terms. Mr. O'Brien does not have an employment contract with Flexible. We have a key man life insurance policy in the amount of CDN \$400,000 (currently approximately USD\$250,000) on Mr. O'Brien.

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Our revenues would be substantially reduced if we lost the major customer that accounts for a substantial amount of our sales.

Our exclusive U.S. and Canadian distributor of our HEAT\$AVR product packaged in our Tropical Fish dispenser account for 94% of our sales revenues in 2001 and 95% of our sales revenues in 2002. Although we have an agreement with such firm which is described above, this agreement does not require the distributor to purchase any minimum amount of our products, nor does it prevent it from handling competing products. If our distributor reduced its purchase or ceased to purchase our products we would suffer substantial reduction in our sales and would have to make alternative arrangements to distribute our Tropical Fish product in the U.S. and Canada. There can be no assurance that we would be able to replace the services of this distributor on satisfactory terms.

We are subject to concentrated credit risk from our major customer.

We allow our major customer 45 days to pay for each shipment of product we make to them. This represents risk that we would be subject to substantial write-off of our accounts receivable if this customer defaulted on their payment obligations to us.

The recent introduction of our Water\$avr product may result in losses.

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We introduced our WATER\$AVR product in June 2002. We have delivered quantities for testing by potential customers but only one customer has ordered the product for commercial use. This product can achieve success only if it is ordered in substantial quantities by commercial customers who have determined that the water saving benefits of the product exceed the costs of purchase and deployment of the product. We cannot assure that we will receive sufficient orders of this product to achieve profits or cover the additional expenses incurred to manufacture and market this product. We expect to spend \$1,900,000 on WATER\$AVR in 2003.

Our products can be hazardous if not handled, stored and used properly.

HEAT\$AVR is flammable and must be stored properly to avoid fire risk. Additionally, it may injure eyes which are exposed to the concentrated product. Although we label the products to warn of such risks, our sales could be reduced if our products were to be viewed as being dangerous to use or actually been implicated in causing personal injury or property damage, which is not currently the case.

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PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth our directors and officers and their respective ages and positions:

| Name | Age | Position |
|-----------------------|-----|---------------------|
| Daniel B. O'Brien | 46 | President, Director |
| John H. Bientjes | 49 | Director |
| Dr. Robert N. O'Brien | 81 | Director |
| Dale Friend | 47 | Director |

Daniel B. O'Brien has been president and a director of Flexible since August 1998. He has been involved in the swimming pool industry since 1990 when he founded our subsidiary, Flexible Solutions Ltd. which was purchased by Flexible Solutions International, Inc. in August 1998. From 1990 to 1998 Mr. O'Brien was also a teacher at Brentwood College where he was in charge of outdoor education.

John H. Bientjes has been a member of our Board of Directors since February

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2000. Mr. Bientjes has been the manager of the Commercial Aquatic Supplies Division of D.B. Perks & Associates, Ltd., located in Vancouver, British Columbia, a company that markets supplies and equipment to commercial swimming pools which are primarily owned by municipalities. Mr. Bientjes was graduated in 1976 from Simon Fraser University in Vancouver, British Columbia with a Bachelor of Arts Degree in Economics and Commerce.

Dr. Robert N. O'Brien has been a member of the Company's Board of Directors since May 1998. Dr. O'Brien was a Professor of Chemistry at the University of Victoria from 1968 until 1986 at which time he was given the designation of Professor Emeritus. He held various academic positions since 1957 at the University of Alberta, the University of California at Berkley, and the University of Victoria. While teaching, Dr. O'Brien acted as a consultant and served on the British Columbia Research Council from 1968 to 1990. In 1987, Dr. O'Brien founded the Vancouver Island Advanced Technology and Research Association. Dr. O'Brien received his Bachelor of Applied Science in Chemical Engineering from the University of British Columbia in 1951; his Masters of Applied Science in Metallurgical Engineering from the University of British Columbia in 1952; his Ph.D. in Metallurgy from the University of Manchester in 1955; and, was a Post Doctoral Fellow in Pure Chemistry at the University of Ottawa from 1955 through 1957.

Dale Friend was elected a director in December, 2002. She was a Senior Trust Analyst for Alderwoods Group, formerly The Loewen Group from August 2002 to February 2003. She was Advanced Accountant for such firm from 1999 to August 2002. She was with Telus, formerly BC Tel, from 1979 to 1998 in various accounting, auditing and financial planning positions.

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Daniel B. O'Brien and Dr. Robert N. O'Brien are father and son.

Directors are elected annually and hold office until the next annual meeting of our stockholders and until their successors are elected and qualified. The Board has not established any committees. All executive officers are chosen by the board of directors and serve at the board's discretion.

We reimburse directors for any expenses incurred in attending board of directors meetings.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely upon a review of the copies of Forms 3 and 4 and 5 thereto furnished to the Company, or written representations that no annual Form 5 reports were required, the Company believes that all filing requirements under Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") applicable to its directors, officers and any persons holding ten percent (10%) or more of the Company's Common Stock were made with respect to the Company's fiscal year ended December 31, 2002.

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ITEM 10. EXECUTIVE COMPENSATION.

