

**FLEXIBLE SOLUTIONS  
INTERNATIONAL INC.**

**Consolidated Financial Statements  
December 31, 2002 and 2001  
(U.S. Dollars)**

<u>INDEX</u>	<u>Page</u>
<b>Report of Independent Chartered Accountants to the Board of Directors and Stockholders</b>	1
<b>Financial Statements</b>	
Consolidated Balance Sheets	2
Consolidated Statements of Operations	3
Consolidated Statements of Stockholders' Equity	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6-16

## **REPORT OF INDEPENDENT CHARTERED ACCOUNTANTS**

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

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

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

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

"Pannell Kerr Forster"

Chartered Accountants

Vancouver, Canada

March 12, 2003

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

	<b>2002</b>	<b>2001</b>
<b>Assets</b>		
<b>Current</b>		
Cash	\$556,789	\$190,457
Short-term investment (note 14)	5,062,495	0
Accounts receivable	55,222	46,374
Income tax recoverable	118,014	0
Loan receivable (note 4)	10,082	9,516
Note receivable (note 5)	0	9,225
Inventory	203,830	181,698
Prepaid expenses (note 6)	87,321	59,291
<b>Total Current Assets</b>	<b>6,093,753</b>	<b>496,561</b>
<b>Property and Equipment</b> (note 7)	<b>128,566</b>	<b>72,753</b>
<b>Investment</b> (note 8)	<b>32,500</b>	<b>0</b>
<b>Total Assets</b>	<b>\$6,254,819</b>	<b>\$569,314</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable	\$53,146	\$20,592
Income tax payable	0	18,108
<b>Total Current Liabilities</b>	<b>53,146</b>	<b>38,700</b>
<b>Stockholders' Equity</b>		
<b>Capital Stock</b> (note 13)		
Authorized		
50,000,000 Common shares with a par value of \$0.001 each		
1,000,000 Preferred shares with a par value of \$0.01 each		
Issued and Outstanding		
11,570,916 and 9,272,816 Common shares	11,570	9,272
<b>Capital in Excess of Par Value</b>	<b>9,328,648</b>	<b>563,713</b>
<b>Share Subscription Receivable</b>	<b>(16,217)</b>	<b>0</b>
<b>Other Comprehensive Loss</b>	<b>(21,354)</b>	<b>(23,842)</b>
<b>Accumulated Deficiency</b>	<b>(3,100,974)</b>	<b>(18,529)</b>
<b>Total Stockholders' Equity</b>	<b>6,201,673</b>	<b>530,614</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$6,254,819</b>	<b>\$569,314</b>

**FLEXIBLE SOLUTIONS INTERNATIONAL INC.****Consolidated Statements of Operations****Years Ended December 31****(U.S. Dollars)**

	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>Sales</b>	\$1,112,192	\$1,334,273	\$1,029,649
<b>Cost of Sales</b> , (exclusive of depreciation shown separately below)	581,422	662,807	509,933
<b>Gross Profit</b>	530,770	671,466	519,716
<b>Operating Expenses</b>			
Wages (note 12)	414,885	246,955	87,907
Consulting (note 12)	2,736,608	66,963	0
Office	122,703	48,398	9,028
Stock promotion and transfer agent fee	96,954	241,573	568
Rent	61,126	28,978	11,445
Subcontracting	53,837	16,630	33,312
Professional fees	53,548	23,338	36,701
Travel and entertainment	50,213	23,125	10,454
Administrative salaries and benefits	45,312	46,639	37,234
Currency exchange	19,180	(2,368)	(19,344)
Shipping	10,771	13,563	12,189
Telephone	9,326	5,616	3,613
Research	2,523	0	0
Bad debt expense	230	26,570	51,282
Commission	0	1,130	1,982
Depreciation	24,683	18,910	13,489
	3,701,899	806,020	289,860
<b>Income (Loss) Before Other Items and Income Tax</b>	(3,171,129)	(134,554)	229,856
<b>Other Items</b>			
Gain on sale of property and equipment	0	863	0
Interest income	67,228	0	0
	67,228	863	0
<b>Income (Loss) Before Income Tax</b>	(3,103,901)	(133,691)	229,856
<b>Income Tax (Recovery)</b>	(21,456)	100,264	90,885
<b>Net Income (Loss)</b>	\$(3,082,445)	\$(233,955)	\$138,971
<b>Net Income (Loss) Per Share</b>	\$ (0.29)	\$ (0.03)	\$ 0.02
<b>Diluted Income Per Share</b>	N/A	N/A	\$ 0.01
<b>Weighted Average Number of Shares</b>	10,555,754	9,247,949	9,131,316
<b>Dilutive Effects of Options</b>	N/A	N/A	220,527
<b>Weighted Average Number of Shares with Dilution</b>	10,555,754	9,247,949	9,351,843

See notes to consolidated financial statements.

