FLEXIBLE SOLUTIONS INTERNATIONAL INC
Form 10KSB/A
March 04, 2009

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

FORM 10-KSB/A

(Mark one)

ý Annual Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For The Fiscal Year Ended December 31, 2007.

o Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ____________ to ____________.

Commission File Number 000-29649

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
(Name of Small Business Issuer in Its Charter)

Nevada	91-1922863
(State of Incorporation)	(IRS Employer Identification No.)
615 Discovery Street Victoria, British Columbia, CANADA	V8T 5G4
(Address of Principal Executive Offices)	(Zip Code)

(250) 477-9969
(Issuer’s Telephone Number)

None
(Securities registered under Section 12(b) of the Exchange Act)

Common Stock, $0.001 par value
(Securities registered under Section 12(g) of the Exchange Act)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. o

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 ý No o

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. ý

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

State issuer's revenues for its most recent fiscal year: $7,431,791.

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days: As of March 4, 2007, the aggregate market value of the Company's common stock held by non-affiliates was approximately $22,390,584 based on the closing price for shares of the registrant's common stock on the American Stock Exchange for that date.

State the number of shares outstanding of each of the issuer's class of common equity, as of the latest practicable date: As of March 4, 2008, there were 14,057,567 shares of the Company's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

No documents are incorporated by reference.

Transitional Small Business Disclosure Format (check one):
Yes o No ý

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.

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For the Fiscal Year Ended December 31, 2007

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-KSB for the year ended December 31, 2007 (“Annual Report”), including the Notes to Audited Consolidated Financial Statements, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, those statements relating to development of new products, our financial condition, our ability to increase distribution of our products, integration of businesses we acquire and disposition of any of our current business. Forward-looking statements can be identified by the use of forward-looking terminology, such as “may,” “will,” “should,” “expect,” “anticipate,” “estim “continue,” “plans,” “intends,” or other similar terminology. These forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is anticipated or forecasted in these forward-looking statements due to numerous factors, including, but not limited to, our ability to generate or obtain sufficient working capital to continue our operations, changes in demand for our products, the timing of customer orders and deliveries and the impact of competitive products and pricing. In addition, such statements could be affected by general industry and market conditions and growth rates, and general domestic and international economic conditions.

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

PART I

Item 1. Description of Business

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

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

We operate through five wholly-owned subsidiaries: Flexible Solutions Ltd., WaterSavr Global Solutions Inc., NanoChem Solutions Inc., Nano Detect Technologies Inc., and Seahorse Systems Inc. Unless otherwise indicated, all references to our business include the operations of these subsidiaries.

In November 2007, we purchased a building and 3.3 acres of land in Taber, Alberta, Canada. The price paid was CDN$1,325,000 and was financed by cash of $660,000 and an interest free mortgage which is due on Nov 30, 2012. The building will be renovated and operated as a fermentation facility for the production of aspartic acid, a key ingredient in TPAs Aspartic acid made in Taber will be shipped to IL for finishing.

Our website is www.flexiblesolutions.com

Our Products

HEAT$AVR®/ECO$AVR

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

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

In outdoor pools, the HEAT$AVR® also provides convenience compared to pool blankets. Pool blankets are plastic cover, which are cut to the size and shape of the surface of the pool or spa. Pool blankets float on the surface and, like the HEAT$AVR®, reduce energy cost by inhibiting water evaporation.

However, it is often inconvenient to use conventional pool blankets because a pool blanket must be removed and stored before the pool can be used. Pool blankets do not provide any energy savings when not on the pool. Conversely, HEAT$AVR® eliminates the need to install, remove and store the blanket and works 24 hours a day. In addition, the use of HEAT$AVR® in an indoor pool results in even greater energy savings since indoor pool locations use energy not only to heat the pool water, but also to air condition the pool environment. By slowing the transfer of heat and water vapor from the pool to the atmosphere of the pool enclosure, less energy is required to maintain a pool at the desired temperature and there is a reduced load on the air-conditioning system.

HEAT$AVR® retails for between $200 and $300 per four gallon case in the United States. ECO$AVR® has a suggested retail price of between $11.95 and $14.95 in the United States. We market our HEAT$AVR® and ECO$AVR® products to homeowners with swimming pools and spas as well as operators of swimming pools and spas in hotels, motels, schools, and municipal and private recreational facilities.

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

We have 7 non-exclusive distributorships in Canada and the United States for the sale of bulk HEAT$AVR® (without the ECO$AVR® dispenser) and exclusive distributorships in Australia, Chile, Japan, Korea, Spain, South Africa, Switzerland and Great Britain. We support our distributors and seek additional market opportunities by annually attending the major pool industry trade shows in the United States. We also advertise in trade magazines, maintain a semi-annual newsletter that is sent to buyer associations, customers and potential customers, and maintain a website which is information about our products.

WATER$AVR®

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

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

Tests have indicated that WATER$AVR®:

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

We have two full-time employees and one part-time employee who are involved in the sales and marketing of WATER$AVR®.

WATER$AVR—BTI™

WATER$AVR—BTI™ combines evaporation control with an environmentally friendly method of killing mosquito larvae during the first, second and third stages of development.

Combined with our original WATER$AVR® product, WATER$AVR—BTI™ can be quickly and evenly spread across large and small water surfaces where larvae must go to obtain air. Tests conducted by the Entomology Department at the Louisiana State University Agricultural Center showed that the use of WATER$AVR—BTI™ resulted in a 100% kill rate of mosquito larvae in contact with the product.

TPAs

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

TPAs for the Agricultural Industry. TPAs have the ability to reduce fertilizer crystallization before, during and after application and can also prevent crystal formation between fertilizer and minerals present in the soil. Once crystallized, fertilizer and soil minerals are not bio-available to provide plant nourishment. As a result, in select conditions the use of TPAs either blended with fertilizer or applied directly to crops can increase yields significantly. TPAs are designated for crop nutrient management programs and should not be confused with crop protection and pesticides or other agricultural chemical applications. Depending on the application, TPA products are marketed under a variety of brands including Amisorb, LYNX, MAGNET, AmGro and VOLT. Markets of significance include potatoes, sugar beets, cotton, tomatoes, almonds and other high value per acre crops.

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

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

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

Competition

HEAT$AVR® and ECO$AVR™

We are aware of only one other company that manufactures a product that competes with HEAT$AVR®. This other product has had limited sales to date and does not have the important convenience factor of our ECO$AVR® product. In addition to this existing competitor, our previous distributor, Sun Solar Energy Technologies Inc. ("Sun Solar"), has recently begun selling a product that directly competes with our ECO$AVR® product.

This product, while having a higher price point and limited sales history to date, must be taken seriously because of the expertise Sun Solar derived from working with us between 1998 and 2004 as our North American distributor.

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

WATER$AVR®

Aegis Chemical Industries Ltd. of India directly competes with WATER$AVR®. We believe our WATER$AVR® product is superior for the following reasons:

Easier Application. WATER$AVR® may be applied directly to the water surface by hand or machine. Our competition requires premixing to dilute the product to usable strength, followed by extensive pumping.

Cost. In order to achieve comparable water savings levels, other products cost more than WATER$AVR®.

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

WATER$AVR—BTI™

Although we are not aware of any direct competition with WATER$AVR—BTI™, the pest control industry is very large and well funded and there are a multitude of alternative methods and materials that can be used for mosquito control. We believe that we will be able to compete by providing an environmentally sensitive product which is less expensive than traditional products.

TPAs

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

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

Biodegradability compared to competing oil field chemicals;
Cost-effectiveness for crop enhancement compared to increased fertilizer use;

Environmental considerations, ease of formulation and increased crop yield opportunities in irrigation scale markets; and

Biodegradability compared to poly-acrylic acid for detergents.

Manufacturing

Our HEAT$AVR® and ECO$AVR® products and dispensers are made from chemicals, plastic and other materials and parts that are readily available from multiple suppliers. We have never experienced any shortage in the availability of raw materials and parts for these products and we do not have any long term supply contracts for any of these items. We manufacture these products in our plant in Calgary, Alberta, Canada.

Our WATER$AVR® products are manufactured under contract with Ondeo Nalco Company ("Ondeo") under an agreement which expires April 2007, with a five-year extension available. We are not required to purchase any minimum quantity of this product.

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

In November 2007, we purchased a building and 3.3 acres of land in Taber, Alberta, Canada. The price paid was CDN$1,325,000 and was financed by cash of $660,000 and an interest free mortgage which is due on Nov 30, 2012. The building will be renovated and operated as a fermentation facility for the production of aspartic acid, a key ingredient in TPAs Aspartic acid made in Taber will be shipped to IL for finishing.