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table sets forth certain information about the compensation paid or accrued to the person who was the Company's chief executive officer during the fiscal year ended December 31, 2002 (the "named executive officer").

| | YEAR | ANNUAL COMPENSATION | | | LONG TERM COMP AWARDS | |
|------------------------------------|------|---------------------|------------|---------------------------------|---------------------------------|----------------------------|
| | | SALARY (\$) | BONUS (\$) | OTHER ANNUAL COMPEN-SATION (\$) | RESTRICTED STOCK AWARD (S) (\$) | SECUR UNDER OPTIO SARS (#) |
| Daniel O'Brien | 2002 | \$40,000 | -- | -- | -- | 50,0 |
| -- | | | | | | |
| President, Chief Executive Officer | 2001 | \$18,500 | -- | -- | | 100,0 |
| | 2000 | \$18,500 | | | | 100,0 |

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The following table provides certain information about the stock options granted to the executive officer named in the Summary Compensation Table. in the year ended December 31, 2002.

OPTIONS GRANTED IN 2002 FISCAL YEAR

| NAME | NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#) | PERCENT OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR | EXERCISE OR BASE PRICE (\$/SHARE) |
|-------------------|---|---|--------------------------------------|
| Daniel B. O'Brien | 50,000 shares | 40.4% | \$4.25 |

The following table sets forth certain information about stock options exercised in 2002 and the value of unexercised stock option held as of December 31, 2002 by the executive officer named in the Summary Compensation Table.

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AGGREGATE OPTION EXERCISES IN 2002 AND YEAR-END OPTION VALUES

| NAME | SHARES ACQUIRED ON EXERCISE (#) | VALUE REALIZED (\$) | NUMBER OF UNEXERCISED OPTIONS AT FY-END (#) | | VALUE |
|-------------------|---------------------------------------|------------------------|--|---------------|----------------------|
| | | | EXERCISABLE | UNEXERCISABLE | MONEY EXERCISABLE |
| Daniel B. O'Brien | 100,000 | \$330,000 | 100,000 | 50,000 | \$205,000 |

DIRECTOR COMPENSATION

We have agreed to issue our directors who are not also employed by the Company options to purchase 5,000 shares of our common stock annually for serving as a director. However, Dr. Robert N. O'Brien will not receive director options in any year in which he receives options for other services. We pay Dr. Robert O'Brien additional options for assisting in research and development and patent prosecution. The amount of such options are determined annually by the Board of Directors with Dr. O'Brien not voting on such matter. In 2002, Dr. O'Brien received the following options for such services and he did not receive director options:

| Option Price | No. of Options | Expiration Date |
|--------------|----------------|-----------------|
| ----- | ----- | ----- |

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\$4.25

25,000

December 31, 2007

Our other outside directors received the following options in 2002:

| Name | Option Price | No. of Options | Expiration Date |
|------------------|--------------|----------------|-------------------|
| ----- | ----- | ----- | ----- |
| John H. Bientjes | \$4.25 | 5,000 | December 31, 2007 |
| Dale Friend | \$4.25 | 5,000 | December 31, 2007 |

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ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table sets forth certain information regarding the beneficial ownership of Common Stock as of March 17, 2003 by (i) each stockholder who is known by the Company to own beneficially more than five percent of the Company's outstanding Common Stock, (ii) each director of the Company, (iii) the Company's executive officers named in the Summary Compensation Table, and (iv) by all executive officers and directors of the Company as a group. The information as to each person or entity has been furnished by such person or group.

Shares Beneficially Owned (1)
Common Stock Percentage

| | | |
|--|-----------|-------|
| Daniel O'Brien(2) (3) | 4,606,000 | 39.3% |
| John H. Bientjes(2) (3) | 40,000 | * |
| Dr. Robert O'Brien(2) (3) | 1,800,000 | 15.4% |
| Dale Friend(2) (3) | -0- | - |
| Sprott Asset Management, Inc.(4) | 1,672,800 | 14.4% |
| PF Water(5) | 678,600 | 5.8% |
| Beat Aschmann(6) | 700,000 | 6.0% |
| All directors and officers as a group (4 persons) | 6,446,000 | 54.7% |

* Less than 2%

(1) Applicable percentage of ownership at March 17, 2003, is based upon 11,621,919 shares of Common Stock outstanding. Beneficial ownership is

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determined in accordance with the rules of the Securities and Exchange Commission and includes voting and investment power with respect to shares shown as beneficially owned. Shares of Common Stock subject to options or warrants currently exercisable or exercisable within 60 days of February 3, 2003, are deemed outstanding for computing the shares and percentage ownership of the person holding such options or warrants, but are not deemed outstanding for computing the percentage ownership of any other person or entity.

(2) Address for this shareholder is 2614 Queenswood Drive, Victoria, BC, V8N 1X5, Canada.

(3) Includes shares which may be acquired on the exercise of stock options as follows.

| Name ---- | No. of Options ----- | Exercise Price ----- | Expiration Date ----- |
|--------------------|-------------------------|-------------------------|--------------------------|
| Daniel O'Brien | 100,000 | \$1.40 | December 21, 2006 |
| John H. Bientjes | 5,000 | \$1.40 | December 21, 2006 |
| Dr. Robert O'Brien | 50,000 | \$1.40 | December 21, 2006 |

Does not include the following shares which may be acquired on the exercise of stock options which are not exercisable until December 31, 2003.

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| Name ---- | No. of Options ----- | Exercise Price ----- | Expiration Date ----- |
|--------------------|-------------------------|-------------------------|--------------------------|
| Daniel O'Brien | 50,000 | \$4.25 | December 31, 2007 |
| John H. Bientjes | 5,000 | \$4.25 | December 31, 2007 |
| Dr. Robert O'Brien | 25,000 | \$4.25 | December 31, 2007 |
| Dale Friend | 5,000 | \$4.25 | December 31, 2007 |

(4) Address for this shareholder is Suite 3450, South Tower, Royal Bank Plaza, Toronto, Ontario, M5J 2J2, Canada.

