

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10QSB**

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

For the quarterly period ended Sept. 30th 2002

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number \_\_\_\_\_

FLEXIBLE SOLUTIONS INTERNATIONAL INC.

(Exact name of small business issuer as specified in its charter)

NEVADA

(State or other jurisdiction of incorporation \_\_\_\_\_ 91-1922863  
or organization) (IRS Employer Identification No.)

2614 Queenswood Dr. Victoria BC Canada V8N 1X5

(Address of principal executive offices)

( 250 ) 477 - 9969

( Issuer's telephone number)

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

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS**

Check whether the registrant filed all documents and reports required to be filed by Section 12,13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes[ ] No[ ]

**APPLICABLE ONLY TO CORPORATE ISSUERS**

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:  
Common stock \$.001 par value 11,568,416 shares as of Sept. 30<sup>th</sup> 2002.

Transitional Small Business Disclosure Format (Check one): Yes [ ] No [X]

## **PART 1 - FINANCIAL INFORMATION**

### **Item 1. FINANCIAL STATEMENTS.**

Attached hereto and incorporated herein by reference.

### **Item 2. MANAGER'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following information contains certain forward looking statements that anticipate future trends or events. These statements are based on certain assumptions that may prove to be erroneous and are subject to certain risks including but not limited to the risks of increased competition in the Company's industry and other risks detailed in the Company's Securities and Exchange Commission filings. Accordingly, actual results may differ, possibly materially, from the predictions contained herein.

During the three months ended Sept 30<sup>th</sup> 2002 the Company recorded two significant events. On July 25<sup>th</sup> the Company closed a private placement of 1,428,600 shares at price of \$3.50 per share for gross proceeds of \$5,000,100.00 and net proceeds of \$4,800,100.00. As a result of this financing and exercise of options during the period, a net total of \$5,880,610.00 in cash was provided by financing activities.

On Sept 1<sup>st</sup> 2002, the Company signed a distribution agreement with Ondeo Nalco Company of Naperville IL. The agreement assigns Ondeo Nalco exclusive sales rights for Flexible Solutions' new product Water\$avr in the North American municipal market and in the world mining markets ex India and Pakistan. The term of the agreement is 5 years, and provides for sales totaling 25 million dollars over the term of the agreement. A further provision in the distribution agreement granted one million options at \$4.25 and one million options at \$5.50 to Ondeo Nalco. These options have been recorded as consultant expenses in the quarter at a cost of \$2,704,000.00. If the options are exercised, the Company will receive \$9,750,000 in cash to our treasury as the exercise price. The non-cash expense related to these options account for all but \$.01 of the loss recorded in the quarter and non-cash expenses represent all of the losses recorded in the 9 months ended Sept 30<sup>th</sup> 2002.

For the three months ended Sept. 30<sup>th</sup> 2002, the Company experienced a net after tax loss of \$2,806,010 (see option expensing discussion above) as compared to a net after tax loss of \$28,560 for the three months ended Sept. 30<sup>th</sup> 2001. As in the quarter ending Sept. 30<sup>th</sup> 2001, the end of the Northeastern USA pool season reduces demand for our products in the usual cyclical manner. This year the sales season in the US Northeast and Eastern Canada was severely affected by unseasonably cold weather leading to a late start followed by extremely hot weather requiring less of our products and resulting in very low production requirements in 3<sup>rd</sup> quarter and revenue of \$55,257 compared to \$148,177 in the year earlier quarter. In addition, the Company increased expenditures in the areas of WATER\$AVR sales and marketing and production equipment development. Finally, the Company did better at producing the correct amount of product in Q-1 and Q-2 2002 as a percentage of annual sales and therefore did not have to carry high production rates as far into Q-3 2002 as was the case in Q-3 2001 and our swimming pool product distributor is carrying a much lower quantity of inventory as of Sept 30 2002 compared to Sept 30 2003.

