

FLEXIBLE SOLUTIONS INTERNATIONAL INC
Form 10-Q
May 12, 2016

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 March 31, 2016

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
(State or other jurisdiction of incorporation
or organization)

91-1922863
(I.R.S. Employer Identification No.)

#206 - 920 Hillside Ave.
Victoria, British Columbia, Canada
(Address of Issuer's Principal Executive
Offices)

V8T 1Z8
(Zip Code)

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

N/A

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

Indicate by check mark whether the Registrant (1) has filed all reports required 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

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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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2 of the Exchange Act).

Yes _____

No

Class of Stock	No. Shares Outstanding	Date
Common	11,427,991	May 12, 2016

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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 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,” “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, 2015.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

FLEXIBLE SOLUTIONS INTERNATIONAL INC.CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

(U.S. Dollars - Unaudited)

	March 31, 2016 (Unaudited)	December 31, 2015
Assets		
Current		
Cash and cash equivalents	\$1,248,637	\$2,498,738
Accounts receivable (see Note 3)	3,667,624	1,954,877
Inventory (see Note 4)	2,622,014	3,275,476
Prepaid expenses	137,814	243,342
Total current assets	7,676,089	7,972,433
Property, plant and equipment (see Note 5)	3,888,470	3,791,109
Patents (see Note 6)	103,299	100,623
Long term deposits (see Note 7)	10,797	10,169
Deferred tax asset	1,990,039	2,268,296
Total Assets	\$13,668,694	\$14,142,630
Liabilities		
Current		
Accounts payable and accrued liabilities	\$938,744	\$826,315
Deferred revenue	43,111	40,451
Taxes payable	403,110	293,238
Line of credit (see Note 8)	450,000	200,000
Current portion of long term debt (see Note 9)	201,193	201,193
Total current liabilities	2,036,158	1,561,197
Long term debt (see Note 9)	502,984	553,282
Total Liabilities	2,539,142	2,114,479
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		
11,427,991 (December 31, 2015: 13,177,991) common shares	11,427	13,178
Capital in excess of par value	14,755,706	16,317,225
Accumulated other comprehensive loss	(1,282,921)	(1,205,798)
Deficit	(2,354,660)	(3,096,454)
Total Stockholders' Equity	11,129,552	12,028,151
Total Liabilities and Stockholders' Equity	\$13,668,694	\$14,142,630

Commitments (Note 13)

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

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE LOSS

(U.S. Dollars -- Unaudited)

	Three Months Ended March	
	2016	31, 2015
Sales	\$5,312,635	\$4,963,887
Cost of sales	3,073,932	3,064,694
Gross profit	2,238,703	1,899,193
Operating expenses		
Wages	354,090	390,742
Administrative salaries and benefits	204,745	187,525
Advertising and promotion	9,305	16,331
Investor relations and transfer agent fee	19,457	35,177
Office and miscellaneous	35,729	41,101
Insurance	73,648	74,418
Interest expense	10,944	17,346
Rent	21,983	32,426
Consulting	29,836	37,349
Professional fees	19,909	32,647
Travel	38,515	28,206
Telecommunications	4,591	8,160
Shipping	3,394	4,773
Research	35,728	22,700
Commissions	55,534	38,485
Currency exchange	17,995	(11,256)
Utilities	3,500	10,546
Total operating expenses	938,903	966,426
Income before other items and income tax	1,299,800	932,767
Interest income	-	2,962
Gain (loss) on sale on equipment	-	(26,867)
Income before income tax	1,299,800	908,862
Provision for income taxes	558,006	404,597
Net income	741,794	504,265
Other comprehensive income (loss)	(77,142)	(504,769)
Comprehensive income (loss)	664,652	(504)
Net income per share (basic and diluted)	\$0.06	\$0.04
Weighted average number of common shares (basic)	11,543,376	13,169,991
Weighted average number of common shares (diluted)	11,566,717	13,224,852

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

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2016 and 2015
(U.S. Dollars -- Unaudited)

