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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549**

**FORM 10-Q**

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

For the quarterly period ended June 30, 2019

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-31540

**FLEXIBLE SOLUTIONS INTERNATIONAL INC.**

(Exact Name of Issuer as Specified in Its Charter)

Alberta	71 163 0889
(State or other jurisdiction of incorporation or organization)	(Employer Identification No.)
6001 54 Ave. Taber, Alberta, Canada	T1G 1X4
(Address of Issuer's Principal Executive Offices)	(Zip Code)

Issuer's telephone number: (403) 223-2995

N/A

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	FSI	NYSE American

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

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

Class of Stock	No. Shares Outstanding	Date
Common	12,114,545	August 14, 2019

## FORM 10-Q

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

- Increased competitive pressures from existing competitors and new entrants;
- Increases in interest rates or our cost of borrowing or a default under any material debt agreement;
- Deterioration in general or regional economic conditions;
- Adverse state or federal legislation or regulation that increases the costs of compliance, or adverse findings by a regulator with respect to existing operations;
- International tariff treatment of products, both inputs and outputs;
- Loss of customers or sales weakness;
- Inability to achieve future sales levels or other operating results;
- The unavailability of funds for capital expenditures; and
- Operational inefficiencies in distribution or other systems.

For a detailed description of these and other factors that could cause actual results to differ materially from those expressed in any forward-looking statement, please see “Risk Factors” in our Annual Report on Form 10-K/A for the year ended December 31, 2018.

## PART I FINANCIAL INFORMATION

### Item 1. Financial Statements.

**FLEXIBLE SOLUTIONS INTERNATIONAL INC.**  
**CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS**  
(U.S. Dollars - Unaudited)

	<u>June 30, 2019</u>	<u>December 31, 2018</u>
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 5,369,750	\$ 7,857,936
Accounts receivable (see Note 4)	3,349,658	4,422,745
Inventory (see Note 5)	9,255,351	8,727,709
Prepaid expenses	175,587	200,306
<b>Total current assets</b>	<b>18,150,346</b>	<b>21,208,696</b>
<b>Property, equipment and leaseholds, net (see Note 6)</b>	<b>3,689,582</b>	<b>2,563,261</b>
<b>Operating lease right of use assets</b>	<b>949,467</b>	<b>-</b>
<b>Patents (see Note 7)</b>	<b>54,795</b>	<b>63,014</b>
<b>Intangible assets (Note 8)</b>	<b>3,040,000</b>	<b>3,128,000</b>
<b>Long term deposits (see Note 9)</b>	<b>30,783</b>	<b>30,777</b>
<b>Investments (Note 10)</b>	<b>1,873,123</b>	<b>776,357</b>
<b>Goodwill (Note 8)</b>	<b>2,534,275</b>	<b>2,534,275</b>
<b>Restricted cash (Note 10e)</b>	<b>1,000,000</b>	<b>-</b>
<b>Deferred tax asset</b>	<b>914,259</b>	<b>891,735</b>
<b>Total Assets</b>	<b>\$ 32,236,630</b>	<b>\$ 31,196,115</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable	\$ 760,766	\$ 860,798
Accrued liabilities	205,872	189,875
Deferred revenue	126,924	127,168
Income taxes payable	1,872,881	1,357,299
Short term line of credit (Note 11)	2,500,000	2,798,131
Current portion of lease liabilities (Note 3)	403,278	-
Current portion of long term debt (Note 12)	671,341	771,359
<b>Total current liabilities</b>	<b>6,541,062</b>	<b>6,104,630</b>
<b>Convertible note payable (Note 13)</b>	<b>500,000</b>	<b>1,000,000</b>
<b>Lease liabilities (Note 3)</b>	<b>546,189</b>	<b>-</b>
<b>Deferred income tax liability</b>	<b>863,570</b>	<b>989,569</b>
<b>Long term debt (Note 12)</b>	<b>3,702,529</b>	<b>3,580,384</b>
<b>Total liabilities</b>	<b>12,153,350</b>	<b>11,674,583</b>
<b>Stockholders' Equity</b>		
<b>Capital stock (see Note 15)</b>		
Authorized		
50,000,000 common shares with a par value of \$0.001 each		
1,000,000 preferred shares with a par value of \$0.01 each		
Issued and outstanding:		
12,017,545 (2018: 11,699,657) common shares	12,018	11,700
<b>Capital in excess of par value</b>	<b>16,035,222</b>	<b>15,328,285</b>
<b>Other comprehensive loss</b>	<b>(1,096,474)</b>	<b>(1,222,573)</b>

<b>Accumulated earnings</b>	2,448,949	2,941,889
<b>Total stockholders' equity – controlling interest</b>	17,399,715	17,059,301
<b>Non-controlling interests (Note 1)</b>	2,683,565	2,462,231
<b>Total Stockholders' Equity</b>	20,083,280	19,521,532
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$ 32,236,630</u>	<u>\$ 31,196,115</u>

— See Notes to Unaudited Condensed Interim Consolidated Financial Statements —

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

	<b>Three Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Sales</b>	\$ 6,770,440	\$ 4,137,545
<b>Cost of sales</b>	4,618,363	2,600,934
<b>Gross profit</b>	<u>2,152,077</u>	<u>1,536,611</u>
<b>Operating Expenses</b>		
Wages	563,253	379,016
Administrative salaries and benefits	226,650	277,318
Advertising and promotion	42,478	2,570
Investor relations and transfer agent fee	27,858	37,802
Office and miscellaneous	73,514	78,147
Insurance	84,655	68,074
Interest expense	118,465	7,087
Lease expense	114,759	63,053
Consulting	54,271	29,522
Professional fees	113,940	51,495
Travel	82,433	58,880
Telecommunications	11,273	6,752
Shipping	4,017	3,620
Research	35,360	17,347
Commissions	11,002	-
Bad debt expense	231,696	-
Currency exchange	89,047	(114,505)
Utilities	4,285	4,445
Total operating expenses	<u>1,888,956</u>	<u>970,623</u>
<b>Operating income</b>	263,121	565,988
<b>Gain on involuntary disposition (net of tax)</b>	-	1,721,977
<b>Gain on investment</b>	28,862	-
<b>Interest income</b>	39,281	5,196
<b>Income before income tax</b>	<u>331,264</u>	<u>2,293,161</u>
<b>Income taxes</b>		
Deferred income tax recovery	-	-
Income tax expense	(150,466)	(157,255)
<b>Net income for the year including non-controlling interests</b>	<u>180,798</u>	<u>2,135,906</u>
<b>Less: Net income attributable to non-controlling interests</b>	<u>(208,531)</u>	<u>-</u>
<b>Net income attributable to controlling interest</b>	\$ (27,733)	\$ 2,135,906
<b>Income per share (basic and diluted)</b>	\$ 0.00	\$ 0.18
<b>Weighted average number of common shares (basic)</b>	11,769,635	11,630,991
<b>Weighted average number of common shares (diluted)</b>	<u>12,052,443</u>	<u>11,791,017</u>
<b>Other comprehensive income (loss):</b>		
<b>Net income</b>	180,798	2,135,906
<b>Unrealized gain (loss) on foreign currency translations</b>	(56,194)	(186,653)
<b>Total comprehensive income</b>	\$ 124,604	\$ 1,949,253
<b>Comprehensive income – non-controlling interest</b>	<u>(208,531)</u>	<u>-</u>

