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FLEXIBLE SOLUTIONS INTERNATIONAL INC
Form 10QSB
August 12, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10QSB

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

For the quarterly period ended JUNE 30, 2005

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

FLEXIBLE SOLUTIONS INTERNATIONAL INC.

(Exact name of small business issuer as specified in its charter)

NEVADA

(State or other jurisdiction of incorporation or organization)

91-1922863

(IRS Employer Identification No.)

615 Discovery Street, Victoria BC V8T 5G4

(Address of principal executive offices)

(250) 477 - 9969

(Issuer's telephone number)

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12,13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: Common stock \$.001 par value 12,831,316 shares as of July 29, 2005.

Transitional Small Business Disclosure Format (Check one): Yes No

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

Attached hereto and incorporated herein by reference.

ITEM 2. MANAGER'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information contains certain forward-looking statements that anticipate future trends or events. These statements are based on certain assumptions that may prove to be erroneous and are subject to certain risks including but not limited to the risks of increased competition in the Company's industry and other risks detailed in the Company's Securities and Exchange Commission filings. Accordingly, actual results may differ, possibly materially, from the predictions contained herein.

RESULTS OF OPERATIONS

Separate financial data for each of the Company's operating segments is provided below. Segment Gross Profit Margin is defined in the discussion below. The Company evaluates the performance of the Company's operating segments based on the following:

| | JUNE 30 | | | % |
|---------------------------|--------------|--------------|--------------|---------------------|
| | 2005 | 2004 | 2003 | CHANGE 2005-2004 |
| Sales | | | | |
| Energy Segment | \$ 765,621 | \$ 759,744 | \$ 1,942,562 | 1% |
| Polymer Segment | 3,122,093 | 276,127 | -- * | 1031% |
| Consolidated | 3,887,714 | 1,035,871 | 1,942,562 | 275% |
| Gross Profit Margin | | | | |
| Energy Segment | 310,557 | 357,257 | 846,660 | (13%) |
| Polymer Segment | 1,445,212 | 267,537 | -- * | 440% |
| Consolidated | 1,755,769 | 624,864 | 846,660 | 181% |
| SG&A | | | | |
| Energy Segment | 1,293,921 | 994,893 | 974,108 | 30% |
| Polymer Segment | 889,583 | 238,591 | -- * | 273% |
| Consolidated | 2,183,504 | 1,233,484 | 974,108 | 77% |
| Interest Income | | | | |
| Energy Segment | 3,616 | 30,470 | 102,246 | (88%) |
| Polymer Segment | 0 | 0 | -- * | 0% |
| Consolidated | 3,616 | 30,470 | 102,246 | (88%) |
| Write Down of Investments | | | | |
| Energy Segment | 0 | 0 | 0 | 0 |
| Polymer Segment | 0 | 0 | -- * | -- * |
| Consolidated | 0 | 0 | 0 | |
| Net Income (Loss) | \$ (424,119) | \$ (578,150) | \$ (49,297) | 27% |

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* Polymer segment data is not available as indicated. The Company's polymer segment was formed after the acquisition of certain assets of the Donlar Corporation in June 2004.

SIX MONTHS ENDED JUNE 30 2005 AND 2004

Sales for the six months ended June 30, 2005 were \$3,887,714, compared to \$1,035,871 for the six months ended June 30, 2004, an increase of \$2,851,843, or 275%. The increase in sales was primarily attributable to the new revenue provided by the Company's wholly-owned subsidiary, NanoChem Solutions Inc., which was formed as the corporate entity used to acquire certain assets from the bankruptcy estate of the Donlar Corporation.

The Company's Energy segment had sales of \$765,621 for the six months ended June 30, 2004, compared to \$759,744 for the six months ended June 30, 2004, an increase of 1%. The Company expects revenue in this segment to increase in 2006 as brand recognition of its ECO\$AVR(R) product line continues to grow and the Company's marketing efforts of its WATER\$AVR(R) product line begin to produce increased sales. The Company's Polymer segment achieved sales of \$3,122,093 for the six months ended June 30, 2005, compared to \$276,127 for the six months ended June 30, 2004. This increase is in part due to a full six months of sales from the new NanoChem Solutions subsidiary.

The Company had a loss of \$424,119, or \$0.03 per share, compared to a loss of \$578,150, or \$0.05 per share in the same period in 2004. The three largest contributing factors to the loss were:

- o The brand building, marketing and extra staffing costs in connection with sales of the Company's ECO\$AVR(R) product incurred throughout the year that were not reflected in sales because there was still substantial "Tropical Fish" product with dealers that had been sold by the Company's discontinued distributor, Sunsolar Technologies. Management believes that very little old product is on shelves and that costs and revenue for the ECO\$AVR(R) product will be better balanced in 2006.
- o All divisions maintained or increased sales and marketing costs in the fourth quarter in order to increase the probability of sales increases in all of fiscal 2005. The extra costs were considered to be necessary to position the Company for future growth.
- o Non cash transactions such as stock option expense significantly increased. This was a one time only event, related to the private placement in April 2005.

