FLEXIBLE SOLUTIONS INTERNATIONAL INC
Form 10-K
April 01, 2013

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 2012

OR

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

Commission File No. 001-31540

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	91-1922863 (I.R.S. Employer Identification No.)
615 Discovery Street Victoria, British Columbia, Canada (Address of Principal Executive Office)	V8T 5G4 Zip Code

Registrant's telephone number, including Area Code: (250) 477-9969

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.001 par value	NYSE MKT

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not 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-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act): o Yes þ No

As of June 30, 2012 the aggregate market value of the Company’s common stock held by non-affiliates was $9,646,189 based on the closing price for shares of the Company’s common stock on the NYSE MKT for that date.

As of March 15, 2013, the Company had 13,169,991 issued and outstanding shares of common stock.

Documents incorporated by reference: None

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K for the year ended December 31, 2012 ("Annual Report"), including the Notes to Audited Consolidated Financial Statements, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, those statements relating to development of new products, our financial condition and our ability to increase distribution of our products. Forward-looking statements can be identified by the use of forward-looking terminology, such as "may," "will," "should," "expect," "anticipate," "estimate," "continue," "plans," "intends," or other similar terminology. These forward-looki statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is anticipated or forecasted in these forward-looking statements due to numerous factors, including, but not limited to, our ability to generate or obtain sufficient working capital to continue our operations, changes in demand for our products, the timing of customer orders and deliveries and the impact of competitive products and pricing. In addition, such statements could be affected by general industry and market conditions and growth rates, and general domestic and international economic conditions.

Although we believe that the expectations reflected in these forward-looking statements are reasonable and achievable, such statements involve risks and uncertainties and no assurance can be given that our actual results will be consistent with these forward-looking statements. Except as otherwise required by applicable securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason, after the date of this Annual Report.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

We were incorporated as Flexible Solutions, Ltd., a British Columbia corporation on January 26, 1991. On May 12, 1998, we merged Flexible Solutions Ltd. into Flexible Solutions International, Inc., a Nevada corporation. In connection with this merger, we issued 7,000,000 shares of common stock to the former shareholders of Flexible Solutions Ltd. in exchange for all of the outstanding shares of Flexible Solutions Ltd.

In June 2004 we purchased 52 U.S. and 139 International patents, as well as a 56,780 sq. ft. manufacturing plant near Chicago, Illinois from the bankruptcy estate of Donlar Corporation ("Donlar") for $6.15 million. The patents we acquired from Donlar relate to water-soluble chemicals ("TPAs") which prevent corrosion and scaling in water pipes used in the petroleum, chemical, utility and mining industries. TPAs are also used to enhance fertilizers and improve crop yields and as additives for household laundry detergents, consumer care products and pesticides.

We operate through a number of wholly-owned subsidiaries which are mentioned in Note 1 to the financial statements included as part of this report. Unless otherwise indicated, all references to our business include the operations of these subsidiaries.

In November 2007, we purchased a building and 3.3 acres of land in Taber, Alberta, Canada. The price paid was CDN$1,325,000 and was financed by cash of $660,000 and an interest free mortgage that was paid in June 2008. The building was renovated and now operates as a fermentation facility for the production of aspartic acid, a key ingredient in TPAs. Aspartic acid made in Taber is shipped to our plant in Illinois for finishing.

Our website is www.flexiblesolutions.com

Our Products

HEATSAVR®/ECOSAVR

Our studies indicate that approximately 70% of the energy lost from a swimming pool occurs through water evaporation. HEATSAVR® is a chemical product for use in swimming pools and spas that forms a thin, transparent layer on the water's surface. The transparent layer slows the evaporation of water, allowing the water to retain a higher temperature for a longer period of time and thereby reducing the energy required to maintain the desired temperature of the water. We have received reports from our commercial customers documenting energy savings of between $2,400 to $6,000 per year when using HEATSAVR®.

ECOSAVR® is a patented, disposable dispenser designed for the residential pool and spa market. ECOSAVR® is made of molded plastic in the form of a ten-inch long colorful fish that is filled with enough HEATSAVR® to cover the surface of a 400 sq. ft. swimming pool for about one month. The HEATSAVR® solution inside the ECOSAVR® escapes into the water and rises to the surface to form a transparent layer on the water's surface. Once the ECOSAVR® is empty the dispenser is removed and replaced.

In outdoor pools, the HEATSAVR® also provides convenience compared to pool blankets. Pool blankets are plastic covers, which are cut to the size and shape of the surface of the pool or spa. Pool blankets float on the surface and, like the HEATSAVR®, reduce energy costs by inhibiting water evaporation. However, it is often inconvenient to use conventional pool blankets because a pool blanket must be removed and stored before the pool can be used. Pool blankets do not provide any energy savings when not on the pool. Conversely, HEATSAVR® eliminates the need to install, remove and store the blanket and works 24 hours a day. In addition, the use of HEATSAVR® in an indoor pool results in even greater energy savings since indoor pool locations use energy not only to heat the pool water, but also 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, less energy is required to maintain a pool at the desired temperature and there is a reduced load on the air-conditioning system.

HEATSAVR® retails for between $250 and $300 per four gallon case in the United States. ECOSAVR® has a suggested retail price of $11.99 in the United States. We market our HEATSAVR® and ECOSAVR® products to homeowners with swimming pools and spas as well as operators of swimming pools and spas in hotels, motels, schools, and municipal and private recreational facilities.

We also manufacture and sell products which automatically dispense HEATSAVR® into commercial size swimming pools or spas at the rate of one ounce per 400 sq. ft. of water surface per day.

We have 18 non-exclusive distributorships in Canada and the United States for the sale of bulk HEATSAVR® (without the ECOSAVR® dispenser) and exclusive distributorships in Australia, Chile, Korea, Argentina, South Africa, Taiwan, and parts of Eastern and Western Europe. We support our distributors and seek additional market opportunities by annually attending the major pool industry trade shows in the United States. We also advertise in trade magazines and maintain a website which has information about our products.

WATERSAVR®

This product utilizes our HEATSAVR technology to reduce water evaporation in reservoirs, potable water storage tanks, livestock watering ponds, aqueducts, canals and irrigation ditches. WATERSAVR may also be used for lawn and turf care and potted and bedding plants.

WATERSAVR® is sold in granulated form and can be applied by hand, by fully automated scheduled metering, or by an automatic dispenser.

Tests have indicated that WATERSAVR®:

Reduces daily water evaporation as much as 54%
Reduces monthly water evaporation as much as 37%
Is odorless
Has no effect on invertebrates or vertebrates
Has no anticipated effect on any current drinking water treatment processes and
Is biodegradable

We have one full-time employee and one part-time employee who are involved in the sales and marketing of WATERSAVR®.

WATERSAVR—BTI™

WATERSAVR—BTI™ combines evaporation control with an environmentally friendly method of killing mosquito larvae during the first, second and third stages of development. Combined with our original WATER$AVR® product, WATERSAVR—BTI™ can be quickly and evenly spread across large and small water surfaces where larvae rise to obtain air. Tests conducted by the Entomology Department at the Louisiana State University Agricultural Center showed that the use of WATERSAVR—BTI™ resulted in a 100% kill rate of mosquito larvae in contact with the product.

TPAs (thermal polyaspartate biopolymers)

TPAs for Oilfields. TPAs are used to reduce scale and corrosion in various “topside” water systems. They are used in place of traditional phosphate and other products when biodegradability is required by environmental regulations. We have the ability to custom manufacture TPAs depending on the specific water conditions associated with any oil well.

TPAs for the Agricultural Industry. TPAs have the ability to reduce fertilizer crystallization before, during and after application and can also prevent crystal formation between fertilizer and minerals present in the soil. Once crystallized, fertilizer and soil minerals are not able to provide plant nourishment. As a result, in select conditions the use of TPAs either blended with fertilizer or applied directly to crops can increase yields significantly. TPAs are designated for crop nutrient management programs and should not be confused with crop protection and pesticides or other agricultural chemical applications. Depending on the application, TPA products are marketed under a variety of brands including Amisorb, LYNX, MAGNET, AmGro and VOLT. Markets of significance include potatoes, sugar beets, cotton, tomatoes, almonds and other high value per acre crops.

TPAs for Irrigation. The crystallization prevention ability of TPAs can also be useful in select irrigation conditions. By reducing calcium carbonate scale propagation, TPAs can prevent early plugging of drip irrigation ports, reduce maintenance costs and lengthen the life of equipment. TPAs compete with acid type scale removers, but have the advantage of a positive yield effect on the plant, as well as an easier deployment formulation with liquid fertilizers when used as part of a “fertigation” program. Our TPAs for drip irrigation scale prevention are at an early stage of commercialization and will be marketed and sold through the same channels as TPAs used by the agricultural industry.

TPAs for Detergent. In detergents, TPAs are a biodegradable substitute for poly-acrylic acid. In select markets, the use of this substitute outweighs the added cost of TPAs, which has allowed for the continued growth of this TPA product line. However, to increase penetration of this market beyond specialty detergent manufacturers, we will need to decrease the cost of this product or wait for legislative intervention regarding biodegradability of detergent components. In the meantime, we are researching various methods to reduce production costs.

TPAs for Personal Care Products. TPAs can also be used in shampoo and cosmetic products for increased hydration that improves the feel of the core product to consumers. TPA’s may also be used as an additive to toothpaste with the documented effect of reducing decay bacteria adhesion to tooth enamel and presumed reduction in total decay. We do not currently sell TPAs for use in personal care products.

Competition

HEATSAVR® and ECOSAVR™

We are aware of two other companies that manufacture products that compete with HEATSAVR® and ECOSAVR® and we believe our products are more effective and safer. We maintain fair pricing equal to or lower than our competitors and protect our intellectual property carefully. Our products are expected to maintain or increase market share in the competitive pool market.