	Three Months Ended March 31,	
	2016	2015
Operating activities		
Net income	\$741,794	\$504,265
Stock compensation expense	11,730	17,596
Depreciation and amortization	131,587	156,942
Changes in non-cash working capital items:		
(Increase) in accounts receivable	(1,695,504)	(807,204)
Decrease (Increase) in inventory	676,187	(8,833)
Decrease in prepaid expenses	107,492	2,510
Increase in accounts payable	103,305	795
Increase in taxes payable	109,872	166,665
Cash provided by operating activities	186,463	31,146
Investing activities		
Long term deposits	350	-
Sale of equipment	-	29,028
Acquisition of property and equipment	(90,701)	-
Cash (used in) provided by investing activities	(91,051)	29,028
Financing activities		
Short term line of credit	250,000	25,000
Loan Repayment	(50,298)	(50,298)
Repurchase of common stock	(1,575,000)	-
Cash (used) by financing activities	(1,375,298)	(25,298)
Effect of exchange rate changes on cash	29,785	(5,459)
(Outflow) Inflow of cash	(1,250,101)	29,417
Cash and cash equivalents, beginning	2,498,738	747,517
Cash and cash equivalents, ending	\$1,248,637	\$776,934
Supplemental disclosure of cash flow information:		
Income taxes paid	\$448,330	\$410,000
Interest paid	\$10,944	\$17,346

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

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2016
(U.S. Dollars)

1. Basis of Presentation.

These unaudited interim condensed consolidated financial statements include the accounts of Flexible Solutions International Inc. (the “Company”), and its wholly-owned subsidiaries Flexible Fermentation Ltd. (“Flexible Ltd.”), NanoChem Solutions Inc. (“NanoChem”), Flexible Solutions Ltd., Flexible Biomass LP, 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 can be used 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 unaudited interim 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, 2015 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 unaudited interim condensed consolidated financial statements reflect all adjustments, all of which are of normal recurring nature, necessary to present fairly the Company’s consolidated financial position at March 31, 2016, the consolidated results of operations for the three months ended March 31, 2016 and 2015, and the consolidated statements of cash flows for the three months ended March 31, 2016 and 2015. The results of operations for the three months ended March 31, 2016 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.

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(b) Inventories and Cost of Sales

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

(c) Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts when management estimates collectability to be uncertain. Accounts receivable are continually reviewed to determine which, if any, accounts are doubtful of collection. In making the determination of the appropriate allowance amount, the Company considers current economic and industry conditions, relationships with each significant customer, overall customer credit-worthiness and historical experience.

(d) Property, Equipment and Leaseholds.

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

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

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

(e) Impairment of Long-Lived Assets.

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

(f) Foreign Currency.

The functional currency of three of the Company's subsidiaries is the Canadian Dollar. The translation of the Canadian Dollar to the reporting currency of the Company, the U.S. Dollar is performed for assets and liabilities using exchange rates in effect at the balance sheet date. Revenue and expense transactions are translated using average

exchange rates prevailing during the year. Translation adjustments arising on conversion of the Company's financial statements from the subsidiary's functional currency, Canadian Dollars, into the reporting currency, U.S. Dollars, are excluded from the determination of income (loss) and are disclosed as other comprehensive income (loss) in the Statement of 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 have 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 months ended March 31, 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 March 31, 2016, the Company believes it has appropriately accounted for any unrecognized tax benefits. To the extent the Company prevails in matters for which a liability for an unrecognized benefit is established or is required to pay amounts in excess of the liability, the

Company's effective tax rate in a given financial statement period may be affected. Interest and penalties associated with the Company's tax positions are recorded as interest expense in the consolidated statements of comprehensive income (loss).

(q) Risk Management

The Company's credit risk is primarily attributable to its accounts receivable. The amounts presented in the accompanying consolidated balance sheets are net of allowances for doubtful accounts, estimated by the Company's management based on prior experience and the current economic environment. The Company is exposed to credit-related losses in the event of non-performance by counterparties to the financial instruments. Credit exposure is minimized by dealing with only credit worthy counterparties. Accounts receivable for the Company's three primary customers totaled \$2,055,710 (56%) at March 31, 2016 (December 31, 2015 - \$1,298,821 or 66%).

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

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

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

(r) Adoption of new accounting principles

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

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

(s) Recent Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board (the "FASB") and the International Accounting Standards Board (the "IASB") issued substantially converged final standards on revenue recognition. The FASB's Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), was issued in three parts: (a) Section A, "Summary and Amendments That Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs-Contracts with Customers (Subtopic 340-40)," (b) Section B, "Conforming Amendments to Other Topics and Subtopics in the Codification and Status Tables" and (c) Section C, "Background Information and Basis for Conclusions." The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The new revenue recognition guidance becomes effective for the Company on December 15, 2017, and early adoption is not permitted. Entities have the option of using either a full retrospective or a modified approach to adopt the guidance in the ASU. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

In August 2014, the FASB issued new guidance on determining when and how to disclose going -concern uncertainties in the financial statements. The new guidance requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about its ability to continue as a going concern. The guidance is effective for annual periods ending after December 15, 2016 and interim periods thereafter. Early adoption is permitted. Upon adoption, the Company does not believe this guidance will have a material impact on its consolidated results of operations or financial position.