The Company's overall gross profit margin on product sales decreased to 45% in the six months ended June 30, 2005, down from 60% in the six months ended June 30, 2004. This decrease in gross margin was primarily due to the rise in oil and its affect on raw material pricing and shipping. There were also extra costs related to the labor and material inputs for the Company's swimming pool products as a result of the significant rise of the Canadian dollar versus the U.S. dollar. For more information regarding this result, see Note 2(e) to the Company's Notes to Consolidated Financial Statements, Foreign Currency.

Gross profit margin represents sales less cost of sales and producing. The major categories of costs included in cost of sales and producing are cost of goods, distribution costs, and costs of the Company's buying department. Distribution

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costs consist of all warehouse receiving and inspection costs, warehousing costs, all transportation costs associated with shipping goods from the Company's facilities to its customers, and other costs of distribution. The Company does not exclude any portion of distribution costs from cost of sales. The Company's gross margins may not be comparable to those of other entities because some entities include all of the costs related to their overhead in cost of sales, as compared to the Company, which excludes a portion of cost of sales from gross profit and instead includes such costs as a line item in operating expenses.

For the six months ended June 30, 2005, there was an increase in sales and marketing costs in connection with the Company's WATER\$AVR(R) product, which was reflected in increased wages, office, rent, telephone and travel expenses. The Company incurred higher professional fees in the six months ended June 30, 2005 primarily due to increased legal and accounting expenses and increased consultant expenses resulting from the cost of integrating the functions and sales of the Company's NanoChem subsidiary as quickly as possible. Depreciation expense was \$388,086 for the six months ended June 30, 2005, compared to \$185,547 for the six months ended June 30, 2004, reflecting depreciation for additional property and equipment added mid 2004.

The Company's Energy segment generated \$1,293,291 in operating expenses in the six months ended June 30, 2005, an increase of 30% over the same 2004 period. The increase is primarily attributable to the Company's extraordinary stock option expense related to the capital raising in the six months ended June 30, 2005. The Company's Polymer segment incurred \$889,583 in operating expenses in the six months ended June 30, 2005, and increase of 77% over the same period the previous year. This is attributable to the fact the NanoChem Solutions subsidiary operated for the full 6 months in 2005 compared to 20 days in 2004, during the same period.

There was no income tax provision for the six months ended June 30, 2005, as no tax installment payments were made during the year, same as the same period in the previous year.

The Company's Energy segment reported interest income of \$3,616 in the first six months of 2005, compared to \$30,470 in the same period in 2004, a decrease of approximately 88% from 2004. This decrease in interest income is due to the Company's use of capital to purchase assets and develop its business.

The Company reported a net loss of \$424,119 for the six months ended June 30, 2005, compared to a net loss of \$578,150 for the six months ended June 30, 2004.

With the addition of the assets acquired from the Donlar Corporation, the Company became a much larger company with commensurate increases in most expense segments. However, the Company was able to reduce certain expenses such as advertising (\$44,685 down from \$56,792) and consulting (\$91,787 down from \$188,816) as a direct result of better cost control in these areas instituted by management over the past year and are expected to maintain at these levels. The large increase in investor relations (\$509,588 versus \$122,625) has to do with the stock options that vested in relation to the capital raising that closed on April 14, 2005. This resulted in a non-cash transaction of \$447,500 and without this, the company would have seen a decrease in this expense.

SIX MONTHS ENDED JUNE 30, 2004 AND 2003

The discussion in this section does not include a true comparison of Polymer segment data for this period. The Company's Polymer segment was formed after the

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acquisition of certain assets of the Donlar Corporation in June 2004.

Sales for the six months ended June 30, 2004 were \$1,035,871, compared to \$1,942,562 for the six months ended June 30, 2003, a decrease of \$906,691, or 47%. This decrease is primarily the result of substantial "Tropical Fish" product still in the market, which product is being sold by the Company's discontinued distributor, SunSolar Technologies, and the Company's brand building efforts in connection with its ECO\$AVR(R) product line. The Company expects revenue in this segment to increase in 2006 as brand recognition of its ECO\$AVR(R) product line continues to grow and the Company's marketing efforts of its WATER\$AVR(R) product line begin to produce increased sales.

The Company's Energy segment had sales of \$759,744 for the six months ended June 30, 2004, compared to \$1,942,562 for the six months ended June 30, 2003, a decrease of 61%. The Company expects revenue in this segment to increase in 2006 as brand recognition of its ECO\$AVR(R) product line continues to grow and the Company's marketing efforts of its WATER\$AVR(R) product line begin to produce increased sales. The Company's Polymer segment achieved sales of \$276,127 for the six months ended June 30, 2004 with no comparable data for 2003.

The Company's overall gross profit margin on product sales increased to 60% in the six months ended June 30, 2004, up from 45% in the six months ended June 30, 2003. This increase in gross margin was primarily due to the addition of the Company's Polymer segment.

For the six months ended June 30, 2004, there was an increase in sales and marketing costs in connection with the Company's WATER\$AVR(R) and ECO\$AVR(R) products, which was also reflected in increased office and rent expenses. The Company incurred higher professional fees in the six months ended June 30, 2004 primarily due to increased legal and accounting expenses and increased consultant expenses resulting from the cost of integrating the functions and sales of the Company's NanoChem subsidiary as quickly as possible. Depreciation expense was \$185,547 for the six months ended June 30, 2004, compared to \$15,927 for the six months ended June 30, 2003, reflecting depreciation for additional property and equipment added mid 2004.