**Comprehensive income attributable to Flexible Solutions  
International Inc.**

\$ (83,927)    \$ 1,949,253

— See Notes to Unaudited Condensed Interim Consolidated Financial Statements —



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

	<b>Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Sales</b>	\$ 15,241,916	\$ 8,338,725
<b>Cost of sales</b>	10,314,252	4,834,851
<b>Gross profit</b>	<u>4,927,664</u>	<u>3,503,874</u>
<b>Operating Expenses</b>		
Wages	1,093,930	800,326
Administrative salaries and benefits	491,742	537,911
Advertising and promotion	95,184	6,913
Investor relations and transfer agent fee	44,308	73,457
Office and miscellaneous	120,396	107,820
Insurance	187,390	130,852
Interest expense	247,472	14,487
Lease expense	229,211	124,795
Consulting	119,050	62,376
Professional fees	272,710	94,809
Travel	178,717	89,030
Telecommunications	22,301	12,908
Shipping	8,488	7,729
Research	55,446	54,553
Commissions	30,759	-
Bad debt expense	231,696	-
Currency exchange	181,111	(200,639)
Utilities	8,041	8,980
Total operating expenses	<u>3,617,952</u>	<u>1,926,307</u>
<b>Operating income</b>	1,309,712	1,577,567
<b>Loss on involuntary disposition (net of tax)</b>	-	1,714,261
<b>Gain on investment</b>	259,514	-
<b>Interest income</b>	55,533	6,893
<b>Income before income tax</b>	1,624,759	3,298,721
<b>Income taxes</b>		
Deferred income tax recovery	125,999	-
Income tax expense	(529,546)	(459,151)
<b>Net income for the year including non-controlling interests</b>	<u>1,221,212</u>	<u>2,839,570</u>
<b>Less: Net income attributable to non-controlling interests</b>	<u>(237,795)</u>	<u>-</u>
<b>Net income attributable to controlling interest</b>	\$ 983,417	\$ 2,839,570
<b>Income per share (basic and diluted)</b>	\$ 0.08	\$ 0.24
<b>Weighted average number of common shares (basic)</b>	11,737,635	11,625,671
<b>Weighted average number of common shares (diluted)</b>	<u>11,964,615</u>	<u>11,804,842</u>
<b>Other comprehensive income (loss):</b>		
<b>Net income</b>	1,221,212	2,839,570
<b>Unrealized gain (loss) on foreign currency translations</b>	126,099	(305,682)
<b>Total comprehensive income</b>	\$ 1,347,311	\$ 2,533,888
<b>Comprehensive income – non-controlling interest</b>	<u>(237,795)</u>	<u>-</u>

**Comprehensive income attributable to Flexible Solutions  
International Inc.**

\$ 1,109,516    \$ 2,533,888

— See Notes to Unaudited Condensed Interim Consolidated Financial Statements —

**FLEXIBLE SOLUTIONS INTERNATIONAL INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

(U.S. Dollars — Unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Operating activities</b>		
Net income	\$ 1,221,212	\$ 2,839,570
Adjustments to reconcile net income to net cash:		
Stock based compensation	67,386	51,006
Depreciation and amortization	305,965	120,490
Lease right of use amortization	161,531	-
Lease right of use financing	38,284	-
Bad debt expense	231,696	-
Increase (Decrease) in deferred income tax	(125,999)	-
Gain on involuntary disposition (net of tax)	-	(1,714,261)
Gain on investment	(259,514)	-
Changes in non-cash working capital items:		
(Increase) Decrease in accounts receivable	834,543	(335,880)
(Increase) Decrease in inventories	(561,557)	295,116
(Increase) Decrease in prepaid expenses	25,389	164,053
Increase (Decrease) in accounts payable and accrued liabilities	(100,731)	(370,728)
Increase (Decrease) in taxes payable	525,718	380,351
Increase (Decrease) deferred revenue	244	(156,600)
<b>Cash provided by operating activities</b>	<b>2,364,167</b>	<b>1,273,117</b>
<b>Investing activities</b>		
Investment	(832,251)	12,500
Proceeds of insurance	-	2,426,876
Net purchase of property, equipment and leaseholds	(1,317,593)	(24,680)
<b>Cash (used in) provided by investing activities</b>	<b>(2,149,844)</b>	<b>2,414,696</b>
<b>Financing activities</b>		
Repayment of short term line of credit	(298,131)	-
Loans	22,126	(100,597)
Lease liability	(199,815)	-
Dividends paid	(1,476,357)	-
Proceeds of issuance of common stock	139,870	36,360
<b>Cash proved by (used in) financing activities</b>	<b>(1,812,307)</b>	<b>(64,237)</b>
Effect of exchange rate changes on cash	109,798	(230,249)
<b>Inflow (outflow) of cash</b>	<b>(1,488,186)</b>	<b>3,393,327</b>
Cash and cash equivalents, beginning	7,857,936	6,912,138
<b>Cash, cash equivalents and restricted cash, ending</b>	<b>\$ 6,369,750</b>	<b>\$ 10,305,465</b>

**Supplemental disclosure of cash flow information:**

Income taxes paid	\$	8,741	\$	78,800
Interest paid	\$	209,826	\$	14,411
Common shares issued on conversion of convertible debt	\$	<u>500,000</u>		<u>-</u>

— See Notes to Unaudited Condensed Interim Consolidated Financial Statements —

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**(U.S. Dollars – Unaudited)**

	<u>Shares</u>	<u>Par Value</u>	<u>Capital in Excess of Par Value</u>	<u>Accumulated Earnings (Deficiency)</u>	<u>Other Comprehensive Income (Loss)</u>	<u>Total</u>	<u>Non-Controlling Interests</u>	<u>Total Stockholders' Equity</u>
<b>Balance December 31, 2018</b>	<b>11,699,657</b>	<b>\$11,700</b>	<b>\$15,328,285</b>	<b>\$ 2,941,889</b>	<b>\$ (1,222,573)</b>	<b>\$17,059,301</b>	<b>\$ 2,462,231</b>	<b>\$ 19,521,532</b>
Translation adjustment	—	—	—	—	182,293	182,293	—	182,293
Net income	—	—	—	1,011,150	—	1,011,150	29,264	1,040,414
Common stock issued	12,000	12	10,838	—	—	10,850	—	10,850
Dividends paid	—	—	—	(590,483)	—	(590,483)	—	(590,483)
Stock-based compensation	—	—	5,747	—	—	5,747	—	5,747
<b>Balance March 31, 2019</b>	<b>11,711,657</b>	<b>\$11,712</b>	<b>\$15,344,870</b>	<b>\$ 3,362,556</b>	<b>\$ (1,040,280)</b>	<b>\$17,678,858</b>	<b>\$ 2,491,495</b>	<b>\$ 20,170,353</b>
Translation adjustment	—	—	—	—	(56,194)	(56,194)	—	(56,194)
Net income (loss)	—	—	—	(27,733)	—	(27,733)	208,531	180,798
Common stock issued	305,888	306	628,714	—	—	629,020	—	629,020
Dividends paid	—	—	—	(885,874)	—	(885,874)	—	(885,874)
Distributions to noncontrolling interests	—	—	—	—	—	—	(16,461)	(16,461)
Stock-based compensation	—	—	61,638	—	—	61,638	—	61,638
<b>Balance June 30, 2019</b>	<b>12,017,545</b>	<b>\$12,018</b>	<b>\$16,035,222</b>	<b>\$ 2,448,949</b>	<b>\$ (1,096,474)</b>	<b>\$17,399,715</b>	<b>\$ 2,683,565</b>	<b>\$ 20,083,280</b>

— See Notes to Unaudited Condensed Interim Consolidated Financial Statements —

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**(U.S. Dollars – Unaudited)**

	<u>Shares</u>	<u>Par Value</u>	<u>Capital in Excess of Par Value</u>	<u>Accumulated Earnings (Deficiency)</u>	<u>Other Comprehensive Income (Loss)</u>	<u>Total</u>	<u>Non-Controlling Interests</u>	<u>Total Stockholders' Equity</u>
<b>Balance December 31, 2017</b>	<b>11,597,991</b>	<b>\$11,598</b>	<b>\$15,114,835</b>	<b>\$ 451,621</b>	<b>\$ (656,093)</b>	<b>\$14,921,961</b>	<b>\$ —</b>	<b>\$ 14,921,961</b>
Translation adjustment	—	—	—	—	(119,029)	(119,029)	—	(119,029)
Net income	—	—	—	703,664	—	703,664	—	703,664
Common stock issued	33,000	33	36,327	—	—	36,360	—	36,360
Stock-based compensation	—	—	25,700	—	—	25,700	—	25,700
<b>Balance March 31, 2018</b>	<b>11,630,991</b>	<b>\$11,631</b>	<b>\$15,176,862</b>	<b>\$ 1,155,285</b>	<b>\$ (775,122)</b>	<b>\$15,568,656</b>	<b>\$ —</b>	<b>\$ 15,568,656</b>
Translation adjustment	—	—	—	—	(186,653)	(186,653)	—	(186,653)
Net income (loss)	—	—	—	2,135,906	—	2,135,906	—	2,135,906
Stock-based compensation	—	—	25,307	—	—	25,307	—	25,307
<b>Balance June 30, 2018</b>	<b>11,630,991</b>	<b>\$11,631</b>	<b>\$15,202,169</b>	<b>\$ 3,291,191</b>	<b>\$ (961,775)</b>	<b>\$17,543,216</b>	<b>\$ —</b>	<b>\$ 17,543,216</b>

— See Notes to Unaudited Condensed Interim Consolidated Financial Statements —

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Period Ended June 30, 2019**  
**(U.S. Dollars)**

**1. BASIS OF PRESENTATION.**

These consolidated financial statements include the accounts of Flexible Solutions International, Inc. (the “Company”), its wholly-owned subsidiaries Flexible Fermentation Ltd. (“Flexible Ltd.”), NanoChem Solutions Inc. (“NanoChem”), Flexible Solutions Ltd., Flexible Biomass LP, FS Biomass Inc., NCS Deferred Corp., Conserve H2O Ltd., Natural Chem SEZC Ltd., and InnFlex Holdings Inc., and its 65% interest in EnP Investments, LLC (“ENP Investments”). All inter-company balances and transactions have been eliminated. The Company was incorporated May 12, 1998 in the State of Nevada and had no operations until June 30, 1998.

