

Annual Report 2004



**flexible
solutions**
cover and conserve

Letter from the President

April 2005

Dear Shareholders,

I am pleased to report to you that 2004 was a year of significant progress in every aspect of our Company. As we grow, I continue to enjoy my work more and more. I look forward to growing shareholder value for all of us in 2005 and beyond. Here are some highlights of the past year and the prospects for next.

For the 3rd straight year, we have doubled revenue although pro forma numbers were used to account for the June acquisition of the Donlar assets. This is a matter of pride for a young company like FSI. We have set an internal goal of repeating in 2005.

We reduced the seasonality of revenue by expanding swimming pool sales into Australia and Europe and even more by the acquisition of the TPA business which has very low seasonal variation.

With the canceling of our North American distribution agreement, re-branding of our residential pool product now called Ecosavr and development of in-house distribution of Ecosavr we are position to control our marketing much better and increase the revenue per Ecosavr from \$2.25 to \$4.60. This is expected to increase net and total margins as sales begin in the 2005 North American swimming season.

The acquisition and integration of Donlar assets and personnel is now complete and the operations are running smoothly. Attention is now focused on growing existing sales, attracting new customers and developing new products to extend our market into new fields.

In 2004 FSI received a grant to trial WaterSavr from the Metropolitan Water District of Southern California. The successful trial at Owens Lake CA provided average savings of 37% and fulfilled all environmental safety requirements. Our sales team is now working to turn the trial into profitable sales in California.

Successful field trials of mosquito control product were completed at LSU. The product performed exactly as expected and led the Company to filing for fast-track EPA approval in November 2004. The EPA is expected to respond in the first half of 2005.

2004 was a year of realignment as well as acquisition and we expect 05 to be a year of acceleration. No new products will be introduced and we have no plans to acquire assets. Utilization of personnel and the TPA factory at the very highest level are a priority. Significantly expanding existing product sales at the lowest marginal cost is even more important. We intend to prove our ability to generate positive cash flow and profits. WaterSavr, WaterSavr – BTI, and TPA each have the ability to become blockbuster products in both revenue and profits [blockbuster in the specialty chemicals industry is commonly considered 200 million dollars in annual sales]. Ecosavr and Heatsavr can play fine supporting roles in a well-balanced company. I look forward to working with our fine team of professionals execute these opportunities in 2005 and beyond.

We expect operating cash flow to be positive in all quarters of 2005 including Q-1 just ending. We expect most of the cash flow realized to be net profit because of tax loss carry forwards, but not all because of the accounting treatment of options, amortization and depreciation. The numerical values are hard to predict because of order flow related to hard dates such as year and quarter ends as well as the lack of sales history for WaterSavr, but the goal we have set is to double revenue again and to do so with minimal increase in expenditures. If we succeed, the cash flow and profit per share will be significant.

Thank you all for your support,

Daniel B. O'Brien *President and Chief Executive Officer*

**U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-KSB

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

For the fiscal year ended December 31, 2004

Commission file number

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

Nevada
(State or other jurisdiction of
incorporation or organization)

91-1922863
(IRS Employer Identification No.)

**615 Discovery Street
Victoria, B.C.
V8T 5G4, Canada**
(Address of principal executive offices)

250-477-9969
(Issuers telephone number)

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

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

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

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

Issuer's revenues for its most recent fiscal year \$3,392,937

The aggregate market value of the voting common stock held by non-affiliates of the Company as of March 11, 2005 was approximately \$48,155,898 based on the closing price for shares of the Company's common stock on the American Stock Exchange for that date.

On March 11, 2005, approximately 11,831,916 shares of the Company's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

No documents are incorporated by reference.

Transitional Small Business Disclosure Format (check one): Yes() No (X)

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PART I

ITEM 1. BUSINESS

Parent and subsidiaries

Flexible Solutions International, Inc. was incorporated in the State of Nevada in May 1998. It acquired all of the outstanding shares of Flexible Solutions, Ltd., a British Columbia corporation, in June 1998 in exchange for 7,000,000 shares of common stock, which represented all of the issued and outstanding shares of Flexible Solutions International at the conclusion of such acquisition. Flexible Solutions International had no other business and was incorporated in order to acquire Flexible Solutions, Ltd. Flexible Solutions International is the parent holding company for Flexible Solutions Ltd, WaterSavr Global Solutions Inc and NanoChem Solutions Inc.

Flexible Solutions, Ltd.: Flexible Solutions Ltd, a British Columbia company, was organized in 1991 to develop and market swimming pool chemical products designed to reduce heat loss. Heatsavr and Ecosavr are a mixture of chemicals that are lighter than water. The solution floats to the surface when introduced into a pool or spa to form a very thin layer on the surface of the water that slows evaporation of water from the surface of the pool. The product is not visible on the pool surface and it cannot be seen, felt or tasted by swimmers. After a swimmer stops disturbing the pool water, the product reforms to a complete layer on the pool surface.

WaterSavr Global Solutions Inc.: In 2002 we established WaterSavr Global Solutions, Inc., a corporation now registered in Nevada, as a wholly owned subsidiary to concentrate on marketing of WaterSavr. WaterSavr is a patented powder that when deployed onto a water surface of any size, will reduce evaporation significantly. WaterSavr is manufactured under contract by Nalco Corporation of Chicago at various sites and sold directly by WaterSavr Global Solutions, as well as through non-exclusive distribution in some markets and exclusive distribution in others. WaterSavr Global also sources and sells application equipment for the product.

NanoChem Solutions Inc.: In June of 2004 FSI acquired the assets of Donlar Corporation for \$6.15 million from the bankruptcy estate. The \$6.15 million in assets were placed in a newly incorporated Nevada subsidiary of Flexible Solutions International Inc called NanoChem Solutions Inc of which all the issued and outstanding shares are owned by Flexible Solutions International Inc. The newly acquired assets include a broad portfolio of environmentally friendly technologies and products, 52 US and 139 International patents and the 56,780 square foot manufacturing plant on 40 acres of property. Donlar also rented corporate offices and a laboratory in Bedford Park that will continue to be used by the new company. The net book value of the assets is placed at around \$4.45 million for property, plant and equipment, in addition to \$1.7 million for intellectual property. The water-soluble products acquired by FSI utilize thermal polyaspartate (TPA) biopolymers [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, as well as proteins that enhance fertilizers to improve crop yields; additives for household laundry detergents, improvement to consumer care products and enhancement of pesticide functionality.

Products by Subsidiary

The products of Flexible Solutions Ltd are Heatsavr and Ecosavr. Heatsavr is a chemical product for use in swimming pools and spas that forms a thin, transparent layer on the surface of water that reduces the amount of water evaporation and heat loss from the pool. The product is marketed as a cost effective and convenient way to save on the cost of energy required to heat pools and spas. Approximately 70% of the energy lost from a swimming pool occurs through evaporation. We completed the development of our Heatsavr product and introduced it into the commercial marketplace in 1998, achieving sales of \$84,252 that year. Since that time the Company has expanded its Heatsavr product to be used in the residential marketplace. This was achieved by creating a patented, fish shaped, dispensing unit. Both Heatsavr and Ecosavr (the fish shaped version) have grown in revenue and market share. We market Heatsavr to the



residential market primarily in the form of our “Ecosavr” dispenser, formerly Tropical Fish. Each Ecosavr dispenser is made of molded plastic in the form of a ten inch long colorful Ecosavr fish that is filled with enough Heatsavr solution to cover the surface of a 400 square foot swimming pool for about one month. The Ecosavr is deployed by cutting off the dorsal fin and tossing the fish into the pool where it submerges to the bottom of the pool. Differential pressure causes the Heatsavr liquid inside to escape into the water where it rises to the surface and forms a transparent layer on the surface of the water. Once empty, the dispenser is removed and replaced.

The Ecosavr product has a suggested retail price of \$11.95 – 14.95 in the United States. Heatsavr retails between \$200 and \$300 per four gallon case in the USA. In outdoor swimming pools Heatsavr provides savings on pool heating costs and provides convenience of use when compared to pool blankets. Pool personnel often find it inconvenient to use conventional pool blankets correctly and consistently. Pool blankets are plastic covers, which are cut to the size and shape of the surface of the pool or spa. They float on the surface and perform the same purpose as Heatsavr; reducing energy cost by inhibiting evaporation. Of course a blanket must be removed and stored prior to swimmers entering the pool and provides no energy savings when not on the pool. Heatsavr eliminates the necessity of installing, removing and storing the blanket and works 24 hours a day. We believe that the ease of use provided by Heatsavr results in more consistent usage. Use of Heatsavr in indoor pools results in even greater energy savings. 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 atmosphere less energy is required to maintain a pool at the desired temperature, there is a reduced load on the air—conditioning system because less is heat transferred from the pool water to the surrounding air and less water vapor will have to be removed from the air to maintain the required comfort level. Air—conditioned indoor pools are very high users of energy because swimmers and loungers have differing temperature expectations that require both water heat, [generally by gas], and electric air cooling to keep both groups happy in the same room. We market our Heatsavr product to both the residential market made up of individual homeowners with pools and spas and the commercial market consisting of operators of commercial swimming pools such as those located in hotels, motels, schools, and municipal and private recreational facilities.

