

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Fiscal Year Ended December 31, 2016

OR

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

Commission File No. 001-31540

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

91-1922863

(I.R.S. Employer Identification No.)

#206 – 920 Hillside Ave

Victoria, British Columbia, Canada

(Address of Principal Executive Office)

V8T 1Z8

Zip Code

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

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

Title of each class

Name of each exchange on which registered

Common Stock, \$0.001 par value

NYSE MKT

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

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

Yes [ ] No [X]

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

Yes [ ] No [X]

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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

Large accelerated filer [ ]

Accelerated filer [ ]

Non-accelerated filer [ ]

Smaller reporting company [X]

(Do not check if a smaller reporting company)

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

As of June 30, 2016 the aggregate market value of the Company's common stock held by non-affiliates was \$9,647,527 based on the closing price for shares of the Company's common stock on the NYSE MKT for that date.

As of March 30, 2017, the Company had 11,460,991 issued and outstanding shares of common stock.

Documents incorporated by reference: None

## **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K for the year ended December 31, 2016 (“Annual Report”), including the Audited Consolidated Financial Statements, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, those statements relating to development of new products, our financial condition and our ability to increase distribution of our products. Forward-looking statements can be identified by the use of forward-looking terminology, such as “may,” “will,” “should,” “expect,” “anticipate,” “estimate,” “continue,” “plans,” “intends,” or other similar terminology. These forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is anticipated or forecasted in these forward-looking statements due to numerous factors, including, but not limited to, our ability to generate or obtain sufficient working capital to continue our operations, changes in demand for our products, the timing of customer orders and deliveries and the impact of competitive products and pricing. In addition, such statements could be affected by general industry and market conditions and growth rates, and general domestic and international economic conditions.

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

## PART I

### Item 1. Description of Business

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

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

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

Our website is [www.flexiblesolutions.com](http://www.flexiblesolutions.com)

### Our Products

#### HEATSAVR®/ECOSAVR

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

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

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

atmosphere of the pool enclosure, less energy is required to maintain a pool at the desired temperature and there is a reduced load on the air-conditioning system.

HEATSAVR® retails for between \$250 and \$300 per four gallon case in the United States. ECOSAVR® has a suggested retail price of \$13.00 in the United States. We market our HEATSAVR® and ECOSAVR® products to homeowners with swimming pools and spas as well as operators of swimming pools and spas in hotels, motels, schools, and municipal and private recreational facilities.

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

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

#### *WATERSAVR®*

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

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

Tests have indicated that WATERSAVR®:

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

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

#### *TPAs (thermal polyaspartate biopolymers)*

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

TPAs for the Agricultural Industry. TPAs have the ability to reduce fertilizer crystallization before, during and after application and can also prevent crystal formation between fertilizer and minerals present in the soil. Once crystallized, fertilizer and soil minerals are not able to provide plant nourishment. As a result, in select conditions the use of TPAs either blended with fertilizer or applied directly to crops can increase yields significantly. TPAs are designated for crop nutrient management programs and should not

be confused with crop protection and pesticides or other agricultural chemical applications. Depending on the application, TPA products are marketed under a variety of brands including Amisorb, LYNX, MAGNET, AmGro and VOLT. Markets of significance include potatoes, sugar beets, cotton, tomatoes, almonds and other high value per acre crops.

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

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

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

### Principal Customers

The table below presents our revenue resulting from purchases by our major customers for the periods presented.

	Year Ended December 31,	
	2016	2015
Company A	\$ 5,180,333	\$ 4,854,764
Company B	\$ 3,560,645	\$ 4,144,707
Company C	\$ 1,407,064	\$ 1,421,694

Customers with balances greater than 10% of our receivable balances as of each of the fiscal year ends presented are shown in the following table:

	Year Ended December 31,	
	2016	2015
	\$	
Company A	1,822,743	\$ 814,848
Company B	-	\$ 281,816
Company D	-	\$ 202,157

## Competition

### *HEATSAVR® and ECOSAVR™*

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

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

### *WATERSAVR®*

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

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

### *TPAs*

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

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

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

## Manufacturing

Our HEATSAVR® and ECOSAVR® products and dispensers are made from chemicals, plastic and other materials and parts that are readily available from multiple suppliers. We have never experienced

any shortage in the availability of raw materials and parts for these products and we do not have any long term supply contracts for any of these items. We manufactured these products in our plant in Taber, Alberta, Canada.

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

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

In November 2007, we purchased a building and 3.3 acres of land in Taber, Alberta, Canada. The price paid was CDN\$1,325,000 and was financed by cash of \$660,000 and an interest free mortgage that was paid in June 2008. The building has been renovated and can be used for various industrial purposes. It was operated as a fermentation facility for the production of aspartic acid, a key ingredient in TPAs. Aspartic acid made in Taber was then shipped to our plant in Illinois for finishing. In February 2014 we suspended production of aspartic acid at our Taber plant. The suspension was due to the fact that since construction of the plant began in 2008, economic conditions in Alberta and worldwide have changed significantly. In particular, plant operating costs have risen and the price of aspartic acid derived from oil was less than forecast. Subsequent to year end, the Taber plant was destroyed in a fire.

## **Government Regulations**

### *HEATSAVR® and ECOSAVR®*

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

### *WATERSAVR®*

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

### *TPAs*

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

## **Proprietary Rights**

Our success is dependent, in part, upon our proprietary technology. We rely on a combination of patent, copyright, trademarks, trade secrets and nondisclosure agreements to protect our proprietary technology. We currently hold many U.S. and International patents which expire at various dates up to 2032. We also have applied to extend some of these patents to other countries where we operate. There can be no assurance that our foreign patent applications will be granted or that any issued patent will be upheld as valid or prevent the development of competitive products, which may be equivalent to or superior to our products. We have not received any claims alleging infringement of the intellectual property rights of others, but there can be no assurance that we may not be subject to such claims in the future.

## **Research and Development**

We spent \$95,028 during the year ended December 31, 2016 and \$95,265 during year ended December 31, 2015 on research and development. This work relates primarily to the development of our water and energy conservation products, as well as new research in connection with our TPA products.

## **Employees**

As of December 31, 2016 we had 27 employees, including one officer, nine sales and customer support personnel, and seventeen manufacturing personnel. None of our employees is represented by a labor union and we have not experienced any work stoppages to date.

## **Item 1A. Risk Factors**

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

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

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

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

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

- demand for and market acceptance of our products;
- competitive pressures resulting in lower selling prices;

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

***Our operations are subject to seasonal fluctuation.***

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

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

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

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

The marketing efforts of our WATERSAVR® product may result in continued losses. We introduced our WATERSAVR® product in June 2002 and, to date, we have delivered quantities for testing by potential customers, but only a few customers have ordered the product for commercial use. This product can achieve success only if it is ordered in substantial quantities by commercial customers who have determined that the water saving benefits of the product exceed the costs of purchase and deployment of the product. We can offer no assurance that we will receive sufficient orders of this product to achieve profits or cover the additional expenses incurred to manufacture and market this product. We have received National Sanitation Foundation approval for the use WATERSAVR® in drinking water in the United States. Nevertheless, we may require county or state approval on a case by case basis. We expect to spend \$200,000 on the marketing and production of our WATERSAVR® product in fiscal 2017.

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

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

- accurately anticipate customer needs;
- innovate and develop new products and applications;
- successfully commercialize new products in a timely manner;
- price our products competitively and manufacture and deliver our products in sufficient volumes and on time; and
- differentiate our products from our competitors' products.

