

FLEXIBLE SOLUTIONS INTERNATIONAL INC
Form 10-Q
August 14, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

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

For the transition period from _____ to _____

Commission File Number: 001-31540

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
(Exact Name of Issuer as Specified in Its Charter)

Nevada 91-1922863
(State or other jurisdiction of incorporation (I.R.S. Employer Identification No.)
or organization)

#206 – 920 Hillside Ave.
Victoria, British Columbia, Canada V8T 1Z8
(Address of Issuer's Principal Executive Offices) (Zip Code)

Issuer's telephone number: (250) 477-9969

NA

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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 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 No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

| Class of Stock | No. Shares Outstanding | Date |
|----------------|------------------------|-----------------|
| Common | 11,495,991 | August 14, 2017 |

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are “forward-looking statements” for the purposes of the federal and state securities laws, including, but not limited to: any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing.

Forward-looking statements may include the words “may,” “could,” “will,” “estimate,” “intend,” “continue,” “believe,” “expect,” “anticipate” or other similar words. These forward-looking statements present our estimates and assumptions only as of the date of this report. Except for our ongoing obligation to disclose material information as required by the federal securities laws, we do not intend, and undertake no obligation, to update any forward-looking statement.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties. The factors impacting these risks and uncertainties include but are not limited to:

Increased competitive pressures from existing competitors and new entrants;

Increases in interest rates or our cost of borrowing or a default under any material debt agreement;

Deterioration in general or regional economic conditions;

Adverse state or federal legislation or regulation that increases the costs of compliance, or adverse findings by a regulator with respect to existing operations;

Loss of customers or sales weakness;

Inability to achieve future sales levels or other operating results;

The unavailability of funds for capital expenditures; and

Operational inefficiencies in distribution or other systems.

For a detailed description of these and other factors that could cause actual results to differ materially from those expressed in any forward-looking statement, please see “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016.

PART I
FINANCIAL INFORMATION

Item 1.
Financial Statements.

FLEXIBLE SOLUTIONS INTERNATIONAL INC. CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

(U.S. Dollars - Unaudited)

| | June 30, 2017 | December 31, 2016 |
|--|------------------|----------------------|
| Assets | | |
| Current | | |
| Cash and cash equivalents | \$6,256,467 | \$2,470,066 |
| Accounts receivable (see Note 3) | 3,824,932 | 3,008,153 |
| Inventory (see Note 4) | 3,818,601 | 3,786,093 |
| Prepaid expenses | 154,990 | 228,699 |
| Total current assets | 14,054,990 | 9,493,011 |
| Property, plant and equipment (see Note 5) | 1,695,652 | 3,393,944 |
| Patents (see Note 6) | 87,671 | 95,890 |
| Long term deposits (see Note 7) | 26,469 | 26,163 |
| Investment (see Note 8) | 109,980 | 122,480 |
| Deferred tax asset | 2,533,573 | 2,026,999 |
| Total Assets | \$18,508,335 | \$15,158,487 |
| Liabilities | | |
| Current | | |
| Accounts payable and accrued liabilities | \$663,082 | \$902,037 |
| Deferred revenue | 5,317 | 95,308 |
| Taxes payable | 492,348 | 893,867 |
| Line of credit (see Note 9) | 600,000 | 250,000 |
| Current portion of long term debt (see Note 10) | 201,193 | 201,193 |
| Total current liabilities | 1,961,940 | 2,342,405 |
| Long term debt (see Note 10) | 251,492 | 352,089 |
| Total Liabilities | 2,213,432 | 2,694,494 |
| Stockholders' Equity | | |
| Capital stock | | |
| Authorized | | |
| 50,000,000 Common shares with a par value of \$0.001 each | | |
| 1,000,000 Preferred shares with a par value of \$0.01 each | | |
| Issued and outstanding | | |
| 11,485,991 (December 31, 2016: 11,457,991) common shares | 11,486 | 11,458 |
| Capital in excess of par value | 14,921,026 | 14,842,863 |

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| | | |
|--|--------------|--------------|
| Accumulated other comprehensive loss | (860,779) | (1,087,208) |
| Retained earnings (Deficit) | 2,223,170 | (1,303,120) |
| Total Stockholders' Equity | 16,294,903 | 12,463,993 |
| Total Liabilities and Stockholders' Equity | \$18,508,335 | \$15,158,487 |

