

**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 September 30, 2023

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 registrant as Specified in Its Charter)

| | |
|---|----------------------------------|
| Alberta | 71-1630889 |
| (State or other jurisdiction of incorporation or organization) | (Employer Identification No.) |
| 6001 54 Ave. Taber, Alberta, Canada | T1G 1X4 |
| (Address of Principal Executive Offices) | (Zip Code) |

Registrant'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 Common Stock | Trading Symbol(s) FSI | Name of each exchange on which registered 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 every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 Common | No. Shares Outstanding 12,435,532 | Date November 14, 2023 |
|--------------------------|--------------------------------------|---------------------------|

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 financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing.

Forward-looking statements may include the words “may,” “could,” “will,” “estimate,” “intend,” “continue,” “believe,” “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;
- Loss of customers or sales weakness;
- Inability to achieve future sales levels or other operating results;
- The unavailability of funds for capital expenditures;
- Operational inefficiencies in distribution or other systems; and
- New tariffs relating to raw materials imported from China.

For a detailed description of these and other factors that could cause actual results to differ materially from those expressed in any forward-looking statement, please see “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2022.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

FLEXIBLE SOLUTIONS INTERNATIONAL, INC. CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS (U.S. Dollars)

**September 30,
2023**

**December 31,
2022**

| | (Unaudited) | |
|--|----------------------|----------------------|
| Assets | | |
| Current | | |
| Cash and cash equivalents | \$ 8,943,972 | \$ 6,115,099 |
| Term deposits | 1,010,241 | 700,000 |
| Accounts receivable, net (Note 4) | 6,914,321 | 9,449,857 |
| Inventories (Note 5) | 9,440,152 | 14,419,430 |
| Prepaid expenses | 1,940,601 | 310,297 |
| Total current assets | 28,249,287 | 30,994,683 |
| Property, equipment and leaseholds, net (Note 6) | 12,940,325 | 9,709,288 |
| Right of use assets (Note 3) | 128,484 | 167,222 |
| Intangible assets (Note 8) | 2,320,000 | 2,440,000 |
| Long term deposits (Note 9) | 396,154 | 8,540 |
| Investments (Note 10) | 6,251,818 | 5,458,895 |
| Goodwill (Note 8) | 2,534,275 | 2,534,275 |
| Deferred tax asset | 274,289 | 274,289 |
| Total Assets | \$ 53,094,632 | \$ 51,587,192 |
| Liabilities | | |
| Current | | |
| Accounts payable | \$ 2,048,419 | \$ 873,904 |
| Accrued liabilities | 811,180 | 959,856 |
| Deferred revenue | 18,220 | 387,763 |
| Income taxes payable | 5,240,892 | 4,486,350 |
| Short term line of credit (Note 11) | - | 2,818,591 |
| Current portion of lease liability (Note 3) | 59,160 | 58,080 |
| Current portion of long term debt (Note 12) | 830,760 | 717,612 |
| Total current liabilities | 9,008,631 | 10,302,156 |
| Lease liability (Note 3) | 69,324 | 109,142 |
| Deferred income tax liability | 500,459 | 500,459 |
| Long term debt (Note 12) | 7,029,461 | 5,436,465 |
| Total Liabilities | 16,607,875 | 16,348,222 |
| Stockholders' Equity | | |
| Capital stock (Note 14) | | |
| Authorized: 50,000,000 common shares with a par value of \$ 0.001 each; 1,000,000 preferred shares with a par value of \$0.01 each | | |
| Issued and outstanding: | | |
| 12,435,532 (December 31, 2022: 12,426,260) common shares | 12,436 | 12,426 |
| Capital in excess of par value | 18,079,409 | 17,523,345 |
| Other comprehensive loss | (605,465) | (805,799) |
| Accumulated earnings | 16,253,260 | 15,903,964 |
| Total stockholders' equity – controlling interest | 33,739,640 | 32,633,936 |
| Non-controlling interests (Note 15) | 2,747,117 | 2,605,034 |
| Total Stockholders' Equity | 36,486,757 | 35,238,970 |
| Total Liabilities and Stockholders' Equity | \$ 53,094,632 | \$ 51,587,192 |