Pool and Spa Marketing Magazine has published the following estimates concerning the swimming pool market and their 2002 reference and directory:2000

- U.S in—ground pool sales — 170,700 (2000)
- U.S. above—ground pool sales — 345,000
- Existing in-ground pools in U.S. — 4,210,000
- Existing above—ground pools in U.S. — 3,219,000 (2000)
- Sales for new pools in U.S. — \$3,950,000,000 (1999)
- Residential pool sales in Europe — 95,740 pools

We have received reports from some of our commercial customers documenting energy savings of \$2,400 to \$6,000 per year. We also make and sell programmable dispenser for automatically dispensing Heatsavr into a pool. The dispenser has a reservoir holding 1gallon (140oz) supply of Heatsavr. The unit is programmed to inject the appropriate amount of the product into the pool at the rate of 1 oz. per 400 square feet of pool surface per day.

The Heatsavr and Ecosavr products are sold directly to our wholesale network. In February 2004, the Company reorganized the distribution of Heatsavr and Ecosavr which are now handled from the Company’s new sales and marketing office in Richmond BC. Bringing distribution in-house reflects the strategic approach of fully integrating manufacturing and distribution and is expected to result in a minimum 100% increase in revenue per unit. A re-branding of the product will better reflect the philosophy of the Company and its commitment to the environment. Ecosavr replaced Tropical Fish in the summer of 2004. We also have nonexclusive distributors in Canada and the United States for Heatsavr not packaged in our Ecosavr dispenser and exclusive distributors in Australia, Japan, Korea, Spain and Great Britain. We support our distributors and seek additional market opportunities by attending the major pool industry trade shows in the United States yearly. We advertise in trade magazines and directly to buyer associations. We maintain an Internet presence with a website containing information about our products. We also write and publish a newsletter to 5,000 customers and potential customers twice a year.



Our WaterSavr Products

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

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

WaterSavr is sold in granulated form. It can be provided in shaker containers holding 3/4 pound or in 50 pound weatherproof bags. We also offer a dispenser for WaterSavr to automate deployment of the product. The product can be applied in various ways from hand dispersal to fully automated scheduled metering.

In May 2004 the Metropolitan Water District of Southern California ("MWD") awarded FSI a \$30,000 grant under the agency's Innovation Supply Program for an evaporation control project to start in June 2004. Positive results were received from evaporation control testing conducted at Owens Lake, California during September and October 2004. A simultaneous toxicity study was performed by McGuire Environmental Consultants Inc of Denver, Colorado to determine if any water quality change occurs as a result of application of WaterSavr to a large body of water.

The evaporation control results were as follows:

- Evaporation reduction for 2 and 3 day application cycles over September and October were 37% and 30% respectively.
- Evaporation savings were as high as 54% and as low as 22% on individual days depending on environmental factors.

With respect to the environmental impact testing performed in Colorado the results were as follows:

- No effect on odor
- No effect on invertebrates
- No effect on vertebrates
- No anticipated effect on any current drinking water treatment processes
- Biodegradability reconfirmed independently.

We anticipate our initial market for WaterSavr will be in Spain, Australia and the USA. We have provided quantities of the product for testing in these countries and if successful anticipate that substantial orders may be received. The product will also be marketed in both developed and drought stricken countries to address water conservation concerns. We are seeking to establish strategic relationships with companies in the water processing industry who have marketing and manufacturing operations in countries with water conservation concerns. We have 2 full time employees and 2 other employees more than 50% assigned to establishing sales channels throughout the world for WaterSavr.

WaterSavr – BTI: Over the last three years, research and development has resulted in a patent pending modification of WaterSavr that combines evaporation control with control of mosquito larvae before they reach adult stage. The BTI portion of the product is a recognized and approved, environmentally friendly method of killing mosquito larvae during the 1st, 2nd, and 3rd, instars of development. Combined with WaterSavr, BTI can be effectively and quickly spread across large and small water surfaces evenly and furthermore can be constrained to the water/air interface where larvae must go to obtain air. We believe that this combination may reduce the requirements of BTI in pounds per acre required for effectiveness and also the cost of application. In November 2004 FSI announced that after positive results from independent trials on the efficacy of the Company's proprietary mosquito control/water conservation technology designated as WS-BTI, conducted at LSU, the Company has filed an application to the US Environmental Protection Agency (EPA) to obtain product registration.

Included in the registration application, Flexible Solutions submitted the results of efficacy tests on the performance of WS-BTI. In a series of field tests carried out by the Entomology Department at the



Louisiana State University Agricultural Center in Crowley, LA, the application of WS-BTI has been shown to correspond to a reduction in the density of mosquito larvae present. The field tests conducted on WS-BTI follow laboratory tests that were completed earlier in the year that concluded with findings of a 100% kill rate of mosquito larvae in contact with the WS-BTI mosquito control product.

Bio-polymer Products

NanoChem Solutions produces water soluble, biodegradable polymers [TPA] used in industrial and consumer products. Biopolymers have a wide range of molecular weights. The choice among the products depends on the application, formulation and required performance characteristics in specific processes. These products are customized for the particular application.

Oilfield: TPA products are used to reduce scale and corrosion in various “topside” water systems. They are chosen over traditional phosphate and other products when biodegradability is required by environmental regulation. Sales are conducted by NanoChem scientists to the technicians of oil service companies on a well-by-well basis according to the specific water conditions involved.

TPA for the Agricultural industry: TPA has the ability to reduce fertilizer crystallization before, during and after application and can also prevent crystal formation between fertilizer and soil present minerals. Once crystallized, fertilizer and soil minerals are not bio-available to provide plant nourishment. In selected conditions the use of TPA either blended with fertilizer or applied directly to crops will increase yield values significantly beyond the cost of the TPA used. Sales are conducted by distribution through agricultural input companies with current emphasis on the Western United States. These proteins are designated for crop nutrient management programs and should not be confused with crop protection and pesticides or other agricultural chemical application. Depending on the application, they 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.

TPA for Irrigation: The crystallization prevention ability of TPA can be useful in select irrigation conditions. By reducing calcium carbonate scale propagation, TPA can prevent early plugging of drip irrigation ports and reduce maintenance costs and lengthen equipment lifetimes. It replaces and competes with acid type scale removers but has the competitive advantages of positive yield effect on the plant and the option of easy formulation with liquid fertilizers when used as part of a “fertigation” program. TPA for drip irrigation scale prevention is at an early stage of commercialization and will be implemented through the same channels as agricultural TPA.

TPA for Detergent and Personal Care Products: In detergents, TPA is a biodegradable substitute for polyacrylic acid. In select markets this outweighs the added cost of TPA and sales of our TPA for detergent continue to grow. To increase penetration of this market beyond specialty detergent manufacturers, NanoChem will have to find ways to decrease the cost of goods sold or wait for legislative intervention regarding biodegradability of detergent components. The Company is researching methods of reducing costs currently. TPA can be used in shampoo and cosmetics for increased hydration that improves the feel to the consumer. It 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. NanoChem does not sell into these markets but maintains industry contacts for the future.

Competition

Heatsavr and Ecosavr: One other company (Jonah) manufactures a chemical evaporation reduction product that competes with our Heatsavr product. Their product has had limited sales to date and does not have the huge convenience factor of “Ecosavr”. Our previous distributor, Sunsolar Technologies has recently begun selling a product called Turbo-Tropical Fish that directly competes with Ecosavr. It has a much higher price point and no sales history to date but must be taken seriously because of the expertise Sunsolar derived from working with Flexible Solutions as the exclusive North American distributor of our product “Tropical Fish” for the six years ending February 2004. Flexible Solutions believes that Sunsolar is infringing our trademark rights by using the name “Turbo Tropical Fish” and we are actively litigating the issue. Heatsavr also competes against plastic pool blanket products. We compete against pool blankets on the basis of convenience of use of Heatsavr versus the inconvenience of deploying and storing pool



blankets. Pool owners and operators may also decide that no evaporation control product is needed for their pools. Specialty chemicals are a highly competitive industry with many huge multi-national firms with large research and development operations. There are a number of firms, which develop and market chemical products for the pool and spa industry. Therefore, we might expect competition to arise at any time.