In 2018, NanoChem, a wholly-owned subsidiary of the Company, completed the purchase of 65% of ownership interest in EnP Investments for an aggregate purchase price of \$5,110,560. An unrelated party owns the remaining 35% ownership interest in EnP Investments, and EnP Investments is consolidated into the financial statements. The outside investor’s ownership interests in EnP Investments is recorded as a noncontrolling interest in the Company’s consolidated financial statements from the acquisition date onward.

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

These unaudited interim condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States for interim financial statements. These unaudited interim financial statements are condensed and do not include all disclosures required for annual financial statements. The organization and business of the Company, accounting policies followed by the Company and other information are contained in the notes to the Company’s audited consolidated financial statements filed as part of the Company’s December 31, 2018 Annual Report on Form 10-K/A. This quarterly report should be read in conjunction with such annual report.

In the opinion of the Company’s management, these unaudited interim condensed consolidated financial statements reflect all adjustments, all of which are of normal recurring nature, necessary to present fairly the Company’s consolidated financial position at June 30, 2019, the consolidated results of operations for the three and six months ended June 30, 2019 and 2018, the consolidated statements of cash flows for the six months ended June 30, 2019 and 2018 and the consolidated statements of stockholders equity for the six months ended June 30, 2019 and 2018. The results of operations for the three and six months ended June 30, 2019 are not necessarily indicative of the results to be expected for the entire fiscal year.

## 2. SIGNIFICANT ACCOUNTING POLICIES.

These consolidated financial statements have been prepared on a historical cost basis, except where otherwise noted, in accordance with accounting principles generally accepted in the United States applicable to a going concern and reflect the policies outlined below.

### (a) *Cash and Cash Equivalents.*

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

### (b) *Inventories and Cost of Sales*

The Company has three major classes of inventory: completed goods, work in progress and raw materials and supplies. In all classes, inventories are stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis. Cost of sales includes all expenditures incurred in bringing the goods to the point of sale. Inventory costs and costs of sales include direct costs of the raw material, inbound freight charges, warehousing costs, handling costs (receiving and purchasing) and utilities and overhead expenses related to the Company's manufacturing and processing facilities. Shipping and handling charges billed to customers are included in revenue (2019 - \$299,459; 2018 - \$128,498). Shipping and handling costs incurred are included in cost of goods sold (2019 - \$586,736; 2018 - \$351,351).

### (c) *Allowance for Doubtful Accounts*

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

### (d) *Property, Equipment, Leaseholds and Intangible Assets.*

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

Computer hardware	30% Declining balance
Furniture and fixtures	20% Declining balance
Manufacturing equipment	20% Declining balance
Office equipment	20% Declining balance
Boat	20% Declining balance
Building and improvements	10% Declining balance
Trailer	30% Declining balance
Patents	Straight-line over 17 years
Technology	Straight-line over 10 years
Operating lease right of use assets	Straight-line over lease term
Leasehold improvements	Straight-line over lease term

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



*(e) Impairment of Long-Lived Assets.*

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

*(f) Foreign Currency.*

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

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

*(g) Revenue Recognition.*

We follow a five-step model for revenue recognition. The five steps are: (1) identification of the contract(s) with the customer, (2) identification of the performance obligation(s) in the contract(s), (3) determination of the transaction price, (4) allocation of the transaction price to the performance obligation, and (5) recognition of revenue when (or as) the performance obligation is satisfied. We have fulfilled our performance obligations when control transfers to the customer, which is generally at the time the product is shipped since risk of loss is transferred to the purchaser upon delivery to the carrier. For shipments which are F.O.B. shipping point, the Company has elected to account for shipping and handling activities as a fulfillment cost rather than as an additional promised service and performance obligation.

Since the Company's inception, product returns have been insignificant; therefore, no provision has been established for estimated product returns.

Deferred revenues consist of products sold to distributors with payment terms greater than the Company's customary business terms due to lack of credit history or operating in a new market in which the Company has no prior experience. The Company defers the recognition of revenue until the criteria for revenue recognition has been met, and payments become due or cash is received from these distributors.

*(h) Stock Issued in Exchange for Services.*

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

*(i) Stock-based Compensation.*

The Company recognizes compensation expense for all share-based payments in accordance with FASB Codification Topic 718, *Compensation — Stock Compensation*, (ASC 718). Under the fair value recognition

provisions of ASC 718, the Company recognizes share-based compensation expense, net of an estimated forfeiture rate, over the requisite service period of the award.

The fair value at grant date of stock options is estimated using the Black-Scholes option-pricing model. Compensation expense is recognized on a straight-line basis over the stock option vesting period based on the estimated number of stock options that are expected to vest. Shares are issued from treasury upon exercise of stock options.

(j) *Other Comprehensive Income.*

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

(k) *Income Per Share.*

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding in the period. Diluted earnings per share are calculated giving effect to the potential dilution of the exercise of options and warrants. Common equivalent shares, composed of incremental common shares issuable upon the exercise of stock options and warrants are included in diluted net income per share to the extent that these shares are dilutive. Common equivalent shares that have an anti-dilutive effect on net income per share have been excluded from the calculation of diluted weighted average shares outstanding for the three and six months ended June 30, 2019 and 2018.

(l) *Use of Estimates.*

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

Estimates and underlying assumptions are reviewed at each period end. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring the use of management estimates include assumptions and estimates relating to the valuation of goodwill and intangible assets, asset impairment analysis, share-based payments and warrants, valuation allowances for deferred income tax assets, determination of useful lives of property, equipment and leaseholds and intangible assets, and the valuation of inventory.

(m) *Financial Instruments.*

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

(n) *Fair Value of Financial Instruments*

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs described below, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.



- Level 1 – Quoted prices in active markets for identical assets or liabilities
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 — Unobservable inputs that are supported by little or no market activity which is significant to the fair value of the assets or liabilities.

The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and the short term line of credit for all periods presented approximate their respective carrying amounts due to the short term nature of these financial instruments.

(o) *Contingencies*

Certain conditions may exist as of the date the financial statements are issued which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potential material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed. Legal fees associated with loss contingencies are expensed as incurred.

(p) *Income Taxes*

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance so that the assets are recognized only to the extent that when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will be realized.

Per FASB ASC 740 "Income taxes" under the liability method, it is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. At December 31, 2018 and June 30, 2019, the Company believes it has appropriately accounted for any unrecognized tax benefits. To the extent the Company prevails in matters for which a liability for an unrecognized benefit is established or is required to pay amounts in excess of the liability, the Company's effective tax rate in a given financial statement period may be affected. Interest and penalties associated with the Company's tax positions are recorded as interest expense in the consolidated statements of income and comprehensive income.



*(q) Risk Management.*

The Company's credit risk is primarily attributable to its accounts receivable. The amounts presented in the accompanying consolidated balance sheets are net of allowances for doubtful accounts, estimated by the Company's management based on prior experience and the current economic environment. The Company is exposed to credit-related losses in the event of non-payment by customers. Credit exposure is minimized by dealing with only credit worthy counterparties. Accounts receivable for the Company's three primary customers totaled \$948,045 (27%) at June 30, 2019 (December 31, 2018 - \$1,280,406 or 31%).

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

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

*(r) Equity Method Investment*

The Company accounts for investments using the equity method of accounting if the investment provides the Company the ability to exercise significant influence, but not control, over the investee. Significant influence is generally deemed to exist if the Company's ownership interest in the voting stock of the investee ranges between 20% and 50%, although other factors, such as representation on the investee's board of directors, are considered in determining whether the equity method of accounting is appropriate. Under the equity method of accounting, the investment is recorded at cost in the consolidated balance sheets under other assets and adjusted for dividends received and the Company's share of the investee's earnings or losses together with other-than-temporary impairments which are recorded through interest and other loss, net in the consolidated statements of income and comprehensive income.