HEATSAVR® also competes with plastic pool blanket products. However, we believe that HEATSAVR® is more effective and convenient than pool blankets.

WATERSAVR®

Ultimate Products (Aust) Pty Ltd. of Australia has a product called Aquatain that directly competes with WATERSAVR®. We believe our WATERSAVR® product is superior for the following reasons: it is safer, much less expensive and has much better test data. Aquatain has not expended the capital to test for environmental effects on insects and other aquatic life whereas WATERSAVR® has recognized third party environmental safety documentation.

As water conservation is an important priority throughout the world, numerous researchers are working to develop solutions that may compete with, or be superior to, WATERSAVR.

WATERSAVR—BTI™

Although we are not aware of any direct competition with WATERSAVR—BTI™, the pest control industry is very large and well funded and there are a multitude of alternative methods and materials that can be used for mosquito control. We believe that we will be able to compete by providing an environmentally sensitive product which is less expensive than traditional products.

TPAs

Our TPA products have direct competition with Lanxess AG (spun out of Bayer AG), a German manufacturer of TPAs, which uses a patented process different from ours. We have cross-licensed each other's processes and either company can use either process for the term of the patents involved. We believe that Lanxess has approximately the same production capacity and product costs as we do. We believe that we can compete effectively with Lanxess by offering excellent customer service in oilfield sales, superior distributor support in the agricultural marketplace and flexibility due to our relative size. In addition, we intend to continue to seek market niches that are not the primary targets of Lanxess.

Our TPA products face indirect competition from other chemicals in every market in which we are active. For purposes of oilfield scale prevention, phosphonates, phosphates and molibdonates provide the same effect. For crop enhancement, increased fertilizer levels or reduced concentrations can serve as a substitute for TPAs. In irrigation scale control, acid washes are our prime competitor. In detergent, poly-acrylic acid is most often used due to price advantage. Notwithstanding the above, we believe our competitive advantages include:

Biodegradability compared to competing oil field chemicals;
Cost-effectiveness for crop enhancement compared to increased fertilizer use;

Environmental considerations, ease of formulation and increased crop yield opportunities in irrigation scale markets; and

Biodegradability compared to poly-acrylic acid for detergents.

Manufacturing

Our HEATSAVR® and ECOSAVR® products and dispensers are made from chemicals, plastic and other materials and parts that are readily available from multiple suppliers. We have never experienced any shortage in the availability of raw materials and parts for these products and we do not have any long term supply contracts for any of these items. We manufacture these products in our plant in Taber, Alberta, Canada.

Our WATERSAVR® products are manufactured by a third party. We are not required to purchase any minimum quantity of this product.

Our 56,780 sq. ft. facility in Peru, Illinois manufactures our TPA products. Raw materials for TPA production are sourced from various manufacturers throughout the world and we believe they are available in sufficient quantities for any increase in sales. Raw materials are, however, derived from crude oil and are subject to price fluctuations related to world oil prices.

In November 2007, we purchased a building and 3.3 acres of land in Taber, Alberta, Canada. The price paid was CDN$1,325,000 and was financed by cash of $660,000 and an interest free mortgage that was paid in June 2008. The building operates as a fermentation facility for the production of aspartic acid, a key ingredient in TPAs. Aspartic acid made in Taber is shipped to our plant in Illinois for finishing.

Government Regulations

HEATSAVR® and ECOSAVR®

Chemical products for use in swimming pools are covered by a variety of governmental regulations in all countries where we sell these products. These regulations cover packaging, labeling, and product safety. We believe our products are in compliance with these regulations.

WATERSAVR®

Our WATERSAVR® product is subject to regulation in most countries, particularly for agricultural and drinking water uses. We do not anticipate that governmental regulations will be an impediment to marketing WATERSAVR® because the components in WATERSAVR® have historically been used in agriculture for many years for other purposes. Nevertheless, we will need to obtain approval to sell WATERSAVR® in the United States for agricultural and drinking water uses. We have received National Sanitation Foundation approval for the use of WATERSAVR® in drinking water in the United States.

WATERSAVR—BTI™

As a pesticide, WATERSAVR—BTI™ was approved by the EPA for commercial sale in the United States on November 30, 2005. We began marketing this product commercially in 2006. While EPA approval applies only to registration of the product in the United States, we believe EPA approval may expedite product registration and approval processes in other parts of the world. We will apply for certification in any country where significant markets are identified.

TPAs

In the oil field and agricultural markets we have received government approval for all TPAs currently sold. In the detergent market, there are currently no regulatory requirements for use of TPAs in detergent formulations. For personal care products such as shampoo and toothpaste, there are various regulatory bodies, including the National Sanitation Foundation and the United States Food and Drug Administration, which regulate TPA use. If we begin to market our TPA products for personal care use, we will need to satisfy applicable regulatory requirements.

Proprietary Rights

Our success is dependent, in part, upon our proprietary technology. We rely on a combination of patent, copyright, trademarks, trade secrets and nondisclosure agreements to protect our proprietary technology. We currently hold many U.S. patents and International patents which expire at various dates up to 2032. We also have applied to extend these certain patents to other countries where we operate. There can be no assurance that our foreign patent applications will be granted or that any issued patent will be upheld as valid or prevent the development of competitive products, which may be equivalent to 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.

Research and Development

We spent $68,254 during the year ended December 31, 2012 and $73,200 during year ended December 31, 2011 on research and development. This work relates primarily to the development of our water and energy conservation products, as well as new research in connection with our TPA products.

Employees

As of December 31, 2012 we had 39 employees, including one officer, eleven sales and customer support personnel, and twenty seven manufacturing personnel. None of our employees is represented by a labor union and we have not experienced any work stoppages to date.

ITEM 1A. RISK FACTORS

This Form 10-K contains forward-looking information based on our current expectations. Because our actual results may differ materially from any forward-looking statements made by us, this section includes a discussion of important factors that could affect our future operations and result in a decline in the market price of our common stock.

We have incurred significant operating losses since inception and may not sustain profitability in the future.

We have experienced operating losses and negative cash flow from operations and we currently have an accumulated deficit. If our revenues do not increase, our results of operations and liquidity may be materially adversely affected. If we experience slower than anticipated revenue growth or if our operating expenses exceed our expectations, we may not be profitable. Even if we become profitable in the future, we may not remain profitable.

Fluctuations in our operating results may cause our stock price to decline.

Given the nature of the markets in which we operate, we cannot reliably predict future revenues and profitability. Changes in competitive, market and economic conditions may cause us to adjust our operations. A high proportion of our costs are fixed, due in part to our sales, research and development and manufacturing costs. Thus, small declines in revenue could disproportionately affect our operating results. Factors that may affect our operating results and the market price of our common stock include:

- demand for and market acceptance of our products;
- competitive pressures resulting in lower selling prices;
- adverse changes in the level of economic activity in regions in which we do business;
- adverse changes in the oil and gas industry on which we are particularly dependent;
- changes in the portions of our revenue represented by various products and customers;
- delays or problems in the introduction of new products;
- the announcement or introduction of new products, services or technological innovations by our competitors;
- variations in our product mix;
- the timing and amount of our expenditures in anticipation of future sales;
- increased costs of raw materials or supplies; and
- changes in the volume or timing of product orders.

Our operations are subject to seasonal fluctuation.

The use of our swimming pool products increases in summer months in most markets and results in our sales from January to June being greater than in July through December. Markets for our WATERSAVR® product are also seasonal, depending on the wet versus dry seasons in particular countries. We attempt to sell into a variety of countries with different seasons on both sides of the equator in order to minimize seasonality. Our TPA business is the least seasonal, however there is a small increase in the spring related to inventory building for the crop season in the United States and a small slowdown in December as oilfield customers run down stock in advance of year end, but otherwise, little seasonal variation. We believe we are able to adequately respond to these seasonal fluctuations by reducing or increasing production as needed.

Interruptions in our ability to purchase raw materials and components may adversely affect our profitability.

We purchase certain raw materials and components from third parties pursuant to purchase orders placed from time to time. Because we do not have guaranteed long-term supply arrangements with our suppliers, any material interruption in our ability to purchase necessary raw materials or components could have a material adverse effect on our business, financial condition and results of operations.

Our WATERSAVR® product has not proven to be a revenue producing product and we may never recoup the cost associated with its development.

The marketing efforts of our WATERSAVR® product may result in continued losses. We introduced our WATERSAVR® product in June 2002 and, to date, we have delivered quantities for testing by potential customers, but only a few customers have 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 can offer no assurance 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 $200,000 on the marketing and production of our WATERSAVR® product in fiscal 2013.

If we do not introduce new products in a timely manner, our products could become obsolete and our operating results would suffer.

Without the timely introduction of new products and enhancements, our products could become obsolete over time, in which case our revenue and operating results would suffer. The success of our new product offerings will depend upon several factors, including our ability to:

accurately anticipate customer needs;

innovate and develop new products and applications;

successfully commercialize new products in a timely manner;

price our products competitively and manufacture and deliver our products in sufficient volumes and on time; and

differentiate our products from our competitors' products.

In developing any new product, we may be required to make a substantial investment before we can determine the commercial viability of the new product. If we fail to accurately foresee our customers' needs and future activities, we may invest heavily in research and development of products that do not lead to significant revenues.

We are dependent upon certain customers.

Among our current customers, we have identified six that are sizable enough that the loss of any one would be significant. Any loss of one or more of these customers could result in a substantial reduction in our revenues.

Economic, political and other risks associated with international sales and operations could adversely affect our sales.