— 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)

| | Three Months Ended September 30, | |
|---|----------------------------------|----------------------|
| | 2023 | 2022 |
| Sales | \$ 8,720,621 | \$ 11,685,107 |
| Cost of sales | 7,248,266 | 8,502,551 |
| Gross profit | 1,472,355 | 3,182,556 |
| Operating Expenses | | |
| Wages | 545,255 | 587,935 |
| Administrative salaries and benefits | 392,051 | 220,406 |
| Insurance | 218,723 | 185,371 |
| Office and miscellaneous | 181,349 | 111,832 |
| Interest expense | 119,599 | 80,609 |
| Professional fees | 97,057 | 131,602 |
| Travel | 60,796 | 27,659 |
| Consulting | 57,941 | 85,477 |
| Research | 52,834 | 19,088 |
| Advertising and promotion | 50,909 | 32,705 |
| Lease expense | 28,775 | 30,284 |
| Investor relations and transfer agent fee | 26,626 | 34,440 |
| Telecommunications | 15,640 | 10,879 |
| Utilities | 12,249 | 5,451 |
| Shipping | 6,032 | 6,042 |
| Currency exchange | (6,808) | (20,983) |
| Commissions | - | 529 |
| Total operating expenses | 1,859,028 | 1,549,326 |

| | | |
|---|--------------|--------------|
| Operating income (loss) | (386,673) | 1,633,230 |
| Gain (loss) on investment | 97,254 | (451) |
| Interest income | 5,380 | 37,213 |
| Income (loss) before income tax | (284,039) | 1,669,992 |
| Income taxes | | |
| Income tax expense | (219,712) | (349,181) |
| Net income (loss) for the period including non-controlling interests | (503,751) | 1,320,811 |
| Less: Net income attributable to non-controlling interests | (214,410) | (212,680) |
| Net income (loss) attributable to controlling interest | \$ (718,161) | \$ 1,108,131 |
| Income (loss) per share (basic and diluted) | \$ (0.06) | \$ 0.09 |
| Weighted average number of common shares (basic) | 12,435,532 | 12,384,746 |
| Weighted average number of common shares (diluted) | 12,496,748 | 12,417,026 |
| Other comprehensive income (loss): | | |
| Net income (loss) | (503,751) | 1,320,811 |
| Unrealized income (loss) on foreign currency translations | 140,928 | (70,167) |
| Total comprehensive income (loss) | \$ (362,823) | \$ 1,250,644 |
| Comprehensive income – non-controlling interest | (214,410) | (212,680) |
| Comprehensive income (loss) attributable to Flexible Solutions International Inc. | \$ (577,233) | \$ 1,037,964 |

— See Notes to Unaudited Condensed Interim Consolidated Financial Statements —

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

| | Nine Months Ended September 30, | |
|--|---------------------------------|---------------|
| | 2023 | 2022 |
| Sales | \$ 28,899,429 | \$ 33,633,530 |
| Cost of sales | 21,303,229 | 22,777,467 |
| Gross profit | 7,596,200 | 10,856,063 |
| Operating Expenses | | |
| Wages | 2,004,568 | 1,890,727 |
| Administrative salaries and benefits | 1,179,370 | 681,017 |
| Insurance | 648,698 | 508,056 |
| Interest expense | 369,967 | 190,366 |
| Office and miscellaneous | 355,139 | 271,144 |
| Professional fees | 239,356 | 597,505 |
| Consulting | 190,171 | 248,168 |
| Travel | 187,060 | 120,185 |
| Advertising and promotion | 161,318 | 124,910 |
| Investor relations and transfer agent fee | 149,511 | 100,317 |
| Research | 90,169 | 63,345 |
| Lease expense | 81,715 | 124,123 |
| Telecommunications | 38,650 | 31,438 |
| Utilities | 25,223 | 20,635 |
| Shipping | 15,798 | 18,943 |
| Currency exchange | 9,693 | (9,351) |
| Commissions | 2,985 | 61,459 |
| Total operating expenses | 5,749,391 | 5,042,987 |
| Operating income | 1,846,809 | 5,813,076 |
| Gain on acquisition of ENP Peru | - | 335,051 |
| Gain on investment | 423,957 | 213,865 |
| Interest income | 58,565 | 69,354 |
| Income before income tax | 2,329,331 | 6,431,346 |
| Income taxes | | |
| Income tax expense | (873,861) | (1,604,429) |
| Net income for the period including non-controlling interests | 1,455,470 | 4,826,917 |
| Less: Net income attributable to non-controlling interests | (479,397) | (523,272) |
| Net income attributable to controlling interest | \$ 976,073 | \$ 4,303,645 |
| Income per share (basic) | \$ 0.08 | \$ 0.35 |
| Income per share (diluted) | \$ 0.08 | \$ 0.34 |
| Weighted average number of common shares (basic) | 12,434,669 | 12,376,818 |
| Weighted average number of common shares (diluted) | 12,517,064 | 12,479,769 |
| Other comprehensive income: | | |
| Net income | 1,455,470 | 4,826,917 |
| Unrealized gain (loss) on foreign currency translations | 200,334 | (29,531) |
| Total comprehensive income | \$ 1,655,804 | \$ 4,797,386 |
| Comprehensive income – non-controlling interest | (479,397) | (523,272) |
| Comprehensive income attributable to Flexible Solutions International Inc. | \$ 1,176,407 | \$ 4,274,114 |