The Company's Energy segment generated \$994,893 in operating expenses in the six months ended June 30, 2004, an increase of 2% over the same 2003 period. The Company's Polymer segment incurred \$238,591 in operating expenses in the six months ended June 30, 2004 with no comparable data for the 2003 period.

There was no income tax provision for the six months ended June 30, 2004, as no tax installment payments were made during this period. The Company's income tax provision for the six months ended June 30, 2003 was made by installment payments totaling \$26,094. The Company had interest income of \$30,470 in the six months ended June 30, 2004, as compared to interest income of \$104,246 in the six months ended June 30, 2003, a decrease of 70%. The Company reported net loss of \$578,150 in the six months ended June 30, 2004, compared to a net loss of \$49,295 for the six months ended June 30, 2003.

LIQUIDITY AND CAPITAL RESOURCES

The Company has cash on hand of \$752,130 as of the end of June 2005 compared to \$558,795 on December 31st 2004.

As of June 30th 2005 the Company had working capital of \$3,590,510 as compared to a working capital shortage of \$101,121 on December 31st 2004. The increase was mainly the result of the cash raised in the private placement that was used to pay off the loan taken out for the purchase of the Donlar Corp. assets that became the NanoChem division as well as from the increase in sales.

The Company has no external sources of liquidity in the form of credit lines

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from banks.

Management believes that its available cash will be sufficient to fund the Company's working capital requirements through December 31st 2005. Management further believes that available cash will be sufficient to implement the Company's expansion plans. No investment banking agreements are in place and there is no guarantee that the Company will be able to raise capital in the future should that become necessary.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS:

The Company does not have any derivative financial instruments as of June 30th 2005. However, the Company is exposed to interest rate risk.

The Company's interest income and expense are most sensitive to changes in the general level of U.S. and Canadian interest rates. In this regard, changes in U.S. and Canadian interest rates affect the interest paid on the Company's cash equivalents as well as the interest paid on debt.

FOREIGN CURRENCY RISK

The Company operates extensively in both Canada and the USA. Therefore, the Company's business and financial condition is sensitive to currency exchange rates or any other restriction imposed on its currency.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

a) On November 13, 2003, Patrick Grant filed a lawsuit in the Circuit Court of Cook County, Illinois against the Company, Water\$avr Global Solutions Inc. ("WGS"), the wholly-owned subsidiary of the Company, and Daniel B. O'Brien, the Company's Chief Executive Officer. The plaintiff claims damages for breach of contract, tortious interference with an agreement and various wrongful discharge claims. The plaintiff seeks monetary damages in excess of \$1,020,000 for the breach of contract and tortious interference claims and unspecified compensatory and punitive damages in the wrongful discharge claims. The parties completed mandatory mediation ordered by the Circuit Court and will next appear in court for case management, at which time the court will set discovery deadlines. The Company considers the case without merit and is planning to dispute the matter vigorously. In addition, the Company intends to file counterclaims against the plaintiff for failure to repay financial obligations owed to the Company of almost \$40,000, as well as unspecified damages arising out of Plaintiff's disclosure of confidential information to a client during his employment at WGS. No amounts have been recorded as receivable and no accrual has been made for any loss in the Company's consolidated financial statements as the outcome of the claim filed by Mr. Grant is not determinable.

b) On May 1, 2003, the Company filed a lawsuit in the Supreme Court of British Columbia, Canada, against John Wells and Equity Trust, S.A. seeking return of 100,000 shares of the Company's common stock and repayment of a \$25,000 loan, which were provided to defendants for investment banking services consisting of securing a \$5 million loan and a \$25 million stock OFFERING. Such services were not performed and in the proceeding, the Company seeks return of such shares after defendant's failure to both return the shares voluntarily and repay the note. On May 7, 2003 the Company obtained an injunction freezing the transfer of the shares. On May 24, 2004 there was a hearing on defendant's motion to set

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aside the injunction, which motion was denied by the trial court on May 29, 2004. The proceeding is still in a discovery phase. On the date of issuance, the share transaction was recorded as shares issued for services at fair market value, a value of \$0.80 per share. No amounts have been recorded as receivable in the Company's consolidated financial statements as the outcome of this claim is not determinable.