In July 2015, the FASB issued ASU No. 2015-11, “Simplifying the Measurement of Inventory.” Under this ASU, inventory will be measured at the “lower of cost and net realizable value” and options that currently exist for “market value” will be eliminated. The ASU defines net realizable value as the “estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.” No other changes were made to the current guidance on inventory measurement. ASU 2015-11 is effective for interim and annual periods beginning after December 15, 2016, with early adoption permitted. Adoption of this guidance is not expected to have any material effect on the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The FASB issued the update to require the recognition of lease assets and liabilities on the balance sheet of lessees for all leases with the exception of short term leases at the commencement date. The standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within such fiscal years. The ASU requires a modified retrospective transition method with the option to elect a package of practical expedients. Early adoption is permitted. The Company is evaluating the effect the new guidance will have on its consolidated financial statements and related disclosures. In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718), which simplifies the accounting for the taxes related to stock-based compensation, including adjustments to how excess tax benefits and a company’s payments for tax withholdings should be classified. The standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within such fiscal years. The Company is currently evaluating the new guidance and does not expect it to have a material impact on its consolidated financial statements.

In April 2016, the FASB issued an accounting pronouncement (FASB ASU 2016-10) related to identifying performance obligations and licensing. This pronouncement is meant to clarify the guidance in FASB ASU 2014-09, Revenue from Contracts with Customers. Specifically, the guidance addresses an entity’s identification of its performance obligations in a contract, as well as an entity’s evaluation of the nature of its promise to grant a license of intellectual property and whether or not that revenue is recognized over time or at a point in time. The pronouncement has the same effective date as the new revenue standard, which is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. We are currently evaluating the impact of the accounting update on our consolidated financial statements.

3. Accounts Receivable

	March 31, 2016	December 31, 2015
Accounts receivable	\$3,705,358	\$1,990,283
Allowances for doubtful accounts	(37,734)	(35,406)
	\$3,667,624	\$1,954,877

4. Inventory

	March 31, 2016	December 31, 2015
Completed goods	\$1,242,014	\$1,162,571
Work in progress	101,439	10,466
Raw materials	1,278,561	2,102,439
	\$2,622,014	\$3,275,476

5. Property, Plant & equipment

	March 31, 2016 Cost	Accumulated Depreciation	March 31, 2016 Net
Buildings	\$4,868,148	\$ 2,860,889	\$2,007,259
Computer hardware	91,124	86,170	4,954
Furniture and fixtures	32,939	22,119	10,820
Office equipment	18,345	17,181	1,174
Manufacturing equipment	5,296,941	3,963,545	1,333,396
Trailer	13,294	12,462	832
Boat	34,400	4,988	29,412
Leasehold Improvements	75,432	3,771	71,661
Technology	105,190	89,412	15,778
Land	413,184	—	413,184
	\$10,948,997	\$ 7,060,527	\$3,888,470

	December 31, 2015 Cost	Accumulated Depreciation	December 31, 2015 Net
Buildings	\$4,766,282	\$ 2,774,306	\$1,991,976
Computer hardware	88,026	82,811	5,215
Furniture and fixtures	29,147	20,774	8,373
Office equipment	17,214	16,054	1,160
Manufacturing equipment	5,074,079	3,770,819	1,303,260
Trailer	12,474	11,630	844
Boat	34,400	3,440	30,960
Leasehold Improvements	29,604	—	29,604
Technology	98,701	78,961	19,740
Land	399,977	—	399,977
	\$10,549,904	\$ 6,758,795	\$3,791,109

Amount of depreciation expense for three months ended March 31, 2016: \$127,896 (2015: \$152,861) and is included in cost of sales in the unaudited interim condensed consolidated statements of comprehensive income (loss).

6. Patents

In fiscal 2005, the Company started the patent process for additional WATER\$AVR® products. Patents associated with these costs were granted in 2006 and they have been amortized over their legal life of 17 years.

	March 31, 2016 Cost	Accumulated Amortization	March 31, 2016 Net
Patents	\$203,958	\$ 100,659	\$ 103,299

	December 31, 2015 Cost	Accumulated Amortization	December 31, 2015 Net
Patents	\$191,698	\$ 91,075	\$ 100,623

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

Amount of amortization for 2016 - \$3,691 (2015 - \$4,081) 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:

2016	\$ 15,602
2017	15,602
2018	15,602
2019	15,602
2020	15,602

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.

	March 31, 2016	December 31, 2015
Long term deposits	\$ 10,797	\$ 10,169

8. Short-Term Line of Credit

In April 2015, the Company signed a new agreement with Harris 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 3.75%.