WaterSavr: Aegis Chemical Industries Ltd. of India competes with our WaterSavr product. We believe WaterSavr is a superior product for the following reasons:

- Easier Application. WaterSavr may be deployed directly to the water surface by hand or machine. The Aegis product requires premixing to dilute it to usable strength followed by extensive pumping.
- Cost. In order to achieve comparable water savings levels, the Aegis product would cost more than the WaterSavr product.

Water conservation is an important priority throughout the world and numerous researchers in industry and academia are seeking to develop solutions that may compete with, or be superior to our products. Climate changes that relieve water shortage conditions or a technological breakthrough in water desalination could reduce the need for water conservation products.

WaterSavr – BTI: We are not aware of any direct competition to WaterSavr - BTI, however, the business of pest control is very large and very well funded. There are a multitude of methods and materials that can be used for mosquito control and all of them are competition for our product indirectly. We believe that we will be able to compete by:

- Providing an environmentally sensitive alternative.
- Increasing effectiveness per unit cost
- Reducing cost of application respective to similar products

Biopolymers: Our TPA products have direct competition from Lanxess AG (recently spun out of Bayer AG) of Germany who manufacture TPA of similar quality through a different patented process from that used by NanoChem. NanoChem and Lanxess have cross-licensed each other's processes and either company can use either process for the term of the patents involved. It is believed that Lanxess has approximately the same production capacity as NanoChem and it must be presumed that their cost of goods sold is competitive. NanoChem believes that it can compete effectively with Lanxess with excellent customer service in oilfield sales, superior distributor support in the agricultural marketplace and the advantage of nimbleness inherent to small companies. NanoChem will continue to seek market niches that are not primary targets of Lanxess to avoid confrontation with such a large company.

TPA faces indirect competition from other chemicals in every market we are active in. In irrigation scale control, acid washes can be utilized. In detergent, poly-acrylic acid is most often used due to price advantage. For crop enhancement, increased fertilizer levels or reduced concentrations can substitute for TPA. In oilfield scale prevention, phosphonates, phosphates and molybdenates provide the same effect. NanoChem believes its competitive advantages include:

- Biodegradability compared to poly-acrylic acid for detergents
- Biodegradability compared to competing oilfield chemicals
- Cost-effectiveness for crop enhancement compared to increased fertilizer use
- Environmental considerations, ease of formulation and increased crop yield opportunities in irrigation scale control markets

Manufacturing

Our Heatsavr 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 our products and we do not have any long term supply contracts for any such items. We manufacture these products in an 11,000 square foot plant in Calgary, Alberta, Canada.



We have agreed to purchase all our requirements for WaterSavr from Nalco Company under a five-year agreement effective April 2002 with a five year extension available, but are not required to purchase any minimum quantity of such product.

Our 56,780 square foot manufacturing facility in Peru, IL presently satisfies our TPA needs for the NanoChem Solutions Division. Precursor chemicals for TPA production are sourced from various manufacturers throughout the world and are available in sufficient quantities for expected increases in sales. The precursor chemicals are, however, derived from crude oil and are subject to price fluctuations related to world oil prices.

Governmental Regulations

Heatsavr and Ecosavr: Chemical products for use in swimming pools are covered by a variety of governmental regulations in the countries where we sell our products. Such regulations cover such matters as packaging, labeling and product safety. We believe our products are in compliance with such regulations. Our WaterSavr product will be subject to additional regulation in some countries particularly for agricultural and drinking water uses. We will address these issues on a country—by—country basis. We do not anticipate that governmental regulations will be an impediment to marketing WaterSavr because the ingredients have been used in agriculture for many years for other purposes. We will require approval to sell WaterSavr in the United States for agricultural or drinking water users. We have already applied for and received NSF (national sanitation foundation) approval for drinking water in the U.S.

WS-BTI: As a new pesticide formulation, WS-BTI must be approved by the Environmental Protection Agency of the USA [EPA] and equivalent bodies throughout the world. An application for product approval was filed in November 2004. It has been accepted for fast track status and the application fee has been waived. Fast track status requires the EPA to provide a decision within six months of accepting an application, therefore, an answer is expected by May 2005. If the product is acceptable to EPA, WaterSavr Global Solutions will proceed to apply for certification in any countries where significant markets are identified.

TPA Oil fields and Agriculture: In these markets, NanoChem has applied for and received government approval in all areas of current use. As new markets are accessed, additional certification will be required and applied for. NanoChem employees are experienced and skilled in successful prosecution of these certifications.

TPA Detergent and personal care: There are currently no regulatory requirements for use of TPA in detergent formulations. For personal care products such as shampoo and toothpaste that NanoChem does not sell to yet, there are various regulatory bodies including the National Sanitation Foundation and the Food and Drug Administration. If these market niches become targets for NanoChem, TPA must meet their requirements in both safety and plant operation.

Proprietary Rights

Our success and ability to compete is dependent in part upon our proprietary technology. We rely on a combination of patent, copyright and trade secret laws and nondisclosure agreements to protect our proprietary technology. We currently hold 56 U.S. patents and 139 International patents. We also have three US patent applications pending and applied to extend these patents to certain other countries. There can be no assurance that our pending 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 or superior to our products. We have not received any claims alleging infringement of the intellectual property rights of others, but there can be no assurance that we may not be subject to such claims in the future.

Employees

As of December 31, 2004, there are 34 persons including one officer, twenty-two sales and customer support and eleven in manufacturing. None of our employees is represented by a labor union and we have experienced no work stoppages to date.



ITEM 2. DESCRIPTION OF PROPERTY

Our President provides use of space in his residence to conduct some of his administrative duties and we do not reimburse him for such use. The Victoria leased spaces were amalgamated in July of 2004 to one space totaling 4,300 sq. ft. for administration, sales and research space at \$4,225 a month. We lease an 11,000 sq. foot building in Calgary, Alberta, Canada for \$6,240 per month until September 2006 for manufacture of our swimming pool products. We lease 1900 square feet in Richmond BC as additional space for sales and customer support at a price of \$1,870 per month. NanoChem leases 7,000 square feet in Bedford Park IL as offices and laboratories at a cost of \$7,367 monthly and owns 56,780 square feet of offices and factory in Peru IL, 80 miles from Chicago.

ITEM 3. LEGAL PROCEEDINGS

1. On January 15, 2002 we filed a lawsuit in the Supreme Court of British Columbia against John Wells and Equity Trust, S.A. seeking return of 100,000 shares of our common stock and repayment of a \$25,000 loan which were provided to defendants for investment banking services to be provided to Flexible consisting of providing a \$5 million loan and a \$25 million stock offering. Such services were not performed and we filed suit for the return of such shares after they were not returned voluntarily and the note was not paid.
2. In November 2003, an ex-employee, Patrick Grant filed suit against Flexible Solutions in Cook County Circuit Court, Cook County IL, claiming wrongful dismissal and seeking return of option rights or cash. Management considers the case without merit and is disputing the suit vigorously.
3. In May 2004 – The Company is plaintiff in a lawsuit demanding the return of the share certificate of 100,000 shares of stock originally given as payment in advance for services, \$10,000 and undetermined damages resulting from a breach of contract. The suit has been filed in the Circuit Court of Cook County, IL against Tatko Biotech Inc. of Peoria, IL. The services for which the advance was given were never performed or given to the company, and the company therefore received no consideration or value for such advance.
4. In June 2004 – The Company has been named the defendant in a lawsuit filed in the Federal Court of Canada as well as the plaintiff in a countersuit in the same court. In July 2004, a former distributor, Sunsolar Energy Technologies, filed suit claiming trademark infringement. The company believes these allegations are without merit and intends to vigorously defend against them.

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

There were no matters submitted to the vote of our shareholders in the quarter ended December 31, 2004.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET FOR SECURITIES

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

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



SALES OR BID PRICES

2004	High	Low
January 2-March 31	5.20	3.92
April 1 – June 30	5.15	4.30
July 1 – September 30	5.05	3.09
October 1 – December 31	4.15	2.82
2003	High	Low
January 2-March 31	3.40	2.25
April 1 – June 30	3.40	2.39
July 1 – September 30	3.60	2.90
October 1 – December 31	5.35	3.00

Prices represent high and low prices on the American Stock Exchange. We had 23 record holders of our common stock on December 31, 2004. Such shares are owned by an estimated 1590 beneficial owners.