**FLEXIBLE SOLUTIONS INTERNATIONAL INC.**  
**Consolidated Statements of Stockholders' Equity**  
**Years Ended December 31, 2002, 2001 and 2000**  
**(U.S. Dollars)**

	Shares	Par Value	Capital in Excess of Par Value	Share Subscription Receivable	Accumulated Earnings (Deficiency)	Other Comprehensive Income (Loss)	Total Stockholders' Equity
<b>Balance, December 31, 1999</b>	9,131,316	\$9,131	\$163,653	\$0	\$76,455	\$6,677	\$255,916
<b>Translation Adjustment</b>	0	0	0	0	0	(8,516)	(8,516)
<b>Net Income</b>	0	0	0	0	138,971	0	138,971
<b>Balance, December 31, 2000</b>	9,131,316	9,131	163,653	0	215,426	(1,839)	386,371
<b>Shares Issued</b>							
For cash	9,500	9	4,116	0	0	0	4,125
For services	132,000	132	139,868	0	0	0	140,000
Stock option compensation	0	0	256,076	0	0	0	256,076
Translation adjustment	0	0	0	0	0	(22,003)	(22,003)
Net loss	0	0	0	0	(233,955)	0	(233,955)
<b>Balance, December 31, 2001</b>	9,272,816	9,272	563,713	0	(18,529)	(23,842)	530,614
<b>Shares Issued</b>							
<b>For Cash</b>							
Private placement	1,828,600	1,829	5,998,271	0	0	0	6,000,100
Exercise of stock options	439,500	439	150,686	0	0	0	151,125
For services	30,000	30	44,370	0	0	0	44,400
Share issue costs	0	0	(250,000)	0	0	0	(250,000)
Share subscription	0	0	0	(33,000)	0	0	(33,000)
Payment of subscription receivable	0	0	0	16,783	0	0	16,783
Stock option compensation	0	0	2,821,608	0	0	0	2,821,608
Translation adjustment	0	0	0	0	0	2,488	2,488
Net loss	0	0	0	0	(3,082,445)	0	(3,082,445)
<b>Balance, December 31, 2002</b>	11,570,916	\$11,570	\$9,328,648	\$(16,217)	\$(3,100,974)	\$(21,354)	\$6,201,673

## FLEXIBLE SOLUTIONS INTERNATIONAL INC.

### Consolidated Statements of Cash Flows

Years Ended December 31

(U.S. Dollars)

	2002	2001	2000
<b>Operating Activities</b>			
Net income (loss)	\$(3,082,445)	\$(233,955)	\$138,971
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities			
Stock option compensation	2,821,608	256,076	0
Non-cash services	44,400	141,510	0
Depreciation	24,683	18,910	13,489
Gain on sale of property and equipment	0	(863)	0
Changes in Non-Cash Working Capital			
Accounts receivable	(8,848)	98,009	(31,544)
Inventory	(22,132)	(88,185)	43,047
Prepaid expenses	(28,030)	(53,140)	(5,631)
Accounts payable	32,554	8,170	(14,589)
Accrued liabilities	0	0	(6,929)
Income tax recoverable	(136,122)	(72,490)	21,312
Unrealized foreign exchange gain/loss	627	(10,500)	(5,033)
<b>Cash Provided by (Used in) Operating Activities</b>	<b>(353,705)</b>	<b>63,542</b>	<b>153,093</b>
<b>Investing Activities</b>			
Short-term investment	(5,062,495)	0	0
Acquisition of property and equipment	(80,496)	(39,246)	(16,771)
Note receivable	9,225	(9,225)	0
Loan receivable	(566)	(9,516)	0
Investment	(32,500)	0	0
<b>Cash Used in Investing Activities</b>	<b>(5,166,832)</b>	<b>(57,987)</b>	<b>(16,771)</b>
<b>Financing Activities</b>			
Proceeds from issuance of common stock	5,868,225	4,125	0
Subscriptions received	16,783	0	0
<b>Cash Provided by Financing Activities</b>	<b>5,885,008</b>	<b>4,125</b>	<b>0</b>
<b>Effect of Exchange Rate Changes on Cash</b>	<b>1,861</b>	<b>(11,503)</b>	<b>(3,483)</b>
<b>Inflow (Outflow) of Cash</b>	<b>366,332</b>	<b>(1,823)</b>	<b>132,839</b>
<b>Cash, Beginning of Year</b>	<b>190,457</b>	<b>192,280</b>	<b>59,441</b>
<b>Cash, End of Year</b>	<b>\$556,789</b>	<b>\$190,457</b>	<b>\$192,280</b>
<b>Supplementary Disclosure of Cash Flow Information</b>			
Income taxes paid	\$115,472	\$85,126	\$66,748
<b>Supplementary Disclosure of Non-Cash Transactions</b>			
Issue of common stock for service	\$44,400	\$140,000	\$0
Sale of trailer - exchange for rent	\$0	\$1,510	\$0