(5) Formerly known as Pictet Global Sector Fund. Address for this shareholder is Boulevard Georges Favon, Geneva, Switzerland CH-1204.

(6) Address of this shareholder is Laerchenhofweg #3, Bonstetten, Switzerland, CH-8906.

EQUITY COMPENSATION PLAN INFORMATION

The Company issues stock options to purchase common stock the officers, directors, employees and consultants on an individual basis. The Company adopted an Option Granting Plan covering options to be issued December 1, 2001 to December 31, 2002. The plan set guidelines for selecting optionees, option pricing and authorization of issuance. All issuances are required to be approved by the Board of Directors. The following table sets forth information about all of our outstanding options as of December 31, 2002.

| PLAN CATEGORY | NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS A | WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS B | NUM RE FOR EQU (EX REF |
|--|---|---|---------------------------------------|
| EQUITY COMPENSATION PLANS APPROVED BY SECURITY HOLDERS | -0- | - | |
| EQUITY COMPENSATION PLANS NOT APPROVED BY | 3,671,800 | \$3.68 | |

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SECURITY HOLDERS (1)

TOTAL 3,671,800 \$3.68

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ITEM 12. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS.

Our director, Dr. Robert O'Brien, developed our products and has assigned his patent rights to such products to us. We have no agreement with Dr. O'Brien requiring him to conduct any research and development activities for us but we anticipate that any future inventions which may be of interest to us will continue to be assigned to us by Dr. O'Brien, although he has no legal obligation to do so. Dr. O'Brien does not receive any salary or royalties from us for any research and development activities. The Board of Directors does consider such activities undertaken by Dr. O'Brien when it grants stock options to Dr. O'Brien. Dr. O'Brien is a member of the Board of Directors but does not participate in the proceedings of the Board concerning his own stock option grants. See Item 10 above for further information.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K.

| NUMBER | DESCRIPTION |
|--------|--|
| 3.1 | Articles of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.1 to our Registration Statement on Form 10-SB filed February 22, 2000). |
| 3.2 | Bylaws of the Registrant (Incorporated by reference to Exhibit 3.2 to Registrant's Registration Statement on Form SB-2 filed February 22, 2000 |
| 4.1 | Option Granting Plan for Term December 1, 2001 to December 31, 2002 |
| 10.1 | Distribution Agreement dated June 1, 1998 between Flexible Solutions, Ltd. and Heliocol Canada Ltd. (now known as Sunsolar Energy Technologies). Incorporated by reference to Exhibit 10.1 to our Registration Statement on Form 10-SB filed on April 4, 2000. |

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- 10.2 Global Supply and License Agreement between Registrant and Ondeo Nalco Company. (Incorporated by reference to Exhibit 10.2 to Registrant's Registration Statement on Form SB-2 filed March 5, 2003.
- 10.3 Exclusive Distribution Agreement effective September 1, 2002 with Ondeo Nalco Company. (Incorporated by reference to Exhibit 10.3 to Registrant's Registration Statement on Form SB-2 filed March 5, 2003)
- 21 Subsidiaries. (Incorporated by reference to Exhibit 21 to Registrant's Registration Statement on Form SB-2 filed January 22, 2003)
- 99.1 Written statement of chief executive officer.
- 99.2 Written statement of chief financial officer.

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REPORTS ON FORM 8-K

There were no reports filed on Form 8-K during the quarter ended December 31, 2002.

ITEM 14. CONTROLS AND PROCEDURES.

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-14(c). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Within 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Company completed its evaluation.

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SIGNATURES

In accordance with the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Victoria, British Columbia, on March 21, 2003.

FLEXIBLE SOLUTIONS, INC.

/s/ DANIEL B. O'BRIEN

Daniel O'Brien
President

In accordance with the requirements of the Exchange Act, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

| Signature | Title | Date |
|--|---|----------------|
| /s/ DANIEL B. O'BRIEN Daniel B. O'Brien | President and Director (principal executive officer and principal accounting officer) | March 21, 2003 |
| /s/ JOHN H. BIENJES John H. Bienjes | Director | March 21, 2003 |
| /s/ ROBERT N. O'BRIEN Robert N. O'Brien | Director | March 21, 2003 |
| /s/ DALE FRIEND Dale Friend | Director | March 21, 2003 |

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CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Daniel O'Brien, certify that:

1. I have reviewed this annual report on Form 10-KSB of Flexible Solutions International, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed,

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based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

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b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 12, 2003

/s/ DANIEL O'BRIEN

Daniel O'Brien
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Daniel O'Brien, certify that:

1. I have reviewed this annual report on Form 10-KSB of Flexible Solutions International, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible

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for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

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b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 12, 2003

/s/ DANIEL O'BRIEN

Daniel O'Brien
Chief Financial Officer

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EXHIBIT 99.1

WRITTEN STATEMENT OF THE CHIEF EXECUTIVE OFFICER

PURSUANT TO 18 U.S.C. 1350

Solely for the purposes of complying with 18 U.S.C. 1350, I, Daniel O'Brien, the undersigned Chief Executive Officer of Flexible Solutions International, Inc. (the "Company"), hereby certify, based on my knowledge, that the Annual Report on Form 10-KSB of the Company for the year ended December 31, 2002, (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DANIEL O'BRIEN

Daniel O'Brien

March 12, 2003

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EXHIBIT 99.2

WRITTEN STATEMENT OF THE CHIEF FINANCIAL OFFICER

PURSUANT TO 18 U.S.C. 1350

Solely for the purposes of complying with 18 U.S.C. 1350, I, Daniel O'Brien, the undersigned Chief Financial Officer of Flexible Solutions International, Inc. (the "Company"), hereby certify, based on my knowledge, that the Annual report on Form 10-KSB of the Company for the year ended December 31, 2002, (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DANIEL O'BRIEN

Daniel O'Brien

March 12, 2003

FLEXIBLE SOLUTIONS INTERNATIONAL INC.