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

DIVIDEND POLICY

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

EQUITY COMPENSATION PLAN INFORMATION

The Company issues stock options to purchase common stock the officers, directors, employees and consultants on an individual basis. The Company adopted an Option Granting Plan covering options to be issued December 1, 2001 to December 31, 2002. The plan set guidelines for selecting optionees, option pricing and authorization of issuance. All issuances are required to be approved by the Board of Directors. The following table sets forth information about all of our outstanding options as of December 31, 2004.

EQUITY COMPENSATION PLAN INFORMATION

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (A))
<u>Plan category</u>	A	B	C
Equity compensation plans approved by security holders	-0-	-	-0-
Equity compensation plans not approved by security holders(1)	1,241,740	\$2.87	-0-
Total	1,241,740	\$2.87	-0-



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

Our operating activities are manufacturing and marketing our swimming pool conservation products called "Heatsavr" and "Ecosavr", marketing the water conservation product Watersavr manufactured under license for us by Nalco and manufacturing and sales of thermal poly-aspartic acid products.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The SEC has recently issued Financial Reporting Release No. 60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies" ("FRR 60"), suggesting companies provide additional disclosure and commentary on those accounting policies considered most critical. A critical accounting policy is one that is both very important to the portrayal of our financial condition and results, and requires management's most difficult, subjective or complex judgments. Typically, the circumstances that make these judgments difficult, subjective and/or complex have to do with the need to make estimates about the effect of matters that are inherently uncertain. We believe the accounting policies below represent our critical accounting policies as contemplated by FRR 60. See Note 2 of the Notes to Consolidated Financial Statements for a detailed discussion on the application of these and other accounting policies.

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

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

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

RESULTS OF OPERATIONS

Year ended December 31, 2004 and 2003

Sales for the year ended December 31, 2004 were \$3,392,937 compared to \$2,321,120 for the 2003 period, an increase of \$1,071,817 or 46 %. Our sales increase was primarily the result of the revenue provided by NanoChem Solutions Inc, the new subsidiary formed from the assets acquired from the Donlar bankruptcy estate.

The Company had a loss of \$1,257,545 or \$0.11 per share compared to earnings of \$2,003,312 in 2003. The three largest contributors to the loss were:

- The brand building, marketing and extra staffing costs in Ecosavr sales incurred throughout the year that were not reflected in sales because there was still substantial "Tropical Fish" product with dealers that had been sold by our discontinued distributor, Sunsolar Technologies. Management is now sure that very little old product is on shelves and that costs and revenue for Ecosavr will be better balanced in 2005.
- All divisions maintained or increased sales and marketing costs in the fourth quarter in order to increase the probability of sales increases in all of 2005. The extra costs were considered to be necessary to position the Company for growth.
- Litigation costs became significant in 2004 compared to 2003 as a result of the need to protect our assets from suit. The costs are manageable but FSI will make every effort to reduce these costs going forward without adversely affecting shareholder value.

Our overall gross profit margin on product sales increased to 60.8% in 2004 from 41.3% in 2003. This increase in gross margin was primarily due to the addition of NanoChem Solutions Inc.



The Company realized a net recovery on its operating expenses in 2003 of \$816,054. We cancelled over 2 million stock options to consultants resulting in a non-cash expense recovery of \$2,282,282 in 2003. In 2004 we also increased sales and marketing costs in connection with our WaterSavr product and this was reflected in increased wages, office, rent, telephone and travel expenses. We incurred higher professional fees in the 2004 period primarily due to increased legal and accounting expenses and specific consultants directed at integrating the functions and sales of the NanoChem subsidiary as quickly as possible. Depreciation expense was \$388,071 for the 2004 period compared to \$37,714 for 2003 reflecting depreciation for additional property and equipment added in 2004.

There was no income tax provision for 2004 as no tax installment payments were made during the year while we recorded an income tax benefit of \$25,892 in 2003. We had interest income of \$34,258 in 2004 compared to \$203,310 in 2003 as we used capital to purchase assets and develop our business. There was a net loss of \$1,257,545 in 2004 compared to income of \$2,003,312 in the 2003 period.

With the addition of the Donlar assets, FSI became a much larger company with commensurate increases in most expense segments. However, note must be made of certain expenses that were reduced such as travel (\$132,632 compared to \$150,116) and telecom (\$41,895 compared to \$41,445 despite adding three new locations) as a result of more careful cost control in our WaterSavr subsidiary.

2003 and 2002 Results of Operations

Year ended December 31, 2003 and 2002

Sales for the year ended December 31, 2003 were \$2,321,120 compared to \$1,112,192 for the 2002 period, an increase of \$1,208,928 or 109%. Our sales increase was primarily the result of increased sales in residential swimming pool products, increased sales in the commercial pool division and the beginning of WaterSavr sales. We increased the price of our residential product by 12.5% in third Quarter.

Our overall gross profit margin on product sales decreased to 41.3% in 2003 from 47.7% in 2002. This decrease was primarily due to higher costs for employees, travel and product awareness efforts at the WaterSavr Global division in Illinois. There were also extra costs related to the labor and material inputs for the swimming pool products as a result of the significant rise of the Canadian dollar versus the US\$.

The Company realized a net recovery on its operating expenses for the year of \$816,054, compared an expense of \$3,701,899 in 2002. We cancelled over 2 million stock options to consultants which resulted in a non-cash expense recovery of \$2,282,282 in 2003. In 2003 we also increased sales and marketing costs in connection with our WaterSavr product and this was reflected in increased wages, office, rent, telephone and travel expenses. We incurred higher professional fees in the 2002 period primarily due to increased legal and accounting expenses and specific consultants directed at increasing WaterSavr sales as quickly as possible in countries outside the USA. Depreciation expense was \$37,712 for the 2003 period compared to \$24,683 for 2002 reflecting depreciation for additional property and equipment added in 2003. Our expenses to increase investor awareness of our company were significantly more than in 2002 and this resulted in an increase in investor relations and transfer agent's fee in 2003. We also had credit of \$31,955 in 2003 for currency exchange. There was expense of \$19,180 from such item in 2002.

Our income tax provision for 2003 reflected a benefit of \$25,892 little changed from an income tax benefit of \$21,456 in 2002. We had interest income of \$203,310 in 2003. There was a net income of \$2,003,316 in the 2003 period compared to a net loss of \$3,082,445 in 2002.

Liquidity and Capital Resources

During 2004 we invested \$2.3 million of our working capital in the Donlar Corporation bankruptcy asset purchase while continuing to introduce and market our WaterSavr product which has not yet attained significant sales. We believe we have sufficient capital to support our business and operations for at least the next 3 months. We anticipate utilizing approximately \$500,000 in the next twelve months attempting to close sales in California, Spain and Australia and to extend certain core US patents to select other countries. Approximately 80% of such expenditures are related to our recently introduced WaterSavr product. There can be no assurance that any of the expenditures will result in additional sales revenues. In the event that our capital resources are not sufficient for the continued expansion of the Company, new



capital will be needed or marketing expenses will have to be curtailed until capital is available. There is no guarantee that capital will be available on terms acceptable to the Company or at all. There are no investment banking agreements in place at this time.

Seasonality

Our operations are somewhat subject to seasonal fluctuations. Use of our swimming pool products increase in summer months in most markets and result in our sales from January to June being greater than in July through December. Markets for our WaterSavr product are also seasonal dependant 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. There is a small increase in the spring related to inventory building for the crop season in America and a small slowdown in December as oilfield customers run down stock in advance of yearend but otherwise, little seasonal variation. We believe we are able to adequately respond to these seasonal fluctuations by reducing or increasing production as needed.

Risk Factors

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

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

We are dependent upon the services of Dan O'Brien, who serves as our president and chief executive officer. Our business would be adversely affected if the executive services of Mr. O'Brien ceased to be available us because none of our other employees could take over the management activities of Mr. O'Brien. Therefore we would have to recruit one or more new executives but there can be no assurance that we would be able to engage a replacement executive with the required skills on satisfactory terms.

Among our customers are six that are sizable enough that the loss of any one would be significant and our revenues would be substantially reduced if we lost one or more of these major customers that account for a substantial amount of our sales.

We are no longer subjected to the concentrated credit risk from Sunsolar Technologies for our pool products but our exposure to bad debts will increase as we shift to servicing a larger number of customers in the swimming pool industry.

We allow our major customers between 30 and 45 days to pay for each shipment of product we make to them. This represents risk that we would be subject to substantial write-off of our accounts receivable if one or more of these customers defaulted on their payment obligations to us.

The continuing marketing efforts for our WaterSavr product may result in losses. We introduced our WaterSavr product in June 2002. We have delivered quantities for testing by potential customers but only one customer has ordered the product for commercial use. This product can achieve success only if it is ordered in substantial quantities by commercial customers who have determined that the water saving benefits of the product exceed the costs of purchase and deployment of the product. We cannot assure that we will receive sufficient orders of this product to achieve profits or cover the additional expenses incurred to manufacture and market this product. We expect to spend \$400,000 on WaterSavr in 2005.