# **FLEXIBLE SOLUTIONS INTERNATIONAL INC.**

## **Notes to Consolidated Financial Statements**

**Years Ended December 31, 2002, 2001 and 2000**

**(U.S. Dollars)**

---

### **1. OPERATIONS AND BASIS OF PRESENTATION**

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

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

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

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

### **2. COMPARATIVE FIGURES**

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **(a) Foreign currency**

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

Foreign exchange gains and losses relating to transactions not denominated in the applicable

local currency are included in income if realized during the year and in comprehensive income if they remain unrealized at the end of the year.



# FLEXIBLE SOLUTIONS INTERNATIONAL INC.

## Notes to Consolidated Financial Statements

Years Ended December 31, 2002, 2001 and 2000

(U.S. Dollars)

---

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Use of estimates

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

(c) Cash

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

(d) Inventory

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

(e) Property and equipment

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

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

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

(f) Revenue recognition

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

**FLEXIBLE SOLUTIONS INTERNATIONAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2002, 2001 and 2000**  
**(U.S. Dollars)**

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(g) Financial instruments

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

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

(h) Income (loss) per share calculation

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

(i) Stock issued in exchange for services

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

(j) Stock based compensation

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

(k) Comprehensive income

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

## **FLEXIBLE SOLUTIONS INTERNATIONAL INC.**

### **Notes to Consolidated Financial Statements**

**Years Ended December 31, 2002, 2001 and 2000**

**(U.S. Dollars)**

---

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(l) Recent accounting pronouncements

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

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

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

**FLEXIBLE SOLUTIONS INTERNATIONAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2002, 2001 and 2000**  
**(U.S. Dollars)**

**4. LOAN RECEIVABLE**

	<b>2002</b>	<b>2001</b>
5% loan receivable due on demand	\$10,082	\$9,516

**5. NOTE RECEIVABLE**

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

**6. PREPAID EXPENSES**

	<b>2002</b>	<b>2001</b>
Deposits for materials purchase	\$13,578	\$41,436
Security deposit and prepaids	73,743	17,855
	<b>\$87,321</b>	<b>\$59,291</b>

**7. PROPERTY AND EQUIPMENT**

	<b>2002</b>		
	Cost	Accumulated Depreciation	Net
Manufacturing equipment	\$159,885	\$61,641	\$98,244
Computer hardware	9,834	3,602	6,232
Furniture and fixtures	5,542	2,031	3,511
Office equipment	14,690	1,731	12,959
Leasehold improvements	10,160	2,540	7,620
	<b>\$200,111</b>	<b>\$71,545</b>	<b>\$128,566</b>

	<b>2001</b>		
	Cost	Accumulated Depreciation	Net
Manufacturing equipment	\$110,105	\$43,303	\$66,802
Computer hardware	5,190	1,927	3,263
Furniture and fixtures	3,786	1,372	2,414
Office equipment	534	260	274
	<b>\$119,615</b>	<b>\$46,862</b>	<b>\$72,753</b>

**FLEXIBLE SOLUTIONS INTERNATIONAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2002, 2001 and 2000**  
**(U.S. Dollars)**

**8. INVESTMENT**

	2002	2001
Ideal Business Solutions India P.Ltd - 2700 equity shares (10%)	\$32,500	\$0

The above investment is recorded at cost.

**9. COMPREHENSIVE (LOSS) INCOME**

	2002	2001	2000
Net income (loss)	\$(3,082,445)	\$(233,955)	\$138,971
Other comprehensive income (loss)	2,488	(22,003)	(8,516)
Comprehensive income (loss)	\$(3,079,957)	\$(255,958)	\$130,455

**10. INCOME TAX**

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

	2002	2001	2000
Income (loss) before income tax per entity			
Flexible Solutions International Inc.	\$(2,866,021)	\$(396,470)	\$0
Flexible Solutions Ltd.	(56,264)	62,779	229,856
WaterSaver Global Solutions Inc.	(181,616)	0	0
Consolidated income (loss) before income tax	(3,103,901)	(133,691)	229,856
Permanent difference			
Stock option benefit	2,821,608	256,076	0
Other			
Stock issued for services	44,400	140,000	0
Miscellaneous	0	394	0
Taxable income (loss) for tax purposes	\$(237,893)	\$262,779	\$229,856

**FLEXIBLE SOLUTIONS INTERNATIONAL INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2002, 2001 and 2000**  
**(U.S. Dollars)**