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

***We are dependent upon certain customers.***

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

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

Revenues from shipments made outside of the United States accounted for approximately 71% of our revenues in the year ended December 31, 2016, 75% in the year ended December 31, 2015 and 75% in the year ended December 31, 2014. Since we sell our products worldwide, our business is subject to risks associated with doing business internationally. We anticipate that revenues from international operations will continue to represent a sizable portion of our total revenue. Accordingly, our future results could be harmed by a variety of factors, including:

- changes in foreign currency exchange rates;
- changes in a country or region's political or economic conditions, particularly in developing or emerging markets;
- longer payment cycles of foreign customers and difficulty of collecting receivables in foreign jurisdictions;
- trade protection measures and import or export licensing requirements;

- differing tax laws and changes in those laws;
- difficulty in staffing and managing widespread operations;
- differing laws regarding protection of intellectual property; and
- differing regulatory requirements and changes in those requirements.

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

We currently allow our major customers between 30 and 90 days to pay for each sale. This practice, while customary, presents an accounts receivable write-off risk in that if one or more of our significant customers defaulted on their payment obligations to us, such write-off, if substantial, would have a material adverse effect on our business and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

**Item 1B. Unresolved Staff Comments.**

Not applicable.

**Item 2. Properties.**

We lease 1,100sq.ft. in Victoria, British Columbia that is used for administration and sales at \$968 per month, effective to October 2016. We also have a 6,400 sq. ft. facility in Naperville, Illinois which we use for offices and laboratories at a cost of \$5,440 per month with a lease effective to December 2020 and 30,600 sq. ft. of warehouse space in Peru, IL used for storage and extra capacity at a cost of \$10,270 per month with a lease effective to October 2021. We own a 56,780 sq. ft. facility in Peru, Illinois which is used to manufacture our TPA line of products as well as a building and 3.3 acres of land in Taber, Alberta, Canada. Our building in Taber has been renovated and can be used for various industrial purposes. In February 2014, we decided to stop aspartic acid production at the Taber facility. Subsequent to year end, the Taber plant was destroyed in a fire.

**Item 3. Legal Proceedings.**

None.

**Item 4. Mine Safety Disclosure**

Not applicable.

**PART II**

**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities.**

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

		<u>High</u>	<u>Low</u>
<b><u>Year Ended December 31, 2016</u></b>	First Quarter	\$1.10	\$0.75
	Second Quarter	1.81	0.84
	Third Quarter	2.41	1.33
	Fourth Quarter	2.26	1.20
		<u>High</u>	<u>Low</u>
<b><u>Year Ended December 31, 2015</u></b>	First Quarter	\$1.70	\$1.06
	Second Quarter	2.86	1.16
	Third Quarter	2.09	0.93
	Fourth Quarter	1.00	0.66

As of December 31, 2016 we had approximately 2,200 shareholders.

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

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

None of our officers or directors, nor any of our principal shareholders purchased, on our behalf, any shares of our common stock from third parties either in a private transaction or as a result of purchases in the open market during the years ended December 31, 2015 and 2016.

As of March 30, 2017 we had 11,460,991 outstanding shares of common stock. The following table lists additional shares of our common stock, including shares issuable upon the exercise of options which have not yet vested, which may be issued as of March 30, 2017:

	<u>Number Of Shares</u>	<u>Note Reference</u>
Shares issuable upon exercise of options granted to our officers, directors, employees, consultants, and third parties	743,000	A

A. Options are exercisable at prices ranging from \$0.75 to \$2.00 per share. See Item 11 of this report for more information concerning these options.

#### **Item 6. Selected Financial Data.**

Not applicable.

#### **Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation.**

##### **Results of Operations**

We have two product lines.

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

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

Material changes in the line items in our Statement of Operations for the year ended December 31, 2016 as compared to the same period last year, are discussed below:

<u>Item</u>	<u>Increase (I) or Decrease (D)</u>	<u>Reason</u>
Sales		
EWCP products	I	Addition of new customers
TPA products	I	Increased uptake from new and existing customers and new agriculture products.
Gross Profit, as a % of sales	I	Lower oil prices reduced aspartic acid costs.
Administrative salaries and benefits	I	Increased wages to retain employees.

Office and miscellaneous	D	Reduced since the Taber plant was not in operation.
Rent	D	Relocation to new premises.
Consulting	D	Reduced since the Taber plant is not in operation.
Professional fess	I	Increased legal and accounting costs.
Travel	I	Increased to build future client base.
Commissions	D	Uncommissionable sales increased against commissionable sales.

The factors that will most significantly affect future operating results will be:

- the sale price of crude oil which is used in the manufacture of aspartic acid we import from China. Aspartic acid is a key ingredient in our TPA product;
- activity in the oil and gas industry, as we sell our TPA product to oil and gas companies; and
- drought conditions, since we also sell our TPA product to farmers.

Other than the foregoing we do not know of any trends, events or uncertainties that have had, or are reasonably expected to have, a material impact on our revenues or expenses.

### Capital Resources and Liquidity

Our material sources and <uses> of cash during the year ended December 31, 2016 were:

Cash provided by operations	\$ 1,775,226
Long term deposits	(15,925)
Investment in ENP Peru Investments, LLC	(87,500)
Net purchases of equipment	(114,270)
Advance from short term line of credit	50,000
Repayment of loans	(201,193)
Repurchase of common stock	(1,575,000)
Proceeds from issuance of common stock	32,600
Exchange rate changes	107,390

Our material sources and <uses> of cash during the year ended December 31, 2015 were:

Cash provided by operations	\$ 2,736,651
Long term deposits	(4,697)
Net purchases of equipment	(59,030)
Repayment of short term line of credit	(550,000)
Repayment of loans	(343,661)
Proceeds from issuance of common stock	8,000
Exchange rate changes	(36,042)

In 2007, we began construction of a plant in Taber, AB, Canada. The plant came on line during 2012 and we began depreciating the plant and related equipment effective January 2012.

In February 2014 we suspended production of aspartic acid at our Taber plant. The suspension was due to the fact that since construction of the plant began in 2008, economic conditions in Alberta and worldwide have changed significantly. In particular, plant operating costs have risen and the price of aspartic acid derived from oil was less than forecast. Subsequent to year end, the Taber plant was destroyed in a fire.

We have sufficient cash resources to meet our future commitments and cash flow requirements for the coming year. As of December 31, 2016, our working capital was \$7,150,606 and we have no substantial commitments that require significant outlays of cash over the coming fiscal year.

We are committed to minimum rental payments for property and premises aggregating approximately \$934,854 over the term of three leases, the last expiring on October 31, 2021.

Commitments in the next five year are as follows:

2017	\$ 206,934
2018	\$ 201,840
2019	\$ 205,580
2020	\$ 209,400
2021	\$ 111,100

Other than as disclosed above, we do not anticipate any material capital requirements for the twelve months ending December 31, 2017.

Other than as disclosed in Item 7 of this report, we do not know of any trends, demands, commitments, events or uncertainties that will result in, or that are reasonable likely to result in, our liquidity increasing or decreasing in any material way.

Other than as disclosed in Item 7 of this report, we do not know of any significant changes in our expected sources and uses of cash.

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

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

## **Critical Accounting Policies And Estimates**

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

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

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

## **Recent Accounting Pronouncements**

We have evaluated recent accounting pronouncements issued since January 1, 2016 and determined that the adoption of these recent accounting pronouncements will not have a material effect on our financial statements.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

Not applicable.

**Item 8. Financial Statements and Supplementary Data.**

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

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of FLEXIBLE SOLUTIONS INTERNATIONAL, INC.:

We have audited the accompanying consolidated balance sheets of Flexible Solutions International Inc. and subsidiaries (the “Company”) as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive income (loss), stockholders’ equity and cash flows for each of the years in the two year period ended December 31, 2016. The Company’s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the two period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

Subsequent to December 31, 2016, the Company’s facility in Taber, Alberta, was destroyed in a fire. Refer to note 17 of the consolidated financial statements. Our opinion is not modified with respect to this matter.