Revenues from shipments made outside of the United States accounted for approximately 73% of our revenues in the year ended December 31, 2012, 73% in the year ended December 31, 2011 and 79% in the year ended December 31, 2010. Since we sell our products worldwide, our business is subject to risks associated with doing business internationally. We anticipate that revenues from international operations will continue to represent a sizable portion of our total revenue. Accordingly, our future results could be harmed by a variety of factors, including:

changes in foreign currency exchange rates;

changes in a country or region's political or economic conditions, particularly in developing or emerging markets;

longer payment cycles of foreign customers and difficulty of collecting receivables in foreign jurisdictions;

trade protection measures and import or export licensing requirements;

differing tax laws and changes in those laws;

difficulty in staffing and managing widespread operations;

differing laws regarding protection of intellectual property; and

differing regulatory requirements and changes in those requirements.

We are subject to credit risk and may be subject to substantial write-offs if one or more of our significant customers default on their payment obligations to us.

We currently allow our major customers between 30 and 45 days to pay for each sale. This practice, while customary, presents an accounts receivable write-off risk in that if one or more of our significant customers defaulted on their payment obligations to us, such write-off, if substantial, would have a material adverse effect on our business and results of operations.

Our products can be hazardous if not handled, stored and used properly; litigation related to the handling, storage and safety of our products would have a material adverse effect on our business and results of operations.

Some of our products are flammable and must be stored properly to avoid fire risk. Additionally, some of our products may cause irritation to a person's eyes if they are exposed to the concentrated product. Although we label our products to warn of such risks, our sales could be reduced if our products were considered dangerous to use or if they are implicated in causing personal injury or property damage. We are not currently aware of any circumstances in which our products have caused harm or property damage to consumers. Nevertheless, litigation regarding the handling, storage and safety of our products would have a material adverse effect on our business and results of operations.

Our failure to comply with environmental regulations may create significant environmental liabilities and force us to modify our manufacturing processes.

We are subject to various federal, state and local environmental laws, ordinances and regulations relating to the use, storage, handling and disposal of chemicals. Under such laws, we may become liable for the costs of removal or remediation of these substances that have been used by our consumers or in our operations. Such laws may impose liability without regard to whether we knew of, or caused, the release of such substances. Any failure by us to comply with present or future regulations could subject us to substantial fines, suspension of production, alteration of manufacturing processes or cessation of operations, any of which could have a material adverse effect on our business, financial condition and results of operations.

Our failure to protect our intellectual property could impair our competitive position.

While we own certain patents and trademarks, some aspects of our business cannot be protected by patents or trademarks. Accordingly, in these areas there are few legal barriers that prevent potential competitors from copying certain of our products, processes and technologies or from otherwise entering into operations in direct competition with us. In particular, we have been informed that our former exclusive agent for the sale of our products in North America is now competing with us in the swimming pool and personal spa markets. As a former distributor, they were given access to many of our sales, marketing and manufacturing techniques.

Our products may infringe on the intellectual property rights of others, and resulting claims against us could be costly and prevent us from making or selling certain products.

Third parties may seek to claim that our products and operations infringe their patent or other intellectual property rights. We may incur significant expense in any legal proceedings to protect our proprietary rights or to defend infringement claims by third parties. In addition, claims of third parties against us could result in awards of substantial damages or court orders that could effectively prevent us from making, using or selling our products in the United States or abroad.

A claim for damages could materially and adversely affect our financial condition and results of operations.

Our business exposes us to potential product liability risks, particularly with respect to our consumer swimming pool and consumer TPA products. There are many factors beyond our control that could lead to liability claims, including the failure of our products to work properly and the chance that consumers will use our products incorrectly or for purposes for which they were not intended. There can be no assurance that the amount of product liability insurance that we carry will be sufficient to protect us from product liability claims. A product liability claim in excess of the amount of insurance we carry could have a material adverse effect on our business, financial condition and results of operations.

Our ongoing success is dependent upon the continued availability of certain key employees.

Our business would be adversely affected if the services of Daniel B. O’Brien ceased to be available to us because we currently do not have any other employee with an equivalent level of expertise in and knowledge of our industry. If Mr. O’Brien no longer served as our President and Chief Executive Officer, we would have to recruit one or more new executives, with no real assurance that we would be able to engage a replacement executive with the required skills on satisfactory terms. The market for skilled employees is highly competitive, especially for employees in the fields in which we operate. While our compensation programs are intended to attract and retain qualified employees, there can be no assurance that we will be able to retain the services of all our key employees or a sufficient number to execute our plans, nor can there be any assurances that we will be able to continue to attract new employees as required.

11

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

We lease 4,300 sq. ft. in Victoria, British Columbia for administration and sales and research at $6,639 per month, effective to June 2014, as well as 7,000 sq. ft. in Bedford Park, Illinois for offices and laboratories at a cost of $7,563 per month with a year to year lease. We own a 56,780 sq. ft. facility in Peru, Illinois which is used to manufacture our TPA line of products as well as a building and 3.3 acres of land in Taber, Alberta, Canada. Our building in Taber has been renovated and operates as a fermentation facility for the production of aspartic acid, a key ingredient in TPAs. Aspartic acid made in Taber is shipped to Illinois for finishing as well as for manufacturing our swimming pool products.

ITEM 3. LEGAL PROCEEDINGS.

On June 29, 2011, WaterSavr Singapore Pte. Ltd., a former distributor of our WATERSAVR product, initiated an arbitration proceeding with the American Arbitration Association in New York, NY asserting multiple claims. On November 5, 2012, we received written notice from the International Center for Dispute Resolution of the American Arbitration Association (“AAA”) that it has terminated the proceedings initiated by WaterSavr Singapore Pte Ltd against us. This proceeding was terminated without any liability on our part.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASE OF EQUITY SECURITIES.

Our common stock is traded on the NYSE MKT under the symbol "FSI". The following is the range of high and low closing prices for our common stock for the periods indicated:

		High	Low
Year Ended December 31, 2012	First Quarter	$2.61	$1.97
	Second Quarter	2.45	1.21
	Third Quarter	1.45	1.07
	Fourth Quarter	1.72	1.02
		High	Low
Year Ended December 31, 2011	First Quarter	$1.59	$1.22
	Second Quarter	2.85	1.50
	Third Quarter	3.39	2.31
	Fourth Quarter	3.20	2.07

As of December 31, 2012 we had approximately 1,700 shareholders.

Our common stock also trades on the Frankfurt stock exchange under the symbol "FXT."

We have not paid any dividends on our common stock and it is not anticipated that any dividends will be paid in the foreseeable future. Our board of directors intends to follow a policy of retaining earnings, if any, to finance our growth. The declaration and payment of dividends in the future will be determined by our directors in light of conditions then existing, including our earnings, financial condition, capital requirements and other factors.

On February 16, 2011 we repurchased and cancelled 792,576 shares of common stock for $1.30 per share, for a total of $1,030,349. None of our officers or directors, nor any of our principal shareholders purchased, on our behalf, any shares of our common stock from third parties either in a private transaction or as a result of purchases in the open market during the years ended December 31, 2011 and 2012.

As of March 15, 2013 we had 13,169,991 outstanding shares of common stock. The following table lists additional shares of our common stock, including shares issuable upon the exercise of options which have not yet vested, which may be issued as of March 15, 2013:

	Number Of Shares	Note Reference
Shares issuable upon exercise of options granted to our officers, directors, employees, consultants, and third parties	1,114,000	A

A. Options are exercisable at prices ranging from $1.21 to $2.45 per share. See Item 11 of this report for more information concerning these options.

ITEM 6. SELECTED FINANCIAL DATA.

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.

Results of Operations

We have two product lines.

The first is a chemical ("EWCP") used in swimming pools and spas. The product forms a thin, transparent layer on the water's surface. The transparent layer slows the evaporation of water, allowing the water to retain a higher temperature for a longer period of time thereby reducing the energy required to maintain the desired temperature of the water. A modified version of EWCP can also be used in reservoirs, potable water storage tanks, livestock watering pods, canals, and irrigation ditches for the purpose of reducing evaporation.

The second product, biodegradable polymers ("TPAs"), is used by the petroleum, chemical, utility and mining industries to prevent corrosion and scaling in water piping. TPAs can also be used to increase biodegradability in detergents and in the agriculture industry to increase crop yields by enhancing fertilizer uptake.

Our US subsidiaries have normally generated income and paid income taxes on its profits. However, our Canadian subsidiaries normally generate losses. The losses of our Canadian subsidiary cannot be used to reduce any taxes payable by our US subsidiaries. As a result, and since for financial reporting purposes the operating results of the US and Canadian subsidiaries are consolidated, the income tax expense (benefit) shown in our statements of operations reflects the combine income tax (benefit) of the subsidiaries.

Material changes in our Statement of Operations for the periods presented are discussed below:

Year Ended December 31, 2012

Item	Increase (I) or Decrease (D)	Reason
Sales		
EWCP products	D	Increased orders in the previous periods contributed to decreased orders in this period.
BPCA products	I	Increased sales across all market verticals due to increased success in sales activity.
Gross Profit, as a % of sales	D	Start of production at Taber plant increased depreciation; high oil prices increased aspartic acid costs.

Wages	D	Normal employee attrition replaced by temporary workers.
Administrative salaries and benefits	I	Increased sales.
Insurance	I	Increased sales.
Consulting	I	Temporary workers were used to replace normal employee attrition.
Professional fess	I	Legal costs to protect our intellectual property have increased due to new patent filings and cost of arbitration proceeding.
Commissions	I	Increased sales for the period resulted in higher commissions.