Government Regulations

HEAT$AVR® and ECO$AVR®

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

WATER$AVR®

Our WATER$AVR® product is subject to regulation in most countries, particularly for agricultural and drinking water uses. We do not anticipate that governmental regulations will be an impediment to marketing WATER$AVR® because the components in WATER$AVR® have historically been used in agriculture for many years for other purposes. Nevertheless, we will need to obtain approval to sell WATER$AVR® in the United States for agricultural and drinking water uses. We have received National Sanitation Foundation approval for the use of WATER$AVR in drinking water in the United States.

WATER$AVR—BTI™

As a pesticide, WATER$AVR—BTI™ was approved by the EPA for commercial sale in the United States on November 30, 2005. We began marketing this product commercially in 2006. While EPA approval applies only to registration of the product in the United States, we believe EPA approval may expedite product registration and approval processes in other parts of the world. We will apply for certification in any country where significant markets are identified.

5

TPAs

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

Proprietary Rights

Our success is dependent, in part, upon our proprietary technology. We rely on a combination of patent, copyright and trade secret laws and nondisclosure agreements to protect our proprietary technology. We currently hold 56 U.S. patents and 139 International patents which expire at various dates between 2011 and 2020. We also have three U.S. patent applications pending and have applied to extend these pending patents to certain other countries where we operate. There can be no assurance that our pending patent applications will be granted or that any issued patent will be upheld as valid or prevent the development of competitive products, which may be equivalent to or superior to our products. We have not received any claims alleging infringement of the intellectual property rights of others, but there can be no assurance that we may not be subject to such claims in the future.

Research and Development

We spent $120,817 for the year ended December 31, 2007 and $127,254 for the year ended December 31, 2006 on research and development. This work relates primarily to the development of our water and energy conservation products, as well as new research in connection with our TPA products.

Employees

As of December 31, 2007 we had 24 employees, including one officer, thirteen sales and customer support personnel, and ten manufacturing personnel. None of our employees is represented by a labor union and we have experienced no work stoppages to date.

Risk Factors

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

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

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

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

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

- demand for and market acceptance of our products;
- competitive pressures resulting in lower selling prices;
- adverse changes in the level of economic activity in regions in which we do business;
- adverse changes in industries, such as swimming pool construction, on which we are particularly dependent;
- changes in the portions of our revenue represented by various products and customers;
- delays or problems in the introduction of new products;
- the announcement or introduction of new products, services or technological innovations by our competitors;
- variations in our product mix;
- the timing and amount of our expenditures in anticipation of future sales;
- increased costs of raw materials or supplies; and
- changes in the volume or timing of product orders.

Our operations are subject to seasonal fluctuation.

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

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

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

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

The marketing efforts of our WATER$AVR® product may result in continued losses. We introduced our WATER$AVR® product in June 2002 and, to date, we have delivered quantities for testing by potential customers, but only a few customers have ordered the product for commercial use. This product can achieve success only if it is ordered in substantial quantities by commercial customers who have determined that the water saving benefits of the product exceed the costs of purchase and deployment of the product. We can offer no assurance that we will receive sufficient orders of this product to achieve profits or cover the additional expenses incurred to manufacture and market this product. We expect to spend $400,000 on the marketing and production of our WATER$AVR® product in fiscal 2008.

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

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

accurately anticipate customer needs;

innovate and develop new products and applications;

successfully commercialize new products in a timely manner;

price our products competitively and manufacture and deliver our products in sufficient volumes and on time; and

differentiate our products from our competitors' products.

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

We are dependent upon certain customers.

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

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

In the year ended December 31, 2007, revenues from shipments made outside of the United States accounted for approximately 79% of our revenues, 79% in the year ended December 31, 2006 and 80% in the year ended December 31, 2005. Since we sell our products worldwide, our business is subject to risks associated with doing business internationally. We anticipate that revenues from international operations will continue to represent a sizable portion of our total revenue. Accordingly, our future results could be harmed by a variety of factors, including:

changes in foreign currency exchange rates;

changes in a country or region's political or economic conditions, particularly in developing or emerging markets;

longer payment cycles of foreign customers and difficulty of collecting receivables in foreign jurisdictions;

trade protection measures and import or export licensing requirements;

differing tax laws and changes in those laws;

difficulty in staffing and managing widespread operations;

differing protection of intellectual property and changes in that protection; and

differing regulatory requirements and changes in those requirements.

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

We currently allow our major customers between 30 and 45 days to pay for each sale. This practice, while customary, presents an accounts receivable write-off risk in that if one or more of our significant customers defaulted on their payment obligations to us, such write-off, if substantial, would have a material adverse effect on our business and results of operations.

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

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

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

We are subject to various federal, state and local environmental laws, ordinances and regulations relating to the use, storage, handling and disposal of chemicals. Under such laws, we may become liable for the costs of removal or remediation of these substances that have been used by our consumers or in our operations.

Such laws may impose liability without regard to whether we knew of, or caused, the release of such substances. Any failure by us to comply with present or future regulations could subject us to substantial fines, suspension of production, alteration of manufacturing processes or cessation of operations, any of which could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

ItemDescription of Property.
2.

We lease 4,300 sq. ft. in Victoria, British Columbia for administration and sales and research at $5,135 per month. This lease is effective through June 2009. We lease an 11,000 sq. ft. building in Calgary, Alberta for $8,925per month which we use to manufacture our swimming pool products. This lease is effective through September 2009. We lease 1,488 sq. ft. in Richmond, British Columbia for sales and customer support at a cost of $1,414 per month. This lease is effective through December 2011. We lease 7,000 sq. ft. in Bedford Park, Illinois for offices and laboratories at a cost of $6,548 per month and the lease is currently month to month. We also own a 56,780 sq. ft. facility in Peru, Illinois which is used to manufacture our TPA line of products.

In November 2007, we purchased a building and 3.3 acres of land in Taber, Alberta, Canada. The price paid was CDN$1,325,000 and was financed by cash of $660,000 and an interest free mortgage which is due on Nov 30, 2012. The building will be renovated and operated as a fermentation facility for the production of aspartic acid, a key ingredient in TPAs Aspartic acid made in Taber will be shipped to IL for finishing.

ItemLegal Proceedings.
3.

On July 23, 2004, we filed a lawsuit in the Circuit Court of Cook County, Illinois against Tatko Biotech Inc. (“Tatko”). The action arose from our Joint Product Development Agreement with Tatko in which we agreed to invest $10,000 toward the product development venture and granted to Tatko 100,000 shares of our restricted common stock. In return, Tatko granted us a five-year option to purchase 20% of Tatko’s outstanding capital stock. Tatko refused to collaborate on the agreement and, therefore, we filed the lawsuit to have the court declare that Tatko is not entitled to the 100,000 shares of our restricted common stock. On January 4, 2008, the lawsuit was dismissed pursuant to an agreement by Tatko to treat the Joint Product Development Agreement as void. As a result of the dismissal of the lawsuit and the agreement of the parties, the 100,000 shares of restricted stock will be returned or cancelled.

ItemSubmission of Matters to a Vote of Security Holders.
4.

Not applicable.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters.

Market for Securities

Our common stock is traded on the American Stock Exchange under the symbol "FSI". The following is the range of high and low closing sales or bid prices for our common stock for the periods indicated:

		High	Low
Year Ended December 31, 2006	First Quarter	$ 3.55	$ 2.25
	Second Quarter	4.30	2.45
	Third Quarter	3.25	2.50
	Fourth Quarter	4.12	2.80

		High	Low
Year Ended December 31, 2007	First Quarter	3.55	2.25
	Second Quarter	4.30	2.45
	Third Quarter	3.25	2.50
	Fourth Quarter	4.12	2.80

Prices represent high and low prices on the American Stock Exchange. As of December 31, 2007 we had approximately 1,700 shareholders.

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

Shares Which May Be Issued

As of March 15, 2008 we had 14,157,567 outstanding shares of common stock. The following table lists additional shares of our common stock which may be issued as of March 15, 2008:

	Number Of Shares	Note Reference
Shares issuable upon the exercise of warrants held by private investors	1,455,470	A
Shares issuable upon exercise of options granted to our officers, directors, employees, consultants, and third parties	1,912,440	B

A. Between April 14th and June 8th, 2005 and again in May 2007, we sold shares of our common stock in private transactions. In some cases warrants were issued as part of the financings. Information concerning the outstanding warrants are shown below.

Shares Issuable Upon Exercise Of Warrants	Issue Date	Exercise Price	Expiration Date

900,000	4/14/05	$ 4.50	4/14/09
87,400	6/08/05	$ 4.50	6/08/09
468,070	5/03/07	$ 4.50	5/03/10

B. Options are exercisable at prices ranging from $3.00 to $4.60 per share. See Item 10 of this report for more information concerning these options.

Dividend Policy

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

Item 6. Management's Discussion and Analysis or Plan of Operation.

Results of Operations

The Company has two product lines:

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

The second product ("BPCA") combines biodegradable polymers and chemical additives and is used by the petroleum, chemical, utility and mining industries to prevent corrosion and scaling in water piping. This product can also be used in detergent to increase biodegradability and in agriculture to increase crop yields by enhancing fertilizer uptake.