Vancouver, Canada  
March 31, 2017

Chartered Professional Accountants

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

	<b>2016</b>	<b>2015</b>
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 2,470,066	\$ 2,498,738
Accounts receivable (see Note 3)	3,008,153	1,954,877
Inventories (see Note 4)	3,786,093	3,275,476
Prepaid expenses	228,699	243,342
<b>Total current assets</b>	<b>9,493,011</b>	<b>7,972,433</b>
<b>Property, equipment and leaseholds, net (see Note 5)</b>	<b>3,393,944</b>	<b>3,791,109</b>
<b>Patents (see Note 6)</b>	<b>95,890</b>	<b>100,623</b>
<b>Long term deposits (see Note 7)</b>	<b>26,163</b>	<b>10,169</b>
<b>Investment (Note 8)</b>	<b>122,480</b>	<b>-</b>
<b>Deferred tax asset (Note 11)</b>	<b>2,026,999</b>	<b>2,268,296</b>
<b>Total Assets</b>	<b>\$15,158,487</b>	<b>\$14,142,630</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 902,037	\$ 826,315
Deferred revenue	95,308	40,451
Income taxes payable	893,867	293,238
Short term line of credit (Note 9)	250,000	200,000
Current portion of long term debt (Note 10)	201,193	201,193
<b>Total current liabilities</b>	<b>2,342,405</b>	<b>1,561,197</b>
<b>Long term debt (Note 10)</b>	<b>352,089</b>	<b>553,282</b>
<b>Total liabilities</b>	<b>2,694,494</b>	<b>2,114,479</b>
<b>Stockholders' Equity</b>		
<b>Capital stock (see Note 14)</b>		
Authorized		
50,000,000 common shares with a par value of \$0.001 each		
1,000,000 preferred shares with a par value of \$0.01 each		
Issued and outstanding:		
11,457,991 (2015: 13,177,991) common shares	11,458	13,178
<b>Capital in excess of par value</b>	<b>14,842,863</b>	<b>16,317,225</b>
<b>Other comprehensive income</b>	<b>(1,087,208)</b>	<b>(1,205,798)</b>
<b>Accumulated Deficit</b>	<b>(1,303,120)</b>	<b>(3,096,454)</b>
<b>Total Stockholders' Equity</b>	<b>12,463,993</b>	<b>12,028,151</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$15,158,487</b>	<b>\$14,142,630</b>

**Commitments and Subsequent events**

**(See Notes 16 and 17)**

See Notes to Consolidated Financial Statements.

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

	<b>2016</b>	<b>2015</b>
<b>Sales</b>	\$ 16,246,014	\$ 15,898,547
<b>Cost of sales</b>	9,256,526	9,696,544
<b>Gross profit</b>	6,989,488	6,202,003
<b>Operating Expenses</b>		
Wages	1,528,031	1,532,252
Administrative salaries and benefits	838,837	715,773
Advertising and promotion	21,199	34,445
Investor relations and transfer agent fee	131,037	125,917
Office and miscellaneous	269,800	308,016
Insurance	301,856	292,460
Interest expense	41,699	55,770
Rent	117,715	127,916
Consulting	119,198	131,714
Professional fees	184,931	172,414
Travel	140,340	109,051
Telecommunications	24,363	34,473
Shipping	16,338	20,660
Research	95,098	95,265
Commissions	66,839	122,868
Currency exchange	(10,602)	(55,892)
Utilities	17,495	28,434
<b>Total operating expenses</b>	3,904,174	3,851,536
<b>Operating income</b>	3,085,314	2,350,467
<b>Gain on sale of equipment</b>	6,848	(45,249)
<b>Loss on investment</b>	(15,086)	-
<b>Interest income</b>	2,184	2,963
<b>Income before income tax</b>	3,079,260	2,308,181
<b>Income taxes (Note 11)</b>		
Deferred income (expense) tax recovery	(303,793)	(38,157)
Income tax expense	(982,133)	(765,328)
<b>Net income for the year</b>	\$ 1,793,334	\$ 1,504,696
<b>Other comprehensive income (loss)</b>	118,590	(938,246)
<b>Comprehensive income</b>	1,911,924	566,450
<b>Income per share (basic and diluted) (Note 12)</b>	\$ 0.16	\$ 0.11
<b>Weighted average number of common shares (basic)</b>	11,464,270	13,173,827
<b>Weighted average number of common shares (diluted)</b>	11,635,136	13,307,021

See Notes to Consolidated Financial Statements.

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

	<b>2016</b>	<b>2015</b>
<b>Operating activities</b>		
Net income	\$ 1,793,334	\$ 1,504,696
Adjustments to reconcile net income to net cash:		
Stock based compensation	66,318	82,112
Depreciation and amortization	540,079	578,338
Loss on investment	15,086	-
Deferred tax expense (recovery)	303,793	38,157
Changes in non-cash working capital items:		
Decrease (Increase) in accounts receivable	(1,199,267)	349,470
Decrease (Increase) in inventories	(506,278)	125,047
(Increase) Decrease in prepaid expenses	15,793	(127,946)
Increase (Decrease) in accounts payable	90,111	38,523
Increase (Decrease) in taxes payable	600,629	152,396
(Decrease) Increase deferred revenue	55,628	33,786
<b>Cash provided by operating activities</b>	<b>1,775,226</b>	<b>2,736,651</b>
<b>Investing activities</b>		
Long term deposits	(15,925)	(4,697)
Investment	(87,500)	-
Net purchase of property and equipment	(114,270)	(59,030)
<b>Cash used in investing activities</b>	<b>(217,695)</b>	<b>(63,727)</b>
<b>Financing activities</b>		
Draw from (repayment of) short term line of credit	50,000	(550,000)
Loan repayment	(201,193)	(343,661)
Repurchase of common stock	(1,575,000)	-
Proceeds of issuance of common stock	32,600	8,000
<b>Cash used in financing activities</b>	<b>(1,693,593)</b>	<b>(885,661)</b>
Effect of exchange rate changes on cash	107,390	(36,042)
<b>Inflow of cash</b>	<b>(28,672)</b>	<b>1,751,221</b>
Cash and cash equivalents, beginning	2,498,738	747,517
<b>Cash and cash equivalents, ending</b>	<b>\$ 2,470,066</b>	<b>\$ 2,498,738</b>
<b>Supplemental disclosure of cash flow information:</b>		
Income taxes paid	452,654	785,000
Interest paid	41,699	55,770

See Notes to Consolidated Financial Statements.

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**Consolidated Statements of Stockholders' Equity**  
**For the Years Ended December 31, 2016 and 2015**  
**(U.S. Dollars)**

	Shares	Par Value	Capital in Excess of Par Value	Accumulated Earnings (Deficiency)	Other Comprehensive Income (Loss)	Total Stockholders' Equity
<b>Balance December 31, 2014</b>	<b>13,169,991</b>	<b>\$ 13,170</b>	<b>\$ 16,227,121</b>	<b>\$ (4,601,150)</b>	<b>\$ (267,552)</b>	<b>\$ 11,371,589</b>
Translation adjustment	—	—	—	—	(938,246)	(938,246)
Net income	—	—	—	1,504,696	—	1,504,696
Comprehensive income	—	—	—	—	—	566,450
Common stock issued	8,000	8	7,992	—	—	8,000
Stock-based compensation	—	—	82,112	—	—	82,112
<b>Balance December 31, 2015</b>	<b>13,177,991</b>	<b>\$ 13,178</b>	<b>\$ 16,317,225</b>	<b>\$ (3,096,454)</b>	<b>\$ (1,205,798)</b>	<b>\$ 12,028,151</b>
Translation adjustment	—	—	—	—	118,590	118,590
Net income	—	—	—	1,793,334	—	1,793,334
Comprehensive income	—	—	—	—	—	1,911,924
Common stock cancelled	(1,750,000)	(1,750)	(1,573,250)	—	—	(1,575,000)
Common stock issued	30,000	30	32,570	—	—	32,600
Stock-based compensation	—	—	66,318	—	—	66,318
<b>Balance December 31, 2016</b>	<b>11,457,991</b>	<b>\$ 11,458</b>	<b>\$ 14,842,863</b>	<b>\$ (1,303,120)</b>	<b>\$ (1,087,208)</b>	<b>\$ 12,463,993</b>

See Notes to Consolidated Financial Statements.