**10. INCOME TAX (Continued)**

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

	2002	2001	2000
Expected tax expense (recovery) at statutory rates			
From Canadian operations	\$(21,456)	\$100,264	\$90,885
From US operations	(84,691)	16,988	13,975
Decrease resulting from manufacturing and processing deduction	0	(18,395)	(16,090)
Other	0	1,407	2,115
Income tax expense (recovery)	\$(106,147)	\$100,264	\$90,885

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

	2002	2001
Non-capital loss carry-forwards	\$93,858	\$10,595
Book over tax value of fixed assets	(1,449)	(1,086)
Valuation allowance	(92,409)	(9,509)
	\$0	\$0

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

Available to	Amount
2018	\$16,858
2019	13,414
2022	237,893
	\$268,165

**FLEXIBLE SOLUTIONS INTERNATIONAL INC.****Notes to Consolidated Financial Statements****Years Ended December 31, 2002, 2001 and 2000****(U.S. Dollars)****11. NET INCOME (LOSS) PER SHARE**

	Net Income (Loss) (Numerator)	Shares (Denominator)	Per Share Amount
2002			
Basic net loss per share			
Net loss	\$(3,082,445)	10,555,754	\$ (0.29)
2001			
Basic net loss per share			
Net loss	\$(233,955)	9,247,949	\$ (0.03)
2000			
Basic net income per share			
Net income	\$138,971	9,131,316	\$ 0.02

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

**12. STOCK OPTIONS**

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

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

	Number of Shares	Exercise Price Per Share	Weighted Average Exercise Price
Balance, December 31, 2000	589,000	\$ 0.25 - \$0.70	\$ 0.31
Granted during year ended			
December 31, 2001	1,309,000	\$ 0.25 - \$3.50	\$ 1.47
Exercised	(9,500)	\$ 0.25 - \$1.00	\$ 0.32
Balance, December 31, 2001	1,888,500	\$ 0.25 - \$ 3.50	\$ 1.63
Granted during year ended			
December 31, 2002	2,222,800	\$ 1.50 - \$ 5.50	\$ 4.78
Exercised	(439,500)	\$ 0.25 - \$ 1.50	\$ (0.34)

Balance, December 31, 2002	3,671,800	\$ 0.25 - \$ 5.50	\$ 3.79
----------------------------	-----------	-------------------	---------

---



**FLEXIBLE SOLUTIONS INTERNATIONAL INC.****Notes to Consolidated Financial Statements****Years Ended December 31, 2002, 2001 and 2000****(U.S. Dollars)****12. STOCK OPTIONS (Continued)**

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

	<b>2002</b>	<b>2001</b>	<b>2000</b>
Net income (loss), as reported	\$(3,082,445)	\$(233,955)	\$138,971
Net income (loss), pro-forma	(3,704,296)	(955,071)	138,971
Net income (loss) per share, as reported	\$ (0.29)	\$ (0.03)	\$ 0.02
Net income (loss) per share, pro-forma	\$(0.35)	\$ (0.10)	\$ 0.02

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

	<b>2002</b>	<b>2001</b>
Expected life (years)	5	3.5
Interest rate	3.00%	4.00%
Volatility	72.3%	58.27%
Dividend yield	0.00%	0.00%

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

## **FLEXIBLE SOLUTIONS INTERNATIONAL INC.**

### **Notes to Consolidated Financial Statements**

**Years Ended December 31, 2002, 2001 and 2000**

**(U.S. Dollars)**

---

#### **13. CAPITAL STOCK**

- (a) During the year, the Company:
- (i) completed two private placements whereby 400,000 shares of common stock were issued at a price of \$2.50 per share and an additional 1,428,600 shares of common stock were issued at a price of \$3.50 per share to independent third parties;
  - (ii) issued 439,500 shares of common stock at prices ranging from \$0.25 to \$1.50 per share upon exercise of stock options;
  - (iii) issued 30,000 shares of common stock at a price of \$1.48 per share to an officer in lieu of six months of salary.
- (b) The Company is the plaintiff in a lawsuit demanding the return of the share certificate for 100,000 shares of stock originally given to the defendant as payment in advance for services. The services for which the advance was given were never performed or given to the Company, and the Company therefore received no consideration or value for such advance. Return of the share certificate for 100,000 shares was demanded within ten (10) days, namely by August 22, 2001, however, to date remains unreturned.

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

#### **14. SHORT-TERM INVESTMENT**

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

#### **15. SEGMENTED AND SIGNIFICANT CUSTOMER INFORMATION**

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

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

## **FLEXIBLE SOLUTIONS INTERNATIONAL INC.**

### **Notes to Consolidated Financial Statements**

**Years Ended December 31, 2002, 2001 and 2000**

**(U.S. Dollars)**

---

#### **15. SEGMENTED AND SIGNIFICANT CUSTOMER INFORMATION** (Continued)

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

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

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

#### **16. RELATED PARTY TRANSACTION**

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

#### **17. COMMITMENTS**

Property and premises leases

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

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

---

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

---