OPTION GRANTING PLAN FOR THE TERM DECEMBER 1ST 2001 TO DEC 31ST 2002

From time to time it is in the best interests of the Company to grant options to:

1. Directors and Officers
2. Employees
3. Certain consultants not involved in SEC proscribed activities.

The purpose of options in all cases is to:

1. Align the interests of the optionees with those of the Company over time.
2. Provide potential material incentive for effort above and beyond that normally required by a person in that position.
3. Conserve corporate capital by maintaining lower base salaries than might otherwise be reasonable.
4. Ensuring, as much as possible, that consultants regard themselves as part of the ongoing success of the Company and therefore engage more thoroughly.

Method of setting Option Grants:

The Company's standard option agreement is to be used in every case. It is to be modified only as needed for special cases. (Sample Attached)

1. Directors and Officers options will be set annually. The number requested by a director or officer will be proposed to the Board of Directors by the individual. The compensation committee will adjust as they see fit and place the revised numbers in front of the full board for approval. No board member may vote on their personal option grant. The strike price for options is the market close or higher on the day of grant.
2. Employees may be granted options in numbers and at times decided by the CEO. The Board of Directors must approve the grants. No options will be granted with strike prices below the market close on the day of granting unless there is a very exceptional reason.
3. Consultants who meet the criteria enforced by the SEC regarding capital raising, stock sales, promotion and market making can be granted options at times and in numbers decided by the CEO. The board of directors must approve the grants. The strike price of the options must be the market close on the grant date or higher. In rare, unusual situations, the Company may award options to parties who do not meet the requirements set by the SEC. Options granted to these parties will not be registered ever and in the event they are exercised will be issued as restricted shares and subject to all the rules of restricted shares.

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J. H. Bientjes
Director

Robert N.O'Brien
Director

Dan O'Brien
Director and
Officer

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FLEXIBLE SOLUTIONS
INTERNATIONAL INC.

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(U.S. DOLLARS)

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REPORT OF INDEPENDENT CHARTERED ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS
OF FLEXIBLE SOLUTIONS INTERNATIONAL INC.

We have audited the accompanying consolidated balance sheets of Flexible Solutions International Inc. as of December 31, 2002 and 2001 and the consolidated statements of operations, stockholders' equity and cash flows for each of the years ended December 31, 2002, 2001 and 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for each of the years ended December 31, 2002, 2001 and 2000 in conformity with accounting principles generally accepted in the United States of America.

"Pannell Kerr Forster"

Chartered Accountants

Vancouver, Canada
March 12, 2003

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FLEXIBLE SOLUTIONS INTERNATIONAL INC.
 CONSOLIDATED BALANCE SHEETS
 DECEMBER 31
 (U.S. DOLLARS)

| | 2002 |
|--|-------------|
| <hr/> | |
| ASSETS | |
| CURRENT | |
| Cash | \$556,789 |
| Short-term investment (note 14) | 5,062,495 |
| Accounts receivable | 55,222 |
| Income tax recoverable | 118,014 |
| Loan receivable (note 4) | 10,082 |
| Note receivable (note 5) | 0 |
| Inventory | 203,830 |
| Prepaid expenses (note 6) | 87,321 |
| <hr/> | |
| TOTAL CURRENT ASSETS | 6,093,753 |
| PROPERTY AND EQUIPMENT (note 7) | 128,566 |
| INVESTMENT (note 8) | 32,500 |
| <hr/> | |
| TOTAL ASSETS | \$6,254,819 |
| <hr/> | |
| LIABILITIES | |
| CURRENT | |
| Accounts payable | \$53,146 |
| Income tax payable | 0 |
| <hr/> | |
| TOTAL CURRENT LIABILITIES | 53,146 |
| <hr/> | |
| STOCKHOLDERS' EQUITY | |
| CAPITAL STOCK (note 13) | |
| 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 | |
| 11,570,916 and 9,272,816 Common shares | 11,570 |
| CAPITAL IN EXCESS OF PAR VALUE | 9,328,648 |
| SHARE SUBSCRIPTION RECEIVABLE | (16,217) |
| OTHER COMPREHENSIVE LOSS | (21,354) |
| ACCUMULATED DEFICIENCY | (3,100,974) |
| <hr/> | |
| TOTAL STOCKHOLDERS' EQUITY | 6,201,673 |

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TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$6,254,819

See notes to consolidated financial statements.

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FLEXIBLE SOLUTIONS INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31
(U.S. DOLLARS)

| | 2002 | 2001 |
|---|----------------|--------------|
| SALES | \$1,112,192 | \$1,334,273 |
| COST OF SALES, (exclusive of depreciation shown separately below) | 581,422 | 662,807 |
| GROSS PROFIT | 530,770 | 671,466 |
| OPERATING EXPENSES | | |
| Wages (note 12) | 414,885 | 246,955 |
| Consulting (note 12) | 2,736,608 | 66,963 |
| Office | 122,703 | 48,398 |
| Stock promotion and transfer agent fee | 96,954 | 241,573 |
| Rent | 61,126 | 28,978 |
| Subcontracting | 53,837 | 16,630 |
| Professional fees | 53,548 | 23,338 |
| Travel and entertainment | 50,213 | 23,125 |
| Administrative salaries and benefits | 45,312 | 46,639 |
| Currency exchange | 19,180 | (2,368) |
| Shipping | 10,771 | 13,563 |
| Telephone | 9,326 | 5,616 |
| Research | 2,523 | 0 |
| Bad debt expense | 230 | 26,570 |
| Commission | 0 | 1,130 |
| Depreciation | 24,683 | 18,910 |
| | 3,701,899 | 806,020 |
| INCOME (LOSS) BEFORE OTHER ITEMS AND INCOME TAX | (3,171,129) | (134,554) |
| OTHER ITEMS | | |
| Gain on sale of property and equipment | 0 | 863 |
| Interest income | 67,228 | 0 |
| | 67,228 | 863 |
| INCOME (LOSS) BEFORE INCOME TAX | (3,103,901) | (133,691) |
| INCOME TAX (RECOVERY) | (21,456) | 100,264 |
| NET INCOME (LOSS) | \$ (3,082,445) | \$ (233,955) |