*(s) Goodwill and intangible assets*

Goodwill represents the excess of the purchase price of an acquired entity over the amounts assigned to the assets acquired and liabilities assumed. Goodwill is not amortized, but is reviewed for impairment annually or more frequently if certain impairment conditions arise. The Company performs an annual goodwill impairment review in the fourth quarter of each year at the reporting unit level. The evaluation can begin with a qualitative assessment of the factors that could impact the significant inputs used to estimate fair value. If after performing the qualitative assessment, it is determined that the fair value of a reporting unit is not less than its carrying amount, including goodwill, then no further analysis is necessary. However, if the results of the qualitative test are unclear, the Company performs a quantitative test, which involves comparing the fair value of a reporting unit with its carrying amount, including goodwill. The Company uses an income-based valuation method, determining the present value of future cash flows, to estimate the fair value of a reporting unit. If the fair value of a reporting unit exceeds its positive carrying amount, the goodwill of the reporting unit is considered not impaired, and no further analysis is necessary. If the fair value of the reporting unit is less than its carrying amount, goodwill impairment would be recognized equal to the amount of the carrying value in excess of the reporting unit's fair value, limited to the total amount of goodwill allocated to the reporting unit.

Intangible assets primarily include trademarks and trade secrets with indefinite lives and customer-relationships with finite lives. Intangible assets with indefinite lives are not amortized but are tested for impairment on an annual basis, or more frequently if indicators of impairment are present. Indefinite lived intangible assets are assessed using either a qualitative or a quantitative approach. The qualitative assessment evaluates factors including macro-economic conditions, industry and company-specific factors, legal and regulatory environments, and historical company performance in assessing fair value. If it is determined that it is more likely than not that the fair value of the reporting unit is less than its carrying value, a quantitative test is then performed. Otherwise, no further testing is required. When using a quantitative approach, the Company compares the fair value of the reporting unit to its carrying amount, including goodwill. If the estimated fair value of the reporting unit is less than the carrying amount of the reporting unit, impairment is indicated, requiring recognition of an impairment charge for the difference.

Qualitative assessments of goodwill and indefinite-lived intangible assets were performed in 2018 and 2017. Based on the results of assessment, it was determined that it is more likely than not the reporting unit, customer lists and trademarks had a fair value in excess of carrying value. Accordingly, no further impairment testing was completed and no impairment charges related to goodwill or indefinite-lived intangibles were recognized during the three and six months ended June 30, 2019.

Finite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives. The Company reviews for impairment indicators of finite-lived intangibles and other long-lived assets as described in the “Property and Equipment” significant accounting policy.

*(t) Adoption of new accounting principles*

In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASC 842 which requires lessees to recognize a right-of-us (“ROU”) asset and lease liability on the balance sheet for virtually all leases. From a lessee perspective, ASC 842 retains a dual model requiring leases to be classified as either operating or finance leases for the income statement. Operating leases will result in straight-line expense, and financing leases will have a front-loaded expense pattern with an interest expense component. On January 1, 2019, the Company adopted ASC 842 and all related amendments using the prospective transition approach. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. Adoption of the new standard resulted in the recording of lease ROU assets and lease liabilities of approximately \$819,079 as of January 1, 2019. In accordance with ASC 842, the Company determines if an arrangement is a lease at inception based on whether there is an identified asset, whether the Company has the right to obtain substantially all of the economic benefits from the use of the asset and whether the Company has the right to direct the use of the asset. Currently, the Company only has operating leases and does not have any financing leases. Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. See Note 3, Leases, for further disclosures and detail regarding our operating leases.

In November 2016, the FASB issued ASU2016-18 “Statement of Cash Flows” (Topic230); Restricted Cash (ASU2016-18), which defines new requirements for the presentation of restricted cash and restricted cash equivalents in the statement of cash flows. The amendments in this ASU require retrospective application to each period presented. The Company adopted this guidance effective January 1, 2018 retrospectively. This ASU requires entities to present the statement of cash flows in a manner such that it reconciles beginning and ending totals of cash, cash equivalents, restricted cash or restricted cash equivalents. Also, when cash, cash equivalents, restricted cash or restricted cash equivalents are presented in more than one line item within the statement of financial position, an entity should, for each period that a statement of financial position is presented, present on the face of the statement of cash flows or disclose in the notes to the financial statements, the line items and amounts of cash, cash equivalents, and restricted cash or restricted cash equivalents reported within the statement of financial position. The amounts, disaggregated by the line item in which they appear within the statement of financial position, shall sum to the total amount of cash, cash equivalents, and restricted cash or restricted cash equivalents at the end of the corresponding period shown in the statement of cash flows.





(u) *Accounting Pronouncements Not Yet Adopted*

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, which modifies certain disclosure requirements related to fair value measurements. ASU 2018-13 will be effective for us beginning January 1, 2020, with early adoption permitted. We do not expect this guidance to have an impact on the amounts reported on our consolidated financial statements, and we are currently evaluating the potential impact this guidance will have on our disclosures within the notes to our consolidated financial statements.

### 3. ADOPTION OF ASC 842, LEASES

On January 1, 2019, the Company adopted ASC 842 using the prospective transition approach, which applies the provisions of the new guidance at the effective date without adjusting the comparative periods presented. The adoption of the lease standard did not result in a cumulative-effect adjustment to opening equity. Results for reporting periods beginning after January 1, 2019 are presented under ASC 842 while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic accounting under ASC 840, "Leases," ("ASC 840").

The Company leases office space. For leases with terms greater than 12 months, the Company records the related ROU asset and lease obligation at the present value of lease payments over the term. Leases may include fixed rental escalation clauses, renewal options and / or termination options that are factored into the determination of lease payments when appropriate. The Company's leases do not usually provide a readily determinable implicit rate; therefore, an estimate of the Company's incremental borrowing rate is used to discount the lease payments based on information available at the lease commencement date. The discount rate used was 5.5%.

Operating lease costs during the six months ended June 30, 2019 were \$199,815.

The adoption of ASC 842 resulted in the recognition of right-of-use ("ROU") assets and lease liabilities of approximately \$819,079 as of January 1, 2019. During the quarter ended June 30, 2019, the Company renewed a lease agreement and recorded a further ROU of \$291,919. The standard did not materially impact the Company's consolidated statement of operations or its consolidated statement of cash flows for the six months ended June 30, 2019. See below for the Company's updated lease policy and the required disclosures under ASC 842. The Company is a lessee in five different leases that have various expiry dates within the next 5 years.

The table below summarizes the remaining expected lease payments under our operating leases as of June 30, 2019.

Future Lease Payments	June 30, 2019
2019	\$ 201,121
2020	405,670
2021	291,276
2022	93,155
2023	70,925
Thereafter	-
Less: imputed interest	(112,680)
Present value of operating lease liabilities	\$ 949,467

### *Update to Lease Policy*

Accounting and reporting guidance for leases requires that leases be evaluated and classified as either operating or finance leases by the lessee and as either operating, sales-type or direct financing leases by the lessor. The Company's operating leases are included in ROU assets, lease liabilities-current portion and lease liability-less current portion in the accompanying consolidated balance sheets. ROU assets represent the Company's right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease.