c) On May 28, 2004, Sunsolar Energy Technologies Inc. ("SET"), filed a lawsuit in the Federal Court of Canada, against the Company, Flexible Solutions, Ltd., the Company's wholly-owned subsidiary ("FSL"), and Mr. O'Brien. SET is seeking: (a) a declaration that the trademark "Tropical Fish" is available for use by SET; (b) injunctive relief against further use of the "Tropical Fish" trademark by the Company; and (c) monetary damages exceeding \$7,000,000 for the alleged infringement by the Company, FSL and Mr. O'Brien of the "Tropical Fish" trademark, as well as any other "confusingly similar trademarks" or proprietary trade dresses. On August 9, 2004, the Company, FSL and Mr. O'Brien filed their defense and filed a counterclaim against SET. The counterclaim seeks: (x) injunctive relief against further use of the "Tropical Fish" trademark by SET; (y) a declaration that the "Tropical Fish" trademark is owned by the Company, or, in the alternative, is not distinctive and should be struck from the trademark registry; and (z) monetary damages exceeding \$50,000. The parties have completed documentary discovery, and examinations for discovery of all parties have been scheduled for July 2005. No amounts have been recorded as receivable in the Company's consolidated financial statements and no amounts have been accrued as potential losses as the outcome of this claim is not determinable.

d) On July 23, 2004, the Company filed a breach of contract suit in the Circuit Court of Cook County, Illinois against Tatko Biotech Inc. ("Tatko"). The action arises out of a joint product ----- development agreement entered into between the Company and Tatko in which the Company agreed to invest \$10,000 toward the product development venture and granted to Tatko 100,000 shares of the Company's restricted common stock. In return, Tatko granted the Company a five-year option to purchase 20% of Tatko's outstanding capital stock. Tatko has since refused to collaborate on the agreement and the Company seeks declaratory relief stating that Tatko is not entitled to the 100,000 shares of the Company's restricted common stock. The litigation is still pending at this time.

In addition, Tatko filed its own suit on September 24, 2004 in the Circuit Court of Cook County, Illinois seeking declaratory relief of its entitlement to the Company's restricted common stock. On May 23, 2005, the Tatko suit was dismissed with prejudice by the District Court.

No amounts have been recorded as receivable in the Company's consolidated financial statements and no amount has been accrued as a loss as the outcome of the claim against Tatko is not determinable.

e) The Company is the plaintiff in a lawsuit filed in the Court of the Queen's Bench of Alberta, where the subsidiary Flexible Solutions Ltd. is inter-provincially registered. The company is seeking undetermined damages resulting from breach of contract against Calgary Diecast Corporation. The contract was never completed and the Company's raw materials remain in the possession Calgary Diecast Corp. On April 25th, 2005, the Court ordered a judgment in favor of Flexible Solutions Ltd. in the amount of \$48,723 and FSL intends to collect using all available means.

ITEM 2. CHANGES IN SECURITIES

989,400 common shares were issued during the quarter

ITEM 3. DEFAULT UPON SENIOR SECURITIES

None

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

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On June 10, 2005, the annual general meeting of shareholders was held in Vancouver, BC. The results are as follows:

- Mr. Dan O'Brien, Mr. Robert O'Brien, Ms. Dale Friend, Mr. John Bientjes and Mr. Eric Hodges were confirmed as directors for the following year
- Stock option compensation to officers and insiders were approved
- Election to approve the Annual Report as filed with the SEC was approved
- Cinnamon Jang Willoughby were confirmed as Auditors for the year ending December 31, 2005

ITEM 5. OTHER INFORMATION

None

ITEM 6.(B) REPORTS ON FORM 8-K

June 29, 2005 - AGM shareholder votes

June 9, 2005 - Private Placement

May 16, 2005 - Release of Q1 Financials

April 14, 2005 - Private Placement

April 6, 2005 - Revenue Prediction

ITEM 14. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-14(c). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Within 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Company completed its evaluation.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
(Registrant)

Dated: August 12, 2005

/s/ DAN O'BRIEN, President and Director

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
Consolidated Balance Sheets
June 30, 2005
(U.S. Dollars)

| | June 30 2005 | Dece 2 |
|---|-----------------|-----------|
| <hr/> | | |
| Assets | | |
| Current | | |
| Cash and cash equivalents | \$ 752,130 | \$ |
| Short term investments | - | |
| Accounts receivable | 1,028,236 | |
| Income tax | 27,033 | |
| Loan receivable | 38,286 | |
| Inventory | 1,912,912 | 1, |
| Prepaid expenses | 117,979 | |
| | <hr/> | |
| Property, equipment and leaseholds | 3,876,576 | 3, |
| Investment | 4,984,801 | 5, |
| | 347,000 | |
| | <hr/> | |
| | \$9,208,377 | \$8, |
| | <hr/> | |
| Liabilities | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 286,066 | \$ |
| Short term loan | | 3, |
| | <hr/> | |
| | 286,066 | 3, |
| | <hr/> | |
| 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 | | |
| 12,821,316 (2004: 11,831,916) Common shares | 11,832 | |
| Capital in excess of par Value | 11,616,621 | 7, |

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| | | |
|--|-------------|------|
| Other comprehensive income | 73,184 | |
| Deficit | (2,779,326) | (2, |
| ----- | | |
| Total Stockholders' Equity | 8,922,311 | 5, |
| ----- | | |
| Total Liabilities and Stockholders' Equity | \$9,208,377 | \$8, |
| ===== | | |

Commitments and Contingencies (Notes 14 & 15)

See accompanying condensed notes to unaudited interim consolidated financial statements.