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| | | |
|--|-------------------|------------------|
| NET INCOME (LOSS) PER SHARE | \$ (0.29) | \$ (0.03) |
| DILUTED INCOME PER SHARE | N/A | N/A |
| WEIGHTED AVERAGE NUMBER OF SHARES DILUTIVE EFFECTS OF OPTIONS | 10,555,754 N/A | 9,247,949 N/A |
| WEIGHTED AVERAGE NUMBER OF SHARES WITH DILUTION | 10,555,754 | 9,247,949 |

See notes to consolidated financial statements.

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FLEXIBLE SOLUTIONS INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000
(U.S. DOLLARS)

| | Shares | Par Value | Capital in Excess of Par Value | Share Subscription Receivable | Accumulate Earnings (Deficienc |
|---------------------------------------|------------|-----------|--------------------------------------|-------------------------------------|--------------------------------------|
| BALANCE, DECEMBER 31, 1999 | 9,131,316 | \$9,131 | \$163,653 | \$0 | \$76,4 |
| TRANSLATION ADJUSTMENT | 0 | 0 | 0 | 0 | |
| NET INCOME | 0 | 0 | 0 | 0 | 138,9 |
| BALANCE, DECEMBER 31, 2000 | 9,131,316 | 9,131 | 163,653 | 0 | 215,4 |
| SHARES ISSUED | | | | | |
| For cash | 9,500 | 9 | 4,116 | 0 | |
| For services | 132,000 | 132 | 139,868 | 0 | |
| Stock option compensation | 0 | 0 | 256,076 | 0 | |
| Translation adjustment | 0 | 0 | 0 | 0 | |
| Net loss | 0 | 0 | 0 | 0 | (233,95 |
| BALANCE, DECEMBER 31, 2001 | 9,272,816 | 9,272 | 563,713 | 0 | (18,52 |
| SHARES ISSUED | | | | | |
| FOR CASH | | | | | |
| Private placement | 1,828,600 | 1,829 | 5,998,271 | 0 | |
| Exercise of stock options | 439,500 | 439 | 150,686 | 0 | |
| For services | 30,000 | 30 | 44,370 | 0 | |
| Share issue costs | 0 | 0 | (250,000) | 0 | |
| Share subscription | 0 | 0 | 0 | (33,000) | |
| Payment of subscription receivable | 0 | 0 | 0 | 16,783 | |
| Stock option compensation | 0 | 0 | 2,821,608 | 0 | |
| Translation adjustment | 0 | 0 | 0 | 0 | |
| Net loss | 0 | 0 | 0 | 0 | (3,082,44 |
| BALANCE, DECEMBER 31, 2002 | 11,570,916 | \$11,570 | \$9,328,648 | \$(16,217) | \$(3,100,97 |

See notes to consolidated financial statements.

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FLEXIBLE SOLUTIONS INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31
(U.S. DOLLARS)

| | 2002 | 2001 |
|---|--------------------|-----------------|
| OPERATING ACTIVITIES | | |
| Net income (loss) | \$ (3,082,445) | \$ (233,955) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities | | |
| Stock option compensation | 2,821,608 | 256,076 |
| Non-cash services | 44,400 | 141,510 |
| Depreciation | 24,683 | 18,910 |
| Gain on sale of property and equipment | 0 | (863) |
| Changes in Non-Cash Working Capital | | |
| Accounts receivable | (8,848) | 98,009 |
| Inventory | (22,132) | (88,185) |
| Prepaid expenses | (28,030) | (53,140) |
| Accounts payable | 32,554 | 8,170 |
| Accrued liabilities | 0 | 0 |
| Income tax recoverable | (136,122) | (72,490) |
| Unrealized foreign exchange gain/loss | 627 | (10,500) |
| CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | (353,705) | 63,542 |
| INVESTING ACTIVITIES | | |
| Short-term investment | (5,062,495) | 0 |
| Acquisition of property and equipment | (80,496) | (39,246) |
| Note receivable | 9,225 | (9,225) |
| Loan receivable | (566) | (9,516) |
| Investment | (32,500) | 0 |
| CASH USED IN INVESTING ACTIVITIES | (5,166,832) | (57,987) |
| FINANCING ACTIVITIES | | |
| Proceeds from issuance of common stock | 5,868,225 | 4,125 |
| Subscriptions received | 16,783 | 0 |
| CASH PROVIDED BY FINANCING ACTIVITIES | 5,885,008 | 4,125 |

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| | | |
|---|-----------|-----------|
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | 1,861 | (11,503) |
| <hr style="border-top: 1px dashed black;"/> | | |
| INFLOW (OUTFLOW) OF CASH | 366,332 | (1,823) |
| CASH, BEGINNING OF YEAR | 190,457 | 192,280 |
| <hr style="border-top: 1px dashed black;"/> | | |
| CASH, END OF YEAR | \$556,789 | \$190,457 |
| <hr style="border-top: 1px dashed black;"/> | | |
| SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION | | |
| Income taxes paid | \$115,472 | \$85,126 |
| <hr style="border-top: 1px dashed black;"/> | | |
| SUPPLEMENTARY DISCLOSURE OF NON-CASH TRANSACTIONS | | |
| Issue of common stock for service | \$44,400 | \$140,000 |
| Sale of trailer - exchange for rent | \$0 | \$1,510 |
| <hr style="border-top: 1px dashed black;"/> | | |

See notes to consolidated financial statements.