Capital Resources and Liquidity

Our material sources and <uses> of cash during the year ended December 31, 2012 were:

Cash used by operations	$(305,840)
Equipment purchases, primarily related to our new facility in Alberta, Canada	(96,721)
Borrowing from short term line of credit	555,000
Repayment of loans	(293,397)
Exchange rate changes	(4,078)
Cash on hand at beginning of period	145,036

Our material sources and <uses> of cash during the year ended December 31, 2011 were:

Cash used by operations	$(798,800)
Equipment purchases, primarily related to our new facility in Alberta, Canada	(794,848)
Borrowing from short term line of credit	650,000
Repayment of loans	(309,056)
Repurchase of common stock	(1,030,349)
Exchange rate changes	26,536
Cash on hand at beginning of period	2,256,517

In 2007, we began construction of a plant in Taber Alberta. The plant is being used to manufacture aspartic acid which is the major component of TPAs. Previously, we bought aspartic acid from China where the base raw material is oil. Our plant in Taber uses sugar as the base raw material. Although we expect that we will still import some aspartic acid from China, using aspartic acid manufactured by our plant from sugar will reduce our raw material costs, reduce price fluctuations generated by oil prices and reduce shipping costs.

We have sufficient cash resources to meets our future commitments and cash flow requirements for the coming year. As of December 31, 2012 our working capital was $3,489,827 and we have no substantial commitments that require significant outlays of cash over the coming fiscal year.

We are committed to minimum rental payments for property and premises aggregating approximately $203,259 over the term of two leases, the last expiring on July 31, 2014.

Commitments in each of the next five years are as follows:

2013	$155,295
2014	$47,964

Other than as disclosed above, we do not anticipate any material capital requirements for the twelve months ending December 31, 2013.

Other than as disclosed in this report, we do not know of any trends, demands, commitments, events or uncertainties that will result in, or that are reasonable likely to result in, our liquidity increasing or decreasing in any material way.

Other than as disclosed in this report, we do not know of any significant changes in our expected sources and uses of cash.

We do not have any commitments or arrangements from any person to provide us with any equity capital.

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

Critical Accounting Policies And Estimates

Allowances for Product Returns. We 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 a customer deteriorates resulting in an impairment of its ability to pay or a pattern of late payment develops, an allowance 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.

Recent Accounting Pronouncements

We have evaluated recent accounting pronouncements issued since January 1, 2012 and determined that the adoption of this recent accounting pronouncements will not have a material effect on our financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

FLEXIBLE SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Report of Independent Registered Public Accounting Firm, MNP LLP	F-1
Consolidated Balance Sheets as of December 31, 2012 and 2011	F-2
Consolidated Statements of Operations and Comprehensive Income (Loss) for the Years Ended December 31, 2012 and 2011	F-3
Consolidated Statements of Cash Flows for the Years Ended December 31, 2012 and 2011	F-4
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2012 and 2011	F-5
Notes to Consolidated Financial Statements	F-6

Back to Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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. (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the two year period ended December 31, 2012. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the years in the two period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

Vancouver, Canada
April 1, 2013

MNP LLP, Chartered Accountants

ACCOUNTING › CONSULTING › TAX
2300, 1055 DUNSMUIR STREET, BOX 49148,
VANCOUVER, BC V7X 1J1
1.877.688.8408 P: 604.685.8408 F:
604.685.8594 mnp.ca

Back to Table of Contents

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
Consolidated Balance Sheets
As at December 31
(U.S. Dollars)

	2012	2011
Assets		
Current		
Cash and cash equivalents	$361,867	$506,903
Accounts receivable (see Note 3)	2,199,359	2,332,019
Inventories (see Note 4)	3,361,760	2,890,511
Prepaid expenses	127,009	135,361
Total current assets	6,049,995	5,864,794
Property, equipment and leaseholds, net (see Note 5)	7,185,730	8,205,514
Patents (see Note 6)	200,512	208,206
Long term deposits (see Note 7)	7,893	7,733
Deferred tax asset (see Note 10)	292,111	219,000
Total Assets	$13,736,241	$14,505,247
Liabilities		
Current		
Accounts payable and accrued liabilities	$677,969	$514,890
Deferred revenue	312,556	312,392
Income taxes payable	45,998	437,998
Short term line of credit (Note 8)	1,205,000	650,000
Current portion of long term debt (see Note 9)	318,644	329,389
Total current liabilities	2,560,167	2,244,669
Long term debt (see Note 9)	1,407,406	1,647,603
Total liabilities	3,967,573	3,892,272
Stockholders' Equity		
Capital stock (see 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:		
13,169,991 (2011: 13,169,991) common shares	13,170	13,170
Capital in excess of par value	16,006,798	15,864,348
Other comprehensive income	574,829	477,139
Accumulated Deficit	(6,826,129)	(5,741,682)
Total Stockholders' Equity	9,768,668	10,612,975
Total Liabilities and Stockholders' Equity	$13,736,241	$14,505,247

Commitments, Contingencies and Subsequent events	(See Notes 15 and 16)

See Notes to Consolidated Financial Statements.

Back to Table of Contents

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
Consolidated Statements of Operations and Comprehensive Income (Loss)
For the Years Ended December 31
(U.S. Dollars)

	2012	2011
Sales	$16,400,107	$15,518,635
Cost of sales	11,127,742	9,663,189
Gross profit	5,272,365	5,855,446
Operating Expenses		
Wages	1,729,768	1,767,078
Administrative salaries and benefits	792,927	362,807
Advertising and promotion	63,884	105,621
Investor relations and transfer agent fee	224,873	200,789
Office and miscellaneous	504,312	484,899
Insurance	288,727	256,654
Interest expense	128,407	95,749
Rent	182,056	184,473
Consulting	296,643	133,602
Professional fees	523,057	410,926
Travel	142,139	136,597
Telecommunications	30,605	35,912
Shipping	39,301	35,252
Research	68,254	73,200
Commissions	166,855	139,215
Bad debt expense	(319)	-
Currency exchange	(9,695)	9,409
Utilities	134,637	114,800
Total operating expenses	5,306,431	4,546,983
Operating income	(34,066)	1,308,463
Gain on sale of equipment	2,217	-
Interest income	759	159
Income before income tax	(31,090)	1,308,622
Income taxes (Note 10)		
Deferred income tax recovery	73,111	20,000
Income tax expense	(1,126,468)	(1,145,632)
Net income (loss) for the year	$(1,084,447)	$182,990
Other comprehensive income (loss)	97,690	(77,726)
Comprehensive income (loss)	(986,757)	105,264
Earnings (loss) per share (basic and diluted)	$(0.08)	$0.01

Weighted average number of common shares (basic)	13,169,991	13,272,049
Weighted average number of common shares (diluted)	13,169,991	13,478,009

See Notes to Consolidated Financial Statements.

Back to Table of Contents

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
Consolidated Statements of Cash Flows
For Years Ended December 31
(U.S. Dollars)

	2012	2011
Operating activities		
Net income (loss)	$(1,084,448)	$182,990
Adjustments to reconcile net loss to net cash:		
Stock based compensation	142,450	255,773
Depreciation	1,257,644	330,423
Deferred tax recovery	(73,111)	(20,000)
Changes in non-cash working capital items:		
(Increase) Decrease in accounts receivable	135,462	(1,138,262)
(Increase) Decrease in inventories	(459,250)	(363,860)
(Increase) Decrease in prepaid expenses	9,745	55,538
Increase (Decrease) in accounts payable	157,668	18,031
Increase (Decrease) in taxes payable	(392,000)	(182,002)
Increase (Decrease) deferred revenue	-	62,569
Cash provided by (used in) operating activities	(305,840)	(798,800)
Investing activities		
Proceeds from disposal of long term deposits	-	-
(Increase) Decrease in development of patents	-	-
Acquisition of equipment	(96,721)	(794,848)
Cash provided by (used in) investing activities	(96,721)	(794,848)
Financing activities		
Proceeds from short term line of credit	555,000	650,000
Proceeds from long-term debt	(293,397)	(309,056)
Proceeds from sale of common stock	-	(1,030,349)
Cash provided by (used in) financing activities	261,603	(689,405)
Effect of exchange rate changes on cash	(4,078)	26,536
Inflow (outflow) of cash	(145,036)	(2,256,517)
Cash and cash equivalents, beginning	506,903	2,763,420
Cash and cash equivalents, ending	$361,867	$506,903
Supplemental disclosure of cash flow information:		
Income taxes paid	1,523,567	1,330,000
Interest paid	128,407	95,749

See Notes to Consolidated Financial Statements.

F-4

Back to Table of Contents

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
Consolidated Statements of Stockholders' Equity
For the Years Ended December 31, 2012 and 2011
(U.S. Dollars)

	Shares	Par Value	Capital in Excess of Par Value	Accumulated Earnings (Deficiency)	Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance December 31, 2010	13,962,567	$13,963	$16,638,227	$ (5,924,671)	$ 554,865	$11,282,384
Translation adjustment	—	—	—	—	(77,726)	(77,726)
Net loss	—	—	—	182,990	—	182,990
Comprehensive income	—	—	—	—	—	105,264
Shares issued:						
Repurchase of share	(792,576)	(793)	(1,029,556)	—	—	(1,030,349)
Stock-based compensation	—	—	255,677	—	—	255,667
Balance December 31, 2011	13,169,991	$13,170	$15,864,348	$ (5,741,681)	$ 477,139	$10,612,976
Translation adjustment	—	—	—	—	97,690	97,690
Net income	—	—	—	(1,084,448)	—	(1,084,448)
Comprehensive income	—	—	—	—	—	(986,757)
Stock-based compensation	—	—	142,450	—	—	142,450
Balance December 31, 2012	13,169,991	$13,170	$16,006,798	$ (6,826,129)	$ 574,829	$9,768,668

See Notes to Consolidated Financial Statements.