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
Consolidated Statements of Operations
For Six Months Ended June 30, 2005 and 2004
(U.S. Dollars)

| | Six Months Ended June 30 | |
|---|--------------------------|--------------|
| | 2005 | 2004 |
| ----- | | |
| Sales | \$ 3,887,714 | \$ 1,035,871 |
| Cost of sales | 2,131,945 | 411,007 |
| ----- | | |
| Gross profit | 1,755,769 | 624,864 |
| ----- | | |
| Operating Expenses | | |
| Wages | 436,825 | 257,716 |
| Administrative salaries and benefits | 109,076 | 57,544 |
| Advertising and promotion | 44,685 | 56,792 |
| Investor relations and transfer agent fee | 509,588 | 122,625 |
| Office and miscellaneous | 69,531 | 96,922 |
| Insurance | 62,787 | - |
| Interest expense | 62,189 | - |
| Rent | 103,672 | 52,216 |
| Consulting | 91,787 | 188,816 |
| Professional fees | 126,449 | 107,714 |
| Travel | 78,866 | 49,514 |
| Telecommunications | 22,890 | 14,714 |
| Shipping | 23,036 | 10,797 |
| Research | 18,404 | 15,842 |
| Commissions | 87,998 | - |
| Bad debt expense (recovery) | - | (797) |
| Currency exchange | (6,867) | 3,324 |
| Utilities | 11,502 | 14,198 |
| Depreciation | 331,086 | 185,547 |
| ----- | | |
| | 2,183,504 | 1,233,484 |
| ----- | | |
| Income (loss) before other items and income tax | (427,735) | (608,620) |
| Interest income | 3,616 | 30,470 |

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| | | |
|-----------------------------------|----------------|----------------|
| Income (loss) before income tax | (424,119) | (578,150) |
| Income tax (recovery) | - | - |
| Net income (loss) | \$ (424,119) | \$ (578,150) |
| Deficit, beginning | \$ (2,355,207) | \$ (1,097,662) |
| Deficit, ending | \$ (2,779,326) | \$ (1,675,812) |
| Net income (loss) per share | \$ (0.03) | \$ (0.05) |
| Weighted average number of shares | 12,256,208 | 11,819,916 |

See accompanying condensed notes to unaudited interim consolidated financial statements.

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
 Consolidated Statements of Operations
 For Three Months Ended June 30, 2005 and 2004
 (U.S. Dollars)

| | Three Months Ended June 30 | |
|---|----------------------------|------------|
| | 2005 | 2004 |
| Sales | \$ 1,868,133 | \$ 547,761 |
| Cost of sales | 1,053,644 | 105,088 |
| Gross profit | \$ 814,489 | \$ 442,673 |
| Operating Expenses | | |
| Wages | 202,388 | 143,246 |
| Administrative salaries and benefits | 71,071 | 32,697 |
| Advertising and promotion | 13,414 | 49,062 |
| Investor relations and transfer agent fee | 484,950 | 57,947 |
| Office and miscellaneous | 28,076 | 62,332 |
| Insurance | 34,468 | - |
| Interest expense | 24,514 | - |
| Rent | 47,866 | 30,867 |
| Consulting | 47,535 | 114,138 |
| Professional fees | 65,607 | 71,206 |
| Travel | 41,101 | 25,938 |
| Telecommunications | 12,602 | 9,014 |
| Shipping | 10,397 | 7,655 |
| Research | 2,896 | 6,681 |
| Commissions | 47,073 | - |
| Bad debt expense (recovery) | - | (797) |
| Currency exchange | (7,585) | 2,902 |
| Utilities | 4,336 | 8,833 |
| Depreciation | 162,983 | 175,595 |

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| | 1,293,692 | 797,316 |
|---|----------------|----------------|
| Income (loss) before other items and income tax | \$ (479,203) | \$ (354,643) |
| Interest income | 886 | 27,354 |
| Income (loss) before income tax | \$ (478,317) | \$ (327,289) |
| Income tax (recovery) | - | - |
| Net income (loss) | \$ (478,317) | \$ (327,289) |
| Deficit, beginning | (2,301,009) | (1,348,523) |
| Deficit, ending | \$ (2,779,326) | \$ (1,675,812) |
| Net income (loss) per share | \$ (0.04) | \$ (0.03) |
| Weighted average number of shares | 12,675,837 | 11,819,916 |

See accompanying condensed notes to unaudited interim consolidated financial statements.

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
Consolidated Statements of Cash Flows
For The Six Months Ended June 30, 2005 and 2004
(U.S. Dollars)

| | Six Months 2005 | June 30 2004 |
|--|--------------------|-----------------|
| Operating activities | | |
| Net income (loss) | \$ (424,119) | \$ (578,150) |
| Stock compensation expense | 503,650 | 135,230 |
| Depreciation | 331,086 | 185,547 |
| | 410,617 | (257,373) |
| Changes in non-cash working capital items: | | |
| (Increase) Decrease in accounts receivable | (526,864) | (238,982) |
| (Increase) Decrease in inventory | (496,324) | (628,460) |
| (Increase) Decrease in prepaid expenses | 13,301 | (33,719) |
| Increase (Decrease) in accounts payable | 35,937 | 31,552 |
| Increase (Decrease) in Income taxes | 65,930 | 2,240 |
| Increase (Decrease) in amounts due to shareholders | - | (7,700) |
| Cash (used in) operating activities | (497,405) | (1,132,442) |
| Investing activities | | |
| Short-term investments | 559,440 | 3,699,188 |
| Investments | (76,000) | - |
| Loan receivable | 284 | 45 |
| Acquisition of property and equipment | (65,541) | (5,270,011) |