## **RESULTS OF OPERATIONS**

Reference is made to Item 2, "Management's Discussion and Analysis" included in the Company's registration statement on Form 10-SB for the year ended December 31<sup>st</sup> 1999, as amended, and the Company's 10K-SB for the years ended Dec. 31<sup>st</sup> 2000 and 2001 on file with the Securities and Exchange Commission. The following analysis and discussion pertains to the Company's results of operations for the three month and nine month periods ended Sept. 30<sup>th</sup> 2002, compared to the results of operations for the three month and nine month periods ended Sept. 30<sup>th</sup> 2001, and to changes in the Company's financial condition from December 31<sup>st</sup> 2001 to Sept. 30<sup>th</sup> 2002.

### **THREE MONTHS ENDED Sept. 30<sup>th</sup> 2002 and 2001**

For the third quarter of the current fiscal year ending Sept. 30<sup>th</sup> 2002, sales were \$55,257 compared to \$148,177 for the same quarter of the previous year. The decrease in sales was caused by poor weather in the beginning of the Northeast pool season followed by extremely hot weather both of which reduced the need for our products.

Operating expenses were \$2,865,049 for the third quarter, up from \$101,552 for the third quarter of last year. This is as a result of a non-cash expense (\$2,704,000) to account for options granted to Ondeo Nalco Company, increased spending on sales and marketing for Water\$avr and development of advanced production machinery. The largest real increases were in the areas of office and factory rent (33,686) and professional fees (\$37,478).

The net loss for the quarter was \$2,806,010 a huge increase from third quarter last year when the net loss was \$28,560. The increased loss was almost all related to non-cash option expenses as the cash flow statement shows only \$61,399 in cash consumed by operations. Cost of sales increased to 99% from 48% as a result of lower sales without concurrent reduction in costs.

The earnings per share was (\$0.25) for the three months ended Sept. 30<sup>th</sup> 2002 compared to \$0.00 for the three months ended Sept. 30<sup>th</sup> 2001.

### **NINE MONTHS ENDED Sept. 30<sup>th</sup> 2002 and 2001**

Sales in the nine months ended Sept. 30<sup>th</sup> 2002 were \$1,089,164 compared to \$1,307,649 for the nine months ended Sept. 30<sup>th</sup> 2001. The reduction was a result of the poor season in the Northeast of the US and Eastern Canada.

Operating expenses for the Company were \$3,381,707 for the nine months ended Sept. 30<sup>th</sup> 2002 up from \$290,105 for the nine months ended Sept. 30<sup>th</sup> 2001. The increase in operating expenses were as a result of increases in sales and marketing costs for Water\$avr and more than \$3 million in non-cash expenses to account for option grants.

The net income for the nine months ended Sept. 30<sup>th</sup> 2002 was (\$2,871,363) compared to a net income of \$232,249 for the nine months ended Sept. 30<sup>th</sup> 2001. The decrease in income was due to the decrease in sales compared to the year earlier period and the non-cash accounting entry to expense options.

The earnings per share was (\$0.27) for the nine month period ended Sept. 30<sup>th</sup> 2002 compared to (\$0.03) for the nine month period ended Sept. 30<sup>th</sup> 2001.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company sold 400,000 shares at a price of \$2.50 per share in the second quarter for net proceeds of \$.95 million and 1,428,600 shares at \$3.50 per share for net proceeds of \$4.8 million in the 3<sup>rd</sup> quarter. This in addition to other paid up capital resulted in cash on hand of \$5,939,446.

As of Sept. 30<sup>th</sup> 2002 the Company had working capital of \$6,279,429 which represented an increase of \$5,782,868 as compared to the working capital of Dec 31<sup>st</sup> 2001. The increase was a result of the financings concluded during the 9 months ended Sept 30<sup>th</sup> 2002.

The Company has no external sources of liquidity in the form of credit lines from banks. Management believes that its available cash will be sufficient to fund the Company's working capital requirements through December 31<sup>st</sup> 2003. Management further believes that available cash will be sufficient to implement the Company's expansion plans. No investment banking agreements are in place and there is no guarantee that the Company will be able to raise capital in the future should that become necessary.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS:**

The Company does not have any derivative financial instruments as of Sept. 30<sup>th</sup> 2001. However, the Company is exposed to interest rate risk.