Material changes in our Statement of Operations for the periods presented are discussed below:

Year Ended December 31, 2007

Item	Increase (I) or Decrease (D)	Reason
Sales		
EWCP products	D	Poor execution by the Ecosavr swimming pool sales team resulted in market share loss to competing products.
BPCA products	D	Maintenance shutdowns in the oil extraction industry during 2007 reduced sales of BPCA products.
Administrative salaries and benefits	D	In 2006, we granted 5 year stock options to a few key employees. The expense for financial reporting purposes added $369,992 to administrative salaries in 2006 but only $204,602 in 2007.
Professional fees	D	Resolution of several legal proceedings in the year 2007 reduced our costs.
Consulting	D	

		The expense, for financial reporting purposes, of stock options granted in 2006 to consultants that did not reoccur in 2007.
Commissions	D	Decreased sales led to a decrease in commission costs.
Gain on sale of property	I	One-time gain on sale of unused land at our plant in Illinois.

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Year Ended December 31, 2006

Item	Increase (I) or Decrease (D)	Reason
Sales		
EWCP products	I	Increased product recognition in the market place led to increased sales.
BPCA products	I	High oil prices encouraged the oil companies to increase production, limit shutdowns and need additional BPCA products.
Wages	I	In 2005 we were not required to record the expense of stock options. The expense, for financial reporting purposes for employee stock options, added $131,517 to wages in 2006.
Administrative salaries and benefits	I	In 2005 we were not required to record the expense of stock options. The expense, for financial reporting purposes for employee stock options, added $369,992 to administrative salaries in 2006.
Investor relations and transfer agent fee	D	Upon the closing of our private placements in 2005, some stock options granted in 2004 vested and incurred expenses in this category by $422,500.
Insurance	I	Increase is comparable to what others are experiencing in the industry.
Consulting	I	The expense, for financial reporting purposes, of stock option grants in 2006 to consultants.
Research	I	Increased spending on development.

Capital Resources and Liquidity

Our material sources and <uses> of cash during the year ended December 31, 2007 were:

Cash provided by operations	$	242,451
Patent development		(60,680)
Equipment purchases		(586,127)
Sale of common stock		3,164,481
Exchange rate changes		142,990
Other		(1,981)

Our material sources and <uses> of cash during the year ended December 31, 2006 were:

Cash provided by operations	$	17,539
Collection of loan		35,228
Patent development		(29,116)

Equipment purchases	(37,160)
Sale of common stock	15,285
Exchange rate changes	(22,152)
Other	(2,147)
Cash on hand at January 1, 2006	22,523

We are committed to minimum rental payments for property and premises aggregating approximately $355,022 over the term of three leases, the last expiring on December 31, 2011.

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

2008	186,906
2009	134,192
2010	16,962
2011	16,962

We don’t anticipate any capital requirements for the twelve months ending December 31, 2008.

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

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

Critical Accounting Policies And Estimates

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

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

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

Item 7. Financial Statements.

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

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Cinnamon Jang Willoughby & Company
Chartered Accountants
A Partnership of Incorporated Professionals

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.:

We have audited the accompanying consolidated balance sheets of Flexible Solutions International, Inc. (the "Company") as of December 31, 2007 and 2006 and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the two years in the period ended December 31, 2007. The consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinions the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Flexible Solutions International, Inc. as at December 31, 2007 and 2006 and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2007 in conformity with generally accepted accounting principles in the United States of America.

/s/ Cinnamon Jang Willoughby & Company
"Cinnamon Jang Willoughby & Company"
Chartered Accountants

Burnaby, Canada
March 27, 2008

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
Consolidated Balance Sheet
December 31, 2007 and 2006
(U.S. Dollars)

	December 31, 2007		December 31, 2006	
Assets				
Current				
Cash and cash equivalents	$	3,355,854	$	450,759
Accounts receivable (Note 3)		1,051,056		1,319,575
Inventories (see Note 4)		2,361,270		1,904,315
Prepaid expenses		115,353		124,360
		6,883,533		3,799,009
Property, equipment and leaseholds, net (see Note 5)		4,612,571		4,100,553
Patents (see Note 6)		230,438		169,758
Investment (see Note 7)		-		369,000
Long term deposits (see Note 8)		48,034		47,220
Total Assets	$	11,774,576	$	8,485,540
Liabilities				
Current				
Accounts payable and accrued liabilities	$	385,792	$	423,030
Deferred revenue		9,870		20,559
		395,662		443,589
Mortgage (Note 15)		452,018		-
		847,680		443, 589
Stockholders’ Equity				
Capital stock (Note 14)				
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:				
14,057,567 (2006: 13,058,427) common shares		14,058		13,058
Capital in excess of par value		15,914,303		12,370,418
Other comprehensive income (see Note 9)		394,289		131,002
Accumulated Deficit		(5,395,754)		(4,472,527)
Total Stockholders’ Equity		10,926,895		8,041,951
Total Liabilities and Stockholders’ Equity	$	11,774,576	$	8,485,540

Commitments, Contingencies and Subsequent events (See Notes 16, 17 & 18)

See Notes to Consolidated Financial Statements.

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FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
Consolidated Statements of Operations
For the Years Ended December 31, 2007 and 2006
(U.S. Dollars)

	Years Ended December 31, 2007		2006	
Sales	$	7,431,791	$	8,373,597
Cost of sales		4,738,143		5,401,350
Gross profit		2,693,648		2,972,247
Operating Expenses				
Wages		1,094,799		1,069,736
Administrative salaries and benefits		447,516		666,542
Advertising and promotion		63,126		45,215
Investor relations and transfer agent fee		302,401		258,072
Office and miscellaneous		201,810		157,755
Insurance		230,656		209,864
Interest expense		10,605		3,136
Rent		227,431		232,820
Consulting		338,728		383,965
Professional fees		233,701		324,359
Travel		134,011		136,049
Telecommunications		38,163		34,041
Shipping		67,834		41,517
Research		120,817		123,254
Commissions		119,790		171,380
Registration rights penalty		-		326,710
Bad debt expense		2,310		90,747
Currency exchange		43,568		(23,417)
Utilities		25,996		18,064
Total operating expenses		3,703,262		4,266,809
Gain on sale of property		(195,442)		-
Operating income (loss)		(814,172)		(1,294,562)
Write down of investment		(98,000)		-
Other expenses		(15,051)		-
Interest income		3,996		3,114
Loss before income tax		(923,227)		(1,291,448)
Income tax (recovery)		-		(127,049)
Loss for the year	$	(923,227)	$	(1,164,369)
Net loss per share (basic and diluted)	$	(0.07)	$	(0.09)
Weighted average number of common shares (basic and diluted)		13,823,654		12,994,430

See Notes to Consolidated Financial Statements.

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FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
Consolidated Statements of Operations
For Three Months Ended December 31, 2007 and 2006
(U.S. Dollars)

	Three Months Ended December 31,			
		2007 (unaudited)		2006 (unaudited)
Sales	$	1,701,359	$	1,700,806
Cost of sales		1,162,160		1,155,807
Gross profit	$	539,199	$	544,999
Operating Expenses				
Wages		294,363		217,991
Administrative salaries and benefits		71,436		190,561
Advertising and promotion		21,355		9,381
Investor relations and transfer agent fee		50,319		112,064
Office and miscellaneous		57,790		30,050
Insurance		62,677		48,814
Interest expense		7,731		1,161
Rent		57,213		55,841
Consulting		60,217		93,106
Professional fees		102,192		111,922
Travel		33,475		54,832
Telecommunications		10,883		9,598
Shipping		8,815		7,682
Research		42,032		21,195
Commissions		31,258		41,184
Bad debt expense		249		90,557
Currency exchange		(27,456)		(28,695)
Utilities		6,715		4,806
		890,634		1,072,050
Loss before other items and income tax	$	(351,435)	$	(527,051)
Write down of investment		(98,000)		-
Interest income		600		430
Loss before income tax	$	(448,835)	$	(526,621)
Income tax (recovery)		-		-
Loss for the three months	$	(448,835)	$	(526,621)
Net loss per share (basic and diluted)	$	(0.03)	$	(0.04)
Weighted average number of shares (basic and diluted)		14,156,480		13,010,514

See Notes to Consolidated Financial Statements.
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FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
Consolidated Statements of Cash Flows
For Years Ended December 31, 2007 and 2006
(U.S. Dollars)