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**  
**(U.S. Dollars)**

**1. BASIS OF PRESENTATION.**

These consolidated financial statements include the accounts of Flexible Solutions International, Inc. (the "Company"), and its wholly-owned subsidiaries Flexible Fermentation Ltd. ("Flexible Ltd."), NanoChem Solutions Inc. ("NanoChem"), Flexible Solutions Ltd., Flexible Biomass LP, FS Biomass Inc., NCS Deferred Corp., Conserve H2O Ltd. and Natural Chem SEZC Ltd. All inter-company balances and transactions have been eliminated. The Company was incorporated May 12, 1998 in the State of Nevada and had no operations until June 30, 1998.

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

**2. SIGNIFICANT ACCOUNTING POLICIES.**

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

(a) *Cash and Cash Equivalents.*

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

(b) *Inventories and Cost of Sales*

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

(c) *Allowance for Doubtful Accounts*

The Company provides an allowance for doubtful accounts when management estimates collectability to be uncertain. Accounts receivable are continually reviewed to determine which, if any,

accounts are doubtful of collection. In making the determination of the appropriate allowance amount, the Company considers current economic and industry conditions, relationships with each significant customer, overall customer credit-worthiness and historical experience.

(d) *Property, Equipment and Leaseholds.*

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

Computer hardware	30% Declining balance
Furniture and fixtures	20% Declining balance
Manufacturing equipment	20% Declining balance
Office equipment	20% Declining balance
Boat	20% Declining balance
Building and improvements	10% Declining balance
Technology	20% Declining balance
Leasehold improvements	Straight-line over lease term

Property and equipment are written down to net realizable value when management determines there has been a change in circumstances which indicates its carrying amount may not be recoverable. No write-downs have been necessary to date.

(e) *Impairment of Long-Lived Assets.*

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

(f) *Foreign Currency.*

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

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

(g) *Revenue Recognition.*

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

The Company recognizes revenue when there is persuasive evidence of an arrangement, delivery to the carrier has occurred, the fee is fixed or determinable, collectability is reasonably assured and there are no significant remaining performance obligations. When significant post-delivery obligations exist, revenue is deferred until such obligations are fulfilled. To date, there have been no such significant post-delivery obligations.

Since the Company's inception, product returns have been insignificant; therefore, no provision has been established for estimated product returns.

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

(h) *Stock Issued in Exchange for Services.*

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

(i) *Stock-based Compensation.*

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

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

(j) *Comprehensive Income (Loss).*

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 (loss) is primarily comprised of unrealized foreign exchange gains and losses.

(k) *Income Per Share.*

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding in the period. Diluted earnings per share are calculated giving effect to the potential dilution of the exercise of options and warrants. Common equivalent shares, composed of incremental common shares issuable upon the exercise of stock options and warrants are included in diluted net income per share to the extent that these shares are dilutive. Common equivalent shares that have an anti-dilutive effect on net income per share have been excluded from the calculation of diluted weighted average shares outstanding for the years ended December 31, 2016 and 2015.

(l) *Use of Estimates.*

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

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

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

(m) *Financial Instruments.*

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

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

(n) *Fair Value of Financial Instruments*

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

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

- Level 1 – Quoted prices in active markets for identical assets or liabilities
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 — Unobservable inputs that are supported by little or no market activity which is significant to the fair value of the assets or liabilities.

The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and the short term line of credit for all periods presented approximate their respective carrying amounts due to the short term nature of these financial instruments

(o) *Contingencies*

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

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

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

(p) *Income Taxes*

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

Per FASB ASC 740 "Income taxes" under the liability method, it is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. At December 31, 2016, the Company believes it has appropriately accounted for any unrecognized tax benefits. To the extent the Company prevails in matters for which a liability for an unrecognized benefit is established or is required to pay amounts in excess of the liability, the Company's effective tax rate in a given financial statement period may be affected. Interest and penalties associated with the Company's tax positions are recorded as interest expense in the condensed interim consolidated statements of operations and comprehensive income (loss).

(q) *Risk Management.*

The Company's credit risk is primarily attributable to its accounts receivable. The amounts presented in the accompanying consolidated balance sheets are net of allowances for doubtful accounts, estimated by the Company's management based on prior experience and the current economic environment.

The Company is exposed to credit-related losses in the event of non-performance by counterparties to the financial instruments. Credit exposure is minimized by dealing with only credit worthy counterparties. Accounts receivable for the Company's three primary customers totaled \$2,032,646 (67%) at December 31, 2016 (December 31, 2015 - \$1,298,821 or 66%).

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

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

In order to manage its exposure to foreign exchange risks, the Company is closely monitoring the fluctuations in the foreign currency exchange rates and the impact on the value of cash and cash equivalents, accounts receivable, and accounts payable. The Company has not hedged its exposure to currency fluctuations.

(r) *Equity Method Investment*

We account for investments using the equity method of accounting if the investment provides us the ability to exercise significant influence, but not control, over the investee. Significant influence is generally deemed to exist if the Company's ownership interest in the voting stock of the investee ranges between 20% and 50%, although other factors, such as representation on the investee's board of directors, are considered in determining whether the equity method of accounting is appropriate. Under the equity method of accounting, the investment is recorded at cost in the consolidated balance sheets under other assets and adjusted for dividends received and our share of the investee's earnings or losses together with other-than-temporary impairments which are recorded through interest and other loss, net in the consolidated statements of operations and comprehensive income (loss).

(s) *Adoption of new accounting principles*

In June 2014, the FASB issued ASU No. 2014-12, "Compensation – Stock Compensation", an update to its accounting guidance related to share-based compensation. The guidance requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition, and therefore not be reflected in determining the fair value of the award at the grant date. The guidance is effective for annual and interim periods beginning after December 15, 2015. Adoption of this guidance did not have any effect on the Company's consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation: Amendments to the Consolidation Analysis." This update improves targeted areas of the consolidation guidance and reduces the number of consolidation models. This update is effective for annual and interim periods in fiscal years beginning after December 15, 2015. Adoption of this guidance did not have any effect on the Company's consolidated financial statements.