— See Notes to Unaudited Condensed Interim Consolidated Financial Statements —

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(U.S. Dollars — Unaudited)

| | Nine Months Ended September 30, | |
|---|--|---------------------|
| | 2023 | 2022 |
| Operating activities | | |
| Net income for the period including non-controlling interests | \$ 1,455,470 | \$ 4,826,917 |
| Adjustments to reconcile net income to net cash: | | |
| Stock based compensation | 542,474 | 164,659 |
| Depreciation and amortization | 1,215,171 | 811,877 |
| Lease right of use depreciation | 38,738 | 37,748 |
| Lease right of use financing | 4,822 | 6,687 |
| Gain on investment | (423,957) | (213,865) |
| Gain on ENP Peru | - | (335,051) |
| Changes in non-cash working capital items: | | |
| (Increase) decrease in accounts receivable | 2,535,536 | (2,638,030) |
| (Increase) decrease in inventory | 4,520,141 | (4,780,381) |
| Increase in prepaid expenses | (1,630,304) | (50,749) |
| Increase (decrease) in accounts payable and accrued liabilities | 1,484,976 | (22,484) |
| Increase in income taxes payable | 754,542 | 1,604,429 |
| Increase (decrease) in deferred revenue | (369,543) | (70,295) |
| Cash provided by (used in) operating activities | 10,128,066 | (658,538) |
| Investing activities | | |
| Non-controlling interest of 317 Mendota | 200,000 | - |
| Long term deposits | (387,614) | - |
| Additional investment in Trio | (470,000) | - |
| Proceeds of equity investment | 101,034 | 108,750 |
| Net purchase of property, equipment and leaseholds | (4,326,208) | (647,232) |
| Acquisition of ENP Peru | - | (499,329) |
| Cash used in investing activities | (4,882,788) | (1,037,811) |
| Financing activities | | |
| Repayment of short term line of credit | (2,818,591) | (276,079) |
| Repayment of long term debt | (542,148) | (2,117,928) |
| Loan proceeds received | 2,248,292 | 2,194,000 |
| Dividends paid | (626,777) | - |
| Lease payments | (43,560) | (44,435) |
| Distributions to non-controlling interests | (537,314) | (499,789) |
| Proceeds from issuance of common stock | 13,600 | 74,020 |
| Cash used in financing activities | (2,306,498) | (670,211) |
| Effect of exchange rate changes on cash | 200,334 | (29,531) |
| Inflow (outflow) of cash | 3,139,114 | (2,396,091) |
| Cash and cash equivalents, beginning | 6,815,099 | 6,735,574 |
| Cash and cash equivalents, ending | \$ 9,954,213 | \$ 4,339,483 |
| Cash and cash equivalents consists of: | | |
| Cash | \$ 8,943,972 | \$ 4,339,483 |
| Term Deposits | 1,010,241 | - |
| | \$ 9,954,213 | \$ 4,339,483 |
| Supplemental disclosure of cash flow information: | | |
| Income taxes paid | \$ 119,319 | \$ - |
| Interest paid | \$ 369,967 | \$ 190,366 |
| Inventory additions in accounts payable | \$ 1,252,540 | \$ 422,340 |