#### **4. ACCOUNTS RECEIVABLE**

	June 30, 2019	December 31, 2018
Accounts receivable	\$ 3,618,188	\$ 4,459,833
Allowances for doubtful accounts	(268,530)	(37,088)
	<u>\$ 3,349,658</u>	<u>\$ 4,422,745</u>

#### **5. INVENTORY**

	June 30, 2019	December 31, 2018
Completed goods	\$ 3,601,186	\$ 3,770,071
Work in progress	-	150,333
Raw materials and supplies	5,654,165	4,807,305
	<u>\$ 9,255,351</u>	<u>\$ 8,727,709</u>

#### **6. PROPERTY, PLANT & EQUIPMENT**

	June 30, 2019 Cost	Accumulated Depreciation	June 30, 2019 Net
Buildings	\$ 3,526,192	\$ 2,572,004	\$ 954,188
Automobiles	193,397	93,771	99,626
Computer hardware	43,521	40,734	2,787
Furniture and fixtures	105,645	94,913	10,732
Manufacturing equipment	5,179,280	2,968,249	2,211,031
Boat	34,400	20,134	14,266
Office equipment	1,813	592	1,221
Trailer	9,167	4,531	4,636
Leasehold Improvements	88,872	59,254	29,618
Land	361,477	-	361,477
Technology	104,384	104,384	-
	<u>\$ 9,648,148</u>	<u>\$ 5,958,566</u>	<u>\$ 3,689,582</u>

	December 31, 2018 Cost	Accumulated Depreciation	December 31, 2018 Net
Buildings	\$ 3,516,710	\$ 2,523,148	\$ 993,562
Automobiles	193,397	74,753	118,644
Computer hardware	43,414	40,226	3,188
Furniture and fixtures	105,494	93,087	12,407
Office equipment	1,740	438	1,302
Manufacturing equipment	3,859,653	2,838,344	1,021,309
Trailer	8,793	3,561	5,232
Boat	34,400	18,548	15,852
Leasehold improvements	88,872	49,937	38,935
Technology	100,136	100,136	—
Land	352,830	—	352,830
	<u>\$ 8,305,439</u>	<u>\$ 5,742,178</u>	<u>\$ 2,563,261</u>

Amount of depreciation expense for six months ended June 30, 2019: \$297,746 (2018: \$112,271) and is included in cost of sales in the unaudited interim condensed consolidated statements of income and comprehensive income.

In February of 2017, the Company lost a net carrying value total of \$2,196,722CAD (\$1,659,404 USD) in a building and manufacturing equipment in a fire at the Taber, AB location. Insurance was in place. During the year ended December 31, 2018 the Company received the final insurance proceeds of \$3,132,666 CAD (\$2,349,498 USD). During the year ended 2017, the Company received interim insurance proceeds of \$5,570,000 CAD (\$4,207,578 USD).

## 7. 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.

	June 30, 2019 Cost	Accumulated Amortization	June 30, 2019 Net
Patents	\$ 202,565	\$ 147,770	\$ 54,795

  

	December 31, 2018 Cost	Accumulated Amortization	December 31, 2018 Net
Patents	\$ 194,320	\$ 131,306	\$ 63,014

The increase in the carrying amount of patents is primarily due to foreign currency translation effects. The 2019 cost in Canadian dollars - \$265,102 (2018 - \$265,102 in Canadian dollars).

Amount of amortization for 2019 - \$8,219 (2018 - \$8,219) and is included in cost of sales in the consolidated statements of income and comprehensive income.

Estimated amortization expense over the next four years is as follows:

2019	\$	8,219
2020		16,438
2021		16,438
2022		13,700

## 8. GOODWILL AND INDEFINITE LIVED INTANGIBLE ASSETS

Goodwill		
Balance as of December 31, 2017		-
Additions	\$	2,534,275
Impairment		-
Balance as of December 31, 2018 and June 30, 2019	\$	<u>2,534,275</u>
Indefinite Lived Intangible Assets		
Balance as of December 31, 2017		-
Additions	\$	770,000
Impairment		-
Balance as of December 31, 2018 and June 30, 2019	\$	<u>770,000</u>

Indefinite lived intangible assets consist of trade secrets and trademarks related to the acquisition of EnP Investments LLC.

Definite Life Intangible Assets		
Balance as of December 31, 2017		-
Additions	\$	2,398,000
Amortization		(40,000)
Balance as of December 31, 2018		2,358,000
Amortization		(88,000)
Balance as of June 30, 2019	\$	<u>2,270,000</u>

Definite life intangible assets consists of customer relationships related to the acquisition of EnP Investments LLC. Customer relationships are amortized over their estimated useful life of 15 years.

Estimated amortization expense over the next five years is as follows:

2019	\$	176,000
2020		176,000
2021		176,000
2022		160,000
2023		160,000

## 9. LONG TERM DEPOSITS

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

		<u>June 30, 2019</u>		<u>December 31, 2018</u>
Long term deposits	\$	30,783	\$	30,777



## 10. INVESTMENTS

(a) The Company has a 50% ownership interest in ENP Peru Investments LLC (“ENP Peru”), which was acquired in fiscal 2016. ENP Peru is located in Illinois and leases warehouse space. The Company accounts for this investment using the equity method of accounting as ENP Peru is not controlled by the Company. A summary of the Company’s investment follows:

Balance, December 31, 2017	\$	13,414
Acquisition of additional units		25,000
Loss in equity method investment		<u>(26,306)</u>
Balance, December 31, 2018	\$	12,108
Return of equity		<u>(1,250)</u>
Balance, June 30, 2019	\$	<u>10,858</u>

Summarized profit and loss information related to the equity accounted investment is as follows:

		<u>2018</u>
Net sales	\$	300,210
Net income	\$	17,435

(b) The Company has a 24% ownership interest in ENP Realty LLC (“ENP Realty”), which was acquired in fiscal 2018. ENP Realty is located in Illinois and leases warehouse space. The Company accounts for this investment using the equity method of accounting. A summary of the Company’s investment follows:

Balance, January 1, 2018	\$	-
Acquisition		56,590
Gain in equity method investment		<u>7,659</u>
Balance, December 31, 2018 and June 30, 2019	\$	<u>64,249</u>

Summarized profit and loss information related to the equity accounted investment is as follows:

		<u>2018</u>
Net sales	\$	78,870
Net income	\$	31,913

(c) In December 2018 the Company invested \$200,000 in Applied Holding Corp. (“Applied”). Applied is a captive insurance company and the Company received a promissory note for its investment which becomes due in 2021 but may be extended with notice for a maximum of two years.

(d) In December 2018 the Company invested \$500,000 in Trio Opportunity Corp. (“Trio”), a privately held entity. Trio is a real estate investment vehicle and the Company received 50,000 non-voting Class B shares at \$10.00/share. In accordance with ASC 321-10-35, the Company has elected to account for this investment at cost. A summary of the Company’s investment follows:

Balance, January 1, 2018	\$	-
Acquisition		500,000
Impairment		<u>-</u>
Balance, December 31, 2018 and June 30, 2019	\$	<u>500,000</u>

(e) In January 2019, the company invested \$1,001,000 in a Florida based LLC that is engaged in international sales of fertilizer additives. The Company accounts for this investment using the equity method of accounting. According to the operating agreement, the Company has a 50% interest in the profit and loss of the LLC but does not have control. A summary of the Company's investment follows:

Balance, January 1, 2019	\$	-
Acquisition		1,001,000
Gain in equity method investment		<u>247,016</u>
Return on investment		<u>(150,000)</u>
Balance, June 30, 2019	\$	<u>1,098,016</u>

Further to the original investment amount, the Company has placed \$1,000,000 in trust, to be released upon the LLC reaching a milestone related to earnings before interest, taxes and depreciation (“EBITDA”) targets. This amount is accounted for as restricted cash on the balance sheet. Further payments of \$1,000,000 and \$500,000 may become due should other subsequent milestones be reached. Summarized profit and loss information related to the equity accounted investment is as follows:

		<u>2019</u>
Net sales	\$	4,807,586
Gross profit		1,460,802
Net income	\$	494,027

#### **11. SHORT-TERM LINE OF CREDIT**

(a) In September 2018, the Company signed a new agreement with Harris Bank (“Harris”) to renew the expiring credit line. The revolving line of credit is for an aggregate amount of up to the lesser of (i) \$2,500,000, or (ii) 80% of eligible domestic accounts receivable and certain foreign accounts receivable plus 60% of inventory. The loan has an annual interest rate of 5.5% at June 30, 2019 (December 31, 2018 – 5.75%).

The revolving line of credit contains customary affirmative and negative covenants, including the following: compliance with laws, provision of financial statements and periodic reports, payment of taxes, maintenance of inventory and insurance, maintenance of operating accounts at Harris, Harris’ access to collateral, formation or acquisition of subsidiaries, incurrence of indebtedness, dispositions of assets, granting liens, changes in business, ownership or business locations, engaging in mergers and acquisitions, making investments or distributions and affiliate transactions. The covenants also require that the Company maintain a minimum ratio of qualifying financial assets to the sum of qualifying financial obligations. As of June 30, 2019, Company was in compliance with all loan covenants.

To secure the repayment of any amounts borrowed under the revolving line of credit, the Company granted Harris a security interest in substantially all of the assets of NanoChem Solutions Inc., exclusive of intellectual property assets.



Short-term borrowings outstanding under the revolving line as of June 30, 2019 were \$2,500,000 (December 31, 2018 - \$1,700,000).