	Years Ended December 31,			
	2007		2006	
Operating activities				
Net loss	$	(923,227)	$	(1,164,369)
Adjustments to reconcile net loss to net cash				
Stock compensation expense		651,405		858,585
Shares issued for services		-		74,306
Depreciation		526,127		597,170
Write down of investment		98,000		-
Changes in non-cash working capital items:				
(Increase) Decrease in accounts receivable		300,065		(553,174)
(Increase) Decrease in inventories		(337,532)		410,664
(Increase) Decrease in prepaid expenses		16,852		12,955
Increase (Decrease) in accounts payable		(78,550)		(268,075)
Increase (Decrease) deferred revenue		(10,689)		20,559
Increase (Decrease) in income taxes		-		28,918
Cash provided by (used in) operating activities		242,451		17,539
Investing activities				
(Increase) Decrease in long term deposits		1,981		(2,147)
(Increase) Decrease in loan receivable		-		35,228
(Increase) Decrease in development of patents		(60,680)		(29,116)
(Increase) Decrease in acquisition of equipment		(586,127)		(37,160)
Cash provided by (used in) investing activities		(644,826)		(33,195)
Financing activities				
Proceeds from issuance of common stock		3,164,481		15,285
Cash provided by financing activities		3,164,481		15,285
Effect of exchange rate changes on cash		142,990		(22,152)
Inflow (outflow) of cash		2,905,096		(22,523)
Cash and cash equivalents, beginning		450,759		473,282
Cash and cash equivalents, ending	$	3,355,854	$	450,759
Supplemental disclosure of cash flow information:				
Registration rights penalty	$	-	$	(326,710)
Interest paid		10,605		3,136
Non Cash Investing Activities:				

Mortgage assumed for acquisition of property	$	452,018	$	-

See Notes to Consolidated Financial Statements.
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FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
Consolidated Statements of Stockholders' Equity
For the Years Ended December 31, 2007 and 2006
(U.S. Dollars)

	Shares	Par Value	Capital in Excess of Par Value	Accumulated Earnings (Deficiency)	Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance December 31, 2005	12,981,316	$ 12,981	$ 11,422,218	$ (3,308,158)	$ 153,254	$ 8,280,295
Translation adjustment	—	—	—	—	(22,495)	(22,495)
Net loss	—	—	—	(1,164,369)	—	(1,164,369)
Comprehensive income	—	—	—	—	—	(1,210,081)
Shares issued:						
Exercise of stock options	46,000	46	64,354	—	—	64,400
Issue of stock for services	31,111	31	74,306	—	—	74,337
Private placement	—	—	(49,046)	—	—	(49,046)
Stock option compensation	—	—	858,585	—	—	882,015
Balance December 31, 2006	13,058,427	$ 13,058	$ 12,370,417	$ (4,472,527)	$ 131,002	$ 8,041,950
Translation adjustment	—	—	—	—	263,288	263,288
Net loss	—	—	—	(923,227)	—	(923,227)
Comprehensive income	—	—	—	—	—	(659,939)
Shares issued:						
Exercise of stock options	163,000	163	288,837	—	—	289,000
Cancellation of stock	(100,000)	(100)	(270,900)	—	—	(271,000)
Private placement	936,140	936	2,874,546	—	—	2,875,482
Stock option compensation	—	—	651,405	—	—	651,405
Balance December 31, 2007	14,057,567	$ 14,058	$ 15,914,303	$ (5,395,754)	$ 394,289	$ 10,926,895

See Notes to Consolidated Financial Statements.

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FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006
(U.S. Dollars)

1. Basis of Presentation.

These consolidated financial statements include the accounts of Flexible Solutions International, Inc. (the "Company"), and its wholly-owned subsidiaries Flexible Solutions, Ltd. ("Flexible Ltd."), NanoChem Solutions Inc., WaterSavr Global Solutions Inc., NanoDetect Technologies Inc. and Seahorse Systems Inc. All inter-company 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 further below.

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

On June 30, 1998, the Company completed the acquisition of all of the shares of Flexible 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 all of the total shares then issued and outstanding. The transaction has been accounted for as a reverse-takeover. Flexible Ltd. is accounted for as the acquiring party and the surviving entity. As Flexible Ltd. is the accounting survivor, the consolidated financial statements presented for all periods are those of Flexible Ltd. The shares issued by the Company pursuant to the 1998 acquisition have been accounted for as if those shares had been issued upon the organization of Flexible Ltd.

On May 2, 2002, the Company established WaterSavr Global Solutions Inc. through the issuance of 100 shares of common stock from WaterSavr Global Solutions Inc. to the Company.

On February 7, 2005, the Company established Nano Detect Technologies Inc. through the issuance of 1,000 shares of common stock from Nano Detect Technologies Inc. to the Company.

On June 21, 2005, the Company established Seahorse Systems Inc. through the issuance of 1,000 shares of common stock from Seahorse Systems Inc. to the Company.

Pursuant to a purchase agreement dated May 26, 2004, the Company acquired the assets of Donlar Corporation ("Donlar") on June 9, 2004 and created a new company, NanoChem Solutions Inc. as the operating entity for such assets. 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 Donlar's largest creditor to satisfy $3,150,000 of the purchase price. This note was due June 2, 2005 and upon payment, all former Donlar assets that were pledged as security were released from their mortgage. The remainder of the consideration given was cash.

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

There was no goodwill or other intangible assets accept certain patents recorded at nil fair value, acquired as a result of the acquisition. The acquisition costs assigned to property and equipment include all direct costs incurred by the Company to purchase the Donlar assets. These costs include due diligence fees paid to outside parties investigating and identifying the assets, legal costs directly attributable to the purchase of the assets, plus applicable transfer taxes. These costs have been assigned to the individual assets based on their proportional fair values and will be amortized based on the rates associated with the related assets.

2. Significant Accounting Policies.

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

(a) Cash and Cash Equivalents.

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

(b) Inventories and Cost of Sales

The Company has four major classes of inventory: finished goods, works in progress, raw materials and supplies. In all classes, inventory is valued at the lower of cost and 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. Inventorial 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.

In 2004, the FASB issued SFAS No. 151, “Inventory Costs”, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. This standard requires that such items be recognized as current-period charges. The standard also establishes the concept of “normal capacity” and requires the allocation of fixed production overhead to inventory based on the normal capacity of the production facilities. Any unallocated overhead must be recognized as an expense in the period incurred. This standard is effective for inventory costs incurred starting January 1, 2006. The adoption of this standard did not have a material impact on its financial position, results of operations or cash flows for 2006 or 2007.

(c) Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts when management estimates collectibility to 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 following methods 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	Straight-line over lease term

Depreciation is recorded at half for the year the assets are first purchase. 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 SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", 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 sum of 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) Investments.

Investment in corporations subject to significant influence and investments in partnerships are recorded using the equity method of accounting. On this basis, the Company's share of income and losses of the corporations and partnerships is included in earnings and the Company's investment therein adjusted by a like amount. Dividends received from these entities reduce the investment accounts. Portfolio investments not subject to significant influence are recorded using the cost method.

The fair value of a cost method investment is not estimated if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment.

The Company currently does not have any investments that require use of the equity method of accounting.

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(g) Foreign Currency.

The functional currency of one of the subsidiaries 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 loss and are 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 the operating loss if realized during the year and in comprehensive income if they remain unrealized at the end of the year.

(h) 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 has occurred, the fee is fixed or determinable, collectibility 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.

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.

(i) Stock Issued in Exchange for Services.

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

(j) Stock-based Compensation.

In December 2004, the Financial Accounting Standards Board ("FASB") issued revised SFAS No. 123(R), Share-Based Payment, which replaces SFAS No. 123, "Accounting for Stock-Based Compensation", which superseded APB Opinion No. 25, "Accounting for Stock Issued to Employees". FAS No. 123(R) requires the cost of all share-based payment transactions to be recognized in an entity's financial statements, establishes fair value as the measurement objective and requires entities to apply a fair-value-based measurement method in accounting for share-based payment transactions. SFAS No. 123(R) applies to all awards granted, modified, repurchased or cancelled after July 1, 2005, and unvested portions of previously issued and outstanding awards. The Company adopted this statement for its first quarter starting January 1, 2006 and will continue to evaluate the impact of adopting this statement.

Prior to 2006, the Company adopted the disclosure provisions of SFAS No. 123 for stock options granted to employees and directors. The Company disclosed on a supplemental basis, the pro-forma effect of accounting for stock options awarded to employees and directors, as if the fair value based method had been applied, using the Black-Scholes option-pricing model. The Company has always recognized the fair value of options granted to consultants.

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(k) Comprehensive Income.

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

(l) Loss Per Share.

Basic loss per share data is computed by dividing the net loss applicable to common stock by the weighted average number of common shares outstanding during the year. Diluted earnings per share, which includes the dilutive effect of the exercise of options and warrants has not been presented because, due to the net losses recorded by the Company for all periods presented, their inclusion would be anti-dilutive.

(m) 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. Significant areas requiring the use of management estimates relate to the determination of allowance for doubtful accounts, assumptions used in determining stock-based compensation, future income tax valuation allowances, impairment of long lived assets, and rates for amortization of property, plant and equipment. Actual results could differ from those estimates and would impact the results of operations and cash flows.