— See Notes to Unaudited Condensed Interim Consolidated Financial Statements —

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

| Shares | Par Value | Capital in Excess of Par Value | Accumulated Earnings | Other Comprehensive Income (Loss) | Total | Non-Controlling Interests | Total Stockholders' Equity |
|---------------|------------------|---------------------------------------|-----------------------------|--|--------------|----------------------------------|-----------------------------------|
|---------------|------------------|---------------------------------------|-----------------------------|--|--------------|----------------------------------|-----------------------------------|

| | | | | | | | | |
|---|-------------------|------------------|---------------------|----------------------|---------------------|---------------------|---------------------|----------------------|
| Balance December 31, 2022 | 12,426,260 | \$ 12,426 | \$17,523,345 | \$ 15,903,964 | \$ (805,799) | \$32,633,936 | \$ 2,605,034 | \$ 35,238,970 |
| Translation adjustment | — | — | — | — | (167,239) | (167,239) | — | (167,239) |
| Net income | — | — | — | 884,369 | — | 884,369 | 80,125 | 964,494 |
| Common stock issued | 9,272 | 10 | 13,590 | — | — | 13,600 | — | 13,600 |
| Stock-based compensation | — | — | 185,298 | — | — | 185,298 | — | 185,298 |
| Balance March 31, 2023 | 12,435,532 | \$ 12,436 | \$17,722,233 | \$ 16,788,333 | \$ (973,038) | \$33,549,964 | \$ 2,685,159 | \$ 36,235,123 |
| Translation adjustment | — | — | — | — | 226,645 | 226,645 | — | 226,645 |
| Net income | — | — | — | 809,865 | — | 809,865 | 184,862 | 994,727 |
| Dividends paid | — | — | — | (626,777) | — | (626,777) | — | (626,777) |
| Non-controlling interest of 317 Mendota LLC | — | — | — | — | — | — | 200,000 | 200,000 |
| Distributions to noncontrolling interests | — | — | — | — | — | — | (387,696) | (387,696) |
| Stock-based compensation | — | — | 181,228 | — | — | 181,228 | — | 181,228 |
| Balance June 30, 2023 | 12,435,532 | \$ 12,436 | \$17,903,461 | \$ 16,971,421 | \$ (746,393) | \$34,140,925 | \$ 2,682,325 | \$ 36,823,250 |
| Translation adjustment | — | — | — | — | 140,928 | 140,928 | — | 140,928 |
| Net income | — | — | — | (718,161) | — | (718,161) | 214,410 | (503,751) |
| Distributions to noncontrolling interests | — | — | — | — | — | — | (149,618) | (149,618) |
| Stock-based compensation | — | — | 175,948 | — | — | 175,948 | — | 175,948 |
| Balance September 30, 2023 | 12,435,532 | \$ 12,436 | \$18,079,409 | \$ 16,253,260 | \$ (605,465) | \$33,739,640 | \$ 2,747,117 | \$ 36,486,757 |