(t) *Accounting Pronouncements Not Yet Adopted*

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment. The standard eliminates step two in the current two-step impairment test under ASC 350. Under the new standard, a goodwill impairment will be recorded for any excess of a reporting unit's carrying value over its fair value. A prospective transition approach is required. The standard is effective for annual and interim reporting periods beginning after December 15, 2019 with early adoption permitted for annual and interim

goodwill impairment testing dates after January 1, 2017. We do not expect the standard to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. The standard will require lessees to recognize most leases on their balance sheet and makes selected changes to lessor accounting. The standard is effective for annual and interim reporting periods beginning after December 15, 2018. A modified retrospective transition approach is required, with certain practical expedients available. We are currently evaluating the impact the adoption of this standard will have on our consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory. The standard will require inventory to be measured at the lower of cost or net realizable value. The guidance will not apply to inventories for which cost is determined using the last-in, first-out method or the retail inventory method. The standard is effective for annual and interim reporting periods beginning after December 15, 2016. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which has been updated through several revisions and clarifications since its original issuance. The standard will require revenue recognized to represent the transfer of promised goods or services to customers at an amount that reflects the consideration which a company expects to receive in exchange for those goods or services. The standard also requires new, expanded disclosures regarding revenue recognition. The standard will be effective January 1, 2018 with early adoption permissible beginning January 1, 2017. We are currently evaluating the transition method we will elect and the effect on our consolidated financial statements.

### 3. ACCOUNTS RECEIVABLE

	2016	2015
Accounts receivable	\$ 3,044,652	\$ 1,990,283
Allowances for doubtful accounts	<u>(36,499)</u>	<u>(35,406)</u>
	<u>\$ 3,008,153</u>	<u>\$ 1,954,877</u>

### 4. INVENTORIES

	2016	2015
Completed goods	\$ 1,646,465	\$ 1,162,571
Work in progress	2,572	10,466
Raw materials	<u>2,137,056</u>	<u>2,102,439</u>
	<u>\$ 3,786,093</u>	<u>\$ 3,275,476</u>

## 5. PROPERTY, EQUIPMENT AND LEASEHOLDS

	2016 Cost	Accumulated Depreciation	2016 Net
Buildings	\$4,762,094	\$ 2,967,370	\$1,794,724
Computer hardware	89,480	85,784	3,696
Furniture and fixtures	32,439	23,142	9,297
Office equipment	17,745	16,788	957
Manufacturing equipment	5,236,404	4,102,635	1,133,769
Trailer	12,859	12,250	609
Boat	34,400	9,632	24,768
Leasehold improvements	85,432	15,419	70,013
Technology	101,748	101,748	—
Land	356,111	—	356,111
	<u>\$10,728,712</u>	<u>\$ 7,334,768</u>	<u>\$3,393,944</u>

	2015 Cost	Accumulated Depreciation	2015 Net
Buildings	\$4,766,282	\$ 2,774,306	\$1,991,976
Computer hardware	88,026	82,811	5,215
Furniture and fixtures	29,147	20,774	8,373
Office equipment	17,214	16,054	1,160
Manufacturing equipment	5,074,079	3,770,819	1,303,260
Trailer	12,474	11,630	844
Boat	34,400	3,440	30,960
Leasehold improvements	29,604	—	29,604
Technology	98,701	78,961	19,740
Land	399,977	—	399,977
	<u>\$10,549,904</u>	<u>\$ 6,758,795</u>	<u>\$3,791,109</u>

Amount of depreciation expense for 2016: \$524,463 (2015: \$562,471) and is included in cost of sales in the consolidated statements of operations and comprehensive income (loss).

## 6. PATENTS

	2016 Cost	Accumulated Amortization	2016 Net
Patents	\$ 197,448	\$ 101,558	\$ 95,890

	2015 Cost	Accumulated Amortization	2015 Net
Patents	\$ 191,698	\$ 91,075	\$ 100,623

Increase in 2016 cost was due to currency conversion. 2016 cost in Canadian dollars - \$265,102 (2015 - \$265,102 in Canadian dollars).

Amount of amortization for 2016: \$15,616 (2015: \$15,867) and is included in cost of sales in the consolidated statements of operations and comprehensive income (loss).

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

2017	\$ 16,438
2018	16,438
2019	16,438
2020	16,438
2021	16,438

## 7. LONG TERM DEPOSITS

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

	<u>2016</u>	<u>2015</u>
Long term deposits	<u>\$ 26,163</u>	<u>\$ 10,169</u>

## 8. EQUITY METHOD INVESTMENT

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

	<u>December 31, 2016</u>
January 1, 2016 Balance	-
Capital contributions	\$ 150,066
Return of equity	(12,500)
Loss in equity method investment	(15,086)
December 31, 2016 Balance	<u>\$ 122,480</u>

## 9. SHORT-TERM LINE OF CREDIT

In May 2016, the Company signed a new agreement with Harris Bank (“the Bank”) to renew the expiring credit line. The revolving line of credit is for an aggregate amount of up to the lesser of (i)

\$3,000,000, or (ii) 75% of eligible domestic accounts receivable and certain foreign accounts receivable plus 40% of inventory. The loan has an annual interest rate of 4.0%.

The Revolving Line of Credit contains customary affirmative and negative covenants, including the following: compliance with laws, provision of financial statements and periodic reports, payment of taxes, maintenance of inventory and insurance, maintenance of operating accounts at the Bank, the Bank's access to collateral, formation or acquisition of subsidiaries, incurrence of indebtedness, dispositions of assets, granting liens, changes in business, ownership or business locations, engaging in mergers and acquisitions, making investments or distributions and affiliate transactions. The covenants also require that the Company maintain a minimum ratio of qualifying financial assets to the sum of qualifying financial obligations. As of December 31, 2016, Company was in compliance with all loan covenants.

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

Short-term borrowings outstanding under the Revolving Line as of December 31, 2016 were \$250,000 (December 31, 2015 - \$200,000).

#### 10. LONG TERM DEBT

In September 2014, NanoChem Solutions Inc. signed a \$1,005,967 promissory note with Harris Bank with a rate of prime plus 0.5% to be repaid over 5 years with equal monthly installments plus interest. This money was used to retire the previously issued and outstanding debt obligations. The balance owing at December 31, 2016 was \$553,282 (December 31, 2015 - \$754,475).

The Company has committed to the following repayments:

2017	\$ 201,193
2018	\$ 201,193
2019	\$ 150,896

As of December 31, 2016, Company was in compliance with all loan covenants.

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
<b>Continuity</b>		
Balance, beginning of year	\$ 754,475	\$ 1,112,689
Less: Payments on loan	201,193	337,631
Effect of exchange rate	—	(20,583)
Balance, end of year	<u>\$ 553,282</u>	<u>\$ 754,475</u>

<b>Outstanding balance at:</b>			
Long term debt – Harris		553,282	754,475
Long term debt	\$	553,282	\$ 754,475
Less: current portion		(201,193)	(201,193)
Balance	\$	352,089	\$ 553,282

## 11. INCOME TAX

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

	2016	2015
Current tax, federal	\$ 787,539	\$ 613,691
Current tax, state	194,594	151,637
Current tax, foreign	-	-
Current tax, total	982,133	765,328
Deferred income tax, federal	41,343	77,365
Deferred income tax, state	10,215	19,116
Deferred income tax, foreign	252,235	(58,324)
Deferred income tax, total	303,793	38,157
Total	\$ 3,191,056	\$ 803,485

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

	2016	2015
Income (loss) before taxes	3,079,260	2,308,181
US statutory tax rates	39.12%	39.12%
Expected income tax (recovery)	1,207,840	902,845
Non-deductible items	(139,975)	39,872
Change in estimates	228,495	12,336
Change in enacted tax rate	4,437	(158,840)
Option expired during the year	8,418	35,685
Foreign tax rate difference	(46,498)	(40,393)
Change in valuation allowance	22,878	11,977
Total income taxes (recovery)	1,285,595	803,483
Current income tax expenses (recovery)	982,133	765,328
Deferred tax expenses (recovery)	303,792	38,156
Total income taxes (recovery)	1,285,925	803,484

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes. Deferred tax assets (liabilities) at December 31, 2016 and 2015 are comprised of the following:

Canada	2016	2015
Non capital loss carryforwards	830,476	1,068,935
Patents	45,351	36,070
Fixed assets	848,843	809,404
Financial instruments	-	-
	<u>1,724,670</u>	<u>1,914,409</u>
Valuation Allowance	-	-
Net Deferred tax asset (liability)	<u>1,724,670</u>	<u>1,914,409</u>
USA	2016	2015
Fixed Assets	322,634	353,907
Stock-Based Compensation	209,242	206,648
	<u>531,876</u>	<u>560,556</u>
Deferred tax asset not recognized	229,547	206,669
Net Deferred tax asset	<u>302,329</u>	<u>353,886</u>

The Company has non-operating loss carryforwards of approximately \$3,075,838 (2015 - \$3,959,018) which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

Expiry	Loss
2030	656,645
2031	805,757
2032	927,780
2033	683,283
2034	-
2035	-
2036	-
2037	<u>2,372</u>
Total	<u>3,075,838</u>

As at December 31, 2016, the Company has no net operating losses carryforward available for US tax purposes.