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| | | |
|---|-------------|-------------|
| Cash provided by (used in) investing activities | 418,183 | (1,570,778) |
| <hr style="border-top: 1px dashed black;"/> | | |
| Financing activities | | |
| Short term loan | (3,150,000) | 3,150,000 |
| Proceeds from issuance of common stock | 3,449,550 | 57,500 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Cash provided by financing activities | 299,550 | 3,207,500 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Effect of exchange rate changes on cash | (26,993) | (3,023) |
| <hr style="border-top: 1px dashed black;"/> | | |
| Inflow (outflow) of cash | 193,335 | 501,257 |
| Cash and cash equivalents, beginning | 558,795 | 237,080 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Cash and cash equivalents, ending | \$ 752,130 | \$ 738,337 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Supplemental disclosure of cash flow information: | | |
| Interest received | \$ 2,730 | \$ 30,470 |
| <hr style="border-top: 1px dashed black;"/> | | |

See accompanying condensed notes to unaudited interim consolidated financial statements.

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 JUNE 30, 2005 AND 2004
 (US DOLLARS)

1. BASIS OF PRESENTATION:

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

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

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

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

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

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

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

As at June 9, 2004:

| | |
|--|--------------|
| Current assets | \$ 1,126,805 |
| Property and equipment | 5,023,195 |
| | ----- |
| | 6,150,000 |
| Acquisition costs assigned to property and equipment | 314,724 |
| | ----- |
| Total assets acquired | \$ 6,464,724 |
| | ===== |

On February 7, 2005 the Company incorporated two new subsidiaries in Nevada. SeaHorse Systems Inc. was incorporated to research new applications of our patented dispensing mechanism currently used for Ecosavr. NanoDetect Technologies Inc. is focusing on ways to use our current technologies to detect pathogens.

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(US DOLLARS)

2. SIGNIFICANT ACCOUNTING POLICIES:

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

a) Cash and Cash Equivalents -

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

b) Inventory -

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

c) Property, Equipment and Leaseholds -

The following assets are recorded at cost and depreciated using the

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following methods and using the following annual rates:

| | |
|-------------------------|-----------------------|
| Computer hardware | 30% Declining balance |
| Furniture and fixtures | 20% Declining balance |
| Manufacturing equipment | 20% Declining balance |
| Office equipment | 20% Declining balance |
| Building | 10% Declining balance |
| Leasehold improvements | Over lease term |

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

d) Impairment of Long Lived Assets -

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

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(US DOLLARS)

2. SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

e) Foreign Currency -

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

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

f) Revenue Recognition -

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

g) Stock Issued in Exchange for Services -

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

h) Stock Based Compensation -

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

i) Comprehensive Income -

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

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(US DOLLARS)

2. SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

j) Income (Loss) Per Share -

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

k) Use of Estimates -

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

l) Financial Instruments -

i) Fair Values -

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

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ii) Foreign Exchange and Interest Rate Risks -

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

m) Recent Accounting Pronouncements -

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

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 JUNE 30, 2005 AND 2004
 (US DOLLARS)

2. SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

- ii) In October 2001, the FASB issued Statement of Financial Accounting Standards for FAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." FAS 144 addresses significant issues relating to the implementation of FAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and develops a single accounting model, based on the framework established in FAS 121 for long-lived assets to be disposed of by sale, whether such assets are or are not deemed to be a business. FAS 144 also modifies the accounting and disclosure rules for discontinued operations. The standard was adopted on January 1, 2002 and did not have any impact on the financial statements.
- iii) In November 2001, the FASB issued EITF Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for "Out of Pocket" Expenses Incurred." This guidance requires companies to recognize the recovery of reimbursable expenses such as travel costs on service contracts as revenue. These costs are not to be netted as a reduction of cost. This guidance was implemented January 1, 2002. The company does not expect this guidance to have a material impact on the financial statements.

3. LOAN RECEIVABLE:

| | 2005 | 2004 |
|----------------------------------|-----------|-----------|
| | ----- | ----- |
| 5% loan receivable due on demand | \$ 38,286 | \$ 38,570 |
| | ===== | ===== |

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4. PREPAID EXPENSES:

| | 2005 | 2004 |
|-------------------------------|------------|------------|
| | ----- | ----- |
| Security deposit and prepaids | \$ 117,969 | \$ 131,280 |
| | ===== | ===== |

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 JUNE 30, 2005 AND 2004
 (US DOLLARS)