— See Notes to Unaudited Condensed Interim Consolidated Financial Statements—

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

| | Shares | Capital Stock | Capital in Excess of Par Value | Accumulated Earnings | Other Comprehensive Loss | Total | Non-Controlling Interests | Total Stockholders' Equity |
|--|-------------------|------------------|--------------------------------|----------------------|--------------------------|---------------------|---------------------------|----------------------------|
| Balance December 31, 2021 | 12,355,246 | \$ 12,355 | \$16,983,648 | \$ 8,882,360 | \$ (775,730) | \$25,102,633 | \$ 2,602,843 | \$ 27,705,476 |
| Translation adjustment | — | — | — | — | 42,543 | 42,543 | — | 42,543 |
| Net income | — | — | — | 1,533,059 | — | 1,533,059 | 144,477 | 1,677,536 |
| Common stock issued | 22,500 | 23 | 56,917 | — | — | 56,940 | — | 56,940 |
| Distributions to non-controlling interests | — | — | — | — | — | — | (265,922) | (265,922) |
| Stock-based compensation | — | — | 54,271 | — | — | 54,271 | — | 54,271 |
| Balance March 31, 2022 | 12,377,746 | \$ 12,378 | \$17,094,836 | \$ 10,415,419 | \$ (733,187) | \$26,789,446 | \$ 2,481,398 | \$ 29,270,844 |
| Translation adjustment | — | — | — | — | (1,907) | (1,907) | — | (1,907) |
| Net income | — | — | — | 1,662,455 | — | 1,662,455 | 166,115 | 1,828,570 |
| Common stock issued | 7,000 | 7 | 17,073 | — | — | 17,080 | — | 17,080 |
| Distributions to noncontrolling interests | — | — | — | — | — | — | (116,934) | (116,934) |
| Stock-based compensation | — | — | 55,194 | — | — | 55,194 | — | 55,194 |
| Balance June 30, 2022 | 12,384,746 | \$ 12,385 | \$17,167,103 | \$ 12,077,874 | \$ (735,094) | \$28,522,268 | \$ 2,530,579 | \$ 31,052,847 |
| Translation adjustment | — | — | — | — | (70,167) | (70,167) | — | (70,167) |
| Net income | — | — | — | 1,108,131 | — | 1,108,131 | 212,680 | 1,320,811 |
| Distributions to non-controlling interests | — | — | — | — | — | — | (116,933) | (116,933) |
| Stock-based compensation | — | — | 55,194 | — | — | 55,194 | — | 55,194 |
| Balance September 30, 2022 | 12,384,746 | \$ 12,385 | \$17,222,297 | \$ 13,186,005 | \$ (805,261) | \$29,615,426 | \$ 2,626,326 | \$ 32,241,752 |

— See Notes to Unaudited Condensed Interim Consolidated Financial Statements —

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FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Period Ended September 30, 2023
(U.S. Dollars — Unaudited)

1. BASIS OF PRESENTATION.

These interim condensed consolidated financial statements ("consolidated financial statements") include the accounts of Flexible Solutions

International, Inc. (the "Company"), its wholly-owned subsidiaries Flexible Fermentation Ltd., NanoChem Solutions Inc. ("NanoChem"), Flexible Solutions Ltd., Flexible Biomass LP, FS Biomass Inc., NCS Deferred Corp., Natural Chem SEZC Ltd., InnFlex Holdings Inc., ENP Peru Investments LLC ("ENP Peru"), its 100% controlling interest in 317 Mendota LLC ("317 Mendota"), and its 65% controlling interest in ENP Investments, LLC ("ENP Investments") and ENP Mendota, LLC ("ENP Mendota"). All inter-company balances and transactions have been eliminated upon consolidation. The Company was incorporated on May 12, 1998 in the State of Nevada and had no operations until June 30, 1998. In 2019, the Company redomiciled into Alberta, Canada.

In 2022, NanoChem purchased an additional 50% in ENP Peru, increasing its share to 91.67%. ENP Investments owns the remaining 8.33%, of which the Company has a 65% interest. In 2023, NanoChem purchased the remaining 8.33% of shares to become sole owner. ENP Peru was previously accounted for under the equity method however, it is now consolidated into the financial statements from the date control was obtained.

In June 2023, the Company purchased an 80% interest in 317 Mendota, a newly incorporated company established to purchase a large manufacturing building. ENP Investments will occupy part of this building, freeing up more space in the building owned by ENP Peru for NanoChem. The Company intends to rent the remainder of the space to suitable tenants. The remaining 20% interest is held by unrelated parties.

The Company 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. The TPA division also manufactures two nitrogen conservation products for agriculture that slows nitrogen loss from fields.

2. SIGNIFICANT ACCOUNTING POLICIES.

The condensed interim consolidated financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information, applied on a basis consistent for all periods. Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for a complete set of financial statements. These consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, filed with the Securities and Exchange Commission on March 31, 2023. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the full fiscal year.

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(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) Term Deposits.

The deposits maintained by the Company with banks comprises term deposits. The Company has two term deposits, the first for \$ 700,000 that matures in December 2023 and pays interest at a rate of 8.25%. If withdrawn before maturity, the greater of the loss of accrued interest or \$ 150, plus 1% of the principal shall be levied. The second term deposit is for \$300,000 and matures in February 2024. Paying 1.3% interest, it can be withdrawn by the Company at any point without prior notice or penalty.

(c) 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 or weighted average cost formula to inventories in different subsidiaries. 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 (2023 - \$381,740; 2022 - \$341,918). Shipping and handling costs incurred are included in cost of goods sold (2023 - \$ 771,772; 2022 - \$783,917).