Commitments (Note 14)

-- See Notes to Unaudited Interim Condensed Consolidated Financial Statements

-- FLEXIBLE SOLUTIONS INTERNATIONAL INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE INCOME (LOSS)
(U.S. Dollars -- Unaudited)

| | Three Months Ended June 30, | |
|--|--------------------------------|-------------|
| | 2017 | 2016 |
| Sales | \$4,722,366 | \$3,733,183 |
| Cost of sales | 2,841,003 | 1,750,025 |
| Gross profit | 1,881,363 | 1,983,158 |
| Operating expenses | | |
| Wages | 438,285 | 394,328 |
| Administrative salaries and benefits | 247,121 | 218,772 |
| Advertising and promotion | 3,718 | 2,201 |
| Investor relations and transfer agent fee | 36,736 | 44,281 |
| Office and miscellaneous | 70,547 | 112,700 |
| Insurance | 55,928 | 75,525 |
| Interest expense | 12,729 | 11,614 |
| Rent | 65,494 | 24,218 |
| Consulting | 33,650 | 30,997 |
| Professional fees | 58,373 | 48,778 |
| Travel | 39,263 | 46,004 |
| Telecommunications | 7,090 | 7,334 |
| Shipping | 4,911 | 6,238 |
| Research | 20,394 | 28,277 |
| Commissions | 13,512 | 4,193 |
| Bad debt expense | 881 | - |
| Currency exchange | 32,740 | (7,015) |
| Utilities | 4,545 | 5,400 |
| Total operating expenses | 1,145,847 | 1,053,665 |
| Income before other items and income tax | 735,516 | 929,493 |
| Gain on sale of equipment | | 1,914 |
| Loss on involuntary disposition (net of tax) | (326,570) | - |
| Write down of inventory | - | - |
| Interest income | 49 | - |
| Income before income tax | 408,995 | 931,407 |
| Deferred tax expense | - | - |
| Provision for income taxes | 135,372 | 370,170 |

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| | | |
|--|------------|------------|
| Net income | 273,623 | 561,237 |
| Other comprehensive income (loss) | 186,762 | (11,553) |
| Comprehensive income (loss) | 460,385 | 572,790 |
| Net income per share (basic and diluted) | \$0.02 | \$0.05 |
| Weighted average number of common shares (basic) | 11,465,606 | 11,427,991 |
| Weighted average number of common shares (diluted) | 11,752,945 | 11,577,960 |

-- See Notes to Unaudited Interim Condensed Consolidated Financial Statements --

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE INCOME (LOSS)
(U.S. Dollars -- Unaudited)

Six Months Ended June 30,

| | 2017 | 2016 |
|--|-------------|-------------|
| Sales | \$9,386,074 | \$9,045,818 |
| Cost of sales | 5,410,678 | 4,823,957 |
| Gross profit | 3,975,396 | 4,221,861 |
| Operating expenses | | |
| Wages | 796,702 | 748,418 |
| Administrative salaries and benefits | 496,203 | 423,517 |
| Advertising and promotion | 13,295 | 11,326 |
| Investor relations and transfer agent fee | 74,077 | 63,738 |
| Office and miscellaneous | 105,449 | 148,429 |
| Insurance | 137,537 | 149,173 |
| Interest expense | 24,296 | 22,558 |
| Rent | 121,008 | 46,201 |
| Consulting | 67,946 | 60,833 |
| Professional fees | 115,925 | 68,687 |
| Travel | 73,162 | 84,519 |
| Telecommunications | 13,386 | 11,925 |
| Shipping | 8,773 | 9,632 |
| Research | 31,538 | 64,005 |
| Commissions | 54,167 | 59,727 |
| Bad debt expense | 1,191 | - |
| Currency exchange | 41,744 | 10,980 |
| Utilities | 11,510 | 8,900 |
| Total operating expenses | 2,187,909 | 1,992,568 |
| Income before other items and income tax | 1,787,487 | 2,229,293 |
| Gain on sale of equipment | - | 1,914 |
| Gain on involuntary disposition (net of tax) | 2,245,718 | - |
| Write down of inventory | (51,346) | - |
| Interest income | 82 | - |
| Income before income tax | 3,981,941 | 2,231,207 |
| Deferred tax expense | 23,404 | - |
| Provision for income taxes | 432,247 | 928,176 |
| Net income | 3,526,290 | 1,303,031 |