5. PROPERTY, EQUIPMENT AND LEASEHOLDS:

| | Cost | Accumulated Amortization | 2005 NET | 2004 Net |
|-------------------------|--------------|-----------------------------|--------------|--------------|
| | ----- | ----- | ----- | ----- |
| Buildings | \$ 3,144,259 | \$ 303,488 | \$ 2,840,771 | \$ 2,987,046 |
| Computer hardware | 44,302 | 18,068 | 26,234 | 27,511 |
| Furniture and fixtures | 15,265 | 4,674 | 10,591 | 11,515 |
| Office equipment | 28,322 | 12,233 | 16,089 | 18,421 |
| Manufacturing equipment | 2,141,071 | 491,376 | 1,649,695 | 1,785,858 |
| Trailer | 1,865 | 912 | 953 | 1,146 |
| Leasehold improvements | 30,560 | 13,786 | 16,774 | 14,533 |
| Trade Show Booth | 6,985 | 1,885 | 5,100 | 6,130 |
| Patents | 20,408 | - | 20,408 | - |
| Land | 398,186 | - | 398,186 | 398,186 |
| | ----- | ----- | ----- | ----- |
| | \$ 5,831,223 | \$ 846,422 | \$ 4,984,801 | \$ 5,250,346 |
| | ===== | ===== | ===== | ===== |

6. INVESTMENT:

| | 2005 | 2004 |
|--|------------|------------|
| | ----- | ----- |
| Tatko Inc. - Option to purchase 20% interest in common stock | \$ 271,000 | - |
| Air Water Interface Delivery & Detection Inc. | 76,000 | - |
| | \$ 347,000 | \$ 271,000 |
| | ===== | ===== |

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

See Contingencies (Note 11d)

On 2005, NanoDetect Technologies Inc., a new subsidiary of Flexible Solutions International Inc., purchased 25.3 shares in Air Water Interface Delivery and Detection Inc. for a total cost of \$76,000. This investment represents only 2.5% of the issued and outstanding shares of AWD, and accordingly will be accounted for under the cost method.

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 JUNE 30, 2005 AND 2004
 (US DOLLARS)

7. STOCK OPTIONS:

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

The following table summarizes stock option activity for the years ended December 31, 2004 and 2003 and the six months ended March 31, 2005:

| | Number of shares | Exercise price per share | Weighted average exercise price |
|----------------------------|---------------------|-----------------------------|------------------------------------|
| Balance, December 31, 2002 | 3,686,800 | \$0.25 - \$3.50 | \$3.79 |
| Granted | 256,000 | \$3.60 - \$4.25 | \$3.61 |
| Exercised | (124,000) | \$0.25 - \$2.28 | \$0.48 |
| Expired | (2,107,800) | \$0.25 - \$5.50 | \$4.72 |
| Balance, December 31, 2003 | 1,711,000 | \$1.00 - \$4.25 | \$2.84 |
| Granted | 572,740 | \$3.00 - \$4.60 | \$3.46 |
| Exercised | (37,000) | \$1.00 - \$2.50 | \$1.55 |
| Expired | (5,000) | \$4.25 | \$4.25 |
| Cancelled | (1,000,000) | \$1.50 - \$3.50 | \$2.50 |
| Balance, December 31, 2004 | 1,241,740 | \$1.00 - \$4.60 | \$2.87 |
| Granted | 30,000 | \$3.85 | \$3.85 |
| Exercised | (2,000) | \$1.40 | \$1.40 |
| Balance, June 30, 2005 | 1,269,740 | \$1.00 - \$4.60 | \$3.19 |

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

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

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

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 JUNE 30, 2005 AND 2004
 (US DOLLARS)

8. CAPITAL STOCK:

During the six months ended June 30, 2005:

- i) issued 2,000 shares of common stock at \$1.40 upon exercise of options
- (ii) issued 900,000 shares of common stock with 900,000 warrants attached for the price of 3.75 a share
- (iii) issued 87,400 shares of common stock with 87,400 warrants attached for the price of \$3.75 a share to allow a shareholder to maintain their position after the capital raising

During the year ended December 31, 2004 the company:

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

During the year ended December 31, 2003 the company:

- (i) issued 100,000 shares of common stock valued at \$271,000 to acquire an option to purchase a 20% interest in Tatko Inc. (Note 7); and
- (ii) issued 124,000 shares of common stock at prices ranging from \$0.25 to \$2.28 per share upon exercise of stock options.

9. SEGMENTED, SIGNIFICANT CUSTOMER INFORMATION AND ECONOMIC DEPENDENCY:

The company operates in two segments:

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(a) Development and marketing of two lines of energy and water conservation products:

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

(b) Manufacture of biodegradable polymers and chemical additives:

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

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

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(US DOLLARS)

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

| | 2005 | 2004 |
|---------------|--------------|--------------|
| Canada | \$ 273,130 | \$ 238,807 |
| United States | 4,711,671 | 5,011,539 |
| Total | \$ 4,984,801 | \$ 5,250,346 |

10. COMMITMENTS:

Property and Premises Leases -

The company is committed to minimum rental payments for property and premises aggregating approximately \$326,538 over the term of two leases, the last expiring on June 30, 2009.