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FLEXIBLE SOLUTIONS INTERNATIONAL INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000
 (U.S. DOLLARS)

1. OPERATIONS AND BASIS OF PRESENTATION

These consolidated financial statements include the accounts of Flexible Solutions International Inc. ("the Company") and its wholly-owned subsidiaries Flexible Solutions Ltd. and WaterSaver Global Solutions Inc. All intercompany balances and transactions are eliminated. The parent company was incorporated May 12, 1998 in the State of Nevada and had no operations until June 30, 1998 as described below.

On June 30, 1998 the Company completed the acquisition of 100% of the shares of Flexible Solutions Ltd. The acquisition was effected through the issuance of 7,000,000 shares of common stock by the Company with the former shareholders of the subsidiary receiving 100% of the total shares then issued and outstanding. The transaction has been accounted for as a reverse take-over.

Flexible Solutions Ltd. is accounted for as the acquiring party and the surviving entity. Because Flexible Solutions Ltd. is the accounting survivor, the consolidated financial statements presented for all periods are those of Flexible Solutions Ltd. The shares issued by Flexible Solutions International Inc. pursuant to the 1998 acquisition have been accounted for as if those shares had been issued upon the organization of Flexible Solutions Ltd.

On May 7, 2002, the Company established WaterSaver Global Solutions Inc. through issuance of 100 shares of common stock to itself.

2. COMPARATIVE FIGURES

Certain of the comparative figures are reclassified to conform with the current year's presentation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency

The functional currency of the Company is the Canadian dollar. The translation of the Canadian dollar to the reporting currency of the U.S. dollar is performed for current assets and current liabilities using exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated using rates prevailing at the time of the acquisition of the assets or assumption of the liabilities. Revenue and expense transactions are translated using average exchange rates prevailing during the year. Translation adjustments arising on conversion of the financial statements from the Company's functional currency, Canadian dollars, into the reporting currency, U.S. dollars, are excluded from the determination of income and disclosed as other comprehensive income (loss) in stockholders' equity.

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

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FLEXIBLE SOLUTIONS INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000
(U.S. DOLLARS)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 future results of operations and cash flows.

(c) Cash

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.

(d) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

(e) Property and equipment

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Property and equipment are recorded at cost and depreciated using the following methods using the following annual rates:

| | |
|-------------------------|---------------------------------|
| Manufacturing equipment | - 20% Declining balance |
| Computer hardware | - 30% Declining balance |
| Furniture and fixtures | - 20% Declining balance |
| Office equipment | - 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.

(f) Revenue recognition

Revenue from product sales is recognized at the time the product is shipped since title and risk of losses is transferred to purchaser upon delivery to carrier. Shipments are made F.O.B. shipping point. Provisions are made at the time related revenue is recognized for estimated product returns. Since the Company's inception, product returns have been insignificant; therefore no provision has been established for estimated product returns.

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FLEXIBLE SOLUTIONS INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000
(U.S. DOLLARS)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial instruments

The fair market value of the Company's financial instruments comprising cash, short-term investment, accounts receivable, income tax recoverable, loan receivable and accounts payable were estimated to approximate their carrying values due to immediate or short-term maturity of these financial instruments.

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

(h) Income (loss) per share calculation

Income (loss) per share is calculated by dividing net income (loss) by the weighted average number of shares outstanding. Common share equivalents consisting of stock options are not considered in the computation because their effect would be anti-dilutive.

(i) Stock issued in exchange for services

The valuation of the common stock issued in exchange for services is valued at an estimated fair market value as determined by officers and directors of the Company based upon

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trading prices of the Company's common stock on the dates of the stock transactions.

(j) Stock based compensation

The Company applies APB Opinion No. 25 and related interpretations in accounting for its employee stock option plans. Compensation expense is recorded when options are granted to management at discounts to market.

(k) 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.

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FLEXIBLE SOLUTIONS INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000
(U.S. DOLLARS)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(1) Recent accounting pronouncements

(i) In June 2001, the Financial Accounting Standards Board (FASB) issued FAS 142, Goodwill and Other Intangible Assets. Under FAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed at least annually for impairment. The amortization provisions of FAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company has adopted FAS 142 effective January 1, 2002. Application of the non-amortization provisions of FAS 142 for goodwill did not have any impact on its financial reporting.

(ii) In October 2001, the FASB issued Statement of Financial Accounting Standards FAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." FAS 144 addresses significant issues relating to the implementation of FAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and develops a single accounting model, based on the framework established in FAS 121 for long-lived assets to be disposed of by sale, whether such assets are or are not deemed to be a business. FAS 144 also modifies the accounting and disclosure rules for discontinued operations. The standard was adopted on January 1, 2002, and did not

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have any impact on the financial statements.

In November 2001, the FASB issued EITF Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for "Out of Pocket" Expenses Incurred." This guidance requires companies to recognize the recovery of reimbursable expenses such as travel costs on service contracts as revenue. These costs are not to be netted as a reduction of cost. This guidance was implemented January 1, 2002. The Company does not expect this guidance to have a material effect on the financial statements.