(n) Financial Instruments.

The fair market value of the Company's financial instruments comprising cash, accounts receivable, accounts payable and accrued liabilities 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.

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 three primary customers totals $630,296 (60%) as at December 31, 2007 (2006 - $483,682 or 37%).

(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 potentially 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.

(p) Income Taxes

Potential benefits of income tax losses are not recognized in the accounts until realization is more likely than not. The Company has adopted SFAS No. 109 as of its inception. Pursuant to SFAS No. 109 the Company is required to compute tax asset benefits for net operating losses carried forward. Potential benefits of net operating losses have not been recognized in these financial statements because the Company cannot be assured that it is more likely than not that it will utilize the net operating losses carried forward in future years; and accordingly is offset by a valuation allowance

(q) Recent Accounting Pronouncements

Fair value measurement

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 157, "Fair Value Measurement" ("SFAS 157"). The Statement provides guidance for using fair value to measure assets and liabilities. The Statement also expands disclosures about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurement on earnings. This Statement applies under other accounting pronouncements that require or permit fair value measurements. This Statement does not expand the use of fair value measurements in any new circumstances. Under this Statement, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the entity transacts. SFAS 157 is effective for the Company for fair value measurements and disclosures made by the Company in its fiscal year beginning on January 1, 2008. The Company is currently reviewing the impact of this statement.

Employers accounting for defined benefit pension and other postretirement plans

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R)" (SFAS 158"). SFAS 158 requires an employer that sponsors one or more single-employer defined benefit plans to (a) recognize the overfunded or underfunded status of a benefit plan in its statement of financial position, (b) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to SFAS 87, "Employers' Accounting for Pensions", or SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", (c) measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end, and (d) disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation. SFAS 158 is effective for the Company's fiscal year ending December 31, 2007. The adoption of SFAS No. 158 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Accounting for servicing of financial assets

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets", which amends SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". SFAS No. 156 may be adopted as early as 1 January 2006, for calendar year-end entities, provided that no interim financial statements have been issued. Those not choosing to early adopt are required to apply the provisions as of the beginning of the first fiscal year that begins after 15 September 2006 (e.g. 1 January 2007, for calendar year-end entities). The intention of the new statement is to simplify accounting for separately recognized servicing assets and liabilities, such as those common with mortgage securitization activities, as well as to simplify efforts to obtain hedge-like accounting.

Specifically, the FASB said SFAS No. 156 permits a service using derivative financial instruments to report both the derivative financial instrument and related servicing asset or liability by using a consistent measurement attribute, or fair value. The adoption of SFAS No. 156 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Accounting for certain hybrid instruments

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments", which amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 140. SFAS No. 155 permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or hybrid financial instruments containing embedded derivatives. The adoption of SFAS No. 155 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

The Fair Value Option for Financial Assets

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115.” SFAS No. 159 permits entities to measure eligible assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently investigating the impact of this pronouncement and has not yet determined the impact on the consolidated financial statements.

Business Combinations

In December 2007, the FASB issued Statement No. 141(Revised 2007), “Business Combinations” (SFAS No. 141(R)). SFAS No. 141(R) requires an acquiring entity to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141(R) also changes the accounting treatment for certain specific items. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after December 15, 2008. The Company is currently investigating the impact of this pronouncement and has not yet determined the impact on the consolidated financial statements.

Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51.” SFAS No. 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent’s equity. SFAS No. 160 is effective for fiscal years and interim periods within those fiscal years beginning on or after December 15, 2008. The Company does not expect adoption of this pronouncement to have a material impact on the consolidated financial statements.

Accounting for Collaborative Arrangements Related to the Development and Commercialization of Intellectual Property

In December 2007, the FASB ratified the consensus reached on EITF 07-1, “Accounting for Collaborative Arrangements Related to the Development and Commercialization of Intellectual Property.” EITF 07-1 defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. EITF 07-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. The Company does not expect adoption of this pronouncement to have a material impact on the consolidated financial statements

3. Accounts Receivable

	2007	2006
Accounts receivable	$ 1,052,316	$ 1,344,155
Allowance for doubtful accounts	(1,260)	(24,580)
	$ 1,051,056	$ 1,319,575

4. Inventories

	2007	2006
Completed goods	$ 1,664,777	$ 970,780
Works in progress	198,172	397,995
Raw materials	498,321	535,540
	$ 2,361,270	$ 1,904,315

5. Property, Plant and Equipment

	2007 Cost	Accumulated Depreciation	2007 Net
Buildings	$ 4,011,826	$ 970,854	$ 3,040,972
Computer hardware	75,458	48,284	27,174
Furniture and fixtures	21,788	12,154	9,634
Office equipment	32,905	22,035	10,870
Manufacturing equipment	2,313,363	1,280,943	1,032,420
Trailer	3,854	1,863	1,990
Leasehold improvements	46,304	36,480	9,825
Trade show booth	8,766	6,212	2,554
Land	477,133	--	477,133
	$ 6,991,397	$ 2,378,829	$ 4,612,571

	2006 Cost	Accumulated Depreciation	2006 Net
Buildings	$ 3,144,259	$ 724,752	$ 2,419,507
Computer hardware	60,576	34,200	26,376
Furniture and fixtures	18,576	8,608	9,968
Office equipment	29,533	17,488	12,045
Manufacturing equipment	2,207,781	990,959	1,216,822
Trailer	1,991	1,411	580
Leasehold improvements	39,517	25,551	13,966
Trade show booth	7,456	4,353	3,103
Land	398,186	--	398,186
	$ 5,907,875	$ 1,807,322	$ 4,100,553

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.

	2007 Cost	Accumulated Amortization	2007 Net
Patents	$ 243,853	$ 13,415	230,438

	2006 Cost	Accumulated Amortization	2006 Net
Patents	$ 172,938	$ 3,180	169,758

7. Investments.

	2007	2006
Tatko Inc.	$ -	$ 271,000
Air-Water Interface Delivery and Detection Inc.	-	98,000
	$ -	$ 369,000

On May 31, 2003, the Company acquired an option to purchase a 20% interest in the outstanding shares of Tatko Inc. ("Tatko") for consideration of the issuance of 100,000 shares of the Company's common stock. The option to purchase the shares of Tatko expires on May 31, 2008. The cost of the investment has been accounted for based on the fair market value of the Company's common stock on May 31, 2003. For further information on this option, see Contingencies (Note 16) below.

In 2005, NanoDetect purchased 32.7 shares of equity in Air Water Interface Delivery and Detection Inc. ("AWD") for a total cost of $98,000. This investment represents only 3.3% of the issued and outstanding shares of AWD and, accordingly, will be accounted for under the cost method. While the technology to be developed by AWD still has enormous potential and may be commerialized in the future, management consideres that those events are sufficiently far in the future and not certain enough to maintain the investment in the venture at the invested cost. Therefore, the investment in AWD will be written down to zero.

8. Long Term Deposits

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

	2007	2006
Long term deposits	$ 48,034	$ 47,220

9. Comprehensive Income

	2007	2006
Net loss	$ (923,227)	$ (1,164,369)
Other comprehensive income	263,287	(22,495)
Comprehensive income	$ (659,940)	$ (1,186,864)
Basic and diluted comprehensive loss per share	(0.05)	(0.09)

10. Income Tax

The income tax expense (recovery) is comprised of the following:

	2007	2006
Current tax, domestic	-	-
Current tax, foreign	-	$ (127,079)
Current tax, total	-	$ (127.079)

Income taxes vary from the amount that would be computed by applying the estimated combined statutory income tax rate (35%) for the following reasons:

	2006	2006
Income before taxes, domestic	$ (49,668)	$ (427,661)
Income before taxes, foreign	(873,559)	(863,787)
Income before taxes, total	$ (923,227)	$ (1,291,448)
Expense (recovery) for income taxes at statutory rate (35%)	$ (323,129)	$ (452,007)
Permanent difference – stock based compensation	227,992	326,523
Depreciation	112,200	104,543
Miscellaneous	37,492	-
Tax refund from application of losses to prior periods	-	(127,079)
Application of losses from prior periods	(198,858)	(139,308)
Losses carried forward	144,287	160,249
Income tax expense (recovery)	$ -	$ (127,079)

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

	2006	2006
Non-capital loss carry forwards	$ 1,198,347	$ 950,037
Book over tax value of property and equipment	404,188	220,502
Valuation allowance	(1,602,535)	(1,170,539)
Net deferred tax asset (liability)	-	-

The Company's carried losses for income tax purposes are $3,423,849 (2006 - $2,714,390), which may be carried forward to apply against future income tax, expiring between 2013 and 2026. The future tax benefit of these loss carry-forwards has been offset with a full valuation allowance. These losses expire as follows:

2013	$ 107,685
2014	451,507
2016	926,433
2017	412,249
2022	125,722
2023	256,119
2024	813,503
2025	195,485
2027	$ 135,146

11. Loss Per Share.

	Net loss	Shares (denominator)	Per Share amount
2007 Basic net loss	$ (923,227)	13,823,654	$ (0.07)
2006 Basic net loss	$ (1,164,369)	12,994,430	$ (0.09)

Options to purchase 1,912,440 shares of the Company's common stock at prices ranging from $3.00 to $4.60 per share were outstanding during the year ended December 31, 2007 (2006: options to purchase 2,126,410 shares of the Company's common stock at prices ranging from $1.40 to $4.60 per share), but were excluded from the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the Company's common stock and were anti-dilutive. There were no preferred shares issued and outstanding for the years ended December 31, 2007 or 2006.