Back to Table of Contents

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011
(U.S. Dollars)

1. BASIS OF PRESENTATION.

These consolidated financial statements include the accounts of Flexible Solutions International, Inc. (the "Company"), and its wholly-owned subsidiaries Flexible Fermentation Ltd. ("Flexible Ltd."), NanoChem Solutions Inc. ("NanoChem"), Flexible Solutions Ltd., Flexible Biomass LP, and FS Biomass Inc. All inter-company balances and transactions have been eliminated. The company was incorporated May 12, 1998 in the State of Nevada and had no operations until June 30, 1998.

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

2. SIGNIFICANT ACCOUNTING POLICIES.

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

(a) Cash and Cash Equivalents.

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

(b) Inventories and Cost of Sales

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

(c) Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts when management estimates collectibility to be uncertain. Accounts receivable are continually reviewed to determine which, if any, accounts are doubtful of collection. In making the determination of the appropriate allowance amount, the Company considers current economic and industry

conditions, relationships with each significant customer, overall customer credit-worthiness and historical experience.

Back to Table of Contents

(d) Property, Equipment and Leaseholds.

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

Computer hardware	30% Declining balance
Automobile	30% Declining balance
Furniture and fixtures	20% Declining balance
Manufacturing equipment	20% Declining balance
Office equipment	20% Declining balance
Building and improvements	10% 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.

Costs capitalized on self-constructed assets, classified as plant under construction, include contracted costs and supplies, but not capitalized interest costs. The Company has commenced depreciating its plant as construction has been completed and the plant is in use.

(e) Impairment of Long-Lived Assets.

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

(f) Foreign Currency.

The functional currency of one of the Company’s subsidiaries is the Canadian Dollar. The translation of the Canadian Dollar to the reporting currency of the U.S. Dollar is performed for assets and liabilities using exchange rates in effect at the balance sheet date. Revenue and expense transactions are translated using average exchange rates prevailing during the year. Translation adjustments arising on conversion of the financial statements from the subsidiary’s functional currency, Canadian Dollars, into the reporting currency, U.S. Dollars, are excluded from the determination of income (loss) and are disclosed as other comprehensive income (loss) in the Statement of Comprehensive Income.

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

Back to Table of Contents

(g) Revenue Recognition.

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

Provisions are made at the time the 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.

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

(h) Stock Issued in Exchange for Services.

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

(i) Stock-based Compensation.

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

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

(j) Comprehensive Income.

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

(k) Income (loss) Per Share.

Basic earnings (loss) per share is computed by dividing income (loss) available to common stockholders by the weighted average number of common shares outstanding in the period. Diluted earnings (loss) per share are calculated giving effect to the potential dilution of the exercise of options and warrants. Common equivalent shares, composed of incremental common shares issuable upon the exercise of stock options and warrants are included in

diluted net income per share to the extent that these shares are dilutive. Common equivalent shares that have an anti-dilutive effect on net income per share have been excluded from the calculation of diluted weighted average shares outstanding for the years ended December 31, 2012 and 2011.

Back to Table of Contents

(l) Use of Estimates.

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

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

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

(m) Financial Instruments.

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

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

(n) Fair Value of Financial Instruments

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

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs described below, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

Back to Table of Contents

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

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

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

The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and short term line of credit for all periods presented approximate their respective carrying amounts due to the short term nature of these financial instruments. Long term debt relates to borrowings from governmental entities and as such no interest has been imputed on the non-interest bearing loan.

(o) Contingencies

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

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

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

(p) Income Taxes

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

Per FASB ASC 740 “Income taxes” under the liability method, it is the Company’s policy to provide for uncertain tax positions and the related interest and penalties based upon management’s assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. At December 31, 2012, the Company believes it has appropriately accounted for any unrecognized tax benefits. To the extent the Company prevails in matters for which a liability for an unrecognized benefit is established or is required to pay amounts in excess of the liability, the

Company’s effective tax rate in a given financial statement period may be affected. Interest and penalties associated with the Company’s tax positions are recorded as Interest Expense.

Back to Table of Contents

(q) Risk Management

The Company's credit risk is primarily attributable to its account receivables. The amounts presented in the accompanying consolidated balance sheets are net of allowances for doubtful accounts, estimated by the Company's management based on prior experience and the current economic environment. The Company is exposed to credit-related losses in the event of non-performance by counterparties to the financial instruments. Credit exposure is minimized by dealing with only credit worthy counterparties. Accounts receivable for the Company's three primary customers totaled $1,648,428 (75%) at December 31, 2012 (2011 - $1,696,526 or 73%).

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

The Company is not exposed to significant interest rate risk to the extent that the long term debt maintained from the foreign government agencies is subject to a fixed rate of interest.

In order to manage its exposure to foreign exchange risks, the Company is closely monitoring the fluctuations in the foreign currency exchange rates and the impact on the value of cash and cash equivalents, accounts receivable, and accounts payable.

(r) Recent Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board ("FASB") amended its goodwill guidance by providing entities an option to use a qualitative approach to test goodwill for impairment. An entity will be able to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. The amendment will be effective for the Company on January 1, 2012. The Company does not anticipate that this amendment will have a material impact on its financial position or results of operations.

In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04 Fair Value Measurement (Topic 820) — Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs (ASU No. 2011-04) which will supersede most of the accounting guidance currently found in Topic 820 of FASB's ASC. The amendments will improve comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and International Financial Reporting Standards (IFRS). The amendments also clarify the application of existing fair value measurement requirements. These amendments include (1) the application of the highest and best use and valuation premise concepts, (2) measuring the fair value of an instrument classified in a reporting entity's shareholders' equity and (3) disclosing quantitative information about the unobservable inputs used within the Level 3 hierarchy. The guidance is effective for the Company's interim and annual periods beginning after December 15, 2011 and will be applied prospectively. The Company does not anticipate that this amendment will have a material impact on its financial position or results of operations.

Back to Table of Contents

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220) — Presentation of Comprehensive Income (ASU No. 2011-05) which eliminates the option to present the components of other comprehensive income as part of the statement of stockholders' equity. The amendments require that all non-owner changes in stockholders' equity must be presented in a single continuous statement of comprehensive income or in two separate but consecutive statements. Regardless of whether an entity chooses to present comprehensive income in a single continuous statement or in two separate but consecutive statements the entity is required to present on the face of the consolidated financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. The guidance is effective for the Company's interim and annual periods beginning after December 15, 2011 and will be applied prospectively. The Company does not anticipate that this amendment will have a material impact on its financial position or results of operations.

3. ACCOUNTS RECEIVABLE

	2012	2011
Accounts receivable	$ 2,212,448	$ 2,345,211
Allowances for doubtful accounts	(13,089)	(13,192)
	$ 2,199,359	$ 2,332,019

The Company has pledged $69,410 (2011 - $210,923) of the above listed accounts receivable as collateral for the Flexible Solutions Ltd. loan from AFSC (see Note 9b)

4. INVENTORIES

	2012	2011
Completed goods	$ 1,740,186	$ 1,702,842
Work in progress	31,593	20,317
Raw materials	1,589,981	1,167,352
	$ 3,361,760	$ 2,890,511

The Company has pledged $487,903 (2011 - $558,747) of the above listed inventories as collateral for the Flexible Solutions Ltd. loan from AFSC (see Note 9b)

Back to Table of Contents

5. PROPERTY, EQUIPMENT AND LEASEHOLDS

	2012 Cost	Accumulated Depreciation	2012 Net
Buildings	$ 5,372,327	$ 2,122,396	$ 3,249,931
Computer hardware	106,457	88,811	17,646
Furniture and fixtures	28,385	22,155	6,230
Office equipment	23,946	20,795	3,151
Manufacturing equipment	6,039,836	2,725,324	3,314,512
Trailer	17,353	13,930	3,423
Technology	137,308	27,461	109,847
Truck	11,951	9,512	2,439
Land	478,551	—	478,551
	$ 12,216,114	$ 5,030,384	$ 7,185,730

	2011 Cost	Accumulated Depreciation	2011 Net
Buildings	$ 3,216,859	$ 1,731,782	$ 1,485,077
Plant under construction and equipment	5,520,598	—	5,520,598
Computer hardware	103,614	80,475	23,139
Furniture and fixtures	27,953	20,268	7,685
Office equipment	23,427	19,573	3,854
Manufacturing equipment	2,447,864	1,900,110	547,754
Trailer	27,447	20,260	7,187
Technology	134,327	—	134,327
Truck	11,691	8,283	3,408
Land	472,485	—	472,485
	$ 11,986,265	$ 3,780,751	$ 8,205,514

Amount of depreciation expense for 2012: $1,256,238 (2011: $330,939)

The following capitalized costs pertaining to the Company’s new plant in Taber, Alberta are classified as Plant Under Construction and Equipment at December 31, 2011 and included contracted costs and supplies. The Company began depreciating the Plant and Equipment as of January 1, 2012.

	December 31, 2011 Cost
Building	$ 1,040,078
Building improvements	1,068,606
Manufacturing equipment	3,411,914
	$ 5,520,598

Back to Table of Contents

The following carrying amount of property, equipment and leaseholds held by Flexible Solutions Ltd. serves as collateral for the AFSC loan (see Note 9b):

Land	$273,458
Building	927,117
Building improvements	983,083
Manufacturing equipment	2,903,462
Trailer	3,422
Truck	2,439
Technology	109,846

6. PATENTS

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

Of the patent costs listed below, $79,558 (2011 - $77,844) are not subject to amortization as at December 31, 2012, as the patents are still in the process of being approved.

	2012 Cost	Accumulated Amortization	2012 Net
Patents	$ 266,451	$ 65,939	$ 200,512

	2011 Cost	Accumulated Amortization	2011 Net
Patents	$ 260,680	$ 52,474	$ 208,206

Increase in 2012 cost was due to currency conversion. 2012 cost in Canadian dollars - $265,102 (2011 - $265,102 in Canadian dollars).