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





Cinnamon Jang Willoughby & Company

Chartered Accountants
A Partnership of Incorporated Professionals

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Flexible Solutions International Inc.:

We have audited the consolidated balance sheets of Flexible Solutions International Inc. as at December 31, 2004 and 2003 and the consolidated statements of income and retained earnings and cash flows for each of the two years in the period ended December 31, 2004. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004 and 2003 and the results of its operations and cash flows for each of the two years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

The financial statements as at December 31, 2002 and for the year then ended were audited by another firm of chartered accountants who expressed an opinion without reservation on those statements in their report dated March 12, 2003.

Chartered Accountants

Burnaby, BC
February 11, 2005



FLEXIBLE SOLUTIONS INTERNATIONAL INC.
Consolidated Balance Sheets
December 31, 2004
(U.S. Dollars)

	December 31 2004	December 31 2003
Assets		
Current		
Cash and cash equivalents	\$ 558,795	\$ 237,080
Short term investments	559,440	5,033,837
Accounts receivable	501,372	294,238
Income tax receivable	92,963	86,243
Loan receivable	38,570	17,585
Inventory	1,416,588	212,938
Prepaid expenses	131,280	36,101
	3,299,008	5,918,022
Property and equipment	5,250,346	167,589
Investment	271,000	303,500
	\$8,820,354	\$6,389,111
Liabilities		
Current		
Due to shareholders	-	7,700
Short term loan	3,150,000	
Accounts payable and accrued liabilities	250,129	\$ 157,643
	3,400,129	165,343
Stockholders' Equity		
Capital stock		
Authorized		
50,000,000 Common shares with a par value of \$0.001 each		
1,000,000 Preferred shares with a par value of \$0.01 each		
Issued and Outstanding		
11,831,916 (2003: 11,794,916) common shares	11,832	11,794
Capital in excess of par Value	7,663,421	7,306,613
Other comprehensive income (loss)	100,179	3,023
Deficit	(2,355,207)	(1,097,662)
Total Stockholder's Equity	5,420,225	6,223,768
Total Liabilities and Stockholder's Equity	\$8,820,354	\$6,389,111

See *Commitments and Contingencies* (Note 15 & 16)



FLEXIBLE SOLUTIONS INTERNATIONAL INC.

Consolidated Statements of Operations

For the Years Ended December 31, 2004 and 2003

(U.S. Dollars)

	Year Ended December 31	
	2004	2003
Sales	\$ 3,392,937	\$ 2,321,120
Cost of sales	1,331,075	1,363,064
Gross profit	2,061,862	958,056
Operating Expenses		
Wages	932,283	476,931
Administrative salaries and benefits	133,120	80,999
Advertising and promotion	97,946	63,871
Investor relations and transfer agent fee	215,670	173,268
Office and miscellaneous	166,099	83,854
Insurance	73,375	-
Interest expense	68,384	-
Rent	177,667	70,538
Consulting	398,753	(2,282,282)
Professional fees	308,534	190,638
Travel	132,632	150,116
Telecommunications	41,895	41,445
Shipping	28,866	19,203
Research	58,552	67,615
Commissions	9,578	-
Bad debt expense (recovery)	(10)	24,747
Currency exchange	20,000	(31,955)
Utilities	69,750	17,246
Depreciation	388,071	37,712
	3,321,165	(816,054)
Income (loss) before other items and income tax	(1,259,303)	1,774,110
Interest income	34,258	203,310
Write down of investment	(32,500)	-
Income (loss) before income tax	(1,257,545)	1,977,420
Income tax (recovery)		(25,892)
Net income (loss)	(1,257,545)	\$ 2,003,312
Deficit, beginning	(1,097,662)	(3,100,974)
Deficit, ending	(2,355,207)	(1,097,662)
Net income (loss) per share	-\$ 0.11	\$ 0.17
Weighted average number of shares	11,827,734	11,734,880



FLEXIBLE SOLUTIONS INTERNATIONAL INC.
Consolidated Statements of Operations
For Three Months Ended December 31, 2004 and 2003
(U.S. Dollars)

	Three Months Ended December 31	
	2004	2003
Sales	\$ 981,012	\$ 338,549
Cost of sales	501,761	232,771
Gross profit	479,251	105,778
Operating Expenses		
Wages	325,341	68,273
Administrative salaries and benefits	38,147	20,741
Advertising and promotion	24,688	2,956
Investor relations and transfer agent fee	42,506	52,995
Office and miscellaneous	12,046	24,520
Insurance	39,900	-
Interest expense	39,020	-
Rent	62,956	21,385
Consulting	104,644	(2,404,505)
Professional fees	96,388	17,495
Travel	52,801	30,086
Telecommunications	13,431	4,869
Shipping	6,916	4,516
Research	37,552	6,317
Commissions	9,578	-
Bad debt expense (recovery)	787	23,925
Currency exchange	14,334	(52,742)
Utilities	23,281	3,308
Depreciation	28,535	12,944
	972,853	(2,162,917)
Income (loss) before other items and income tax	(493,601)	2,268,695
Interest income	794	48,114
Write down of investment	(32,500)	-
Income (loss) before income tax	(525,307)	2,316,809
Income tax (recovery)		
Net income (loss)	(525,304)	\$ 2,316,809
Deficit, beginning	(1,829,901)	\$ (3,414,471)
Deficit, ending	(2,355,208)	\$ (1,097,662)
Net income (loss) per share	\$ -0.04	\$ 0.20
Weighted average number of shares	11,831,916	11,791,612



FLEXIBLE SOLUTIONS INTERNATIONAL INC.
Consolidated Statements of Cash Flows
For Year Ended December 31, 2004 and 2003
(U.S. Dollars)

	Year Ended December 31	
	2004	2003
Operating activities		
Net income (loss)	\$ (1,257,545)	\$ 2,003,312
Stock compensation expense	299,345	(2,357,630)
Depreciation	388,071	37,712
Write down of investments	32,500	-
Changes in non-cash working capital items:		
Accounts receivable	(207,134)	(239,016)
Inventory	(1,203,650)	(9,108)
Prepaid expenses	(95,179)	51,220
Accounts payable	92,486	104,497
Income tax receivable	(6,720)	31,771
Decrease in due to shareholders	(7,700)	7,700
Cash provided by (used in) operating activities	(1,965,525)	(369,542)
Investing activities		
Acquisition of property and equipment	(2,320,828)	(76,735)
Short-term investments	4,474,397	28,658
Loan receivable	(20,985)	(7,503)
Cash used in investing activities	2,132,584	(55,580)
Financing activity		
Subscriptions received	-	16,217
Proceeds from issuance of common stock	57,500	64,819
Cash provided by financing activities	57,500	81,036
Effect of exchange rate changes on cash	97,156	24,377
Inflow (outflow) of cash	321,715	(319,709)
Cash and cash equivalents, beginning of period	237,080	556,789
Cash and cash equivalents, end of period	\$ 558,795	\$ 237,080
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ -	\$ 60,351
Interest received	34,258	203,310



FLEXIBLE SOLUTIONS INTERNATIONAL INC.
Consolidated Statements of Stockholder's Equity
For the Year Ended December 31,
2004
(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
Balance December 31, 2002	11,570,916	\$ 11,570	\$9,328,648	\$ (16,217)	\$ (3,100,974)	\$ (21,354)	\$ 6,201,673
Shares Issued							
Exercise of stock options	124,000	124	64,695	-	-	-	64,819
For investment	100,000	100	270,900	-	-	-	271,000
Payment of subscription receivable	-	-	-	16,217	-	-	16,217
Stock option compensation reversal	-	-	(2,357,630)	-	-	-	(2,357,630)
Translation adjustment	-	-	-	-	-	24,377	24,377
Net Income	-	-	-	-	2,003,312	-	2,003,312
Balance December 31, 2003	11,794,916	11,794	7,306,613	-	(1,097,662)	3,023	6,223,768
Shares Issued							
Exercise of stock options	37,000	38	57,463	-	-	-	57,501
Stock option compensation	-	-	299,345	-	-	-	299,345
Translation adjustment	-	-	-	-	-	97,156	97,156
Net Loss	-	-	-	-	(1,257,543)	-	(1,257,543)
Balance December 31, 2004	11,831,916	\$ 11,832	\$7,663,421	\$ -	\$ (2,355,205)	\$ 100,179	\$ 5,420,227



FLEXIBLE SOLUTIONS INTERNATIONAL INC.
Notes to Consolidated Financial Statements
Periods ended December 31
(US Dollars)

1. Basis of Presentation:

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

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

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

On May 2, 2002, the company established WaterSavr Global Solutions Inc. through issuance of 100 shares of common stock.