12. 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 promoting the success of the business activities. It is intended that options issued under this Plan constitute non-qualified stock options. The general terms of awards under the option plan are that 100% of the options granted will vest the year following the grant. The maximum term of options granted is 5 years.

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

The following table summarizes the Company’s stock option activity for the years ended December 31, 2007 and 2006:

	Number of shares	Exercise price per share	Weighted average exercise price
Balance, December 31, 2005	1,060,740	$1.40 - $4.60	$ 3.44
Granted	1,191,000	$3.25 - $3.60	$ 3.25
Exercised	(46,000)	$1.40	$ 1.40
Cancelled or expired	(79,000)	$1.40 - $4.25	$ 2.46
Balance, December 31, 2006	2,126,740	$1.40 - $4.60	$ 3.44
Granted	235,700	$1.50 - $3.60	$ 2.35
Exercised	(163,000)	$1.50 - $3.25	$ 1.77
Cancelled or expired	(287,000)	$3.00 - $4.40	$ 3.93
Balance, December 31, 2007	1,912,440	$3.00 – 4.60	$ 3.38

In December 2004, the Financial Accounting Standards Board (“FASB”) issued revised FAS No. 123(R), Share-Based Payment, which replaces FAS No. 123, Accounting for Stock-Based Compensation, which superseded APB Opinion No. 25, Accounting for Stock Issued to Employees. FAS No. 123(R) requires the cost of all share-based payment transactions to be recognized in an entity’s financial statements, establishes fair value as the measurement objective and requires entities to apply a fair-value-based measurement method in accounting for share-based payment transactions. FAS No. 123(R) applies to all awards granted, modified, repurchased or cancelled after July 1, 2005, and unvested portions of previously issued and outstanding awards. The Company adopted this statement for its first quarter starting January 1, 2006 and will continue to evaluate the impact of adopting this statement.

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

	2007	2006
Expected life – years	1.0 - 5.0	5.0
Interest rate	4.18 - 5.18%	4.50%
Volatility	86.0 - 115.0%	52.0%
Dividend yield	-- %	-- %
Weighted average fair value of options granted	$ 1.37 - 2.67	$ 1.49

During the year ended December 31, 2007, the Company granted 200,700 (2006 – 410,000) stock options to consultants and has applied FAS No. 123 using the Black-Scholes option-pricing model, which resulted in additional expenses of $129,882 (2006 - $362,005). During the year ended December 31, 2007, employees were granted 35,000 (2006 – 781,000) stock options, which resulted in additional expenses of $20,069 (2006 – 496,580).

13. Warrants

On April 14, 2005, the Company announced that it had raised $3,375,000 pursuant to a private placement of up to 1,800,000 shares of its common stock. The investors collectively purchased 900,000 shares of the Company's common stock at a per share purchase price of $3.75, together with warrants to purchase up to 900,000 additional shares of the Company's common stock. The warrants have a four-year term and are immediately exercisable at a price of $4.50 per share.

On June 8, 2005, the Company announced that it had raised an additional $327,750 pursuant to a private placement of up to 174,800 shares of its common stock. An investor purchased 87,400 shares of the Company's common stock at a per share price of $3.75, together with a warrant to purchase up to 87,400 additional shares of the Company's common stock. The warrant has a four-year term and is immediately exercisable at a price of $4.50 per share.

In May 2007 the Company closed a $3,042,455 private placement with select institutional investors. The terms are 936,140 units with each unit consisting of one share at $3.25 and one half warrant with a three year term and a strike price of $4.50 per share for total of 468,070 warrants. The Company also issued 16,154 warrants with the same terms for investment banking services related to this transaction.

The following table summarizes the Company's warrant option activity for the year ended December 31, 2007 (no prior or subsequent activity):

	Number of shares	Exercise price per share	Weighted average exercise price
Balance, December 31, 2005	987,400	$ 4.50	$ 4.50
Granted	—	—	—
Exercised	—	—	—
Cancelled	—	—	—
Balance, December 31, 2006	987,400	$ 4.50	$ 4.50
Granted	484,244	$ 4.50	$ 4.50
Exercised	—	—	—
Cancelled	—	—	—
Balance, December 31, 2007	1,471,644	$ 4.50	$ 4.50

14. Capital Stock.

The $326,710 registration rights penalty recorded in the quarter ended September 30, 2006 is a one time occurrence that management believes should have been recorded directly against the corresponding capital, which was raised in 2005. However, at the date of issuance of the capital, it was deemed to be very unlikely that any obligation would arise and as such, we were not able to make a reasonable estimate of a potential liability. Given these circumstances, GAAP measures require we record the payment as another item on our income statement. All contractual obligations related to the equity raised in 2005 are now complete and no more amounts will become due.

During the year ended December 31, 2006 the Company issued 46,000 shares of common stock at $1.40 per share upon exercise of stock options.

During the year ended December 31, 2006 the Company issued 31,111 shares of common stock for services, recognizing an expense of $74,337.

During the year ended December 31, 2007 the Company issued 163,000 shares of common stock upon the exercise of stock options. The strike price varied from $1.50 – 3.25 per share.

In May 2007 the Company closed a $3,042,455 private placement with select institutional investors. The terms are 936,140 units with each unit consisting of one share at $3.25 and one half warrant with a three year term and a strike price of $4.50 per share. The proceeds will be used to build a biomass conversion facility that will use renewable agriculture crops to produce aspartic acid.

15. Mortgage

Pursuant to the acquisition of the plant and property in Taber, Alberta, the Company agreed to assume a mortgage of $651,298 ($645,167 CAD) to the vendor to satisfy the balance of the purchase price. The debt bears no interest, is secured by a first charge over the plant and property acquired, and is repayable by November 2012.

The debt has been discounted for financial reporting purposes to its fair value. The rate used to discount the debt to its fair value was 7% which was based on the cost of borrowing of similar companies for the same purpose

Repayments of mortgage principal over the next five years are as follows:

2008	$	-
2009		-
2010		-
2011		-
2012		651,298

16. Segmented, Significant Customer Information and Economic Dependency.

The Company operates in two segments:

(a) Development and marketing of two lines of 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) Manufacture of 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 Company's traditional operating activities related to the production and sale of its energy conversation product line. Upon acquiring the Donlar assets, the Company formed NanoChem, which was formed as its wholly-owned subsidiary in exchange for the capital contribution necessary to purchase the Donlar assets. The assets the Company acquired from Donlar include domestic and international patents and business processes relating to the production of TPAs and other environmental products and technologies, as well as a manufacturing plant. These assets are currently used by NanoChem for its revenue-producing activities.

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

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

Year ended December 31, 2007:

	EWCP	BPCA	Total
Revenue	$ 1,217,365	$ 6,214,425	$ 7,431,791
Interest revenue	3,142	907	4,049
Interest expense	7,412	3,193	10,605
Depreciation and Amortization	62,832	463,295	526,127
Segment profit (loss)	(1,868,458)	945,231	(923,227)
Segment assets	1,340,812	3,271,759	4,612,571
Expenditures for segment assets	1,004,938	33,204	1,038,142

Year ended December 31, 2006:

	EWCP	BPCA	Total
Revenue	$ 1,410,842	$ 6,963,320	$ 8,374,162
Interest revenue	3,114	--	3,114
Interest expense	788	2,348	3,136
Depreciation and Amortization	59,695	537,475	597,170
Segment profit (loss)	(1,975,029)	810,660	(1,164,369)
Segment assets	199,230	3,901,180	4,100,553
Expenditures for segment assets	9,004	31,336	40,340

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

	2007	2006
Canada	$ 934,757	$ 202,763
United States and abroad	6,497,034	8,171,399
Total	$ 7,431,791	$ 8,374,162

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

	2007	2006
Canada	$ 1,331,166	$ 364,487
United States	3,511,843	3,905,824
Total	$ 4,843,009	$ 4,270,311

Two customers account for $3,544,123 (48%) of sales made in the year (2006 - $4,727,042).

17. Commitments.

We are committed to minimum rental payments for property and premises aggregating approximately $355,022 over the term of three leases, the last expiring on December 31, 2011.