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| | | |
|--|------------|------------|
| Other comprehensive income (loss) | 226,429 | (65,848) |
| Comprehensive income (loss) | 3,752,719 | 1,237,183 |
| Net income per share (basic) | \$0.31 | \$0.11 |
| Net income per share (diluted) | \$0.30 | \$0.11 |
| Weighted average number of common shares (basic) | 11,462,167 | 11,485,683 |
| Weighted average number of common shares (diluted) | 11,700,631 | 11,558,183 |

-- See Notes to Unaudited Interim Condensed Consolidated Financial Statements --

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
 CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
 For the Six Months Ended June 30, 2017 and 2016
 (U.S. Dollars -- Unaudited)

| | Six Months Ended June 30, | |
|---|---------------------------|-------------|
| | 2017 | 2016 |
| Operating activities | | |
| Net income | \$3,526,290 | \$1,303,031 |
| Stock compensation expense | 45,692 | 23,460 |
| Depreciation and amortization | 135,537 | 268,695 |
| Decrease in deferred tax asset | 23,404 | 104,379 |
| Gain on involuntary disposition | (2,245,718) | - |
| Changes in non-cash working capital items: | | |
| (Increase) in accounts receivable | (663,895) | (540,159) |
| Decrease (Increase) in inventory | (194,020) | 64,148 |
| Decrease (Increase) in prepaid expenses | 74,283 | (80,000) |
| Decrease in accounts payable | (522,328) | (263,844) |
| Increase (Decrease) in taxes payable | (401,519) | 367,799 |
| (Decrease) in deferred revenue | (185,253) | - |
| Cash (used in) provided by operating activities | (407,527) | 1,247,509 |
| Investing activities | | |
| Long term deposits | - | (350) |
| Investment | 12,500 | - |
| Proceeds from insurance | 3,727,042 | - |
| Acquisition of property and equipment | (56,306) | (79,750) |
| Cash (used in) provided by investing activities | 3,683,236 | (80,100) |
| Financing activities | | |
| Short term line of credit | 350,000 | 550,000 |
| Loan Repayment | (100,597) | (100,597) |
| Proceeds from sale of common stock | 32,500 | - |
| Repurchase of common stock | - | (1,575,000) |
| Cash provided (used) by financing activities | 281,903 | (1,125,597) |
| Effect of exchange rate changes on cash | 228,789 | 40,096 |
| (Outflow) Inflow of cash | 3,786,401 | 81,908 |
| Cash and cash equivalents, beginning | 2,470,066 | 2,498,738 |

| | | |
|---|-------------|-------------|
| Cash and cash equivalents, ending | \$6,256,467 | \$2,580,646 |
| Supplemental disclosure of cash flow information: | | |
| Income taxes paid | \$833,766 | \$452,654 |
| Interest paid | \$24,296 | \$22,558 |

-- See Notes to Unaudited Interim Condensed Consolidated Financial Statements --

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.

NOTES TO CONDENSED UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Period Ended June 30, 2017

(U.S. Dollars)

1.

Basis of Presentation.

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

Flexible Solutions International Inc. and its subsidiaries develop, manufacture and market specialty chemicals which slow the evaporation of water. 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 as additives for household laundry detergents, consumer care products and pesticides.

These unaudited interim condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States for interim financial statements. These financial statements are condensed and do not include all disclosures required for annual financial statements. The organization and business of the Company, accounting policies followed by the Company and other information are contained in the notes to the Company’s audited consolidated financial statements filed as part of the Company’s December 31, 2016 Annual Report on Form 10-K. This quarterly report should be read in conjunction with such annual report.

In the opinion of the Company’s management, these consolidated financial statements reflect all adjustments necessary to present fairly the Company’s consolidated financial position at June 30, 2017, the consolidated results of operations for the three and six months ended June 30, 2017 and 2016, and the consolidated statements of cash flows for the six months ended June 30, 2017 and 2016. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results to be expected for the entire fiscal year.

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 three major classes of inventory: finished goods, work in progress and 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 three and six months ended June 30, 2017 and 2016.

(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 June 30, 2017, 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-payment by customers. Credit exposure is minimized by dealing with only credit worthy counterparties. Accounts receivable for the Company's three primary customers totaled \$2,669,711 (70%) at June 30, 2017 (December 31, 2016 - \$2,032,646 or 67%).