#### Accounting for Uncertainty for Income Tax

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

As at December 31, 2016 and 2015, the Company's consolidated balance sheets did not reflect a liability for uncertain tax positions, nor any accrued penalties or interest associated with income tax uncertainties. The Company has no income tax examinations in progress.

## 12. INCOME PER SHARE

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

	<u>2016</u>	<u>2015</u>
Net income (loss)	\$ 1,793,334	\$ 1,504,696
Weighted average common shares outstanding:		
Basic	11,464,270	13,173,827
Diluted	11,635,136	13,307,021
Net income (loss) per common share:		
Basic and Diluted	<u>\$ 0.16</u>	<u>\$ 0.11</u>

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

	<u>2016</u>	<u>2015</u>
Anti-dilutive options	<u>72,000</u>	<u>552,000</u>

There were no preferred shares issued and outstanding during the years ended December 31, 2016 or 2015.

## 13. STOCK OPTIONS.

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

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

The following table summarizes the Company's stock option activity for the years ended December 31, 2016 and 2015:

	Number of shares	Exercise price per share	Weighted average exercise price
Balance, December 31, 2014	1,126,000	\$1.21 - \$2.45	\$1.54
Granted	317,000	\$0.75 - 1.05	\$0.89
Cancelled or expired	(245,000)	\$1.05 - 2.22	\$1.72
Exercised	8,000	\$1.00	\$1.00
Balance, December 31, 2015	1,190,000	\$0.75 - \$2.45	\$1.34
Granted	168,000	\$1.42	\$1.42
Cancelled or expired	(515,000)	\$0.75 - 2.45	\$1.61
Exercised	(30,000)	\$1.00 - 1.21	\$1.09
Balance, December 31, 2016	813,000	\$0.75 - 2.22	\$1.19
Exercisable, December 31, 2016	647,000	\$0.75 - 2.22	\$1.13

The weighted-average remaining contractual life of outstanding options is 2.8 years. The aggregate intrinsic value of options outstanding at December 31, 2016 is nil (2015 - \$418,330).

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

	<u>2016</u>	<u>2015</u>
Expected life – years	3.0	3.0
Interest rate	1.37%	0.78 – 1.16%
Volatility	75.64%	57-77%
Dividend yield	--%	--%
Weighted average fair value of options granted	\$ 0.7073	\$ 0.36-0.37

During the year ended December 31, 2016, the Company granted 40,000 (2015 – 100,000) stock options to consultants and has applied ASC 718 using the Black-Scholes option-pricing model, which resulted in additional expenses of \$5,658 (2015 - \$26,533). Options granted in other years resulted in additional expenses of \$11,879 (2015 – \$3,348). During the year ended December 31, 2016, employees were granted 128,000 (2015 – 217,000) stock options, which resulted in additional expenses of \$17,824 (2015 – \$47,788). Options granted in other years resulted in additional expenses in the amount of \$30,957 for employees during the year ended December 31, 2016 (2015 - \$4,591). There were 30,000 employee stock options exercised during the year ended December 31, 2016 (2015 – 8,000).

As of December 31, 2016, there was approximately \$93,929 of compensation expense related to non-vested awards. This expense is expected to be recognized over a weighted average period of 1 year.

#### **14. CAPITAL STOCK.**

On January 6, 2016, the Company repurchased 1,750,000 shares of its common stock at \$0.90 per share for a total purchase price of \$1,575,000. The shares were returned to treasury and cancelled.

The Company issued 30,000 shares upon the exercise of employee stock options during the year ended December 31, 2016.

During the year ended December 31, 2015, the Company issued 8,000 shares upon the exercise of employee stock options.

**15. SEGMENTED, SIGNIFICANT CUSTOMER INFORMATION AND ECONOMIC DEPENDENCY.**

The Company operates in two segments:

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

(b) Biodegradable polymers (“BCPA’s”), also known as TPA’s, used by the petroleum, chemical, utility and mining industries to prevent corrosion and scaling in water piping. This product can also be used in detergents to increase biodegradability and in agriculture to increase crop yields by enhancing fertilizer uptake.

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

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

Year ended December 31, 2016:

	EWCP	BCPA	Consolidated
Sales	\$ 785,660	\$ 15,460,354	\$ 16,246,014
Interest expense	59	41,640	41,699
Depreciation	325,696	214,383	540,079
Income tax expense (recovery)	-	982,133	982,133
Segment profit (loss)	(417,770)	2,211,104	1,793,334
Segment assets	1,966,564	1,523,270	3,489,834
Expenditures for segment assets	6,352	107,918	114,270

Year ended December 31, 2015:

	EWCP	BCPA	Consolidated
Sales	\$ 687,828	\$ 15,210,719	\$ 15,898,547
Interest expense	1	55,769	55,770
Depreciation	384,909	193,429	578,338
Income tax expense (recovery)	-	765,328	765,328
Segment profit (loss)	(1,054,344)	2,559,040	1,504,696
Segment assets	2,211,931	1,679,801	3,891,732
Expenditures for segment assets	(244,358)	303,388	59,030

Sales by territory are shown below:

	<u>2016</u>	<u>2015</u>
Canada	\$ 453,480	\$ 404,880
United States and abroad	<u>15,792,534</u>	<u>15,493,667</u>
Total	<u>\$ 16,246,014</u>	<u>\$ 15,898,547</u>

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

	<u>2016</u>	<u>2015</u>
Canada	\$ 1,966,564	\$ 2,211,348
United States	<u>1,523,270</u>	<u>1,680,384</u>
Total	<u>\$ 3,489,834</u>	<u>\$ 3,891,732</u>

Three customers accounted for \$10,148,042 (63%) of sales made in 2016 (2015 - \$10,421,165 or 66%).

**16. COMMITMENTS.**

The Company is committed to minimum rental payments for property and premises aggregating approximately \$934,854 over the term of three leases, the last expiring on October 31, 2021.

Commitments in the next five year are as follows:

2017	<u>\$ 206,934</u>
2018	\$ 201,840
2019	\$ 205,580
2020	\$ 209,400
2021	<u>\$ 111,100</u>

**17. SUBSEQUENT EVENTS.**

On February 11, 2017, a fire started in our Taber, AB Canada plant where all our swimming pool products are manufactured. The building and contents with a carrying value of \$2,511,646 are a total loss. Insurance was in place.

In March 2017, the Company issued 3,000 shares on the exercise of employee stock options.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

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

As of the end of the period covered by this Annual Report on Form 10-K for the year ended December 31, 2016, we carried out an evaluation, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective.

**Management's Report on Internal Control Over Financial Reporting**

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

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

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

In connection with the preparation of our annual financial statements, management has undertaken an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or the 2013 COSO Framework. Management's

assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of those controls.