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

2008	186,906
2009	134,192
2010	16,962
2011	16,962

18. Contingencies.

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 the return of 100,000 shares of the Company's common stock and the 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. 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.

On November 13, 2003, Patrick Grant, an ex-employee, filed a lawsuit in the Circuit Court of Cook County, Illinois against the Company, WaterSavr 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. As of January 3, 2007 all litigation between FSI and Patrick Grant has been settled. As part of the settlement FSI permited Mr. Grant to exercise an option to purchase 100,000 shares of FSI's common stock at a price of $1.50 per share and to exercise a second option to purchase 50,000 shares of FSI's common stock at a price of $2.00 per share. FSI also forgave a loan to Mr. Grant and related parties in the amount of approximately $46,177. This amount has been recorded as a bad debt expense in 2006. FSI, its subsidiaries and officers face no further liability in regard to the Grant lawsuit.

On July 23, 2004, the Company filed a lawsuit in the Circuit Court of Cook County, Illinois against Tatko Biotech Inc. ("Tatko"). The action arose from our Joint Product Development Agreement with Tatko in which we agreed to invest $10,000 toward the product development venture and granted to Tatko 100,000 shares of our restricted common stock. In return, Tatko granted us a five-year option to purchase 20% of Tatko's outstanding capital stock. Tatko refused to collaborate on the agreement and, therefore, we filed the lawsuit to have the court declare that Tatko is not entitled to the 100,000 shares of our restricted common stock. On January 4, 2008, the lawsuit was dismissed pursuant to an agreement by Tatko to treat the Joint Product Development Agreement as void. As a result of the dismissal of the lawsuit and the agreement of the parties, the 100,000 shares of restricted stock will be returned or cancelled.

19. Subsequent Events.

Subsequent to the year ended December 31, 2007:

The Company obtained a loan for $1 million Canadian at zero percent of interest from an unrelated third party. The repayment term of the loan is 5 years beginning in 2012.

The Company has approved to grant incentive options for total of 83,000 shares to various employees with a strike price of $3.60 and vesting on December 31st, 2008. The estimated value of the options granted is $11,832.

18. Comparative Figures.

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

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Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 8A(T). Controls and Procedures.

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

As of the end of the period covered by this Annual Report on Form 10-KSB for the year ended December 31, 2007, we carried out an evaluation, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based upon that evaluation, our principal executive officer and principal financial officer concluded, at that time, that our disclosure controls and procedures are effective in timely alerting them to material information relating to us (including our consolidated subsidiaries) that is required to be included in our periodic reports.

Notwithstanding the above, and due to an administrative error, the financial statements originally filed on March 31, 2008 with our 10-K report were not the financial statements which should have been filed with the 10-K report. The correct financial statements were filed with the amended 10-K report on October 20, 2008. The filing of the financial statements in October 2008 was not the correction of an error in the previously filed financial statements since the financial statements filed on March 31, 2008 should not have been filed in the first place. The error was not in the financial statements but rather in the Edgar filing.

We do not believe that there were any material changes between the financial statements filed on March 31, 2008 and the financial statements filed on October 20, 2008. However, in future filings we will review the information to be submitted, including any applicable financial statements, more carefully before it is filed on Edgar to insure the correct information is being filed.

Despite the filing of the incorrect financial statements with our 10-KSB report in March 2008, our principal executive officer and principal financial officer continue to be of the opinion that our disclosure controls are effective.

Management's Report on Internal Control Over Financial Reporting

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

Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of our financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures

are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

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

In connection with the preparation of our annual financial statements, management has undertaken an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or the COSO Framework. Management's assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of those controls.

Based on this evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2007.

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

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only management's report on internal control in this annual report.

Item 8B. Other Information.

None.

Item 9. Directors and Executive Officers.

Name	Age	Position
Daniel B. O'Brien	51	President, Director
John H. Bientjes	54	Director
Dr. Robert N. O'Brien	86	Director
Dale Friend	51	Director
Eric Hodges	59	Director

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

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

Dr. Robert N. O'Brien has been a member of our board of directors since June 1998. Dr. O'Brien was a Professor of Chemistry at the University of Victoria from 1968 until 1986 at which time he was given the designation of Professor Emeritus. He held various academic positions since 1957 at the University of Alberta, the University of California at Berkley, and the University of Victoria. While teaching, Dr. O'Brien acted as a consultant and served on the British Columbia Research Council from 1968 to 1990. In 1987, Dr. O'Brien founded the Vancouver Island Advanced

Technology and Research Association. Dr. O'Brien received his Bachelor of Applied Science in Chemical Engineering from the University of British Columbia in 1951; his Masters of Applied Science in Metallurgical Engineering from the University of British Columbia in 1952; his Ph.D. in Metallurgy from the University of Manchester in 1955; and was a Post Doctoral Fellow in Pure Chemistry at the University of Ottawa from 1955 through 1957. Dr. Robert N. O'Brien and Daniel B. O'Brien are father and son.

Dale Friend was elected a director in December 2002. Ms. Friend is currently an Accounting Manager of DB Perks & Associates. She served as the company comptroller for a Lock and Security firm in Vancouver from 2004 to 2006 and was a Senior Trust Analyst for Alderwoods Group, a company engaged in funeral and mortuary services, from August 2002 to February 2003. She also served as an Advanced Accountant for such firm from 1999 to August 2002. From 1979 to 1998, Ms. Friend was with Telus in various accounting, auditing and financial planning positions.

Eric Hodges was elected a director in September 2004. Mr. Hodges is an accountant from Victoria who has over three decades of experience. He received his financial education from the University of Washington in Seattle where he played for the Huskies football program. Mr. Hodges continued playing football after college, with a successful, multiyear professional career with the British Columbia Lions of the Canadian Football League. In the past five years, Mr. Hodges has owned and operated Eric G. Hodges & Associates, a Victoria-based accounting firm with both Canadian and U.S. clientele. Eric is extremely familiar with both Canadian and United States generally accepted accounting principles ("GAAP"), since he has clients in both countries. Furthermore, his wide range of experience with small and quickly growing companies is an asset to the board of directors.

Directors are elected annually and hold office until the next annual meeting of our stockholders and until their successors are elected and qualified. There have been no material changes to the procedures by which security holders may recommend nominees to our board of directors. All executive offices are chosen by the board of directors and serve at the board's discretion.

John Bientjes, Dale Friend, and Eric Hodges are independent directors as that term is defined in section 121(a) of the listing standards of the American Stock Exchange.

Our Audit Committee, consisting of John Bientjes, Dale Friend and Eric Hodges, all of whom are independent directors and have strong financial backgrounds, facilitates and maintains open communications among our board of directors, our Audit Committee, senior management and our independent auditors. Our Audit Committee also serves as an independent and objective party to monitor our financial reporting process and internal control system. In addition, our Audit Committee reviews and appraises the efforts of our independent auditors. Our Audit Committee meets periodically with management and our independent auditors. Mr. Bientjes meets the SEC's definition of audit committee financial expert. Each member of the Audit Committee is "independent" as that term is defined in Section 121(a) of the listing standards of the American Stock Exchange.

Our Compensation Committee, consisting of Dr. Robert O'Brien and John Bientjes, establishes salary, incentive and other forms of compensation for our Chief Executive Officer and administers our Stock Option Program. None of our officers participated in deliberations of the compensation committee concerning executive officer compensation. Dr. O'Brien is not an independent member of the compensation committee as that term is defined in Section 121(a) of the listing standards of the American Stock Exchange. During the year ended December 31, 2007, no director was also an executive officer of another entity, which had one of our executive officers serving as a director of such entity or as a member of the compensation committee of such entity.

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

Item 10. Executive Compensation.

Summary Compensation Table

The following table shows in summary form the compensation earned by (i) our Chief Executive Officer and (ii) by each other executive officer who earmed in excess of $100,000 during the two fiscal years ended December 31, 2007.

Name and Principal Position	Fiscal Year	Salary (1)	Bonus (2)	Restricted Stock Awards (3)	Options Awards (4)	All Other Annual Compensation (5)	Total
Daniel B. O'Brien	2007	$ 140,154	--	--	--	--	$ 140,154
President and Chief Executive Officer	2006	$ 150,109	--	--	340,217	--	490,326

(1) The dollar value of base salary (cash and non-cash) earned.

(2) The dollar value of bonus (cash and non-cash) earned.

(3) During the periods covered by the table, the value of the shares of restricted stock issued as compensation for services to the persons listed in the table.

(4) The value of all stock options granted during the periods covered by the table.

(5) All other compensation received that we could not properly report in any other column of the table.

Stock Option Program

Our Stock Option Program involves the issuance of options, from time to time, to our employees, directors, officers, consultants and advisors. Options are granted by means of individual option agreements. Each option agreement specifies the shares issuable upon the exercise of the option, the exercise price and expiration date and other terms and conditions of the option.