Pursuant to a purchase agreement dated May 26, 2004, the company acquired the assets of Donlar Corporation on June 9, 2004 and created a new company, NanoChem Solutions Inc.

The purchase price of the transaction was \$6,150,000 with consideration being a combination of cash and debt. Under the purchase agreement and as part of the consideration, the company issued a promissory note bearing interest at 4 % to the vendor to satisfy \$3,150,000 of the purchase price. This note is due June 2, 2005 and all of the former Donlar assets are used as security.

The following table summarizes the estimated fair value of the assets acquired at the date of acquisition:

As at June 9, 2004:

Current assets	\$ 1,126,805
Property and equipment	5,023,195
<hr/>	
Acquisition costs assigned to property and equipment	\$ 6,150,000 314,724
<hr/>	
Total assets acquired	<u>\$ 6,464,724</u>



FLEXIBLE SOLUTIONS INTERNATIONAL INC.
Notes to Consolidated Financial Statements
Periods ended December 31
(US Dollars)

2. Significant Accounting Policies:

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles accepted in the United States of America 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) Inventory -

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

c) Property, Equipment and Leaseholds -

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

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

d) Impairment of Long Lived Assets -

The company assesses the recoverability of its long lived assets by determining whether the carrying value of the long lived assets can be recovered over their remaining lives through undiscounted future operating cash flows using a discount rate reflecting the company's average cost of funds. The assessment of the recoverability will be impacted if estimated future operating cash flows are not achieved. For the year ended December 31, 2004, no impairment charges have been recognized.

e) Foreign Currency -

The functional currency of Flexible Solutions Ltd. 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 company's functional currency, Canadian dollars, into the reporting currency, U.S. dollars, are excluded from the determination of income and disclosed as other comprehensive income (loss) in stockholders' equity.



FLEXIBLE SOLUTIONS INTERNATIONAL INC.
Notes to Consolidated Financial Statements
Periods ended December 31
(US Dollars)

2. Significant Accounting Policies: (Continued)

e) Foreign Currency con't

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

f) Revenue Recognition -

Revenue from product sales is recognized at the time the product is shipped since title and risk of losses is transferred to purchaser upon delivery to the carrier. Shipments are made F.O.B. shipping point. 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.

g) Stock Issued in Exchange for Services -

The valuation of the common stock issued to non-employees in exchange for services is valued at an estimated fair market value as determined by officers and directors of the company based upon trading prices of the company's common stock on the dates of the stock transactions.

h) Stock Based Compensation -

The company applies the fair value based method of accounting prescribed by the Statement of Financial Accounting Standards ("SFAS") No. 123 in accounting for stock issued in exchange for services.

i) 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.

j) Income (Loss) Per Share -

Income (loss) per share is calculated by dividing net income (loss) by the weighted average number of shares outstanding. Diluted loss per share is computed by giving effect to all potential dilutive options that were outstanding during the year. For the year ending December 31, 2004, 2003 and 2002 all outstanding options were anti-dilutive.



FLEXIBLE SOLUTIONS INTERNATIONAL INC.
Notes to Consolidated Financial Statements
Periods ended December 31
(US Dollars)

2. Significant Accounting Policies: (Continued)

k) Use of Estimates -

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

l) Financial Instruments -

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

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.

m) Recent Accounting Pronouncements -

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

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

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



FLEXIBLE SOLUTIONS INTERNATIONAL INC.
Notes to Consolidated Financial Statements
Periods ended December 31
(US Dollars)

3. Short-Term Investment:

Short-term investment consists of a certificate of deposit bearing interest at 4.03% and maturing September 11, 2005. The company will incur a penalty if principle is withdrawn before maturity date. The amount of the penalty equals one half of the remaining days in the terms daily compounded interest on the total amount withdrawn. If the accrued interest is less than the calculated penalty at time of withdrawal, the difference between the penalty and the accrued interest will be deducted from the principal.

4. Loan Receivable:

	2004	2003
5% loan receivable due on demand	\$ 38,570	\$ 17,585

5. Prepaid Expenses:

	2004	2003
Security deposit and prepaids	\$ 131,280	\$ 36,101

6. Property, Plant and Equipment:

	Cost	Accumulated Amortization	2004 Net	2003 Net
Buildings	\$ 3,144,259	\$ 157,213	\$ 2,987,046	-
Computer hardware	41,123	13,612	27,511	\$ 9,267
Furniture and fixtures	15,165	3,650	11,515	3,293
Office equipment	28,906	10,485	18,421	15,195
Manufacturing equipment	2,109,046	323,188	1,785,858	133,283
Trailer	1,926	780	1,146	1,518
Leasehold improvements	25,784	11,251	14,533	5,033
Trade Show Booth	7,212	1082	6,130	-
Land	398,186	-	398,186	-
	\$ 5,771,607	\$ 521,261	\$ 5,250,346	\$ 167,589



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7. Investments:

	2004	2003
Tatko Inc. – Option to purchase 20% interest in common stock	\$ 271,000	\$ 271,000

On May 31, 2003 the company acquired an option to purchase a 20% interest in the outstanding shares of Taiko Inc. for consideration of the issuance of 100,000 shares of its common stock. The option to purchase the shares of Taiko Inc. expires on May 31, 2008. The cost of the investment has been accounted for based on the fair market value of the company's stock on May 31, 2003.

See Contingencies (Note 16d)

8. Comprehensive Income (Loss):

	2004	2003	2002
Net income (loss)	(1,257,243)	\$ 2,003,312	\$ (3,082,445)
Other comprehensive income	97,156	24,377	2,488
	(1,160,087)	\$ 2,027,689	\$ (3,079,957)

9. Income Tax:

Total income tax expenses differs from the amounts computed by applying the combined Canadian federal and provincial statutory rate of 30% to income before income taxes. The income to which this is applied is as follows:

	2004	2003	2002
Income (loss) before income tax per entity:			
Flexible Solutions International Inc.	(652,196)	\$ 2,309,831	\$ (2,866,021)
Flexible Solutions Ltd.	(677,894)	16,616	(56,264)
WaterSavr Global Solutions Inc.	(195,368)	(349,027)	(181,616)
NanoChem Solutions Inc.	267,915	-	-
Consolidated income (loss) before income tax	(1,257,543)	1,977,420	(3,103,901)
Permanent difference – stock option benefit	299,345	(2,357,630)	2,821,608
Stock issued for services	-	-	44,400
Miscellaneous	7,874	-	-
Taxable income (loss) for tax purposes	(950,324)	\$ (380,210)	\$ (237,893)



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9. Income Tax: (continued)

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

	2004	2003	2002
Expected tax expense (recovery) at statutory rates-			
From Canadian operations	-	\$ (25,892)	\$ (21,456)
From US operations	-	(110,984)	(84,691)
Income tax expense (recovery)	-	\$ (136,876)	\$ (106,147)

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

	2004	2003
Non-capital loss carry forwards	559,545	\$ 226,931
Book over tax value of property and equipment	(234,817)	(17,063)
Valuation allowance	(324,728)	(209,868)
	-	-

The company's losses for income tax purposes are \$1,598,701 (2003 - \$648,375) which may be carried forward to apply against future income tax, expiring between 2010 and 2023. The future tax benefit of these loss carry-forwards has been offset with a full valuation allowance. These losses expire as follows:

2010	\$ 79,113
2011	671,177
2018	16,858
2019	13,414
2022	237,893
2023	301,097
2024	279,149



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10. Net Income (Loss) Per Share:

	Net income (loss) (Numerator)	Shares (Denominator)	Per share Amount
2004			
Basic net income per share			
Net income	\$ (1,257,543)	11,827,734	\$ (0.11)
2003			
Basic net income per share			
Net income	2,003,312	11,734,880	0.17
2002			
Basic net income per share			
Net income	(3,082,445)	10,555,754	(0.29)

There were no preferred shares issued and outstanding for the years ended December 31, 2004, 2003 or 2002. The 2002 denominator excludes 3,671,800 shares that may be issued upon exercise of options as to do so would have been anti dilutive for the 2002 per share loss.