(d) 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.

(e) 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 |
| Manufacturing equipment | 20% Declining balance |
| Office equipment | 20% Declining balance |
| Boat | 20% Declining balance |
| Building and improvements | 10% Declining balance |
| Trailer | 30% Declining balance |
| Automobiles | Straight-line over 5 years |
| Patents | Straight-line over 17 years |
| Technology | Straight-line over 10 years |
| Leasehold improvements | Straight-line over lease term |
| Customer relationships | Straight-line over 15 years |
| Software | Straight-line over 3 years |

(f) *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 is less than its carrying value, an impairment measurement is indicated. Impairment charges are recorded to the extent that an asset's carrying value exceeds its fair value. Accordingly, actual results could vary significantly from such estimates. There were no impairment charges during the periods presented.

(g) *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.

(h) *Revenue Recognition.*

The Company generates revenue primarily from energy and water conservation products and biodegradable polymers, as further discussed in Note 16.

The Company follows 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. The Company has fulfilled its 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 free-on-board 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.

(i) *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.

(j) *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.

(k) *Other Comprehensive Income.*

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

(l) *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 (loss) per share have been excluded from the calculation of diluted weighted average shares outstanding for the three and nine months ended September 30, 2023 and 2022.

(m) *Use of Estimates.*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. 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, valuation of assets acquired at fair value, asset impairment analysis, share-based payments, valuation allowances for deferred income

tax assets, determination of useful lives of property, equipment and leaseholds and intangible assets, recoverability of accounts receivable, recoverability of investments, discount rates for right of use assets and the valuation of inventory.

(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.

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- 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, term deposits, accounts receivable, accounts payable, 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.

The fair value of the long term debt and lease liabilities for all periods presented approximate their respective carrying amounts due to these financial instruments being at market rates.

(o) *Contingencies.*

Certain conditions may exist as of the date the consolidated 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 consolidated 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. The Company is not aware of any contingencies at the date of these consolidated financial statements.

(p) *Income Taxes.*

Income taxes are computed by multiplying the Company's taxable net income by the Company's effective tax rates. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss carry-forwards, if any. Deferred income 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 income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided to reduce the carrying amount of deferred income tax assets if it is considered more likely than not that some portion, or all, of the deferred income tax assets will not be realized.

In accordance with FASB Codification Topic 740, *Income taxes* (ASC 740) under the liability method, it is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. At June 30, 2023, 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.

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(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. Revenue for the Company's three primary customers totaled \$14,020,837 (49%) for the nine months ended September 30, 2023 (2022 - \$19,050,848 or 57%) and \$5,811,847 (67%) for the three months ended September 30, 2023 (2022 - \$ 7,452,860 or 64%). Accounts receivable for the Company's three primary customers totaled \$4,688,642 (68%) at September 30, 2023 (December 31, 2022 - \$ 6,124,424 or 65%).

The credit risk on cash is limited because the Company limits its exposure to credit loss by placing its cash 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 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, accounts receivable, and accounts payable and accrued liabilities. The Company has not hedged its exposure to currency fluctuations.

The Company is exposed to interest rate risk to the extent that the fair value or future cash flows for financial liabilities will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk on its long-term debt.

In order to manage its exposure to interest rate risk, the Company is closely monitoring fluctuations in market interest risks and will refinance its long-term debt where possible to obtain more favourable rates.

(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 initially 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 other income (loss), net in the consolidated statements of operations and comprehensive income (loss).

(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 begins 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 it is more likely than not that the fair value of a reporting unit is greater 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 carrying amount, 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.

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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 intangible asset 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 intangible asset to its carrying amount. If the estimated fair value of the intangible asset is less than the carrying amount of the intangible asset, impairment is indicated, requiring recognition of an impairment charge for the differential.

In accordance with FASB Codification Topic 350, *Intangibles – Goodwill and Other* (ASC 350), qualitative assessments of goodwill and indefinite-lived intangible assets were performed at December 31, 2022. Based on the results of the 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 their carrying amounts. Accordingly, no further impairment testing was completed and no impairment charges related to goodwill or indefinite-lived intangibles were recognized during the three or nine months ended September 30, 2023.

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 "Impairment of Long Lived Assets" significant accounting policy.