Based on this evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2016.

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

**Item 9B. Other Information.**

None.

**Item 10. Directors, Executive Officers and Corporate Governance.**

<u>Name</u>	<u>Age</u>	<u>Position</u>
Daniel B. O'Brien	60	President, Chief Executive Officer, Principal Financial and Accounting Officer and a Director
John H. Bientjes	64	Director
Robert Helina	51	Director
Tom Fyles	65	Director
Ben Seaman	36	Director
David Fynn	59	Director

Daniel B. O'Brien has served as our President, Chief Executive Officer and Principal Financial and Accounting Officer, as well as a director since June 1998. He has been involved in the swimming pool industry since 1990, when he founded our subsidiary, Flexible Solutions Ltd. From 1990 to 1998 Mr. O'Brien was also a teacher at Brentwood College where he was in charge of outdoor education.

John H. Bientjes has been a director since February 2000. Since 1984, Mr. Bientjes has served as the manager of the Commercial Aquatic Supplies Division of D.B. Perks & Associates, Ltd., located in Vancouver, British Columbia, a company that markets supplies and equipment to commercial swimming pools which are primarily owned by municipalities. Mr. Bientjes graduated in 1976 from Simon Fraser University in Vancouver, British Columbia with a Bachelor of Arts Degree in Economics and Commerce.

Robert T. Helina has been a director since October 2011. Mr. Helina has been involved in the financial services industry for over 25 years which has given him extensive knowledge in business, economics and finance. His specialty is in Corporate Finance and Capital Markets. Mr. Helina holds a Bachelor of Arts degree from Trinity Western University.

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

Ben Seaman was elected as a director in 2016. Mr. Seaman has been the CEO of Eartheasy.com Sustainable Living Ltd since 2007, growing the company from \$50K to over \$25M in annual revenue. His company has contributed over \$1M towards clean water projects in Kenya since 2013, and has been recognized internationally by the Stockholm Challenge Award and the Outdoor Industry Inspiration Award in 2016. Prior to that, he worked in sales and investor relations at Flexible Solutions. Mr. Seaman graduated from the University of Victoria with a Bachelor of Science degree in 2004. He has significant experience in launching new products, marketing, distribution and e-commerce in both the US and Canada. He's a strong believer in the triple bottom line approach to business, giving consideration to social and environmental issues in addition to financial performance.

David Fynn was elected as a director in 2016. Mr. David Fynn is a Canadian Chartered Professional Accountant and services individuals/companies in many sectors including mining and commodities in his private practice. David worked as a senior manager with KPMG in Canada and Ernst & Young in the United Kingdom and Saudi Arabia. Since 1996 he has been the principal of D.A. Fynn & Associates Inc., an accounting firm.

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

John Bientjes, Thomas Fyles, Ben Seaman and David Fynn are independent directors as that term is defined in section 803 of the listing standards of the NYSE MKT.

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

Our Compensation Committee, consisting of John Bientjes, Ben Seaman and David Fynn, establishes salary, incentive and other forms of compensation for our Chief Executive Officer and administers our Stock Option Program. None of our officers participated in deliberations of the compensation committee concerning executive officer compensation. During the year ended December 31, 2016, no director was also an executive officer of another entity, which had one of our executive officers serving as a director of such entity or as a member of the compensation committee of such entity.

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

We believe our directors benefit us for the following reasons:

<u>Name</u>	<u>Reason</u>
Daniel B. O'Brien	Long standing relationship with us.
John J. Bientjes	Long standing relationship with us.
Robert Helina	Corporate finance experience.
Dr. Thomas Fyles	Scientific expertise.
Ben Seaman	Younger generation businessman to increase our awareness of internet sales and add value to our audit and compensation committees
David Fynn	Experienced accountant to join our audit and compensation committees

**Item 11. Executive Compensation.**

**Summary Compensation Table**

The following table shows in summary form the compensation earned by (i) our Chief Executive Officer and (ii) by each other executive officer who earned in excess of \$100,000 during the two fiscal years ended December 31, 2016.

<u>Name and Principal Position</u>	<u>Fiscal Year</u>	<u>Salary (1)</u>	<u>Bonus (2)</u>	<u>Restricted Stock Awards (3)</u>	<u>Options Awards (4)</u>	<u>All Other Annual Compensation (5)</u>	<u>Total</u>
Daniel B. O'Brien	2016	\$ 743,042	--	--	--	--	\$ 743,042
President, Chief Executive Officer and Principal Financial and Accounting Officer	2015	\$ 616,295	--	--	\$2,870	--	\$ 619,165

- (1) The dollar value of base salary (cash and non-cash) earned.
- (2) The dollar value of bonus (cash and non-cash) earned.
- (3) During the periods covered by the table, the value of the shares of restricted stock issued as compensation for services to the persons listed in the table.
- (4) The value of all stock options granted during the periods covered by the table.
- (5) All other compensation received that we could not properly report in any other column of the table.

During the year ended December 31, 2012, the Company determined that Daniel B. O'Brien, the Company's President and Chief Executive Officer, was underpaid. Accordingly, the Company increased Mr. O'Brien's annual salary to twice that which was paid to the highest paid employee of the Company. The Company expects that Mr. O'Brien's salary for the year ending December 31, 2017 will again be twice the annual salary paid to the Company's highest paid employee, excluding Mr. O'Brien.

## **Non-Qualified Stock Option Plan**

In August 2014 we adopted a Non-Qualified Stock Option Plan which authorizes the issuance of up to 1,500,000 shares of our common stock to persons that exercise options granted pursuant to the Plan. Our employees, directors and officers, and consultants or advisors are eligible to be granted options pursuant to the Non-Qualified Plan.

The Plan is administered by our Compensation Committee. The Committee is vested with the authority to determine the number of shares issuable upon the exercise of the options, the exercise price and expiration date of the options, and when, and upon what conditions options granted under the Plan will vest or otherwise be subject to forfeiture and cancellation.

During the fiscal year ended December 31, 2016 we issued 168,000 options pursuant to the Non-Qualified Plan (2015 – 317,000).

## **Stock Option Program**

Prior to August 2014 we had a Stock Option Program which involved the issuance of options, from time to time, to our employees, directors, officers, consultants and advisors. Options were granted by means of individual option agreements. Each option agreement specified the shares issuable upon the exercise of the option, the exercise price, the expiration date and other terms and conditions of the option.

Options granted had terms of between one and five years after the date of grant and had exercise prices equal to the fair market value of a share of our common stock on the date of grant.

As a result of the adoption of our Non-Qualified Stock Option Plan in August 2014, all future options have been granted pursuant to the Non-Qualified Stock Option Plan.

## **Summary**

The following table shows the weighted average exercise price of the outstanding options granted pursuant to our Non-Qualified Stock Option Plan and our Stock Option Program as of December 31, 2016, our most recently completed fiscal year.

<u>Plan Category</u>	<u>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights</u>	<u>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))</u>
	(a)	(b)	(c)
Non-Qualified Stock Option Plan	450,000	\$ 1.09	1,015,000
Stock Option Program	<u>363,000</u>	<u>\$ 1.32</u>	<u>Not Applicable</u>
Total	<u>813,000</u>	<u>\$ 1.19</u>	<u>1,015,000</u>

Our Non-Qualified Stock Option Plan and all grants made pursuant to our Stock Option Program have been approved by our shareholders.

As of December 31, 2016 options to purchase 450,000 shares of our common stock were outstanding under our Non-Qualified Stock Option Plan. The exercise price of these options varies between \$0.75 and \$1.42 per share and expire at various dates between on December 31, 2019 and December 31, 2021.