11. Stock Options:

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

The following table summarizes the company's stock option activity for the years ended December 31, 2004 and 2003:

	Number of shares	Exercise price per share	Weighted average exercise price
Balance, December 31, 2002	3,686,800	\$0.25 - \$3.50	\$3.79
Granted	256,000	\$3.60 - \$4.25	\$3.61
Exercised	(124,000)	\$0.25 - \$2.28	\$0.48
Expired	(2,107,800)	\$0.25 - \$5.50	\$4.72
Balance, December 31, 2003	1,711,000	\$1.00 - \$4.25	\$2.84
Granted	572,740	\$3.00 - \$4.60	\$3.46
Exercised	(37,000)	\$1.00 - \$2.50	\$1.55
Expired	(5,000)	\$4.25	\$4.25
Cancelled	(1,000,000)	\$1.50 - \$3.50	\$2.50
Balance, December 31, 2004	1,241,740	\$1.00 - \$4.60	\$2.87



FLEXIBLE SOLUTIONS INTERNATIONAL INC.
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11. Stock Options (Continued)

The company applies APB Opinion No. 25 and related interpretations in accounting for its stock options granted to employees, and accordingly, compensation expense of \$Nil (2003 - nil) was recognized as wages expense. Had compensation expense been determined as provided in SFAS 123 using Black-Scholes Option Pricing Model, the pro forma effect on the company's net income (loss) and per share amounts would be as follows:

	2004	2003	2002
Net income (loss), as reported	\$ 1,257,543	\$ 2,003,312	\$ (3,082,445)
Net income (loss), pro forma	1,647,491	1,922,433	(3,704,296)
Net income (loss) per share, as reported	(0.11)	0.17	(0.29)
Net income (loss) per share, pro forma	(0.14)	0.16	(0.35)

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

	2004	2003	2002
Expected life - years	5.0	5.0	5.0
Interest rate	3.50%	2.87%	3.00%
Volatility	49%	49.0%	72.3%
Dividend yield	- %	- %	- %

During the year, the company granted 275,400 (2003 - 205,000) stock options to consultants and have been recognized applying SFAS 123 using the Black-Scholes Option Pricing Model which resulted in additional consulting expense of \$299,345 (2003 - \$122,570). During the year ended December 31, 2003, the company cancelled 2,000,000 stock options to consultants pursuant to the terms of the contract, resulting in a recovery of consulting expense of \$2,480,200.

12. Capital Stock:

During the year ended December 31, 2004 the company:

- (i) issued 37,000 shares of common stock at prices ranging from \$1.00 to \$2.50 per share upon exercise of stock options.

During the year ended December 31, 2003 the company:

- (i) issued 100,000 shares of common stock valued at \$271,000 to acquire an option to purchase a 20% interest in Taiko Inc. (see Note 8); and
- (ii) issued 124,000 shares of common stock at prices ranging from \$0.25 to \$2.28 per share upon exercise of stock options.



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13. 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:

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

(b) Manufacture of biodegradable polymers and chemical additives:

Biodegradable polymers are used within the petroleum, chemical, utility and mining industries to prevent corrosion and scaling in water piping. Chemical additives are manufactured for use in laundry and dish detergents, as well as in products to reduce levels of insecticides, herbicides and fungicides.

The company's sales in the United States of America and abroad amounted to 79% (2003 - 28%) . The remainder was earned in Canada.

The company's long-lived assets are located in Canada and the United States as follows:

	2004	2003
Canada	\$ 238,807	\$ 167,589
United States	5,011,539	-
Total	\$ 5,250,346	\$ 167,589

14. Commitments:

Property and Premises Leases -

The company is committed to minimum rental payments for property and premises aggregating approximately \$393,683 over the term of two leases, the last expiring on June 30, 2009.

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

2005	\$134,290
2006	114,752
2007	55,169
2008	55,654
2009	33,818



FLEXIBLE SOLUTIONS INTERNATIONAL INC.
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15. Contingencies:

- a) The company has been named as a plaintiff in a lawsuit filed in the state of Illinois by a former employee. In November 2003, an ex-employee, Patrick Grant, filed suit against Flexible Solutions International in Cook County Circuit Court, Cook County, IL, claiming wrongful dismissal and seeking return of options rights or cash. The company believes these allegations are without merit and intends to vigorously defend against them.
- b) The company is plaintiff in a lawsuit demanding return of the share certificate of 100,000 shares of stock originally given to the defended as payment in advance for services. The services for which the advance was given were never performed or given to the company, and the company therefore received no consideration or value for such advance. Return of the share certificate for 100,000 shares was demanded within ten (10) days, namely August 22, 2001, however, to date remains unreturned.

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

- c) The company has been named the defendant in a lawsuit filed in the Federal Court of Canada as well as the plaintiff in a countersuit in the same court. In July 2004, a former distributor, Sunsolar Energy Technologies, filed suit claiming trademark infringement. The company believes these allegations are without merit and intends to vigorously defend against them.
- d) The company is plaintiff in a lawsuit demanding the return of the share certificate of 100,000 shares of stock originally given as payment in advance for services, \$10,000 and undetermined damages resulting from a breach of contract. The suite has been filed in the Circuit Court of Cook County, IL against Tatko Biotech Inc. of Peoria, IL. The services for which the advance was given were never performed or given to the company, and the company therefore received no consideration or value for such advance.

The shares were recorded at fair market value less 10%, resulting in an expense of \$271,000 recognized in June 2003.

16. Comparative Figures:

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

ITEM 8 CHANGES IN ACCOUNTANTS: NONE

ITEM 8A 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). The Company's disclosure controls and procedures are designed to provide a reasonable level of assurance of reaching



the Company's desired disclosure control objectives. 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. The Company's certifying officers have concluded that the Company's disclosure controls and procedures are effective in reaching that level of assurance.

As of the end of the period 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.

PART III

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

DIRECTORS AND EXECUTIVE OFFICERS

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

<u>Name</u>	<u>Age</u>	<u>Position</u>
Daniel B. O'Brien	48	President, Director
Dr. Robert N. O'Brien	83	Director
John H. Bientjes	51	Director
Dale Friend	48	Director
Eric Hodges	56	Director

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

Dr. Robert N. O'Brien has been a member of the Company's Board of Directors 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.

John H. Bientjes has been a member of our Board of Directors since February 2000. Mr. Bientjes has been the manager of the Commercial Aquatic Supplies Division of D.B. Perks & Associates, Ltd., located



in Vancouver, British Columbia, a company that markets supplies and equipment to commercial swimming pools which are primarily owned by municipalities. Mr. Bientjes was graduated in 1976 from Simon Fraser University in Vancouver, British Columbia with a Bachelor of Arts Degree in Economics and Commerce.

Dale Friend was elected a Director in December, 2002. She has a diversified background in the area of accounting. Her experience has been primarily in business offering a wide range of accounting knowledge. Dale currently works for a Lock and Security firm in Vancouver where she uses her skills as the company comptroller. Previously she was a Senior Trust Analyst for Alderwoods Group, formerly The Loewen Group from August 2002 to February 2003.. Prior to this she was with Telus, formerly BC Tel, for almost a decade in various accounting, auditing and financial planning positions.

Eric Hodges was elected to the Board in September 2004. He is a Victoria based accountant with decades of experience. His financial education is from the University of Washington in Seattle where he played for the Huskies football program. Mr. Hodges continued playing football after college, with a successful, multiyear professional career with the BC Lions of the Canadian Football League. Eric is extremely familiar with both Canadian and US GAAP (generally acceptable accounting principles), since he has clients in both countries. Furthermore, his wide range of experience with small and quickly growing companies will be an asset to the Board

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

Directors are elected annually and hold office until the next annual meeting of our stockholders and until their successors are elected and qualified. The Board has established an audit committee comprised of John Bientjes, Dale Friend and Eric Hodges, all of whom are independent Directors and have strong financial backgrounds. Dr. Robert O'Brien and John Bientjes serve as the compensation committee. All executive officers are chosen by the board of directors and serve at the board's discretion.

We reimburse directors for any expenses incurred in attending board of directors meetings. As well, Directors are compensated \$1000 annually to stand on the Board and the three independent directors receive an option to purchase 5,000 common shares each year that they serve.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely upon a review of the copies of Forms 3 and 4 and 5 thereto furnished to the Company, or written representations that no annual Form 5 reports were required, the Company believes that all filing requirements under Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") applicable to its directors, officers and any persons holding ten percent (10%) or more of the Company's Common Stock were made with respect to the Company's fiscal year ended December 31, 2004.

ITEM 10. EXECUTIVE COMPENSATION

Executive Compensation

The following table sets forth certain information about the compensation paid or accrued to the person who was the Company's chief executive officer during the fiscal year ended December 31, 2004 (the "named executive officer").