(t) *Recent Accounting Pronouncements.*

The Company has implemented all applicable new accounting pronouncements that are in effect. Those pronouncements did not have any material impact on the consolidated financial statements unless otherwise disclosed, and the Company does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations.

3. LEASES

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. For leases with terms greater than 12 months, the Company records the related right-of-use ("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 operating leases are included in ROU assets, lease liabilities-current portion and lease liability-long term 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. 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%.

The table below summarizes the right-of-use asset and lease liability for the nine months ended September 30, 2023 and the year ended December 31, 2022:

| | September 30, 2023 | December 31, 2022 |
|----------------------------|--------------------|-------------------|
| Right of Use Assets | | |
| Balance, January 1 | \$ 167,222 | \$ 217,267 |
| Depreciation | (38,738) | (50,045) |
| Balance, end of period | \$ 128,484 | \$ 167,222 |
| Lease Liability | | |
| Balance, January 1 | \$ 167,222 | \$ 217,267 |
| Lease interest expense | 4,812 | 8,566 |
| Payments | (43,550) | (58,611) |
| Balance, end of period | \$ 128,484 | \$ 167,222 |
| Short-term portion | \$ 59,160 | \$ 58,080 |
| Long-term portion | 69,324 | 109,142 |
| Total | \$ 128,484 | \$ 167,222 |

Undiscounted rent payments for the next four years are as follows:

| | | |
|-------------------------------------|----|---------|
| 2023 | \$ | 14,520 |
| 2024 | | 59,520 |
| 2025 | | 61,020 |
| Total | \$ | 135,060 |
| Impact of discounting | | (6,576) |
| Lease liability, September 30, 2023 | \$ | 128,484 |

4. ACCOUNTS RECEIVABLE.

| | September 30, 2023 | December 31, 2022 |
|----------------------------------|---------------------|---------------------|
| Accounts receivable | \$ 7,203,680 | \$ 9,739,150 |
| Allowances for doubtful accounts | (289,359) | (289,293) |
| | <u>\$ 6,914,321</u> | <u>\$ 9,449,857</u> |

5. INVENTORIES.

| | September 30, 2023 | December 31, 2022 |
|----------------------------|---------------------|----------------------|
| Completed goods | \$ 2,539,460 | \$ 3,806,646 |
| Raw materials and supplies | 6,900,692 | 10,612,784 |
| | <u>\$ 9,440,152</u> | <u>\$ 14,419,430</u> |

6. PROPERTY, EQUIPMENT & LEASEHOLDS.

| | September 30, 2023 Cost | Accumulated Depreciation | September 30, 2023 Net |
|----------------------------|----------------------------|-----------------------------|---------------------------|
| Buildings and improvements | \$ 12,180,004 | \$ 3,729,894 | \$ 8,450,110 |
| Automobiles | 196,255 | 132,847 | 63,408 |
| Computer hardware | 43,436 | 42,840 | 596 |
| Manufacturing equipment | 9,498,662 | 5,533,484 | 3,965,178 |
| Boat | 34,400 | 29,331 | 5,069 |
| Office equipment | 134,119 | 119,730 | 14,389 |
| Trailer | 8,873 | 7,890 | 983 |
| Leasehold Improvements | 88,872 | 88,872 | — |
| Land | 440,592 | — | 440,592 |
| Technology | 101,038 | 101,038 | — |
| | <u>\$ 22,726,251</u> | <u>\$ 9,785,926</u> | <u>\$ 12,940,325</u> |

| | December 31, 2022 Cost | Accumulated Depreciation | December 31, 2022 Net |
|----------------------------|---------------------------|-----------------------------|--------------------------|
| Buildings and improvements | \$ 8,775,629 | \$ 3,310,920 | \$ 5,464,709 |
| Automobiles | 196,255 | 107,055 | 89,200 |
| Computer hardware | 43,432 | 42,663 | 769 |
| Office equipment | 133,280 | 112,782 | 20,498 |
| Manufacturing equipment | 8,634,063 | 4,891,736 | 3,742,327 |
| Trailers | 8,857 | 7,592 | 1,265 |
| Boat | 34,400 | 27,907 | 6,493 |
| Leasehold improvements | 88,872 | 88,872 | — |
| Technology | 100,860 | 100,860 | — |
| Land | 384,027 | — | 384,027 |
| | <u>\$ 18,399,675</u> | <u>\$ 8,690,387</u> | <u>\$ 9,709,288</u> |

The amount of depreciation expense for nine months ended September 30, 2023 was \$ 1,095,171 (2022: \$679,548) and is included in cost of sales in the unaudited condensed interim consolidated statements of operations and comprehensive income.