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.

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

The Company accounts for investments using the equity method of accounting if the investment provides the Company 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 the Company's 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 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. Adoption of this standard had no effect on our consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). This standard was issued as part of the FASB's Simplification Initiative that involve several aspects of the accounting for share based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities. For public business entities, ASU 2016-09 is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The method of adoption is dependent on the specific aspect of accounting addressed in this new guidance. Early adoption is permitted in any interim or annual period. Adoption of this standard had no effect on our 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 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

| | June 30, 2017 | December 31, 2016 |
|----------------------------------|------------------|----------------------|
| Accounts receivable | \$3,863,923 | \$3,044,652 |
| Allowances for doubtful accounts | (38,991) | (36,499) |
| | \$3,824,932 | \$3,008,153 |

4. Inventory

| | June 30, 2017 | December 31, 2016 |
|------------------|------------------|----------------------|
| Completed goods | \$1,648,392 | \$1,646,465 |
| Work in progress | - | 2,572 |
| Raw materials | 2,170,209 | 2,137,056 |
| | \$3,818,601 | \$3,786,093 |

In February 2017, the Company lost \$367,331CAD (\$277,482USD) in inventory in a fire at the Taber, AB location. Insurance was in place. See Note 5

5. Property, Plant & equipment

| | June 30, 2017 | Accumulated | June 30, 2017 |
|-------------------------|---------------|--------------|---------------|
| | Cost | Depreciation | Net |
| Buildings | \$3,164,847 | \$2,354,745 | \$810,102 |
| Computer hardware | 40,904 | 39,075 | 1,829 |
| Furniture and fixtures | 17,673 | 10,341 | 7,332 |
| Office equipment | 419 | 21 | 398 |
| Manufacturing equipment | 2,448,856 | 2,028,461 | 420,395 |
| Trailer | 9,245 | 693 | 8,552 |
| Boat | 34,400 | 12,109 | 22,291 |
| Leasehold Improvements | 85,432 | 23,963 | 61,469 |
| Land | 363,284 | - | 363,284 |
| | \$6,165,060 | \$4,469,408 | \$1,695,652 |

December 31, 2016 Accumulated December 31, 2016

| | Cost | Depreciation | 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 |
| | \$10,728,712 | \$7,334,768 | \$3,393,944 |

Amount of depreciation expense for the six months ended June 30, 2017: \$127,318 (2016: \$261,072) and is included in cost of sales in the unaudited interim condensed consolidated statements of comprehensive income (loss).

In February 2017, the Company lost a net carrying value total of \$2,196,722CAD (\$1,659,404USD) in building and manufacturing equipment along with \$367,331CAD (\$277,482USD) in inventory in a fire at the Taber, AB location. During the six months ended June 30, 2017, the Company received interim insurance proceeds of \$5,570,000CAD (\$4,207,578USD) and incurred fire related clean up costs in the amount of \$642,936CAD (\$480,536USD). An after-tax gain of \$2,245,718 is included as other income in the Condensed Interim Consolidated Statement of Operations and Comprehensive Income (Loss).

6.
Patents

| | June 30, 2017 | Accumulated | June 30, 2017 |
|---------|---------------|--------------|---------------|
| | Cost | Amortization | Net |
| Patents | \$204,288 | \$116,616 | \$87,671 |

| | December 31, 2016 | Accumulated | December 31, 2016 |
|---------|-------------------|--------------|-------------------|
| | Cost | Amortization | Net |
| Patents | \$197,448 | \$101,558 | \$95,890 |

Increase in 2017 cost was due to currency conversion. June 30, 2017 cost in Canadian dollars - \$265,102 (December 31, 2016 - \$265,102 in Canadian dollars).

Amount of amortization for the six months ended June 30, 2017 - \$8,219 (2016 - \$7,623) 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.

| | | |
|--|---------------|-------------------|
| | June 30, 2017 | December 31, 2016 |
|--|---------------|-------------------|

| | | |
|--------------------|----------|----------|
| Long term deposits | \$26,469 | \$26,163 |
|--------------------|----------|----------|

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 Illinois and leases warehouse space. We account for this investment using the equity method of accounting. A summary of our investment is as follows:

| | |
|----------------------------------|-----------|
| Balance, January 1, 2016 | - |
| Capital contributions | \$150,066 |
| Return of equity | (12,500) |
| Loss in equity method investment | (15,086) |
| Balance, December 31, 2016 | \$122,480 |
| Return of equity | (12,500) |
| Balance, June 30 2017 | \$109,980 |

9.