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FLEXIBLE SOLUTIONS INTERNATIONAL INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000
 (U.S. DOLLARS)

4. LOAN RECEIVABLE

| | |
|----------------------------------|----------|
| | 2002 |
| ----- | |
| 5% loan receivable due on demand | \$10,082 |
| ----- | |

5. NOTE RECEIVABLE

The note receivable had no stated terms of repayment or interest and was received in full during the year 2002.

6. PREPAID EXPENSES

| | |
|---------------------------------|---------|
| | 2002 |
| ----- | |
| Deposits for materials purchase | \$13,57 |
| Security deposit and prepaids | 73,74 |
| ----- | |
| | \$87,32 |
| ----- | |

7. PROPERTY AND EQUIPMENT

| | Cost | 2002 Accumulated Depreciation |
|-------------------------|-----------|-------------------------------------|
| Manufacturing equipment | \$159,885 | \$61,6 |
| Computer hardware | 9,834 | 3,6 |
| Furniture and fixtures | 5,542 | 2,0 |
| Office equipment | 14,690 | 1,7 |
| Leasehold improvements | 10,160 | 2,5 |
| | \$200,111 | \$71,5 |

| | Cost | 2001 Accumulated Depreciation |
|-------------------------|-----------|-------------------------------------|
| Manufacturing equipment | \$110,105 | \$43, |
| Computer hardware | 5,190 | 1, |
| Furniture and fixtures | 3,786 | 1, |
| Office equipment | 534 | |
| | \$119,615 | \$46, |

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FLEXIBLE SOLUTIONS INTERNATIONAL INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000
 (U.S. DOLLARS)

8. INVESTMENT

| | 2002 |
|--|---------|
| Ideal Business Solutions India P.Ltd - 2700 equity shares (10%) | \$32,50 |

The above investment is recorded at cost.

9. COMPREHENSIVE (LOSS) INCOME

| | 2002 | 2001 |
|-------------------|----------------|--------------|
| Net income (loss) | \$ (3,082,445) | \$ (233,955) |

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| | | |
|--------------------------------------|----------------|--------------|
| Other comprehensive income (loss) | 2,488 | (22,003) |
| ----- | | |
| Comprehensive income (loss) | \$ (3,079,957) | \$ (255,958) |
| ----- | | |

10. INCOME TAX

Total income tax expense differs from the amounts computed by applying the combined Canadian federal and provincial statutory rate of 44.62% to income before income taxes. The income to which this is applied is as follows:

| | 2002 | 2001 |
|---|----------------|--------------|
| ----- | | |
| Income (loss) before income tax per entity | | |
| Flexible Solutions International Inc. | \$ (2,866,021) | \$ (396,470) |
| Flexible Solutions Ltd. | (56,264) | 62,779 |
| WaterSaver Global Solutions Inc. | (181,616) | 0 |
| ----- | | |
| Consolidated income (loss) before income tax | (3,103,901) | (133,691) |
| Permanent difference | | |
| Stock option benefit | 2,821,608 | 256,076 |
| Other | | |
| Stock issued for services | 44,400 | 140,000 |
| Miscellaneous | 0 | 394 |
| ----- | | |
| Taxable income (loss) for tax purposes | \$ (237,893) | \$262,779 |
| ----- | | |

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FLEXIBLE SOLUTIONS INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000
(U.S. DOLLARS)

10. INCOME TAX (Continued)

Application of the federal and provincial statutory rate results in the following:

| | 2002 | 2001 |
|---|-------------|-----------|
| ----- | | |
| Expected tax expense (recovery) at statutory rates | | |
| From Canadian operations | \$ (21,456) | \$100,264 |

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| | | |
|--|--------------|-----------|
| From US operations | (84,691) | 16,988 |
| Decrease resulting from manufacturing and processing deduction | 0 | (18,395) |
| Other | 0 | 1,407 |
| ----- | | |
| Income tax expense (recovery) | \$ (106,147) | \$100,264 |
| ----- | | |

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company's deferred tax liability calculated at 35% tax rate consist of the following:

| | |
|-------------------------------------|----------|
| | 2002 |
| ----- | |
| Non-capital loss carry-forwards | \$93,85 |
| Book over tax value of fixed assets | (1,449) |
| Valuation allowance | (92,409) |
| ----- | |

The Company's losses for U.S. income tax purposes are \$268,165 which may be carried forward to apply against future income for U.S. income tax purposes, expiring between 2018 and 2022. The future benefit of these loss carry-forwards has been offset with a full valuation allowance. These losses expire as follows:

Available to

2018
2019
2022

| | Net Income (Loss) (Numerator) | Shares (Denominator) |
|----------------------------|-------------------------------------|-------------------------|
| 2002 | | |
| Basic net loss per share | | |
| Net loss | \$ (3,082,445) | 10,555,754 |
| 2001 | | |
| Basic net loss per share | | |
| Net loss | \$ (233,955) | 9,247,949 |
| 2000 | | |
| Basic net income per share | | |
| Net income | \$138,971 | 9,131,316 |

There were no preferred shares issued and outstanding for the years ended December 31, 2002, 2001 and 2000. The 2002 denominator excludes 3,671,800 shares that may be issued upon exercise of options as to do so would have been anti dilutive for the 2002 per share loss.

12. STOCK OPTIONS

The Company may issue stock options and stock bonuses for common stock of the Company to provide incentives to directors, key employees and other persons who contribute to the success of the Company. The exercise price of the Incentive Options (employees of the Company or its subsidiaries) is not less than the fair market value of the stock at the date of the grant and for non-employees the exercise price is no less than 80% of the fair market value (defined by the most recent closing sale price reported by AMEX) on the date of the grant.