The Company's interest income and expense are most sensitive to changes in the general level of U.S. and Canadian interest rates. In this regard, changes in U.S. and Canadian interest rates affect the interest paid on the Company's cash equivalents as well as the interest paid on debt.

## **FOREIGN CURRENCY RISK**

The Company operates primarily in Canada. Therefore, the Company's business and financial condition is sensitive to currency exchange rates or any other restriction imposed on its currency.

## **Part II - OTHER INFORMATION**

- Item 1. Legal proceedings - None
- Item 2. Changes in Securities - 1,428,600 restricted shares were issued at \$3.50 per share for gross proceeds of \$5,000,100 and net proceeds of \$4,800,100.  
114,000 shares were issued for options exercised during the quarter. Proceeds To the Company were \$33,500.  
1 million options at a strike price of \$4.25 and a term of 5 years were issued to a consultant  
1 million options at a strike price of \$5.50 and a term of 5 years were issued to a consultant.
- Item 3. Default upon Senior Securities - None
- Item 4. Submission of Matters to a Vote of Securities Holders - None

- Item 5. Other Information - None  
Item 6.(a) Exhibit 27 - Financial Data Schedule  
Item 6.(b) Reports on Form 8-K  
July 25<sup>th</sup> 2002  
Oct 2<sup>nd</sup> 2002

Item 14. Controls and procedures

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

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

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

### SIGNATURES

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

FLEXIBLE SOLUTIONS INTERNATIONAL INC.  
(Registrant)

Dated: November 10<sup>th</sup> 2002

/s/ Dan O'Brien, President and Director

I, Dan O'Brien, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Flexible Solutions International Inc.;

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have :

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

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

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

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

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

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

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

Date: November 10<sup>th</sup> 2002

/s/Dan O'Brien

CEO and CFO

CERTIFICATION PURSUANT TO  
18 U.S.C. 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Flexible Solutions International Inc. on form 10-Q for the period ended Sept 30<sup>th</sup> 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dan O'Brien, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to section 906 of the Sarbanes - Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Dan O'Brien  
Dan O'Brien  
CEO, Nov 8<sup>th</sup> 2002

CERTIFICATION PURSUANT TO  
18 U.S.C. 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Flexible Solutions International Inc. (the Company) on form 10-Q for the period ended Sept 30<sup>th</sup> 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dan O'Brien, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(b) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company.

/s/ Dan O'Brien  
Dan O'Brien  
CFO, Nov 8<sup>th</sup> 2002

**FLEXIBLE SOLUTIONS INTERNATIONAL INC.**

## Consolidated Balance Sheets

(U.S. Dollars)

	September 30, 2002	December 31, 2001
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$5,969,446	\$190,457
Accounts receivable	75,419	46,374
Income tax receivable	72,298	0
Loan receivable	9,585	9,516
Note receivable	0	9,225
Inventory	163,193	181,698
Prepaid expenses	19,488	59,291
<b>Total Current Assets</b>	<b>6,309,429</b>	<b>496,561</b>
<b>Property and Equipment</b>	<b>111,717</b>	<b>72,753</b>
<b>Total Assets</b>	<b>\$6,421,146</b>	<b>\$569,314</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable	\$31,606	\$20,592
Income tax payable	0	18,108
<b>Total Current Liabilities</b>	<b>31,606</b>	<b>38,700</b>
<b>Stockholders' Equity</b>		
<b>Capital Stock</b>		
Authorized		
50,000,000 Common shares with a par value of \$0.001 each		
1,000,000 Preferred shares with a par value of \$0.01 each		
Issued and Outstanding		
11,568,416 and 9,272,816 Common shares	11,568	9,272
<b>Capital in Excess of Par Value</b>	<b>9,306,775</b>	<b>563,713</b>
<b>Share Subscription Receivable</b>	<b>(19,990)</b>	<b>0</b>
<b>Other Comprehensive Loss</b>	<b>(18,921)</b>	<b>(23,842)</b>
<b>Accumulated Deficiency</b>	<b>(2,889,892)</b>	<b>(18,529)</b>
<b>Total Stockholders' Equity</b>	<b>6,389,540</b>	<b>530,614</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$6,421,146</b>	<b>\$569,314</b>

See notes to consolidated financial statements.