Short-Term Line of Credit

In May 2017, 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 4.75%.

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 June 30, 2017, 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 June 30, 2017 were \$600,000 (December 31, 2016 - \$250,000).

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 June 30, 2017 was \$452,685 (December 31, 2016 - US\$553,282).

The Company has committed to the following repayments:

2017 \$100,597
 2018 \$201,193
 2019 \$150,895

As of June 30, 2017, Company was in compliance with all loan covenants.

June 30, 2017 December 31, 2016

Continuity

| | | |
|------------------------------|-----------|-----------|
| Balance, beginning of period | \$553,282 | \$754,475 |
| Plus: Proceeds from loans | -- | - |
| Less: Payments on loan | 100,597 | 201,193 |
| Balance, end of period | \$452,685 | \$553,282 |

Outstanding balance at:

| | | |
|-------------------------|-----------|-----------|
| Long term debt – Harris | 452,685 | 553,282 |
| Long term debt | \$452,685 | \$553,282 |
| Less: current portion | (201,193) | (201,193) |
| Balance | \$251,492 | \$352,089 |

11.

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 its 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 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 year ended December 31, 2016 and the six month period ended June 30, 2017:

| | Number of shares | Exercise price per share | Weighted average exercise price |
|----------------------------|------------------|-----------------------------|---------------------------------|
| 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 |
| Cancelled or expired | (87,000) | \$1.00 - 2.22 | \$1.97 |
| Exercised | (28,000) | \$0.75 - 1.21 | \$1.16 |
| Balance, June 30, 2017 | 698,000 | \$0.75 - 2.00 | \$1.10 |
| Exercisable, June 30, 2017 | 535,000 | \$0.75 - 2.00 | \$1.00 |

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

2016

| | |
|--|--------|
| Expected life – years | 3 |
| Interest rate | 1.37% |
| Volatility | 75.64% |
| Dividend yield | --% |
| Weighted average fair value of options granted | \$0.71 |

The Company did not grant any options during the six months ended June 30, 2017. Vesting of options granted in previous years resulted in expenses in the amount of \$11,317 for consultants (2016 - \$5,940) and \$34,375 for employees (2016 - \$17,250) during the six months ended June 30, 2017. There were 28,000 employee stock options exercised during the six months ended June 30, 2017.

As of June 30, 2017, there was approximately \$46,116 of compensation expense related to non-vested awards. This expense is expected to be recognized over a weighted average period of 0.5 years.

The aggregate intrinsic value of vested options outstanding at June 30, 2017 is \$533,750.

12.
Capital Stock.

During the six months ended June 30, 2017, the Company issued the following shares upon the exercise of employee stock options:

| Date Issued | Number of Shares Issued |
|----------------|----------------------------|
| March 10, 2017 | 3,000 |
| June 6, 2017 | 5,000 |
| June 15, 2017 | 20,000 |

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.

13.

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

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

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.

Six months ended June 30, 2017:

| | EWCP | BPCA | Total |
|--|-----------|-------------|-------------|
| Revenue | \$475,018 | \$8,911,056 | \$9,386,074 |
| Interest expense | 53 | 24,243 | 24,296 |
| Depreciation and amortization | 38,730 | 96,807 | 135,537 |
| Segment profit (loss) | 2,335,153 | 1,191,137 | 3,526,290 |
| Segment property, equipment, leaseholds, and patents | 349,454 | 1,433,869 | 1,783,323 |
| Expenditures for segment assets | (48,900) | (7,406) | (56,306) |

Six months ended June 30, 2016:

| | EWCP | BPCA | Total |
|--|-----------|-------------|-------------|
| Revenue | \$618,806 | \$8,427,012 | \$9,045,818 |
| Interest expense | 58 | 22,500 | 22,558 |
| Depreciation and amortization | 162,083 | 106,612 | 268,695 |
| Segment profit (loss) | (356,091) | 1,659,122 | 1,303,031 |
| Segment property, equipment, leaseholds, and patents | 2,203,389 | 1,652,939 | 3,856,328 |
| Expenditures for segment assets | - | (79,750) | (79,750) |