The following table summarizes the Company's stock option activity for the year ended December 31, 2002 and 2001:

| | Number of Shares | Exercise Price Per Share |
|--|---------------------|-----------------------------|
| Balance, December 31, 2000 | 589,000 | \$ 0.25 - \$0.70 |
| Granted during year ended December 31, 2001 | 1,309,000 | \$ 0.25 - \$3.50 |
| Exercised | (9,500) | \$ 0.25 - \$1.00 |
| Balance, December 31, 2001 | 1,888,500 | \$ 0.25 - \$ 3.50 |
| Granted during year ended December 31, 2002 | 2,222,800 | \$ 1.50 - \$ 5.50 |
| Exercised | (439,500) | \$ 0.25 - \$ 1.50 |
| Balance, December 31, 2002 | 3,671,800 | \$ 0.25 - \$ 5.50 |

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000
 (U.S. DOLLARS)

12. STOCK OPTIONS (Continued)

The Company applies APB Opinion No. 25 and related interpretations in accounting for its stock options granted to employees, and accordingly, compensation expense of \$85,000 (2001 - \$173,750) was recognized as wages expense. Had compensation expense been determined as provided in SFAS 123 using Black-Scholes option - pricing model, the pro-forma effect on the Company's net income (loss) and per share amounts would have been as follows:

| | 2002 | 2001 |
|---|----------------|--------------|
| Net income (loss), as reported | \$ (3,082,445) | \$ (233,955) |
| Net income (loss), pro-forma | (3,704,296) | (955,071) |
| Net income (loss) per share, as reported | \$ (0.29) | \$ (0.03) |
| Net income (loss) per share, pro-forma | \$ (0.35) | \$ (0.10) |

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

| | 2002 |
|-----------------------|-------|
| Expected life (years) | 5 |
| Interest rate | 3.00% |
| Volatility | 72.3% |
| Dividend yield | 0.00% |

During the year, the Company granted 2,097,000 (2001 - 51,000) stock options to consultants and have been recognized applying SFAS 123 using the Black-Scholes option pricing model which resulted in additional consulting expense of \$2,736,608 (2001 - \$66,963). Of the 2,097,000 options, 75,000 were granted on December 31, 2002 and have a vesting period of one year, consequently consulting expense related to these options will be recognized during the year ended December 31, 2003.

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FLEXIBLE SOLUTIONS INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000
(U.S. DOLLARS)

13. CAPITAL STOCK

(a) During the year, the Company:

- (i) completed two private placements whereby 400,000 shares of common stock were issued at a price of \$2.50 per share and an additional 1,428,600 shares of common stock were issued at a price of \$3.50 per share to independent third parties;
- (ii) issued 439,500 shares of common stock at prices ranging from \$0.25 to \$1.50 per share upon exercise of stock options;
- (iii) issued 30,000 shares of common stock at a price of \$1.48 per share to a officer in lieu of six months of salary.

(b) The Company is the plaintiff in a lawsuit demanding the return of the share certificate for 100,000 shares of stock originally given to the defendant as payment in advance for services. The services for which the advance was given were never performed or given to the Company, and the Company therefore received no consideration or value for such advance. Return of the share certificate for 100,000 shares was demanded within ten (10) days, namely by August 22, 2001, however, to date remains unreturned.

On date of issue, January 4, 2001, the share transaction was recorded as shares issued for services at fair market value, a value of \$0.80 per share.

14. SHORT-TERM INVESTMENT

Short-term investment consists of a certificate of deposit bearing interest at 4.11% and maturing September 11, 2005. The Company will incur a penalty if principal is withdrawn before maturity date. The amount of penalty equals one half of the remaining days in the terms daily compounded interest on the total amount withdrawn. If the accrued interest is less than the calculated penalty at time of withdrawal, the difference between the penalty and the accrued interest will be deducted from the principal.

15. SEGMENTED AND SIGNIFICANT CUSTOMER INFORMATION

The Company operates in a single segment, involving the development and marketing of two lines of energy and water conservation products.

The first line consists of a liquid swimming pool blanket which saves energy and water by storing evaporation from the pool surface. The second line consists of a food safe powdered form of the active ingredient within the liquid blanket and is designed to be used in still or slow moving drinking water sources.

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FLEXIBLE SOLUTIONS INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000
(U.S. DOLLARS)

15. SEGMENTED AND SIGNIFICANT CUSTOMER INFORMATION (Continued)

The Company's sales in the United States of America and abroad amounted to 4%, 5% and 3% for the years ended December 31, 2002, 2001 and 2000 respectively. The remainder were earned in Canada.

All the Company's long-lived assets are located in Canada.

The Company had one major customer, SunSolar Energy Technologies which comprised 95%, 94% and 96% of total sales for the years ended December 31, 2002, 2001 and 2000 respectively. The Company is exposed to concentrated credit risk with respect to its trade receivables from this customer. It seeks to keep this risk to a minimum by granting only 45 days credit terms to this customer.

16. RELATED PARTY TRANSACTION

A director provides use of space of his residence to conduct administrative duties without reimbursement from the Company.

17. COMMITMENTS

Property and premises leases

The Company is committed to minimum rental payments for property and premises aggregating approximately \$113,800 over the terms of leases expiring September 29, 2003 and November 1, 2005.

Commitments in each of the next three years are approximately as follows:

| | |
|------|----------|
| 2003 | \$78,600 |
| 2004 | 19,200 |
| 2005 | 16,000 |