Amount of depreciation for 2012: $11,124 (2011: $11,124).

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

2013	$12,300
2014	12,300
2015	12,300
2015	12,300
2017	12,300

Back to Table of Contents

7. LONG TERM DEPOSITS

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

	2012	2011
Long term deposits	$ 7,893	$ 7,733

8. SHORT-TERM LINE OF CREDIT

On February 28, 2011, the Company entered into a Business Loan Agreement (the Revolving Line of Credit Agreement) with Harris Bank (the Bank). The Revolving Line of Credit Agreement provides for a secured working capital-based revolving line of credit (the Revolving Line) in an aggregate amount of up to the lesser of (i) $1,500,000, or (ii) 75% of eligible domestic accounts receivable and certain foreign accounts receivable plus 40% of inventory. Amounts advanced under the Revolving Line bear interest at an annual rate equal to the lender's prime rate plus 0.75%. Interest on the Revolving Line is due monthly, with the balance due on February 28, 2012, which is the scheduled maturity date for the Revolving Line.

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

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

In March 2012, the Company signed a new agreement with Harris Bank to replace the expiring credit line. The revolving line of credit was increased to an aggregate amount of up to the lesser of (i) $5,000,000, or (ii) 75% of eligible domestic accounts receivable and certain foreign accounts receivable plus 40% of inventory. The Company can borrow an additional $1,400,000 using other assets as collateral. Both loans are at an annual interest rate of 3.75%.

Short-term borrowings outstanding under the Revolving Line as of December 31, 2012 were $1,205,000 (December 31, 2011 - $650,000) and there were no amounts outstanding on the secured loan.

9. LONG TERM DEBT

(a) Flexible Solutions Ltd. has received a non-interest bearing loan from the Department of Agriculture and Agri-Food Canada ("AAFC"). Eligible for up to $1,000,000 in Canadian funds, the Company had borrowed $910,801 in Canadian funds (US$915,446) as of December 31, 2012 on an unsecured basis (2011 - $910,801CDN; US$915,719). The balance owing at December 31, 2012 was $546,481 in Canadian funds (US$549,288). The repayment schedule is as follows:

F-15

Back to Table of Contents

Amount Due (in CDN funds)	Payment Due Date
$182,160	December 31, 2013
$182,160	December 31, 2014
$182,160	December 31, 2015

(b) Flexible Solutions Ltd. has also received a 5% simple interest loan from Agriculture Financial Services Corp. (“AFSC”). Eligible for up to $2,000,000 in Canadian funds, the Company had originally borrowed $1,491,000 in Canadian. The Company was required to make interest payments until May 1, 2010 and then started to pay down the principal in equal payments until May 1, 2014. The borrowing balance as December 31, 2012 was $1,170,811 in Canadian dollars ($1,176,782US). The borrowing balance as December 31, 2011 was $1,281,960 in Canadian funds ($1,260,531US). The Company has pledged the assets of the Taber, AB building, including equipment, inventory and accounts receivable (see Notes 3, 4 and 5) as collateral, as well as signed a promissory note guaranteeing the amount of the loan.

The Company has committed to the following repayments:

2013	$190,911
2014	$79,546

Continuity	2012	2011
Balance, January 1	$1,976,992	2,328,801
Less: Payments on loan	310,384	309,055
Effect of exchange rate	59,512	(42,754)
Balance, December 31	$1,726,050	$1,976,992

Outstanding balance at December 31,	2012	2011
a) Long term debt - AAFC	$549,268	$716,461
b) Long term debt - AFSC	1,176,782	1,260,531
Long-term Debt	$1,726,050	$1,976,992
Less: current portion	(318,644)	(329,389)
	$1,407,406	$1,647,603

Back to Table of Contents

10. INCOME TAX

The provision for income tax expense (benefit) is compromised of the following:

	2012	2011
Current tax, federal	$921,247	$852,316
Current tax, state	205,221	293,850
Current tax, foreign	-	-
Current tax, total	1,126,468	1,146,166
Deferred income tax, federal	(73,111)	(20,000)
Deferred income tax, state	-	-
Deferred income tax, foreign	-	-
Deferred income tax, total	(73,111)	(20,000)
Total	$1,053,357	$1,126,166

The following table reconciles the income tax benefit at the U.S. Federal statutory rate to income tax benefit at the Company's effective tax rates.:

	2012	2011
Income (Loss) Before Taxes	(31,090)	1,308,622
US Statutory tax rate	34.00%	34.00%
Expected income tax (recovery)	(10,571)	444,931
Non-deductible items	(71,650)	82,340
Change in estimates	758	
Functional currency adjustments	(40,925)	(116,981)
Foreign Tax Rate Difference	217,576	114,131
Change in Valuation Allowance	752,948	311,357
Total income taxes (recovery)	848,136	835,778
Current Income Tax Expenses	1,126,468	1,146,166
Deferred Tax Expenses (Recovery)	(73,111)	(20,000)
Total income taxes (recovery)	1,053,357	1,126,166

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes. Deferred tax assets (liabilities) at December 31, 2012 and 2011 are comprised of the following:

Canadian	2012	2011
Non capital loss carry-forwards	2,119,669	1,741,452
Intangible Assets	(118)	(6,691)
Fixed Assets	199,983	(46,604)
	2,319,534	1,688,157
Valuation Allowance	2,319,534	1,688,157
Net Deferred tax asset (liability)	-	-
USA		
	2012	2011

Property and Equipment	272,062	219,000
Net operating losses	108,969	-
Stock Based Compensation	147,051	114,400
	528,082	333,400
Deferred tax asset not recognized	235,971	114,400
Net Deferred tax asset	292,111	219,000

Back to Table of Contents

The Company has non operating loss carry-forwards of approximately $8,435,655 (2011: $7,068,662) which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

EXPIRY	2012 FS
2014	455,480
2015	723,880
2026	934,586
2027	839,285
2028	752,034
2029	1,035,876
2030	1,081,844
2031	1,245,677
2032	1,366,993
TOTAL	8,435,655

Accounting for uncertainty for Income Tax

Effective January 1, 2009, the Company adopted the interpretation for accounting for uncertainty in income taxes which was an interpretation of the accounting standard accounting for income taxes. This interpretation created a single model to address accounting for uncertainty in tax positions. This interpretation clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements.

As at December 31, 2012 and 2011, the Company’s consolidated balance sheets did not reflect a liability for uncertain tax positions, nor any accrued penalties or interest associated with income tax uncertainties. The Company is subject to income taxation at the federal and state levels. The Company is subject to US federal tax examinations for the tax years 2008 through 2011. Loss carryforwards generated or utilized in years earlier than 2008 are also subject to examination and adjustment. The Company has no income tax examinations in process.

The operating income shown in the income statement is on a consolidated basis. As shown in the income tax reconciliation in Note 10, net income and net loss has been segregated so that the financial statement reader can see that the Company has a significant net income before tax in the United States, and a significant loss before tax in 'foreign' jurisdictions. On a consolidated basis, the net income earned in the United States is being offset by the losses in Canada.

11. EARNINGS (LOSS) PER SHARE.

We present both basic and diluted EPS on the face of our consolidated statements of operations. Basic and diluted EPS are calculated as follows:

	2012	2011
Net income (loss)	$ (1,084,447)	$ 182,990
Weighted average common shares outstanding:		
Basic	13,169,991	13,272,049
Effect of dilutive options	-	205,960
Diluted	13,169,991	13,478,009

Net income (loss) per common share:		
Basic	$ (0.08)	$ 0.01
Diluted	$ (0.08)	$ 0.01

Back to Table of Contents

Certain stock options whose terms and conditions are described in Note 12, “Stock Options” could potentially dilute basic EPS in the future, but were not included in the computation of diluted EPS because to do so would have been anti-dilutive. Those anti-dilutive options are as follows.

	2012	2011
Anti-dilutive options	999,000	180,700

There were no preferred shares issued and outstanding during the years ended December 31, 2012 or 2011.

12. STOCK OPTIONS.

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

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

The following table summarizes the Company’s stock option activity for the years ended December 31, 2012 and 2011:

	Number of shares	Exercise price per share	Weighted average exercise price
Balance, December 31, 2010	1,836,700	$ 1.50 - $3.60	$ 3.03
Granted	663,000	$ 1.50 - 2.45	$ 1.63
Cancelled or expired	(1,306,000)	$ 1.50 - $3.60	$ 3.23
Balance, December 31, 2011	1,193,700	$ 1.50 - $3.60	$ 2.04
Granted	94,000	$ 2.00 – 2.22	$ 2.14
Cancelled or expired	(288,700)	$ 1.50 – 3.60	$ 2.35
Balance, December 31, 2012	999,000	$ 1.21 – 2.45	$ 1.96
Exercisable, December 31, 2012	782,000	$ 1.50 – 2.45	$ 2.04

The weighted-average remaining contractual life of outstanding options is 2.9 years. The aggregate intrinsic value of options outstanding at December 31, 2012 is $776,430. The weighted-average remaining contractual life of outstanding options exercisable is 2.0 years. The aggregate intrinsic value of exercisable options outstanding at December 31, 2012 is $301,500.

Back to Table of Contents

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

	2012		2011	
Expected life – years	5.0		5.0	
Interest rate	0.36 – 0.38	%	0.79 – 1.83	%
Volatility	51 - 58	%	60 - 62	%
Dividend yield	--	%	--	%
Weighted average fair value of options granted	$ 0.38		$ 0.39 – 1.02	

During the year ended December 31, 2012, the Company granted 33,000 (2011 – 231,000) stock options to consultants and has applied ASC 718 using the Black-Scholes option-pricing model, which resulted in additional expenses of $21,939 (2011 - $51,874). Options granted in other years resulted in additional expenses of $27,159 (2011 – $5,016). During the year ended December 31, 2012, employees were granted 61,000 (2011 – 432,000) stock options, which resulted in additional expenses of $39,586 (2011 – $69,777). Options granted in other years resulted in additional expenses in the amount of $53,766 for employees during the year ended December 31, 2012 (2011 - $129,106). No stock options were exercised during the year ended December 31, 2012.