(b) In June 2019, EnP Investments, LLC signed a new agreement with Midland States Bank (“Midland”) to renew the expiring credit line. The revolving line of credit is for an aggregate amount of up to \$2,500,000. The interest rate of this loan is subject to change from time to time based on changes in an independent index which is the 1 month LIBOR as published in the Wall Street Journal (the “Index”). Interest on the unpaid principal balance of this loan will be calculated using a rate of 4.060 percentage points over the Index. Under no circumstances will the interest rate of this loan be less than 4.750% per annum or more than the maximum rate allowed by applicable law. The interest rate at June 30, 2019 is 6.462% (December 31, 2018 – 6.5296%).

The revolving line of credit contains customary affirmative and negative covenants, including the following: compliance with laws, provisions of financial statements and periodic reports, payment of taxes, maintenance of inventory and insurance, maintenance of operating accounts at Midland, Midland’s access to collateral, formation of acquisition of subsidiaries, incurrence of indebtedness, dispositions of assets, granting liens, changes in business, ownership or business locations, engaging in mergers and acquisitions, making investments or distributions and affiliate transactions. NanoChem Solutions Inc. is a guarantor of 65% of all the principal and other loan costs not to exceed \$1,625,000. As of June 30, 2019, EnP Investments, LLC was in compliance with all loan covenants.

To secure the repayment of any amounts borrowed under the revolving line of Credit, EnP Investments, LLC granted Midland a security interest in all inventory, equipment and fixtures and acknowledges a separate commercial security agreement from guarantor to Midland dated February 15, 2011.

Short-term borrowings outstanding under the revolving line as of June 30, 2019 were \$nil (December 31, 2018 – \$1,098,131).

## 12. LONG TERM DEBT

(a) In September 2014, NanoChem Solutions Inc. signed a \$1,005,967 promissory note with Harris Bank with a rate of prime plus 0.5% (June 30, 2019 – 6.0%; December 31, 2018 – 5.75%) to be repaid over 5 years with equal monthly installments plus interest. Loan proceeds were used to retire the previously issued and outstanding debt obligations. The balance owing at June 30, 2019 was \$50,299 (December 31, 2018 - \$150,895). Interest expense for the six months ended June 30, 2019 was \$3,294 (2018 - \$7,983). The final payment will be made in September 2019.

The Company has committed to the following repayments:

2019	\$	50,299
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(b) In October 2018, NanoChem Solutions Inc. signed a \$4,100,000 term loan with Harris Bank with a rate of prime (June 30, 2019 – 5.5%; December 31, 2018 – 5.5%) to be repaid over 7 years with equal monthly installments plus interest along two payments consisting of 25% prior year cash flow recapture, capped at \$300,000, due May 31, 2019 and 2020. The money was used to purchase a 65% interest in EnP Investments LLC. Interest expense for the six months ended June 30, 2019 was \$106,911 (2018 - nil). The balance owing at June 30, 2019 was \$3,458,333 (December 31, 2018 - \$4,002,381).

The Company has committed to the following repayments:

2019	\$	292,857
2020	\$	585,714
2021	\$	585,714
2022	\$	585,714
2023	\$	585,714



(c) In April 2019, NanoChem Solutions Inc. signed a loan for up to \$1,100,000 with Harris Bank with a rate of prime plus 0.5% (June 30, 2019 – 6.0%) for the purchase of new manufacturing equipment. An initial draw of \$684,000 was made in April 2019. Interest expense for the six months ended June 30, 2019 was \$6,840 (2018 – nil). The Company pays interest monthly until February 2020, when equal monthly installments of the principal and interest are due until January 2024.

2020	\$	252,083
2021	\$	275,000
2022	\$	275,000
2023	\$	275,000

(d) In January, 2018, EnP Investments, LLC signed a \$200,000 promissory note with Midland States Bank with a rate of 5.250% to be repaid over 7 years with equal monthly installments plus interest. Loan proceeds were used to purchase production equipment. Interest expense for the six months ended June 30, 2019 was \$4,508 (2018 - \$9,224). The principal balance owing at June 30, 2019 is \$165,159 (December 31, 2018 - \$177,794).

The Company has committed to the following repayments:

2019	\$	12,781
2020	\$	25,562
2021	\$	25,562
2022	\$	25,562
2023	\$	25,562

(e) In March, 2016, EnP Investments, LLC signed a \$45,941 promissory note with Ford Motor Credit Company with a rate of 0.00% interest to be repaid over 5 years with equal monthly installments. The balance owing at June 30, 2019 is \$16,079 (December 31, 2018 - \$20,673).

The Company has committed to the following repayments:

2019	\$	4,594
2020	\$	9,188
2021	\$	2,297

As of June 30, 2019, the Company was in compliance with all loan covenants.

<b>Continuity</b>	June 30, 2019	December 31, 2018
Balance, beginning of year	\$ 4,351,743	352,089
Plus: Proceeds from loans	684,000	4,100,000
Plus: Acquisition of ENP	-	206,921
Less: Payments on loan	(661,873)	(307,267)
Balance, end of period	\$ 4,373,870	\$ 4,351,743

<b>Outstanding balance</b>	June 30, 2019	December 31, 2018
a) Long term debt – Harris Bank	\$ 50,299	\$ 150,895
b) Long term debt – Harris Bank	3,458,333	4,002,381
c) Long term debt – Harris Bank	684,000	
d) Long term debt – Midland States Bank	165,159	177,794
e) Long term debt – Ford Credit	16,079	20,673
Long-term Debt	\$ 4,373,870	\$ 4,351,743
Less: current portion	(671,341)	(771,359)
	<u>\$ 3,702,529</u>	<u>\$ 3,580,384</u>

### 13. CONVERTIBLE NOTE PAYABLE

In October 2018, the Company issued a convertible note payable in the amount of \$1,000,000 in connection with the acquisition of EnP Investments LLC. The convertible note is due on or before September 30, 2023 with 5% interest due per year. At the option of the holder, the Note may be converted to 400,000 shares in the Company's common stock. The Company has the option to extend the note to no later than September 30, 2028.

In June 2019, the holder opted to convert \$500,000 of the convertible note payable into 200,000 shares in the Company's common stock.

### 14. STOCK OPTIONS

The Company adopted a stock option plan ("Plan"). The purpose of this Plan is to provide additional incentives to key employees, officers, directors and consultants of the Company and its subsidiaries in order to help attract and retain the best available personnel for positions of responsibility and otherwise promote the success of the Company's business. It is intended that options issued under this Plan constitute non-qualified stock options. The general terms of awards under the Plan are that 100% of the options granted will vest the year following the grant. The maximum term of options granted is 5 years and the exercise price of all options are issued for not less than fair market value at the date of grant.

The following table summarizes the Company's stock option activity for the year ended December 31, 2017 and the six month period ended June 30, 2019:

	Number of shares	Exercise price per share	Weighted average exercise price
Balance, December 31, 2017	713,000	\$ 0.75 – 1.70	\$ 1.21
Granted	110,000	\$ 1.48 – 1.75	\$ 1.74
Cancelled or expired	(61,334)	\$ 1.00 – 1.70	\$ 1.09
Exercised	(101,666)	\$ 0.75 – 1.42	\$ 1.01
Balance, December 31, 2018	660,000	\$ 0.75 – 1.75	\$ 1.35
Granted	153,000	\$ 3.46	\$ 3.46
Cancelled or expired	(47,112)	\$ 0.75 – 1.70	\$ 1.37
Exercised	(117,888)	\$ 0.75 – 1.70	\$ 1.19
Balance, June 30, 2019	648,000	\$ 0.75 – 3.46	\$ 1.85
Exercisable, June 30, 2019	395,000	\$ 0.75 – 1.70	\$ 1.25

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

	2019	2018
Expected life – years	3.0	3.0
Interest rate	1.93%	2.8 – 2.96%
Volatility	43.89%	47.59 – 51.85%
Weighted average fair value of options granted	\$ 1.0959	\$ 0.4759 – 0.6313

During the six months ended June 30, 2019, the Company granted 40,000 (2018 – nil) stock options to consultants and has applied ASC 718 using the Black-Scholes option-pricing model, which resulted in expenses of \$14,612 (2018 - \$nil). The Company granted 113,000 stock options to employees during the six months ended June 30, 2019 (2018 – 5,000) which resulted in \$41,279 in expenses (2018 - \$1,109). Vesting of options granted in previous years resulted in expenses in the amount of \$nil for employees (2018 - \$36,547) during the six months ended June 30, 2019 and \$11,495 for consultants (2018 - \$13,350). There were 102,000 employee and 15,888 consultant stock options exercised during the six months ended June 30, 2019 (2018 – 23,000 employee and 15,000 consultant stock options).