The sales generated in the United States and Canada are as follows:

| | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|--------------------------|-----------------------------------|--------------------------------------|
| Canada | \$218,915 | \$236,288 |
| United States and abroad | 9,167,159 | 8,809,530 |
| Total | \$9,386,074 | \$9,045,818 |

The Company's property, equipment, leasehold and patents are located in Canada and the United States as follows:

| | June 30, 2017 | December 31, 2016 |
|---------------|---------------|-------------------|
| Canada | \$349,454 | \$1,966,564 |
| United States | 1,433,869 | 1,523,270 |
| Total | \$1,783,323 | \$3,489,834 |

Three customers accounted for \$5,527,771 (59%) of sales during the six months ended June 30, 2017 (2016 - \$5,208,367 or 58%). Three customers accounted for \$2,669,711 of accounts receivable (70%) at June 30, 2017 (December 31, 2016 - \$2,032,646 or 67%).

14.
Commitments.

The Company is committed to minimum rental payments for property and premises aggregating approximately \$830,235 over the term of two leases, the last expiring on December 31, 2020.

Commitments in the next five years are as follows:

| | |
|------|-----------|
| 2017 | \$102,315 |
| 2018 | \$201,840 |
| 2019 | \$205,580 |
| 2020 | \$209,400 |
| 2021 | \$111,100 |

15.
Subsequent Events

The Company issued 10,000 shares in July 2017 upon the exercise of employee stock options.

16.
Comparative Figures.

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

Item 2.

Management's Discussion and Analysis of Results of Operation and Financial Condition.

Overview

The Company manufactures and markets biodegradable polymers which are used in the oil, gas and agriculture industries. The Company also develops, manufactures and markets specialty chemicals that slow the evaporation of water.

Results of Operations

The Company has two product lines:

Energy and Water Conservation products - The Company's HEAT\$AVR® product is 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 and thereby reducing the energy required to maintain the desired temperature of the water. WATER\$AVR®, a modified version of HEAT\$AVR®, can be used in reservoirs, potable water storage tanks, livestock watering ponds, canals, and irrigation ditches.

BCPA products - The second product, TPA's (i.e. thermal polyaspartate biopolymers), are biodegradable polymers used by the petroleum, chemical, utility and mining industries to prevent corrosion and scaling in water piping. TPA's can also be used in detergents to increase biodegradability and in agriculture to increase crop yields by enhancing fertilizer uptake.

Material changes in the Company's Statement of Operations for the six and three months ended June 30, 2017 are discussed below:

Six Months ended June 30, 2017

| Item | Increase (I) or Decrease (D) | Reason |
|--------------------------------------|---------------------------------|--|
| Sales | | |
| EWCP products | D | Loss of Taber, AB manufacturing facility to fire. |
| BCPA products | I | Increased sales across all market verticals due to increased success in sales activity. |
| Gross Profit, as a % of sales | D | Temporary increase in costs after loss of the EWCP manufacturing plant to fire along with increased aspartic acid costs. |
| Wages | I | Increased wages to retain employees. |
| Administrative salaries and benefits | I | Increased wages to retain employees. |
| Office and miscellaneous | D | Lump payment of property taxes in 2016 that did not occur in 2017. |
| Rent | I | Additional storage and capacity space for BCPS products. |
| Professional fess | I | Increased legal fees related to IP and general legal representation along with increased accounting costs. |
| Research | D | Reduced new product regulatory costs. |

Three months ended June 30, 2017

| Item | Increase (I) or Decrease (D) | Reason |
|--------------------------------------|---------------------------------|--|
| Sales | | |
| EWCP products | D | Loss of Taber, AB manufacturing facility to fire. |
| BPCA products | I | Increased sales across all market verticals due to increased success in sales activity. |
| Gross Profit, as a % of sales | D | Temporary increase in costs after loss of the EWCP manufacturing plant to fire along with increased aspartic acid costs. |
| Wages | I | Increased wages to retain employees. |
| Administrative salaries and benefits | I | Increased wages to retain employees. |
| Office and miscellaneous | D | Lump payment of property taxes in 2016 that did not occur in 2017. |
| Rent | I | Additional storage and capacity space for BCPS products. |
| Professional fess | I | Increased legal fees related to IP and general legal representation along with increased accounting costs. |
| Research | D | Reduced new product regulatory costs. |