As of December 31, 2012, there was approximately $67,888 of compensation expense related to non-vested awards. This expense is expected to be recognized over a weighted average period of 3 years.

13. CAPITAL STOCK.

During the year ended December 31, 2012, the Company did not issue any stock.

On February 16, 2011 the Company repurchased and cancelled 792,576 shares of common stock for $1.30 per share, for a total of $1,030,349.

14. SEGMENTED, SIGNIFICANT CUSTOMER INFORMATION AND ECONOMIC DEPENDENCY.

The Company operates in two segments:

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

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

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

Back to Table of Contents

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

Year ended December 31, 2012:

	EWCP	TPA	Total
Revenue	$ 828,135	$ 15,571,972	$ 16,400,107
Interest expense	78,467	49,940	128,407
Depreciation	1,002,228	254,010	1,256,238
Income tax expense	-	1,126,468	1,126,468
Segment profit (loss)	(2,745,801)	1,661,353	(1,084,448)
Segment property, equipment and leaseholds	5,224,454	1,961,276	7,185,730
Expenditures for segment assets	80,217	16,504	96,721

Year ended December 31, 2011:

	EWCP	TPA	Total
Revenue	$ 1,032,596	$ 14,486,039	$ 15,518,635
Interest expense	69,273	26,476	95,749
Depreciation	43,597	287,342	330,939
Income tax expense	-	1,145,632	1,145,632
Segment profit (loss)	(1,788,841)	1,971,831	182,990
Segment property, equipment and leaseholds	6,006,733	2,198,781	8,205,514
Expenditures for segment assets	726,512	68,336	794,848

Sales by territory are shown below:

	2012	2011
Canada	$ 718,128	$ 512,499
United States and abroad	15,681,979	15,006,136
Total	$ 16,400,107	$ 15,518,365

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

	2012	2011
Canada	$ 5,424,966	$ 6,214,939
United States	1,961,276	2,198,781
Total	$ 7,386,242	$ 8,413,720

Three customers accounted for $9,712,657 (59%) of sales made in 2012 (2011 - $9,702,119 or 63%).

Back to Table of Contents

15. COMMITMENTS.

The Company is committed to minimum rental payments for property and premises aggregating approximately $203,259 over the term of two leases, the last expiring on July 31, 2014.

Commitments in each of the next five years are as follows:

2013	$155,295
2014	$47,964

16. CONTINGENCIES.

On June 29, 2011, WaterSavr Singapore Pte. Ltd., a former distributor of the Company's WATERSAVR product, initiated an arbitration proceeding with the American Arbitration Association in New York, NY asserting multiple claims. On November 5, 2012, the Company received written notice from the International Center for Dispute Resolution of the American Arbitration Association ("AAA") that it has terminated the proceedings initiated by WaterSavr Singapore. This proceeding was terminated without any liability on the part of the Company.

17. SUBSEQUENT EVENTS.

On January 1, 2013, the Company issued 128,000 stock options to employees and 55,000 stock options to consultants. The strike price is $1.21, with a vesting date of December 31, 2013 and all expire December 31, 2017.

18. COMPARATIVE FIGURES.

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

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic reports to the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are designed to provide a reasonable level of assurance of reaching our desired disclosure control objectives.

As of the end of the period covered by this Annual Report on Form 10-K for the year ended December 31, 2012, we carried out an evaluation, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of our principal executive officer and principal financial officer and implemented by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements in accordance with U.S. generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of our financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In connection with the preparation of our annual financial statements, management has undertaken an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or the COSO Framework. Management's assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of those controls.

17

Based on this evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2012.

There was no change in our internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Name	Age	Position
Daniel B. O'Brien	56	President, Director
John H. Bientjes	60	Director
Dr. Robert N. O'Brien	91	Director
Dale Friend	58	Director
Robert Helina	47	Director
Tom Files	61	Director

Daniel B. O'Brien has served as our President and Chief Executive Officer, as well as a director since June 1998. He has been involved in the swimming pool industry since 1990, when he founded our subsidiary, Flexible Solutions Ltd. 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 director since February 2000. Since 1984, Mr. Bientjes has served as 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 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 director since June 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. Dr. O'Brien is the father of Daniel B. O'Brien.

Dale Friend has been a director since December 2002. She has a diversified background in the area of accounting and her experience has been primarily in business, offering a wide range of accounting knowledge. Ms. Friend has worked for a number of companies in their accounting departments, including Telus, Novas Capital Corp. and DB Perks & Associates. She is currently working as Contract Accountant for Delcor Holdings which is a privately held investment company.

Robert T. Helina has been a director since October 2011. Mr. Helina has been involved in the business financial services industry for over 20 years which has given him extensive knowledge in business economics and finance. He currently serves as the Executive Chairman on the Board of Directors for SunCentro Corporation, providing corporate governance and guidance. Mr. Helina is also the CFO and director of Metron Captial Corp., which is a publically traded company. Mr. Helina holds a Bachelor of Arts degree from Trinity Western University.

Thomas M. Fyles has been a director since August 2012. Since 1979 Dr. Fyles has been a chemistry professor at the University of Victoria (Assistant Professor 1979-1984/Associate Professor 1984-1992/and Professor with Tenure since 1992) Dr. Fyles received his Bachelor of Science degree (with honors) from the University of Victoria in 1974 and his Ph.D. in chemistry from York University in 1977. Dr. Fyles was a postdoctoral fellow with Prof. J.M. Lehn, Institut Le Bel, Universite Louis Pasteur, Strasbourg, France, between September 1977 and July 1979.

Directors are elected annually and hold office until the next annual meeting of our stockholders and until their successors are elected and qualified. All executive offices are chosen by the board of directors and serve at the board's discretion.

John Bientjes, Dale Friend, and Robert Helina are independent directors as that term is defined in section 803 of the listing standards of the NYSE MKT.

Our Audit Committee, consisting of John Bientjes, Dale Friend and Robert Helina, all of whom are independent directors and have strong financial backgrounds, facilitates and maintains open communications with our board of directors, senior management and our independent auditors. Our Audit Committee also serves as an independent and objective party which monitors our financial reporting process and internal control system. In addition, our Audit Committee reviews and appraises the efforts of our independent auditors. Our Audit Committee meets periodically with management and our independent auditors. John Bientjes meets the SEC's definition of an audit committee financial expert. Each member of the Audit Committee is "independent" as that term is defined in Section 803 of the listing standards of the NYSE MKT.

Our Compensation Committee, consisting of John Bientjes, Dale Friend and Robert Helina, establishes salary, incentive and other forms of compensation for our Chief Executive Officer and administers our Stock Option Program. None of our officers participated in deliberations of the compensation committee concerning executive officer compensation. During the year ended December 31, 2012, no director was also an executive officer of another entity, which had one of our executive officers serving as a director of such entity or as a member of the compensation committee of such entity.

We have adopted a Code of Ethics that applies to our Chief Executive Officer, our Chief Financial Officer and our Principal Accounting Officer, as well as our other senior management and financial staff. Interested persons may obtain a copy of our Code of Ethics from our website at www.flexiblesolutions.com.

We believe our directors benefit us for the following reasons:

Name	Reason
Daniel B. O'Brien	Long standing relationship with us.
John J. Bientjes	Long standing relationship with us.
Dr. Robert N. O'Brien	Long standing relationship with us.
Dale Friend	Long standing relationship with us.
Robert Helina	Corporate finance experience.
Dr. Thomas Fyles	Scientific expertise.

ITEM 11. EXECUTIVE COMPENSATION.

Summary Compensation Table

The following table shows in summary form the compensation earned by (i) our Chief Executive Officer and (ii) by each other executive officer who earned in excess of $100,000 during the two fiscal years ended December 31, 2012.

Name and Principal Position	Fiscal Year	Salary (1)	Bonus (2)	Restric-ted Stock Awards (3)	Options Awards (4)	All Other Annual Compen-sation (5)	Total
Daniel B. O'Brien	2012	$ 612,184	--	--	$ 17,742	--	$ 629,926
President and Chief Executive Officer	2011	$ 174,505	--	--	$ 29,799	--	204,304

(1) The dollar value of base salary (cash and non-cash) earned.

(2) The dollar value of bonus (cash and non-cash) earned.

(3) During the periods covered by the table, the value of the shares of restricted stock issued as compensation for services to the persons listed in the table.

(4) The value of all stock options granted during the periods covered by the table.

(5) All other compensation received that we could not properly report in any other column of the table.

Stock Option Program

Our Stock Option Program involves the issuance of options, from time to time, to our employees, directors, officers, consultants and advisors. Options are granted by means of individual option agreements. Each option agreement specifies the shares issuable upon the exercise of the option, the exercise price and expiration date and other terms and conditions of the option.

If the option holder is an employee, and if he or she ceases to be employed by us, the option holder may, during the 30-day period following termination of employment, exercise the option to the extent the option was exercisable on the date of termination. In the case of death or disability, the option holder (or his or her administrator) has twelve months from the date of death or disability to exercise the option to the extent the option was exercisable on the date of death or disability.

The options are subject to adjustment by reason of a recapitalization, reclassification, stock split, combination of shares, dividend or other distributions payable in capital stock. Upon a merger, liquidation, dissolution or other consolidation, we will provide each option holder with one-months' prior written notice informing the option holder that he or she may exercise the option in full (to the extent it has not been previously exercised) within the one-month period. Following the expiration of the one month period, the option will terminate.