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 March 31, 2016, Company was in compliance with all loan covenants.

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

Short-term borrowings outstanding under the Revolving Line as of March 31, 2016 were \$450,000 (December 31, 2015 - \$200,000) and there were no amounts outstanding on the secured loan.

9. Long Term Debt

In September 2014, NanoChem Solutions Inc. signed a US\$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 March 31, 2016 was \$704,177 (December 31, 2015 - US\$754,475).

The Company has committed to the following repayments:

2016	\$ 150,895
2017	\$201,193
2018	\$201,193
2019	\$150,895

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

	March 31, 2016	December 31, 2015
Continuity		
Balance, beginning of period	\$754,475	\$1,112,689
Plus: Proceeds from loans	--	-
Less: Payments on loan	50,298	337,631
Effect of exchange rate	-	(20,583)
Balance, end of period	\$704,177	\$754,475

Outstanding balance at:

c) Long term debt – Harris	704,177	754,475
Long term debt	\$704,177	\$754,475
Less: current portion	(201,193)	(201,193)
Balance	\$502,984	\$553,282

10. 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, 2015 and the three-month period ended March 31, 2016:

	Number of shares	Exercise price per share	Weighted average exercise price
Balance, December 31, 2014	1,126,000	\$1.21 – 2.45	\$1.54
Granted	317,000	\$0.75 – 1.05	\$0.89
Cancelled or expired	(245,000)	\$1.05 – 2.22	\$1.72
Granted	8,000	\$1.00	\$1.00
Balance, December 31, 2015	1,190,000	\$0.75 – 2.45	\$1.34
		1.50 -	
Cancelled or expired	(355,000)	\$2.00	\$1.56
Balance, March 31, 2016	835,000	\$0.75 – 2.45	\$1.24
Exercisable, March 31, 2016	677,000	\$1.00 – 2.45	\$1.36

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

	2015
Expected life – years	3.0
Interest rate	0.78 – 1.16%
Volatility	58 - 77 %
Dividend yield	-- %
Weighted average fair value of options granted	\$0.36– 0.37

The Company did not grant any options during the three months ended March 31, 2016. Options granted in previous quarters resulted in expenses in the amount of \$2,970 for consultants and \$8,760 for employees during the quarter ended March 31, 2016. No stock options were exercised during the period.

During the three months ended March 31, 2015 the Company granted 60,000 options to consultants that resulted in \$5,891 in expenses this quarter. During the same period, 99,000 options were granted to employees, resulting in \$9,720 in expenses this quarter. Options granted in previous quarters resulted in additional expenses in the amount of \$837 for consultants and \$1,148 for employees during the quarter ended March 31, 2015. No stock options were exercised during the period.

As of March 31, 2016, there was approximately \$35,190 of compensation expense related to non-vested awards. This expense is expected to be recognized over a weighted average period of 0.75 years.

11. Capital Stock.

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

On July 9, 2015, the Company issued 8,000 shares upon the exercise of employee stock options.

12. 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.

Three months ended March 31, 2016:

	EWCP	BPCA	Total
Revenue	\$327,713	\$4,984,922	\$5,312,635
Interest expense	-	10,944	10,944
Depreciation and amortization	78,478	53,109	131,587
Segment profit (loss)	(130,408)	872,202	741,794
Segment assets	2,274,377	1,717,392	3,991,769
Expenditures for segment assets	-	(90,701)	(90,701)

Three months ended March 31, 2015:

	EWCP	BPCA	Total
Revenue	\$238,402	\$4,725,485	\$4,963,887
Interest revenue	-	2,962	2,962
Interest expense	2	17,344	17,346
Depreciation and amortization	112,468	44,474	156,942
Segment profit (loss)	(311,736)	816,001	504,265
Segment assets	2,797,532	1,643,815	4,441,347
Expenditures for segment assets	29,028	-	29,028

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

	Three months ended March 31, 2016	Three months ended March 31, 2015
Canada	\$ 135,779	\$ 39,846
United States and abroad	5,176,856	4,924,041
Total	\$ 5,312,635	\$ 4,963,887

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

	March 31, 2016	December 31, 2015
Canada	\$ 2,273,793	\$ 2,211,348
United States	1,717,976	1,680,384
Total	\$ 3,991,769	\$ 3,891,732

Three customers accounted for \$3,273,817 (62%) of sales during the three-month period ended March 31, 2016 (2015 - \$2,971,579 or 60%). Three customers accounted for \$2,055,710 of accounts receivable (56%) at March 31, 2016 (December 31, 2015 - \$1,298,821 or 66%).