As of June 30, 2019, there was approximately \$157,669 of compensation expense related to non-vested awards. This expense is expected to be recognized over a weighted average period of 2.0 years.

The aggregate intrinsic value of vested options outstanding at June 30, 2019 is \$1,289,080 (2018 – \$321,330).

## 15. CAPITAL STOCK.

During the six months ended June 30, 2019, 102,000 shares were issued upon the exercise of employee stock options (2018 – 23,000) and 15,888 shares were issued upon the exercise of consultant stock options (2018 – 10,000).

In June 2019, the holder of the Company's convertible note opted to convert \$500,000 of the convertible note into 200,000 shares in the Company's common stock.

In February 2019, the Company announced the payment of a special dividend to the existing stockholders of the Company as of March 6, 2019 in the amount of \$0.05 per share.

In March 2019, the Company announced the payment of annual dividends of \$0.15 per share, to be paid in two tranches. Shareholders of record on March 31, 2019 received \$0.075 per share on April 15, 2019 and shareholders of record on September 30, 2019 will receive \$0.075 per share on October 15, 2019.

## 16. NON-CONTROLLING INTERESTS

EnP Investments is a limited liability corporation (LLC) that manufactures and distributes golf, turf and ornamental agriculture products in Mendota, IL. The Company owns 65% of the units of ownership interest EnP Investments through its wholly-owned subsidiary NanoChem. An unrelated party owns the remaining 35% of the units of ownership interest in EnP Investments. For financial reporting purposes, the assets, liabilities and earnings of the LLC are consolidated into these financial statements. The unrelated third party's units of ownership interest in the LLC are recorded as noncontrolling interests in these consolidated financial statements. The noncontrolling interest represents the noncontrolling unitholder's interest in the earnings and equity of EnP Investments. Effective October 1, 2018, the Company paid \$4,110,560 in cash and issued a \$1,000,000 convertible note to acquire EnP Investments. EnP Investments is allocated to the BCPA segment.

EnP Investments makes cash distributions to the unit holders based on formulas defined within its Ownership Interest Purchase Agreement dated October 1, 2018. Distributions are defined in the Ownership Interest Purchase Agreement as cash on hand to the extent it exceeds current and anticipated long-term and short-term needs, including, without limitation, needs for operating expenses, debt service, acquisitions, reserves, and mandatory distributions, if any.

From the effective date of acquisition onward, the minimum distributions requirements under the Ownership Interest Purchase Agreement were satisfied. The total distribution from the effective date of acquisition onward was \$229,135.

Balance, January 1, 2018	\$	-
Acquisition		2,759,917
Distribution		(229,135)
Noncontrolling interest share of loss		(68,551)
Balance, December 31, 2018	\$	2,462,231
Distribution		(16,461)
Noncontrolling interest share of profit		237,795
Balance, June 30, 2019	\$	2,683,565

## 17. SEGMENTED, SIGNIFICANT CUSTOMER INFORMATION AND ECONOMIC DEPENDENCY.

The Company operates in two segments:

(a) Energy and water conservation products (as shown under the column heading "EWCP" below), which consists of a (i) liquid swimming pool blanket which saves energy and water by inhibiting evaporation from the pool surface, and (ii) food-safe powdered form of the active ingredient within the liquid blanket and which is designed to be used in still or slow moving drinking water sources.

(b) Biodegradable polymers and chemical additives used within the petroleum, chemical, utility and mining industries to prevent corrosion and scaling in water piping (as shown under the column heading "TPA" below). These chemical additives can also be used in laundry and dish detergents, as well as in products to reduce levels of insecticides, herbicides and fungicides.

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

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

Three months ended June 30, 2019:

	EWCP	TPA	Total
Revenue	\$ 160,296	\$ 6,610,144	\$ 6,770,440
Interest expense	569	117,896	118,465
Depreciation and amortization	11,562	146,124	157,686
Segment profit (loss)	(205,967)	178,234	(27,733)
Segment assets	500,429	9,767,690	10,268,119
Expenditures for segment assets	-	(41,758)	(41,758)

Three months ended June 30, 2018:

	EWCP	TPA	Total
Revenue	\$ 122,572	\$ 4,014,973	\$ 4,137,545
Interest expense	-	7,087	7,087
Depreciation and amortization	13,042	47,748	60,790
Segment profit (loss)	1,668,830	467,076	2,135,906
Segment assets	546,161	1,352,369	1,898,530
Expenditures for segment assets	(13,743)	(3,440)	(17,183)

Six months ended June 30, 2019:

	EWCP	TPA	Total
Revenue	\$ 283,435	\$ 14,958,481	\$ 15,241,916
Interest expense	569	246,903	247,472
Depreciation and amortization	23,170	282,795	305,965
Segment profit (loss)	(349,775)	1,333,192	983,417
Segment assets	500,429	9,767,690	10,268,119
Expenditures for segment assets	-	(1,317,593)	(1,317,593)

Six months ended June 30, 2018:

	EWCP	TPA	Total
Revenue	\$ 198,392	\$ 8,140,333	\$ 8,338,725
Interest expense	-	14,487	14,487
Depreciation and amortization	25,682	94,808	120,490
Segment profit (loss)	1,570,996	1,268,574	2,839,570
Segment assets	546,161	1,352,369	1,898,530
Expenditures for segment assets	(15,162)	(9,518)	(24,680)

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

	Six months ended June 30, 2019	Six months ended June 30, 2018
Canada	\$ 214,618	\$ 147,810

United States and abroad	15,027,298	8,190,915
<b>Total</b>	<b>\$ 15,241,916</b>	<b>\$ 8,338,725</b>

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

	<u>June 30, 2019</u>	<u>December 31, 2018</u>
Canada	\$ 500,429	\$ 505,124
United States	9,767,590	7,783,426
<b>Total</b>	<b>\$ 10,268,119</b>	<b>\$ 8,288,550</b>

Three customers accounted for \$6,563,676 (43%) of sales during the six month period ended June 30, 2019 (2018 - \$3,703,287 or 44%).

#### **18. COMPARATIVE FIGURES.**

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

#### **19. SUBSEQUENT EVENTS**

In July 2019, the Company issued 97,000 shares on the exercise of employee stock options.



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

### Overview

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

### Results of Operations

The Company has two product lines:

Energy and Water Conservation products - The Company's HEAT\$AVR® product is used in swimming pools and spas. The product forms a thin, transparent layer on the water's surface. The transparent layer slows the evaporation of water, allowing the water to retain a higher temperature for a longer period of time and thereby reducing the energy required to maintain the desired temperature of the water. WATER\$AVR®, a modified version of HEAT\$AVR®, can be used in reservoirs, potable water storage tanks, livestock watering ponds, canals, and irrigation ditches.

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

Material changes in the Company's Statement of Operations for the six and three months ended June 30, 2019 are discussed below:

#### Six Months ended June 30, 2019

<u>Item</u>	<u>Increase (I) or Decrease (D)</u>	<u>Reason</u>
Sales		
EWCP products	I	Increased customer orders.
BCPA products	I	Growth in most product lines and sales attributed to our ENP acquisition.
Gross profit, as a % of sales	D	Margins were constricted by higher raw material costs, new tariffs and inability to pass additional costs on to customers.
Wages	I	Increased employee count.
Advertising and promotion	I	The ENP subsidiary makes greater use of advertising and promotion.
Interest expense	I	Increased debt resulted in increased interest expense.
Consulting	I	Added consultant to increase future growth.
Professional fess	I	Increased accounting fees related to the acquisition of ENP and general legal representation.
Travel	I	Larger head count resulted in additional travel costs.

Gain on involuntary  
disposition

D

Final insurance payment was received in 2018.

Three months ended June 30, 2019

Item	Increase (I) or Decrease (D)	Reason
Sales		
EWCP products	I	Increased customer orders.
BPCA products	I	Growth in most product lines and sales attributed to our ENP acquisition.
Gross profit, as a % of sales	D	Margins were constricted by higher raw material costs, new tariffs and inability to pass additional costs on to customers.
Wages	I	Increased employee count.
Advertising and promotion	I	The ENP subsidiary makes greater use of advertising and promotion.
Interest expense	I	Increased debt resulted in increased interest expense.
Consulting	I	Added consultant to increase future growth.
Professional fess	I	Increased accounting fees related to the acquisition of ENP and general legal representation.
Travel	I	Larger head count resulted in additional travel costs.
Gain on involuntary disposition	D	Final insurance payment was received in 2018.
Currency exchange	I	Currency exchange increased as a result of movements in the US / Canadian dollar exchange rate and its effects on US dollar cash balances and US dollar payables held by the Company's Canadian subsidiaries.