The options may not be transferred, assigned, pledged or hypothecated in any way (except by will or the laws of descent) and are not subject to execution, attachment or similar process.

All options expire between one and five years after the date of grant and reflect exercise prices equal to the fair market value of a share of our common stock as determined by our board of directors on the date of grant. All of the options contain vesting provisions pursuant to which the options are 100% exercisable within a fixed number of months after the date of grant.

All option grants made during a fiscal year are submitted for shareholder approval at the next annual shareholder meeting. To date, our shareholders have approved all of the grants.

The following table shows the weighted average exercise price of the outstanding options granted pursuant to our Stock Option Program as of December 31, 2012, our most recently completed fiscal year.

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)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Stock Option Program	999,000	$ 1.96	Not Applicable
Total	999,000	$ 1.96	

As of December 31, 2012 options to purchase 999,000 shares of our common stock were outstanding under our Stock Option Program. The exercise price of these options varies between $1.21 and $2.45 per share. The options expire at various dates between January 31, 2013 and December 31, 2017.

The following tables show, during the fiscal year ended December 31, 2012, the options granted to, and the options exercised and held by, the persons named below. All options were granted pursuant to our Stock Option Program.

	Options Granted			
Name	Grant Date	Options Granted (#)	Exercise Price Per Share	Expiration Date
Daniel O'Brien	-	-	-	-

	Options Exercised	
Name	Shares Acquired On Exercise (1)	Value Realized (2)
Daniel O'Brien	--	--

(1) The number of shares received upon exercise of options during the fiscal year ended December 31, 2012.

(2) With respect to options exercised during the fiscal year ended December 31, 2012, the dollar value of the difference between the option exercise price and the market value of the option shares purchased on the date of the exercise of the options.

	Shares underlying unexercised options which are:			
Name	Exercisable	Unexercisable	Exercise Price	Expiration Date
Daniel O'Brien	-	--	-	

Director Compensation

We reimburse directors for any expenses incurred in attending board meetings. We also compensate directors $2,000 annually and grant our directors options to purchase shares of our common stock each year that they serve.

Our directors received the following compensation in 2012:

Name	Paid in Cash	Stock Awards (1)	Option Awards (2)
Robert N. O'Brien	--	--	$-
John H. Bientjes	$2,000	--	$3,582
Dale Friend	$2,000	--	$3,582
Robert Helina	$2,000	--	$3,582
Tom Fyles	--	--	$1,878

(1) The fair value of stock issued for services computed in accordance with ASC 718 on the date of grant.

(2) The fair value of options granted computed in accordance with ASC 718 on the date of grant.

The terms of outstanding options granted to our directors are shown below:

Name	Option Price	No. of Options	Expiration Date
Robert N. O'Brien	$ 1.50	20,000	January 1, 2016
John H. Bientjes	$ 3.60	5,000	January 31, 2013
John H. Bientjes	$ 2.25	5,000	January 1, 2014
John H. Bientjes	$ 1.50	5,000	December 31, 2014
John H. Bientjes	$ 1.50	5,000	January 1, 2016
John H. Bientjes	$ 2.22	5,000	January 1, 2017
Dale Friend	$ 3.60	5,000	January 31, 2013
Dale Friend	$ 2.25	5,000	January 1, 2014
Dale Friend	$ 1.50	5,000	December 31, 2014
Dale Friend	$ 1.50	5,000	January 1, 2016
Dale Friend	$ 2.22	5,000	January 1, 2017
Robert Helina	$ 2.45	5,000	September 22,2016
Robert Helina	$ 2.22	5,000	January 1, 2017
Thomas Fyles	$ 2.00	5,000	August 8, 2017

Daniel B. O'Brien is not compensated for serving as a director.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table shows the beneficial ownership of our common stock as of March 15, 2013 by (i) each stockholder who is known by us to own beneficially more than five percent of our outstanding common stock, (ii) each of our officers and directors, and (iii) by all of our executive officers and directors as a group.

	Shares (1)	Percentage Ownership	
Daniel B. O'Brien 2614 Queenswood Dr. Victoria, BC Canada V8N 1X5	4,521,900	34.3	%

Dr. Robert N. O'Brien 2614 Queenswood Dr. Victoria, BC Canada V8N 1X5	1,795,000	13.6	%
John Bientjes #1-230 West 13th Street North Vancouver, B.C. Canada V7M 1N7	40,000	0.3	%
Dale Friend 3009 E. Kent Ave. Vancouver, BC Canada V5S 4P6	25,000	0.2	%
Robert Helina C308, 20159 88th Ave Langley, BC Canada V1M 0A4	10,000	0.1	%
Dr. Thomas Fyles Box 3065 Visctoria, BC Canada V8W 3V6	5,000	0.0	%
All officers and directors as a group (6 persons)	6,396,000	48.6	%

(1) Includes shares which may be acquired on the exercise of the stock options, all of which were exercisable as of March 15, 2013, listed below.

Name	No. of Options	Exercise Price	Expiration Date
John Bientjes	5,000	$ 3.60	January 31, 2013
	5,000	$ 2.25	January 1, 2014
	5,000	$ 1.50	December 31, 2014
	5,000	$ 1.50	January 1, 2016
	5,000	$ 2.22	January 1, 2017
Dale Friend	5,000	$ 3.60	January 31, 2013
	5,000	$ 2.25	January 1, 2014
	5,000	$ 1.50	December 31, 2014
	5,000	$ 1.50	January 1, 2016
	5,000	$ 2.22	January 1, 2017
Robert Helina	5,000	$ 2.45	September 22, 2016
	5,000	$ 2.22	January 1, 2017
Dr. Thomas Fyles	5,000	$ 2.00	August 8, 2017

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, DIRECTOR INDEPENDENCE.

Our director, Dr. Robert N. O'Brien, developed substantially all of our products and has assigned the patent rights to these 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, although our 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 our board of directors, but abstains from all proceedings of the board concerning his stock option grants. Please refer to Item 10 of this report for further information. Dr. O'Brien is the father of our Chief Executive Officer, Daniel B. O'Brien.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

MNP, LP Chartered Accountants, examined our financial statements for the year ended December 31, 2012 and 2011.

Audit Fees

MNP was paid $72,022 and $72,185 for the fiscal years ended December 31, 2012 and 2011, respectively, for professional services rendered in the audit of our annual financial statements and for the reviews of the financial statements included in our quarterly reports on Form 10-Q during these fiscal years.

Audit-Related Fees

MNP was not paid for any audit related fees for the fiscal years ended December 31, 2012 and 2011, respectively, for the audit or review of our financial statements

Tax Fees

MNP was paid $17,005 and $22,394 for the fiscal years ended December 31, 2012 and 2011, respectively, for professional services rendered for the preparation and filing of our income tax returns for the fiscal years ended December 31, 2011 and 2010.

All Other Fees

MNP was not paid any other fees for professional services during the fiscal years ended December 31, 2012 and 2011.

Audit Committee Pre-Approval Policies

Rules adopted by the SEC in order to implement requirements of the Sarbanes-Oxley Act of 2002 require public company audit committees to pre-approve audit and non-audit services. Our Audit Committee has adopted a policy for the pre-approval of all audit, audit-related and tax services, and permissible non-audit services provided by our independent auditors. The policy provides for an annual review of an audit plan and budget for the upcoming annual financial statement audit, and entering into an engagement letter with the independent auditors covering the scope of the audit and the fees to be paid. Our Audit Committee may also from time-to-time review and approve in advance other specific audit, audit-related, tax or permissible non-audit services. In addition, our Audit Committee may from time-to-time give pre-approval for audit services, audit-related services, tax services or other non-audit services by setting forth such pre-approved services on a schedule containing a description of, budget for and time period for such pre-approved services. The policies require our Audit Committee to be informed of each service and the policies do not include any delegation of our Audit Committee's responsibilities to management. Our Audit Committee may delegate pre-approval authority to one or more of its members. The member to whom such authority is delegated will report any pre-approval decisions to our Audit Committee at its next scheduled meeting.

During the year ended December 31, 2012 our Audit Committee approved all of the fees paid to MNP. Our Audit Committee has determined that the rendering of all non-audit services by MNP is compatible with maintaining MNP's independence. During the year ended December 31, 2012, none of the total hours expended on our financial audit by MNP were provided by persons other than MNP's full-time permanent employees.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

Number	Description
3.1	Articles of Incorporation of the Registrant. (1)
3.2	Bylaws of the Registrant. (1)
21.1	Subsidiaries. (2)
23.1	Consent of Independent Accountants.
31.1	Certification of Principal Executive Officer Pursuant to §302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer Pursuant to §302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive and Financial Officer Pursuant to 18 U.S.C. §1350 and §906 of the Sarbanes-Oxley Act of 2002.

(1) Previously filed as an exhibit to our Registration Statement on Form 10-SB filed with the Commission on February 22, 2000, and incorporated herein by reference.

(2) Previously filed as an exhibit to our Registration Statement on Form SB-2 filed with the Commission on January 22, 2003, and incorporated herein by reference.

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.

Flexible Solutions International, Inc.

Date: April 1, 2013

By: /s/ Daniel B. O'Brien
Name: Daniel B. O'Brien
Title: President and Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below 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, Principal Executive Officer, Principal Financial and Accounting Officer and a Director	April 1, 2013
/s/ John H. Bientjes John H. Bientjes	Director	April 1, 2013
/s/ Robert N. O'Brien Robert N. O'Brien	Director	April 1, 2013
/s/ Dale Friend Dale Friend	Director	April 1, 2013
/s/ Robert T. Helina Robert T. Helina	Director	April 1, 2013
/s/ Dr. Thomas Fyles Dr. Thomas Fyles	Director	April 1, 2013