13. Commitments.

The Company is committed to minimum rental payments for property and premises aggregating approximately \$323,286 over the term of two leases, the last expiring on December 31, 2020.

Commitments in the next five years are as follows:

2016	\$ 54,966
2017	\$ 65,280
2018	\$ 66,480
2019	\$ 67,680
2020	\$ 68,880

14. Comparative Figures.

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

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

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. This product 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 three months ended March 31, 2016 compared to the same period in the prior year are discussed below:

Item	Increase (I) or Decrease (D)	Reason
Sales		
EWCP products	I	The addition of new customers. Increased uptake from new and existing customers and new agriculture products.
BPCA products	I	
Gross profit, as a % of sales	I	Lower oil prices reduced aspartic acid costs.
Office and miscellaneous	D	Reduced since the Taber plant is not in operation.
Interest expense	D	Decrease loans outstanding.
Rent	D	Result of move to new premises.
Consulting	D	Reduced since the Taber plant is not in operation.
Professional fess	D	Reduced litigation resulted in reduced professional fees.
Research	I	Increase costs associated with regulatory compliance.
Commissions	I	Uncommissioned sales decreased against commissioned sales.

Three customers accounted for 62% of the Company's sales during the three months ended March 31, 2016 (2015 - 60%). The amount of revenue (all from the sale of BCPA products) attributable to each customer is shown below.

	Three Months Ended March 31,	
	2016	2015
Company A	\$1,423,418	\$1,084,864
Company B	\$1,311,532	\$1,192,301
Company C	\$538,867	\$694,414

Customers with balances greater than 10% of our receivables as of March 31, 2016 and 2015 are shown below:

	March 31,	
	2016	2015
Company A	891,348	662,083
Company B	685,364	544,456
Company C	478,998	506,377

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

The plant was designed to manufacture aspartic acid which is the major component of TPAS. Previously, we bought aspartic acid from China where the base raw material is oil. The plant used sugar as the base raw material. We believed that using aspartic acid manufactured from sugar would reduce our raw material costs, reduce price fluctuations generated by oil prices and reduce shipping costs.

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 increased and the price of aspartic acid derived from oil was less than forecast.

Although we continue to believe in the technical and economic viability of using sugar in the aspartic acid process that we pioneered, we are unable to fund the equipment and personnel increases needed to reach break-even levels on our own. Accordingly, a partner is required to build on the technical successes achieved to date and reach profitable production levels.

While we are actively seeking a partner to complete process development, staffing at the Taber plant has been reduced to levels needed to maintain the intellectual property and the process equipment we have developed.

We expect that the suspension of the operations at the Taber plant will save us approximately \$800,000 per year in plant operating costs and general and administrative expenses.

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 three months ended March 31, 2016 and 2015 are shown below:

	2016	2015
Cash provided (used) by operations	186,463	31,146
Long term deposits	350	-
Sale of equipment	-	29,028
Acquisition of equipment	(90,701)	-
Borrowings from line of credit	250,000	25,000
Repayment of loans	(50,298)	(50,298)
Repurchase of common stock	(1,575,000)	-
Changes in exchange rates	29,785	(5,459)

The Company has sufficient cash resources to meet its future commitments and cash flow requirements for the coming year. As of March 31, 2016 working capital was \$5,639,931 (December 31, 2015 - \$6,411,236) 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 \$323,286 over the term of two leases, the last expiring on December 31, 2020.

Commitments in the next five years are as follows:

2016	\$54,966
2017	\$65,280
2018	\$66,480
2019	\$67,680
2020	\$68,880

Other than as disclosed above, the Company does not anticipate any capital requirements for the twelve months ending December 31, 2016.

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 March 31, 2016. 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 March 31, 2016.

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 months ended March 31, 2016. Based on that evaluation, it was concluded that there has been no change in our internal control over financial reporting during the three months ended March 31, 2016 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 Articles of Incorporation. (1)
3.2	Bylaws (1)
<u>31.1</u>	Certification of Principal Executive Officer Pursuant to §302 of the Sarbanes-Oxley Act of 2002.*
<u>31.2</u>	Certification of Principal Financial Officer Pursuant to §302 of the Sarbanes-Oxley Act of 2002.*
<u>32.1</u>	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 the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

May 12, 2016

Flexible Solutions International, Inc.

By: /s/ Daniel B. O'Brien
Name: Daniel B. O'Brien
Title: President and Principal Executive
Officer

By: /s/ Daniel B. O'Brien
Name: Daniel B. O'Brien
Title: Principal Financial and Accounting
Officer