Summary Compensation Table

	Year	ANNUAL COMPENSATION			LONG TERM COMPENSATION AWARDS			
		Salary	Bonus	Other Annual Compensation	AWARDS		PAYOUTS	
					Restricted Stock Awards	Securities Underlying Option/SARs	All LTIP Payouts	Other Compensation
		(\$)	(\$)	(\$)	(\$)	(#)	(\$)	(\$)
Daniel O'Brien President, CEO	2004	40,000	--	--	--	50,000	--	--
	2003	40,000	--	--	--	20,000	--	--
	2002	40,000	--	--	--	50,000	--	--

The following table provides certain information about the stock options granted to the executive officer named in the Summary Compensation Table, in the year ended December 31, 2004.

Options Granted in 2004 Fiscal Year

Name	Number of securities underlying options granted (#)	Percent of total options/SARs granted to employees in fiscal year	Exercise or base price (\$/Share)	Expiration date
Daniel B. O'Brien	50,000 shares	15.3%	\$3.00	December 31, 2009

The following table sets forth certain information about stock options exercised in 2004 and the value of unexercised stock option held as of December 31, 2004 by the executive officer named in the Summary Compensation Table.

Aggregate Option Exercises in 2004 and Year-End Option Values

Name	Shares Acquired on Exercise(#)	Value Realized(\$)	Number of Unexercised Options at FY-End (#)		Value of Unexercised In-The Money Options at FY-End (\$)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Daniel B. O'Brien			170,000	50,000	\$391,500	0



DIRECTOR COMPENSATION

We have agreed to issue our directors who are not also employed by the Company options to purchase 5,000 shares of our common stock annually for serving as a director. However, Dr. Robert N. O'Brien will not receive director options in any year in which he receives options for other services. We pay Dr. Robert O'Brien additional options for assisting in research and development and patent prosecution. The number of said options is determined annually by the Board of Directors with Dr. O'Brien not voting on such matter. In 2004, Dr. O'Brien received the following options for such services and he did not receive director options:

<u>Option Price</u>	<u>No. of Options</u>	<u>Expiration Date</u>
\$3.00	25,000	December 31, 2009

Our outside directors received the following options in 2004:

<u>Name</u>	<u>Option Price</u>	<u>No. of Options</u>	<u>Expiration Date</u>
John H. Bientjes	\$3.00	5,000	December 31, 2009
Dale Friend	\$3.00	5,000	December 31, 2009
Eric Hodges	\$3.00	5,000	December 31, 2009

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

The following table sets forth certain information regarding the beneficial ownership of Common Stock as of March 11, 2004 by (i) each stockholder who is known by the Company to own beneficially more than five percent of the Company's outstanding Common Stock, (ii) each director of the Company, (iii) the Company's executive officers named in the Summary Compensation Table, and (iv) by all executive officers and directors of the Company as a group. The information as to each person or entity has been furnished by such person or group.

Shares Beneficially Owned (1)

	<u>Common Stock</u>	<u>Percentage</u>
Daniel O'Brien(2)(3)	4,816,200	40.7%
Dr. Robert O'Brien(2)(3)	1,825,000	15.5%
as a group [2 persons]	6,641,200	56.2%

(1) Applicable percentage of ownership at March 11, 2005, is based upon 11,831,916 shares of Common Stock outstanding. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting and investment power with respect to shares shown as beneficially owned. Shares of Common Stock subject to options or warrants currently exercisable or exercisable within 60 days of March 11, 2005, are deemed outstanding for computing the shares and percentage ownership of the person holding such options or warrants, but are not deemed outstanding for computing the percentage ownership of any other person or entity.

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

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



<u>Name</u>	<u>No. of Options</u>	<u>Exercise Price</u>	<u>Expiration Date</u>
Daniel O'Brien	100,000	\$1.40	December 21, 2006
	50,000	\$4.25	December 31, 2007
	20,000	\$3.60	December 31, 2008
Dr. Robert O'Brien	50,000	\$1.40	December 21, 2006
	25,000	\$4.25	December 31, 2007
	25,000	\$3.60	December 31, 2008
John Bientjes	5,000	\$4.25	December 31, 2007
	5,000	\$3.60	December 31, 2008
Dale Friend	5,000	\$4.25	December 31, 2007
	5,000	\$3.60	December 31, 2008
Eric Hodges	5,000	\$3.60	December 31, 2008
	5,000	\$3.60	December 31, 2008

Does not include the following shares which may be acquired on the exercise of stock options which are not exercisable until December 31, 2005 and must also be approved at the annual general meeting.

<u>Name</u>	<u>No. of Options</u>	<u>Exercise Price</u>	<u>Expiration Date</u>
Daniel O'Brien	50,000	\$3.00	December 31, 2009
John H. Bientjes	5,000	\$3.00	December 31, 2009
Dr. Robert O'Brien	25,000	\$3.00	December 31, 2009
Dale Friend	5,000	\$3.00	December 31, 2009
Eric Hodges	5,000	\$3.00	December 31, 2009

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS.

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

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

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



- 10.2 Global Supply and License Agreement between Registrant and Ondeo Nalco Company. (Incorporated by reference to Exhibit 10.2 to Registrant's Registration Statement on Form SB-2 filed March 5, 2003.
- 21 Subsidiaries. (Incorporated by reference to Exhibit 21 to Registrant's Registration Statement on Form SB-2 filed January 22, 2003)
- 31.1 Sarbanes Oxley Section 302 Certification
- 32.1 Sarbanes Oxley Section 906 Certification

Reports on Form 8-K

Filed January 10, 2005

On January 6, 2005 Flexible Solutions International, Inc., issued a press release announcing results from evaporation control testing conducted at Owens Lake, California during September and October 2004 .

Filed November 22, 2004

On November 18, 2004 Flexible Solutions International, Inc., issued a press release announcing that it has filed with EPA for Registration of Mosquito Control Product.

Filed November 16, 2004

On November 15, 2004 Flexible Solutions International, Inc., issued a press release announcing financial results for the third quarter ended September 30, 2004.

Filed October 6, 2004

On October 5, 2004 Flexible Solutions International, Inc., issued a press release announcing expected financial results for the third quarter ended September 30, 2004.

Filed August 23, 2004

On Aug 17th 2004, Flexible Solutions International Inc. served Tatko Inc. counsel with a suit filed in Circuit Court of Cook County IL. Flexible claims breach of agreement by Tatko and seeks return of 100,000 shares of restricted common stock and such other relief to which Flexible is entitled.

Filed July 26, 2004

On July 23, 2004 Flexible Solutions International, Inc., issued a press release announcing the appointment of Fred J. Kupel as the Company's Chief Financial Officer. In the same release, pro forma revenues for the periods ended June 30, 2004, of \$1,620,700 for three months and \$3,198,770 for six months were announced.

Filed June 1, 2004

On May 27, 2004 Flexible Solutions International, Inc., issued a press release announcing the purchase of the assets of Donlar Corporation, Bedford Park, IL. Donlar had filed for protection under Chapter 11 of the Bankruptcy Code on February 27, 2004. In addition to the physical assets, also included were the products and technologies.

Filed May 18, 2004

On May 17, 2004 Flexible Solutions International, Inc., issued a press release announcing financial results for the first quarter ended March 31, 2004.

Filed May 18, 2004

On May 13, 2004 Flexible Solutions International, Inc., issued a press release announcing that the Company has been awarded a \$30,000 grant under the Metropolitan Water District of Southern California's Innovative Supply Program for an evaporation control project starting in June 2004



Filed March 9, 2004

On March 8, 2004 Flexible Solutions International, Inc., issued a press release announcing that the Company has entered into an agreement to purchase substantially all the assets of an Illinois company engaged in manufacture and sale of environmentally sound chemicals for the water industry.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Cinnamon Jang Willoughby, Certified Public Accountants, are the Company's independent auditors to examine the financial statements of the Company for the fiscal year ending December 31, 2004. Story and Company P.C. has performed the following services and has been paid the following fees for these fiscal years.

Audit Fees

Cinnamon Jang Willoughby was paid aggregate fees of \$23,240 for the for the fiscal year ended December 31, 2004 for professional services rendered for the audit of the Company's annual financial statements and for the reviews of the financial statements included in Company's quarterly reports on Form 10QSB during these fiscal years.

Audit-Related Fees

Cinnamon Jang Willoughby was not paid any additional fees for the fiscal year ended December 31, 2004 for assurance and related services reasonably related to the performance of the audit or review of the Company's financial statements.

Tax Fees

Cinnamon Jang Willoughby was paid aggregate fees of \$2,075 for the fiscal year ended December 31, 2004 for professional services rendered for tax compliance, tax advice and tax planning. The nature of these services were calculation and filing of 2004 income tax return.

Other Fees

Cinnamon Jang Willoughby was paid no other fees for professional services during the fiscal year ended December 31, 2004.





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