**FLEXIBLE SOLUTIONS INTERNATIONAL INC.**

Consolidated Statements of Operations

(U.S. Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Sales	\$55,257	\$148,177	\$1,089,164	\$1,307,649
Cost of Sales (Exclusive of depreciation)	54,782	67,358	594,041	642,949
<b>Gross Profit</b>	<b>475</b>	<b>80,819</b>	<b>495,123</b>	<b>664,700</b>
<b>Operating Expenses</b>				
Consulting (note 2)	2,704,000	0	2,736,608	0
Wages	28,880	33,820	248,933	106,165
Professional fees	37,478	17,131	67,283	37,141
Office	16,898	5,089	60,943	15,438
Rent	16,788	5,624	46,356	16,595
Stock promotion and transfer agent fee	15,510	(6,406)	41,156	1,802
Travel	13,608	8,900	24,023	18,768
Subcontracting	7,958	11,330	23,667	21,946
Administrative salaries and benefits	5,202	18,802	77,228	50,605
Currency exchange	4,797	0	20,205	0
Shipping	3,462	1,846	9,087	7,471
Telephone	2,124	1,322	7,074	4,068
Utilities	1,953	0	4,159	0
Bad debt expense	1	0	(350)	0
Commission	0	694	0	1,138
Depreciation	6,390	3,400	15,335	8,968
	2,865,049	101,552	3,381,707	290,105
<b>Income (Loss) Before Other Item and Income Tax</b>	<b>(2,864,574)</b>	<b>(20,733)</b>	<b>(2,886,584)</b>	<b>374,595</b>
<b>Interest Income</b>	<b>15,221</b>	<b>0</b>	<b>15,221</b>	<b>0</b>
<b>Income (Loss) Before Income Tax</b>	<b>(2,849,353)</b>	<b>(20,733)</b>	<b>(2,871,363)</b>	<b>374,595</b>
<b>Income Tax (Recovery)</b>	<b>(43,343)</b>	<b>7,827</b>	<b>0</b>	<b>142,346</b>
<b>Net Income (Loss)</b>	<b>\$(2,806,010)</b>	<b>\$(28,560)</b>	<b>\$(2,871,363)</b>	<b>\$232,249</b>
<b>Net Income (Loss) Per share</b>	<b>\$ (0.25)</b>	<b>\$ (0.00)</b>	<b>\$ (0.27)</b>	<b>\$ (0.03)</b>
<b>Weighted Average Number</b>	<b>11,448,128</b>	<b>9,233,816</b>	<b>10,555,256</b>	<b>9,232,705</b>

See notes to consolidated financial statements.

**FLEXIBLE SOLUTIONS INTERNATIONAL INC.**

**Consolidated Statements of Stockholders' Equity**

Periods Ended September 30

(U.S. Dollars)