As of December 31, 2016 options to purchase 363,000 shares of our common stock were outstanding under our Stock Option Program. The exercise price of these options varies between \$1.00 and \$2.22 per share. The options expire at various dates between January 1, 2017 and December 31, 2018.

No options were exercised by executives during the fiscal year ended December 31, 2016.

### Director Compensation

We reimburse directors for any expenses incurred in attending board meetings. We also compensate directors \$5,000 annually for each year that they serve.

Our directors received the following compensation in 2016:

<u>Name</u>	<u>Paid in Cash</u>	<u>Stock Awards (1)</u>	<u>Option Awards (2)</u>
John H. Bientjes	\$5,000	--	--
Dale Friend	\$5,000	--	--
Robert Helina	\$5,000	--	--
Tom Fyles	\$5,000	--	--

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

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

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

<u>Name</u>	<u>Option Price</u>	<u>No. of Options</u>	<u>Expiration Date</u>
John H. Bientjes	\$1.21	5,000	December 31, 2017
John H. Bientjes	\$1.00	5,000	December 31, 2018
John H. Bientjes	\$1.05	5,000	December 31, 2019
Robert Helina	\$1.21	5,000	December 31, 2017
Robert Helina	\$1.00	5,000	December 31, 2018
Robert Helina	\$1.05	5,000	December 31, 2019
Thomas Fyles	\$1.21	5,000	December 31, 2017
Thomas Fyles	\$1.00	5,000	December 31, 2018
Thomas Fyles	\$1.05	5,000	December 31, 2019

Daniel B. O'Brien was not compensated for serving as directors during 2016.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The following table shows the beneficial ownership of our common stock as of March 30, 2016 by (i) each stockholder who is known by us to own beneficially more than five percent of our outstanding common stock, (ii) each of our officers and directors, and (iii) by all of our executive officers and directors as a group.

	Shares (1)	Percentage Ownership
Daniel B. O'Brien 2614 Queenswood Dr. Victoria, BC Canada V8N 1X5	4,521,900	39.5%
John Bientjes #1-230 West 13th Street North Vancouver, B.C. Canada V7M 1N7	15,000	0.1%
Robert Helina 933 Seymour Street, Suite 1101 Vancouver, BC V6B 6L6 Canada	15,000	0.1%
Dr. Thomas Fyles Box 3065 Victoria, BC Canada V8W 3V6	15,000	0.1%
Ben Seaman Unit 605 55 E. Cordova St. Vancouver BC Canada V6A 0A5	0	0%
David Fynn 202-2526 Yale Court, Abbotsford, BC Canada V2S 8G9	0	0%
All officers and directors as a group (6 persons)	<u>4,566,900</u>	<u>39.8%</u>

(1) Includes shares which may be acquired on the exercise of the stock options, all of which were exercisable as of March 30, 2017, listed below.

<u>Name</u>	<u>No. of Options</u>	<u>Exercise Price</u>	<u>Expiration Date</u>
John Bientjes	5,000	\$1.21	December 31, 2017
	5,000	\$1.00	December 31, 2018
	5,000	\$1.05	December 31, 2019
Robert Helina	5,000	\$1.21	December 31, 2017
	5,000	\$1.00	December 31, 2018
	5,000	\$1.05	December 31, 2019
Dr. Thomas Fyles	5,000	\$1.21	December 31, 2017
	5,000	\$1.00	December 31, 2018
	5,000	\$1.05	December 31, 2019

**Item 13. Certain Relationships and Related Transactions, Director Independence.**

Our former director, Dr. Robert N. O'Brien, developed substantially all of our products relating to our energy and water conservation products and assigned the patent rights to these products to us. We had no agreement with Dr. O'Brien requiring him to conduct any research and development activities for us. Dr. O'Brien did not receive any salary or royalties from us for any research and development activities. Dr. O'Brien passed away on March 23, 2015 and was the father of our Chief Executive Officer, Daniel B. O'Brien.

**Item 14. Principal Accountant Fees and Services.**

MNP, LLP, Chartered Accountants, examined our financial statements for the years ended December 31, 2016 and 2015.

Audit Fees

MNP was paid \$64,553 and \$58,970 for the fiscal years ended December 31, 2016 and 2015, respectively, for professional services rendered in the audit of our annual financial statements and for the reviews of the financial statements included in our quarterly reports on Form 10-Q during these fiscal years.

Tax Fees

MNP was paid \$5,663 and \$0 for the fiscal years ended December 31, 2016 and 2015, respectively, for professional services rendered for the preparation and filing of our income tax returns for the fiscal years ended December 31, 2015 and 2014.

All Other Fees

MNP was not paid any other fees for professional services during the fiscal years ended December 31, 2016 and 2015.

## Audit Committee Pre-Approval Policies

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

During the year ended December 31, 2016 our Audit Committee approved all of the fees paid to MNP. Our Audit Committee has determined that the rendering of all non-audit services by MNP is compatible with maintaining MNP's independence. During the year ended December 31, 2016, none of the total hours expended on our financial audit by MNP were provided by persons other than MNP's full-time permanent employees.

### **Item 15. Exhibits, Financial Statement Schedules.**

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

- (1) Previously filed as an exhibit to our Registration Statement on Form 10-SB filed with the Commission on February 22, 2000, and incorporated herein by reference.
- (2) Previously filed as an exhibit to our Registration Statement on Form SB-2 filed with the Commission on January 22, 2003, and incorporated herein by reference.

## SIGNATURES

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

March 31, 2017

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**

By: /s/ Daniel B. O'Brien

Name: Daniel B. O'Brien

Title: President and Chief Executive Officer

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Daniel B. O'Brien</u> Daniel B. O'Brien	President, Principal Executive Officer, Principal Financial and Accounting Officer and a Director	March 31, 2017
<u>/s/ John H. Bientjes</u> John H. Bientjes	Director	March 31, 2017
<u>/s/ Robert T. Helina</u> Robert T. Helina	Director	March 31, 2017
<u>/s/ Thomas Fyles</u> Thomas Fyles	Director	March 31, 2017
<u>/s/ Ben Seaman</u> Ben Seaman	Director	March 31, 2017
<u>/s/ David Fynn</u> David Fynn	Director	March 30, 2017

**EXHIBIT 23.1**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We have issued our Auditors' report, dated March 31, 2017, accompanying the audited consolidated financial statements for the years ended December 31, 2016 and 2015 of Flexible Solutions International, Inc. We hereby consent to the incorporation by reference of such report in the Company's registration statements on Form S-8 (File No's.333-139815 and 333-176556).

*MNP LLP*

Vancouver, Canada  
March 31, 2017

Chartered Professional Accountants

**EXHIBIT 31.1**

## CERTIFICATIONS

I, Daniel B. O'Brien, certify that:

1. I have reviewed this annual report on Form 10-K of Flexible Solutions International, Inc.;
2. Based on my knowledge, this report, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2017

/s/ Daniel B. O'Brien  
Daniel B. O'Brien  
Principal Executive Officer

## CERTIFICATIONS

I, Daniel B. O'Brien, certify that:

1. I have reviewed this annual report on Form 10-K of Flexible Solutions International, Inc.;
2. Based on my knowledge, this report, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2017

/s/ Daniel B. O'Brien  
Daniel B. O'Brien  
Principal Financial Officer

**EXHIBIT 32.1**

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

Solely for the purposes of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, the undersigned Principal Executive and Financial Officer of Flexible Solutions International, Inc. (the “Company”), hereby certify that, to the best of my knowledge, the Annual Report on Form 10-K of the Company for the year ended December 31, 2016(the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 31, 2017

/s/ Daniel B. O'Brien  
Daniel B. O'Brien  
Principal Executive and Principal Financial  
Officer