Three customers accounting for 61% of our sales during the three months ended June 30, 2017 (2016 – 52%) and 59% of our sales during the six months ended June 30, 2017 (2016 – 58%). The amount of revenue (all from the sale of BPCA products) attributable to each customer is shown below.

| Customer | Three months ended June 30, | | Six months ended June 30, | |
|----------|--------------------------------|-------------|------------------------------|-------------|
| | 2017 | 2016 | 2017 | 2016 |
| A | \$1,591,641 | \$1,041,237 | \$3,049,993 | \$2,464,655 |
| B | \$741,395 | \$519,026 | \$1,445,770 | \$1,830,558 |
| C | \$551,762 | \$374,287 | \$1,032,009 | \$913,154 |

Customers with balances greater than 10% of our receivables as of June 30, 2017 and 2016 are shown below:

| | June 30, | |
|-----------|-----------|---------|
| | 2017 | 2016 |
| Company A | 1,647,726 | 565,317 |
| Company B | 741,395 | 296,407 |
| Company C | 280,590 | -- |
| Company D | -- | 297,944 |

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. On February 11, 2017, the Taber plant was destroyed in a fire. The building and contents with a carrying value of \$1,936,886 are a total loss. Insurance was in place.

Other 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 BCPA product;

activity in the oil and gas industry, as we sell our BCPA product to oil and gas companies; and

drought conditions, since we also sell our BCPA 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

The Company's sources and (uses) of cash for the six months ended June 30, 2017 and 2016 are shown below:

| | 2017 | 2016 |
|---|-----------|-------------|
| Cash provided by (used in) operations | (407,527) | 1,247,509 |
| Long term deposits | - | (350) |
| Investment | 12,500 | - |
| Insurance proceeds from fire loss | 3,727,042 | - |
| Sale (purchase) of equipment | (56,306) | (79,750) |
| Advances from (repayments of) short term line of credit | 350,000 | 550,000 |
| Repayment of loans | (100,597) | (100,597) |
| Proceeds from sale of common stock | 32,500 | - |
| Repurchase of common stock | - | (1,575,000) |
| Changes in exchange rates | 228,789 | 40,096 |

The Company has sufficient cash resources to meet its future commitments and cash flow requirements for the coming year. As of June 30, 2017 working capital was \$12,093,050 (December 31, 2016 - \$7,150,606) and the Company has 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 \$830,235 over the term of two leases, the last expiring on December 31, 2020.

Commitments in the next five years are as follows:

| | |
|------|-----------|
| 2017 | \$102,315 |
| 2018 | \$201,840 |
| 2019 | \$205,580 |
| 2020 | \$209,400 |
| 2021 | \$111,100 |

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

Other than as disclosed in Item 2 of this report, the Company does not know of any trends, demands, commitments, events or uncertainties that will result in, or that are reasonable likely to result in, its liquidity increasing or decreasing in any material way.

Other than as disclosed in Item 2 of this report, the Company does not know of any significant changes in its expected sources and uses of cash.

The Company does not have any commitments or arrangements from any person to provide it with any equity capital.

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

Item 4.

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the direction and with the participation of our management, including our Principal Executive and Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2017. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic reports with the Securities and Exchange Commission 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 and 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 desired disclosure control objectives. Based on the evaluation, our Principal Executive and Financial Officer concluded that these disclosure controls and procedures are effective as of June 30, 2017.

Changes in Internal Control over Financial Reporting

Our management, with the participation of our Principal Executive and Financial Officer, evaluated whether any change in our internal control over financial reporting occurred during the three and six months ended June 30, 2017. Based on that evaluation, it was concluded that there has been no change in our internal control over financial reporting during the three and six months ended June 30, 2017 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 6.

Exhibits.

| Number | Description |
|--------|---|
| 3.1 | Amended and Restated Certificate of Incorporation of the registrant. (1) |
| 3.2 | Bylaws of the registrant. (1) |
| 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.* |

* Filed with this report.

(1)

Incorporated by reference to the registrant's Registration Statement on Form 10-SB (SEC File. No. 000-29649) filed February 22, 2000.

SIGNATURES

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

Flexible Solutions International, Inc.

August 14, 2017 By: /s/ Daniel B. O'Brien
Daniel B. O'Brien
President and Principal Executive Officer

August 14, 2017 By: /s/ Daniel B. O'Brien
Daniel B. O'Brien
Principal Financial and Accounting Officer