	Shares	Par Value	Capital in Excess of Par Value	Share Subscription Receivable	Accumulated Earnings (Deficiency)	Other Comprehensive Income (Loss)	Total Stockholders' Equity
<b>Balance, December 31, 1998</b>	9,131,316	\$9,131	\$163,653	0	\$(26,393)	\$(376)	\$146,015
Translation adjustment	0	0	0	0	0	7,053	7,053
Net income	0	0	0	0	102,848	0	102,848
<b>Balance, December 31, 1999</b>	9,131,316	9,131	163,653	0	76,455	6,677	255,916
Translation adjustment	0	0	0	0	0	(8,516)	(8,516)
Net income	0	0	0	0	138,971	0	138,971
<b>Balance, December 31, 2000</b>	9,131,316	9,131	163,653	0	215,426	(1,839)	386,371
<b>Shares Issued for</b>							
Cash (October and December Services (January, July and November)	9,500	9	4,116	0	0	0	4,125
Stock option compensation	132,000	132	139,868	0	0	0	140,000
Translation adjustment	0	0	256,076	0	0	0	256,076
Net loss	0	0	0	0	0	(22,003)	(22,003)
Net loss	0	0	0	0	(233,955)	0	(233,955)
<b>Balance, December 31, 2001</b>	9,272,816	9,272	563,713	0	(18,529)	(23,842)	530,614
<b>Issued for cash</b>							
Private placement	2,151,600	2,152	6,064,948	0	0	0	6,067,100
Exercise of stock options	114,000	114	33,386	0	0	0	33,500
Services	30,000	30	44,370	0	0	0	44,400
Share issue costs	0	0	(200,000)	0	0	0	(200,000)
Share subscription	0	0	0	(33,000)	0	0	(33,000)
Payment of subscriptions receivable	0	0	0	13,010	0	0	13,010
Stock option compensation	0	0	2,800,358	0	0	0	2,800,358
Translation adjustment	0	0	0	0	0	4,921	4,921
Net loss, period ended September 30, 2002	0	0	0	0	(2,871,363)	0	(2,871,363)
<b>Balance, September 30, 2002</b>	11,568,416	\$11,568	\$9,306,775	\$(19,990)	\$(2,889,892)	\$(18,921)	\$6,389,540

See notes to consolidated financial statements.

**FLEXIBLE SOLUTIONS INTERNATIONAL INC.**  
**Consolidated Statements of Cash Flows**  
**(U.S. Dollars)**

	Nine Months Ended September 30,	
	2002	2001
<b>Operating Activities</b>		
Net income (loss)	\$(2,871,363)	\$232,249
Adjustments to reconcile net income (loss) to net cash, provided by operating activities		
Stock option compensation	2,800,358	0
Non-cash services	44,400	0
Depreciation	15,335	8,968
Changes in Non-Cash Working Capital		
Accounts receivable	(29,045)	80,424
Inventory	18,505	(99,939)
Prepaid expenses	39,803	(3,615)
Accounts payable	11,014	27,774
Income tax receivable	(90,406)	(11,357)
<b>Cash Provided by (Used in) Operating Activities</b>	<b>(61,399)</b>	<b>234,504</b>
<b>Investing Activities</b>		
Acquisition of property and equipment	(54,299)	(28,448)
Note receivable	9,225	(31,359)
Loan receivable	(69)	0
<b>Cash Used in Investing Activities</b>	<b>(45,143)</b>	<b>(59,807)</b>
<b>Financing Activities</b>		
Proceeds from issuance of common stock	5,867,600	0
Subscriptions received	13,010	0
<b>Cash Provided by Financing Activities</b>	<b>5,880,610</b>	<b>0</b>
<b>Effect of Exchange Rate Changes on Cash</b>	<b>4,921</b>	<b>(6,722)</b>
<b>Inflow of Cash</b>	<b>5,778,989</b>	<b>167,975</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>190,457</b>	<b>192,280</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$5,969,446</b>	<b>\$360,255</b>
<b>Supplemental Disclosure of Non-Cash Transactions</b>		
Issue of common stock For service	\$44,400	\$140,000

See notes to consolidated financial statements.

# FLEXIBLE SOLUTIONS INTERNATIONAL INC.

## Notes to Consolidated Financial Statements

Periods Ended September 30

(U.S. Dollars)

### 1. BASIS OF PRESENTATION

These unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States for interim financial information. These financial statements are condensed and do not include all disclosures required for annual financial statements. The organization and business of the Company, accounting policies followed by the Company and other information are contained in the notes to the Company's audited consolidated financial statements filed as part of the Company's September 30, 2002 Form 10-KSB.

In the opinion of the Company's management, these consolidated financial statements reflect all adjustments necessary to present fairly the Company's consolidated financial position at September 30, 2002 and December 31, 2001 and the consolidated results of operations and the consolidated statements of cash flows for the nine months ended September 30, 2002 and 2001. The results of operations for the nine months ended September 30, 2002 are not necessarily indicative of the results to be expected for the entire fiscal year.