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

| | |
|------|-----------|
| 2005 | \$ 67,145 |
| 2006 | 114,752 |
| 2007 | 55,169 |
| 2008 | 55,654 |
| 2009 | 33,818 |

11. CONTINGENCIES:

a) On November 13, 2003, Patrick Grant filed a lawsuit in the Circuit Court of Cook County, Illinois against the Company, Water\$avr Global Solutions Inc. ("WGS"), the wholly-owned subsidiary of the Company, and Daniel B. O'Brien, the Company's Chief Executive Officer. The plaintiff claims damages for breach of contract, tortious interference

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with an agreement and various wrongful discharge claims. The plaintiff seeks monetary damages in excess of \$1,020,000 for the breach of contract and tortious interference claims and unspecified compensatory and punitive damages in the wrongful discharge claims. The parties completed mandatory mediation ordered by the Circuit Court and will next appear in court for case management, at which time the court will set discovery deadlines. The Company considers the case without merit and is planning to dispute the matter vigorously. In addition, the Company intends to file counterclaims against the plaintiff for failure to repay financial obligations owed to the Company of almost \$40,000, as well as unspecified damages arising out of Plaintiff's disclosure of confidential information to a client during his employment at WGS. No amounts have been recorded as receivable and no accrual has been made for any loss in the Company's consolidated financial statements as the outcome of the claim filed by Mr. Grant is not determinable.

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2005 AND 2004
(US DOLLARS)

11. CONTINGENCIES: (CONTINUED)

- b) On May 1, 2003, the Company filed a lawsuit in the Supreme Court of British Columbia, Canada, against John Wells and Equity Trust, S.A. seeking return of 100,000 shares of the Company's common stock and repayment of a \$25,000 loan, which were provided to defendants for investment banking services consisting of securing a \$5 million loan and a \$25 million stock offering. Such services were not performed and in the proceeding, the Company seeks return of such shares after defendant's failure to both return the shares voluntarily and repay the note. On May 7, 2003 the Company obtained an injunction freezing the transfer of the shares. On May 24, 2004 there was a hearing on defendant's motion to set aside the injunction, which motion was denied by the trial court on May 29, 2004. The proceeding is still in a discovery phase. On the date of issuance, the share transaction was recorded as shares issued for services at fair market value, a value of \$0.80 per share. No amounts have been recorded as receivable in the Company's consolidated financial statements as the outcome of this claim is not determinable.
- c) On May 28, 2004, Sunsolar Energy Technologies Inc. ("SET"), filed a lawsuit in the Federal Court of Canada, against the Company, Flexible Solutions, Ltd., the Company's wholly-owned subsidiary ("FSL"), and Mr. O'Brien. SET is seeking: (a) a declaration that the trademark "Tropical

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Fish" is available for use by SET; (b) injunctive relief against further use of the "Tropical Fish" trademark by the Company; and (c) monetary damages exceeding \$7,000,000 for the alleged infringement by the Company, FSL and Mr. O'Brien of the "Tropical Fish" trademark, as well as any other "confusingly similar trademarks" or proprietary trade dresses. On August 9, 2004, the Company, FSL and Mr. O'Brien filed their defense and filed a counterclaim against SET. The counterclaim seeks: (x) injunctive relief against further use of the "Tropical Fish" trademark by SET; (y) a declaration that the "Tropical Fish" trademark is owned by the Company, or, in the alternative, is not distinctive and should be struck from the trademark registry; and (z) monetary damages exceeding \$50,000. The parties have completed documentary discovery, and examinations for discovery of all parties have been scheduled for July 2005. No amounts have been recorded as receivable in the Company's consolidated financial statements and no amounts have been accrued as potential losses as the outcome of this claim is not determinable.

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(US DOLLARS)

11. CONTINGENCIES: (CONTINUED)

- d) On July 23, 2004, the Company filed a breach of contract suit in the Circuit Court of Cook County, Illinois against Tatko Biotech Inc. ("Tatko"). The action arises out of a joint product development agreement entered into between the Company and Tatko in which the Company agreed to invest \$10,000 toward the product development venture and granted to Tatko 100,000 shares of the Company's restricted common stock. In return, Tatko granted the Company a five-year option to purchase 20% of Tatko's outstanding capital stock. Tatko has since refused to collaborate on the agreement and the Company seeks declaratory relief stating that Tatko is not entitled to the 100,000 shares of the Company's restricted common stock. The litigation is still pending at this time.

In addition, Tatko filed its own suit on September 24, 2004 in the Circuit Court of Cook County, Illinois seeking declaratory relief of its entitlement to the Company's restricted common stock. On May 23, 2005, the Tatko suit was dismissed with prejudice by the District Court.

No amounts have been recorded as receivable in the Company's consolidated financial statements and no amount has been accrued as a loss as the outcome of the claim against Tatko is not determinable.

- e) The Company is the plaintiff in a lawsuit filed in the Court of the Queen's Bench of Alberta, where the subsidiary Flexible Solutions Ltd. is inter-provincially registered. The company is seeking undetermined damages resulting from breach of contract against Calgary Diecast

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Corporation. The contract was never completed and the Company's raw materials remain in the possession Calgary Diecast Corp. On April 25th, 2005, the Court ordered a judgment in favor of Flexible Solutions Ltd. in the amount of \$48,723 and FSL intends to collect using all available means.

12. COMPARATIVE FIGURES:

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