If the option holder is an employee, and if he or she ceases to be employed by us, the option holder may, during the 30-day period following termination of employment, exercise the option to the extent the option was exercisable on the date of termination. In the case of death or disability, the option holder (or his or her administrator) has twelve months from the date of death or disability to exercise the option to the extent the option was exercisable on the date of death or disability.

The options are subject to adjustment by reason of a recapitalization, reclassification, stock split, combination of shares, dividend or other distribution payable in capital stock. Upon a merger, liquidation, dissolution or other consolidation, we will provide each option holder with one-months' prior written notice informing the option holder that he or she may exercise the option in full (to the extent it has not been previously exercised) within the one-month period. Following the expiration of the one month period, the options will terminate.

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The options may not be transferred, assigned, pledged or hypothecated in any way (except by will or the laws of descent) and are not subject to execution, attachment or similar process.

All of the options granted have terms of between one and five years after the date of grant and reflect exercise prices equal to the fair market value of a share of our common stock as determined by our board of directors on the date of grant. All of the options contain vesting provisions pursuant to which the options are 100% exercisable within a fixed number of months after the date of grant.

All option grants made during a fiscal year are submitted for shareholder approval at the next annual shareholder meeting. To date, our shareholders have approved all of the grants.

The following table shows the weighted average exercise price of the outstanding options granted pursuant to our Stock Option Program as of December 31, 2007, our most recently completed fiscal year.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Stock Option Program	1,912,440	$ 3.38	Not Applicable
Total	1,912,440	$ 3.38	

As of February 15, 2008 options to purchase 1,912,440 shares of our common stock were outstanding under our Stock Option Program. The exercise price of these options varies between $3.00 and $4.60 per share. The options expire at various dates between April 23, 2008 and December 18, 2012.

The following tables show, during the fiscal year ended December 31, 2007, the options granted to, and the options exercised and held by, the persons named below. All options were granted pursuant to our Stock Option Program.

	Options Granted			
Name	Grant Date	Options Granted (#)	Exercise Price Per Share	Expiration Date
Daniel O’Brien	--	--	--	--

	Options Exercised	
Name	Shares Acquired On Exercise (1)	Value Realized (2)
Daniel O’Brien	--	--

(1) The number of shares received upon exercise of options during the fiscal year ended December 31, 2007.

(2) With respect to options exercised during the fiscal year ended December 31, 2007, the dollar value of the difference between the option exercise price and the market value of the option shares purchased on the date of the exercise of the options.

	Shares underlying unexercised options which are:			
Name	Exercisable	Unexercisable	Exercise Price	Expiration Date
Daniel O'Brien	50,000		$4.25	07/01/07
	20,000		3.60	12/31/08
	50,000		3.00	11/26/09
	200,000		3.25	01/05/11
		300,000	3.25	01/05/11

Director Compensation

We reimburse directors for any expenses incurred in attending board meetings. We also compensate directors $1,000 annually and grant our directors options to purchase shares of our common stock each year that they serve.

Our directors received the following compensation in 2007:

Name	Paid in Cash	Stock Awards (1)	Option Awards (2)
Robert N. O'Brien	--	--	--
John H. Bientjes	$1,000	--	--
Dale Friend	$1,000	--	--
Eric Hodges	$1,000	--	--

(1) The fair value of stock issued for services computed in accordance with FAS 123R on the date of grant.

(2) The fair value of options granted computed in accordance with FAS 123R on the date of grant.

The terms of the options granted to our directors in 2006 are shown below.

Name	Option Price	No. of Options	Expiration Date
Robert N. O'Brien	$3.25	250,000	January 5, 2011
John H. Bientjes	$3.25	5,000	January 5, 2011
John H. Bientjes	$3.60	5,000	December 18, 2012
Dale Friend	$3.25	5,000	January 5, 2011
Dale Friend	$3.60	5,000	December 18, 2012
Eric Hodges	$3.25	5,000	January 5, 2011
Eric Hodges	$3.60	5,000	December 18, 2012

Daniel B. O'Brien is not compensated for serving as a director.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table shows the beneficial ownership of our common stock as of February 15, 2008 by (i) each stockholder who is known by us to own beneficially more than five percent of our outstanding common stock, (ii) each of our officers and directors, and (iii) by all of our executive officers and directors as a group.

	Shares (1)	Percentage Ownership
Daniel B. O'Brien 2614 Queenswood Dr. Victoria, BC V8N 1X5	4,891,900	34.6%
Dr. Robert N. O'Brien 2614 Queenswood Dr. Victoria, BC V8N 1X5	1,970,000	13.9%
John Bientjes #1-230 West 13th Street, North Vancouver, B.C. V7M 1N7	35,000	0.2%
Dale Friend 3009 E. Kent Ave, Vancouver, BC V5S 4P6	-	-
Eric Hodges #110 - 4252 Commerce Circle Victoria, BC V8Z 4M2	-	-
All officers and directors as a group (5 persons)	6,896,900	48.7%

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

Name	No. of Options	Exercise Price	Expiration Date
Daniel O'Brien			
	20,000	$3.60	December 31, 2008
	50,000	$3.00	November 26, 2009
	100,000	$3.25	January 5, 2011
	100,000	$3.25	January 5, 2011
Dr. Robert O'Brien			
	20,000	$3.60	December 31, 2008
	25,000	$3.00	November 26, 2009
	50,000	$3.25	January 5, 2011
	50,000	$3.25	January 5, 2011

John Bientjes			
	5,000	$3.60	December 31, 2008
	5,000	$3.00	November 26, 2009
	5,000	$3.25	January 5, 2011
Dale Friend			
	5,000	$3.60	December 31, 2008
	5,000	$3.00	November 26, 2009
	5,000	$3.25	January 5, 2011
Eric Hodges			
	5,000	$3.60	December 31, 2008
	5,000	$3.00	November 26, 2009
	5,000	$3.25	January 5, 2011

Item 12. Certain Relationships and Related Transactions.

Our director, Dr. Robert N. O'Brien, developed substantially all of our products and has assigned the patent rights to these products to us. We have no agreement with Dr. O'Brien requiring him to conduct any research and development activities for us, but we anticipate that any future inventions which may be of interest to us will continue to be assigned to us by Dr. O'Brien, although he has no legal obligation to do so. Dr. O'Brien does not receive any salary or royalties from us for any research and development activities, although our board of directors does consider such activities undertaken by Dr. O'Brien when it grants stock options to Dr. O'Brien. Dr. O'Brien is a member of our board of directors, but abstains from all proceedings of the board concerning his stock option grants. Please refer to Item 10 of this report for further information. Dr. O'Brien is the father of our Chief Executive Officer, Daniel B. O'Brien.

Item 13. Exhibits.

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

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

Item 14. Principal Accountant Fees and Services.

Cinnamon Jang Willoughby & Company, Certified Public Accountants ("CJW"), are our independent auditors and have examined our financial statements for the fiscal years ended December 31, 2007 and 2006.

Audit Fees

CJW was paid $55,484 and $62,731 for the for the fiscal years ended December 31, 2007 and 2006, respectively, for professional services rendered in the audit of our annual financial statements and for the reviews of the financial statements included in our quarterly reports on Form 10-QSB during these fiscal years.

Audit-Related Fees

CJW was paid $12,106 and $10,712 for the fiscal years ended December 31, 2007 and 2006, respectively, for assurance and related services related to the performance of the audit or review of our financial statements.

Tax Fees

CJW was paid $2,176 and $2,150 for the fiscal years ended December 31, 2007 and 2006, respectively, for professional services rendered for the preparation and filing of our income tax returns for the fiscal years ended December 31, 2006 and 2005.

All Other Fees

CJW was paid no other fees for professional services during the fiscal years ended December 31, 2007 and 2006.

Audit Committee Pre-Approval Policies

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

During the year ended December 31, 2007 our Audit Committee approved all of the fees paid to CJW. Our Audit Committee has determined that the rendering of all other non-audit services by CJW is compatible with maintaining CJW's independence. During the year ended December 31, 2007, none of the total hours expended on our financial audit by CJW were provided by persons other than CJW's full-time permanent employees.

SIGNATURES

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

Flexible Solutions International, Inc.

Dated: February 27, 2009.	By:	/s/ DANIEL B. O'BRIEN
	Name:	Daniel B. O'Brien
	Title:	President and Chief Executive Officer

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

Signature	Title	Date
/s/ DANIEL B. O'BRIEN Daniel B. O'Brien	President, Chief Executive Officer, Principal Financial and Accounting Officer and a Director	February 27, 2009
/s/ JOHN H. BIENTJES John H. Bientjes	Director	March 3, 2009
Robert N. O'Brien	Director	
/s/ DALE FRIEND Dale Friend	Director	March 3, 2009
Eric G. Hodges	Director	