### 2. STOCKHOLDERS' EQUITY

(a) During the period, pursuant to the 2002 plan, the Company granted a total of 2,000,000 fully vested stock to consultants of the Company at an exercise price of \$4.25 per share as to 1,000,000 shares and \$5.50 per share as to an additional 1,000,000 shares which will expire September 1, 2007. These options have been recognized applying FASB 123 using the Black-Scholes option pricing model which resulted in additional consulting expense of \$2,704,000 for the three months ended September 30, 2002.

(b) The following table summarizes the Company's stock option activity for the period:

	2002		
	Number of Shares	Exercise Price Per Share	Weighted Average Exercise Price
Balance, June 30, 2002	1,640,800	\$ 0.25 to \$ 3.70	\$ 3.14
Granted during the period	1,000,000	\$ 4.25	4.25
Granted during the period	1,000,000	\$ 5.50	5.50
Exercised	(114,000)	\$ 0.25 to \$ 0.30	(0.29)
Balance, September 30, 2002	3,526,800	\$ 0.25 to \$ 5.50	\$ 4.22

**FLEXIBLE SOLUTIONS INTERNATIONAL INC.**  
**Notes to Consolidated Financial Statements**  
**Periods Ended September 30**  
**(U.S. Dollars)**

2. **STOCKHOLDERS' EQUITY (Continued)**

The Company applies APB Opinion No. 25 and related interpretations in accounting for its stock options granted to employees, and accordingly, compensation expense of \$21,250 was recognized as wages expense for the three months ended September 30, 2002. Had compensation expense been determined as provided in SFAS 123 using the Black-Scholes option - pricing model, the pro-forma effect on the Company's net loss and per share amounts for the three months ended September 30, 2002 would have been as follows:

Net loss, as reported	\$(2,871,363)
Net loss, pro-forma	\$ (3,047,318)
Net loss per share, as reported	\$ (0.27)
Net loss per share, pro-forma	\$ (0.29)

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

Expected life (years)	5 years
Interest rate	3%
Volatility	72.3%
Dividend yield	0

(c) During the period, the Company issued common stock as follows:

	Number of Shares	Total
Private placement	1,428,600	\$5,000,100
Exercise of stock options	114,000	33,500

During the quarter ended September 30, 2002, the Companies completed a private placement whereby 1,428,600 shares of common stock were issued at a price of \$3.50 per share to independent third parties.

(d) Share subscription receivable represents amount due from stock purchased on exercise of options on June 30, 2002.



# FLEXIBLE SOLUTIONS INTERNATIONAL INC.

## Consolidated Statements of Cash Flows

(U.S. Dollars)

	Nine Months Ended September 30,	
	2002	2001
<b>Operating Activities</b>		
Net income (loss)	\$ -71,005	\$ 232,249
Non-cash services	44,400	0
Depreciation	15,335	8,968
Changes in Non-Cash Working Capital		
Accounts receivable	-29,045	80,424
Inventory	18,505	-99,939
Prepaid expenses	39,803	-3,615
Accounts payable	11,014	27,774
Income tax payable	-90,406	-11,357
<b>Cash Provided by (Used in) Operating Activities</b>	<b>-61,399</b>	<b>234,504</b>
<b>Investing Activities</b>		
Acquisition of property and equipment	-54,299	-28,448
Note receivable	9,225	-31,359
Loan receivable	-69	0
<b>Cash Used in Investing Activities</b>	<b>-45,143</b>	<b>-59,807</b>
<b>Financing Activity</b>		
Proceeds from issuance of common stock	5,867,600	0
Subscriptions received	13,010	0
<b>Cash Provided by Financing Activities</b>	<b>5,880,610</b>	<b>0</b>
<b>Effect of Exchange Rate Changes on Cash</b>	<b>4,921</b>	<b>-6,722</b>
<b>Inflow (Outflow) of Cash</b>	<b>5,778,989</b>	<b>167,975</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>190,457</b>	<b>192,280</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 5,969,446</b>	<b>\$ 360,255</b>
<b>Supplemental Disclosure of Non-Cash Transactions</b>		
Issue of common stock for service	\$ 44,000	\$ 140,000