Three customers accounted for 41% of our sales during the three months ended June 30, 2019 (2018 –41%) and 43% of our sales during the six months ended June 30, 2019 (2018 – 44%). The amount of revenue (all from the sale of BPCA products) attributable to each customer is shown below.

Customer	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
A	\$ 717,046	\$ 879,635	\$1,792,616	\$1,632,327
B	\$ 944,502	-	\$1,857,821	-
C	\$1,111,915	\$ 479,680	\$2,913,240	\$ 890,860
D	-	-	-	\$1,180,099
E	-	\$ 348,658	-	-

Customers with balances greater than 10% of our receivables as of June 30, 2019 and 2018 are shown below:

	June 30,	
	2019	2018
Company A	\$ 438,139	\$ 643,676
Company B	\$ 467,972	nil
Company F	\$ 417,235	\$ 165,088*
Company G	\$ 67,155*	\$ 284,192

\*less than 10%

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

In February 2014, we suspended production of aspartic acid at our Taber plant. The suspension was due to the fact that since construction of the plant began in 2008, economic conditions in Alberta and worldwide have changed significantly. In particular, plant operating costs increased and the price of aspartic acid derived from oil was less than forecast. On February 11, 2017, the Taber plant was destroyed in a fire. The building and contents with a carrying value of \$1,936,886 were a total loss. Insurance was in place.

Other factors that will most significantly affect future operating results will be:

- the sale price of crude oil which is used in the manufacture of aspartic acid we import from China. Aspartic acid is a key ingredient in our TPA products. If tariffs are maintained or expanded and if relief is not available, some customer may experience price increases;
- activity in the oil and gas industry, as we sell our TPA products to oil and gas companies; and
- drought conditions, since we also sell our TPA products to farmers.

Other than the foregoing we do not know of any trends, events or uncertainties that have had, or are reasonably expected to have, a material impact on our revenues or expenses.

### Capital Resources and Liquidity

The Company's sources and (uses) of cash for the six months ended June 30, 2019 and 2018 are shown below:

	2019	2018
Cash provided by (used in) operations	2,364,167	1,273,117
Investment	(832,251)	12,500
Insurance proceeds from fire loss	-	2,426,876
Purchase of equipment	(1,317,593)	(24,680)
Advances from (repayments of) short term line of credit	(298,131)	-
Advances from (repayments of) loans	22,126	(100,597)
Lease liability payments	(199,815)	-
Dividends paid	(1,476,357)	-
Proceeds from sale of common stock	139,870	36,360
Changes in exchange rates	109,798	(230,249)

The Company has sufficient cash resources to meet its future commitments and cash flow requirements for the coming year. As of June 30, 2019, working capital was \$11,609,284 (December 31, 2018 - \$15,104,066) and the Company has no substantial commitments that require significant outlays of cash over the coming fiscal year.

The Company is committed to minimum rental payments for property and premises aggregating approximately \$1,229,627 over the term of five leases, the last expiring on September 30, 2023.

Commitments for rent in the next five years are as follows:

2019	\$ 233,581
2020	\$ 474,070
2021	\$ 357,896
2022	\$ 93,155
2023	\$ 70,925

Other than as disclosed above, the Company does not anticipate any capital requirements for the twelve months ending December 31, 2019.

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

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

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

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

#### **Item 4. CONTROLS AND PROCEDURES**

##### Evaluation of Disclosure Controls and Procedures

Under the direction and with the participation of our management, including our Principal Executive and Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2019. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic reports with the Securities and Exchange Commission is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations, and that such information is accumulated and communicated to our management, including our principal executive and financial officer, as appropriate, to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are designed to provide a reasonable level of assurance of reaching desired disclosure control objectives. Based on the evaluation, our Principal Executive and Financial Officer concluded that these disclosure controls and procedures were not effective as of June 30, 2019 as noted below.

##### Changes in Internal Control over Financial Reporting

Our management, with the participation of our Principal Executive and Financial Officer, evaluated whether any change in our internal control over financial reporting occurred during the three and six months ended June 30, 2019.

Based on this evaluation, management has concluded that our internal control over financial reporting was ineffective as of December 31, 2018 and March 31, 2019. During the financial reporting process, the financial statements and the Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2018 were inadvertently released prematurely, prior to the Company's auditors full review and approval.



Notwithstanding the material weakness described below, we have concluded that the condensed interim consolidated financial statements included in this quarterly report on Form 10-Q fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States of America.

### ***Remediation Efforts***

Management is committed to the remediation of the material weakness described above, as well as the continued improvement of our internal control over financial reporting. We have identified and implemented, and continue to implement, the actions described below to remediate the underlying causes of the control deficiencies that gave rise to the material weaknesses. As we continue our evaluation and improve our internal control over financial reporting, management may modify the actions described below or identify and take additional measures to address control deficiencies. Until the remediation efforts described below, including any additional measures management identifies as necessary, are completed, the material weaknesses will continue to exist.

To address the material weakness noted above, the Company is in the process of:

- Assessing the need to increase the Company's personnel to provide sufficient resources to complete the financial reporting process from within each subsidiary through the Company's consolidation;
- ensuring adequate resources are allocated to the preparation of the Company's financial statements including sufficient time for review by the Company's management including the review and approval of the financial statements by the Audit Committee and the Company's auditors prior to any public release;
- Performing a comprehensive review of current internal control procedures to ensure the segregation of duties and compliance with the Company's accounting policies and GAAP and financial reporting process.

We believe these measures will remediate the material weakness noted. While we have completed some of these measures as at the date of this report, we have not completed and tested all of the planned corrective processes, enhancements, procedures and related evaluation that we believe are necessary to determine whether the material weaknesses have been fully remediated. We believe the corrective actions and controls need to be in operation for a sufficient period of time for management to conclude that the control environment is operating effectively and has been adequately tested through audit procedures. Accordingly, the material weakness have not been fully remediated as of the date of this report. As we continue to evaluate and work to remediate the control deficiencies that gave rise to the material weakness, we may determine that additional measures or time are required to address the control deficiencies or that we need to modify or otherwise adjust the remediation measures described above. We will continue to assess the effectiveness of our remediation efforts in connection with our evaluation of our internal control over financial reporting.



## PART II

### Item 6. Exhibits.

<u>Number</u>	<u>Description</u>
3.1	<a href="#">Amended and Restated Certificate of Incorporation of the registrant. (1)</a>
3.2	<a href="#">Bylaws of the registrant. (1)</a>
31.1	<a href="#">Certification of Principal Executive Officer Pursuant to §302 of the Sarbanes-Oxley Act of 2002.*</a>
31.2	<a href="#">Certification of Principal Financial Officer Pursuant to §302 of the Sarbanes-Oxley Act of 2002.*</a>
32.1	<a href="#">Certification of Principal Executive and Financial Officer Pursuant to 18 U.S.C. §1350 and §906 of the Sarbanes-Oxley Act of 2002.*</a>

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\* Filed with this report.

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

**SIGNATURES**

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

August 14, 2019

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**

By: /s/ Daniel B. O'Brien

Name: Daniel B. O'Brien

Title: President and Principal Executive Officer

By: /s/ Daniel B. O'Brien

Name: Daniel B. O'Brien

Title: Principal Financial and Accounting Officer

## CERTIFICATIONS

I, Daniel O'Brien, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Flexible Solutions International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or cause such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have significant role in the registrant's internal control over financial reporting.

August 14, 2019

*/s/ Daniel B. O'Brien*

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Daniel O'Brien  
Principal Executive Officer

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## CERTIFICATIONS

I, Daniel O'Brien, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Flexible Solutions International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or cause such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have significant role in the registrant's internal control over financial reporting.

August 14, 2019

*/s/ Daniel B. O'Brien*

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Daniel O'Brien  
Principal Financial Officer

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**CERTIFICATION OF PRINCIPAL EXECUTIVE AND FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Solely for the purposes of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, the undersigned Principal Executive and Financial Officer of Flexible Solutions International, Inc. (the "Company"), hereby certify that, to the best of my knowledge, the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 14, 2019

*/s/ Daniel B. O'Brien*

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Daniel B. O'Brien

Principal Executive and Financial Officer

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