7. PATENTS.

| | September 30, 2023 Cost | Accumulated Amortization | September 30, 2023 Net |
|---------|----------------------------|-----------------------------|---------------------------|
| Patents | <u>\$ 196,069</u> | <u>\$ 196,069</u> | <u>\$ -</u> |
| | December 31, 2022 Cost | Accumulated Amortization | December 31, 2022 Net |
| Patents | <u>\$ 195,725</u> | <u>\$ 195,725</u> | <u>\$ -</u> |

The amount of amortization for the nine months ended September 30, 2023 was \$ nil (2022 - \$12,329) and is included in cost of sales in the unaudited condensed interim consolidated statements of operations and comprehensive income. The movement in cost relates solely to foreign exchange differences.

8. GOODWILL AND INTANGIBLE ASSETS

Goodwill

| | | |
|--|----|------------------|
| Balance as of December 31, 2021 | \$ | 2,534,275 |
| Additions | | - |
| Impairment | | - |
| Balance as of December 31, 2022 and September 30, 2023 | \$ | <u>2,534,275</u> |
| Indefinite Lived Intangible Assets | | |
| Balance as of December 31, 2021 | \$ | 770,000 |
| Additions | | - |
| Impairment | | - |
| Balance as of December 31, 2022 and September 30, 2023 | \$ | <u>770,000</u> |

Goodwill relates to the acquisition of ENP Investments. Indefinite lived intangible assets consist of trade secrets and trademarks related to the acquisition of ENP Investments.

| | | |
|----------------------------------|----|------------------|
| Definite Life Intangible Assets | | |
| Balance as of December 31, 2021 | \$ | 1,830,000 |
| Amortization | | (160,000) |
| Balance as of December 31, 2022 | | <u>1,670,000</u> |
| Amortization | | (120,000) |
| Balance as of September 30, 2023 | \$ | <u>1,550,000</u> |

Definite life intangible assets consist of customer relationships and software related to the acquisition of ENP Investments. Customer relationships and software are amortized over their estimated useful life of 15 years and 3 years, respectively.

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

| | | |
|------|----|---------|
| 2023 | \$ | 160,000 |
| 2024 | | 160,000 |
| 2025 | | 160,000 |
| 2026 | | 160,000 |
| 2027 | | 160,000 |

9. LONG TERM DEPOSITS

Long term deposits consist of damage deposits held by landlords and security deposits held by various vendors.

| | September 30, 2023 | December 31, 2022 |
|--------------------|--------------------|-------------------|
| Long term deposits | \$ 396,154 | \$ 8,540 |

10. INVESTMENTS

(a) The Company previously held a 50% ownership interest in ENP Peru, split between NanoChem (41.67%) and ENP Investments (8.33%), which was acquired in fiscal 2016. ENP Peru is located in Illinois and leases warehouse space. In June 2022, NanoChem acquired an additional 50% ownership interest at a cost of \$506,659 paid through a new \$259,000 mortgage and cash on hand. The 35% non-controlling interest of the 8.33% owned by ENP Investments is included in non-controlling interest in these unaudited condensed interim consolidated financial statements. The Company's investment in ENP Peru was previously accounted for using the equity method, however, it is now consolidated into the unaudited condensed interim consolidated financial statements from the date control was obtained. In June 2023, NanoChem purchased the remaining 8.33% of ENP Peru from ENP Investments to become full owner.

It was determined that ENP Peru did not meet the definition of a business in accordance with FASB Codification Topic 805, *Business Combinations* (ASC 805), and the acquisition was accounted for as an asset acquisition. The following table summarizes the final purchase price allocation of the consideration paid to the respective fair values of the assets acquired and liabilities assumed in ENP Peru as of the acquisition date. The gain on acquisition of ENP Peru represents a gain on remeasurement of the Company's equity method investment immediately prior to the acquisition date.

| | | |
|---|----|--------------------|
| Purchase consideration | \$ | <u>506,659</u> |
| Assets acquired: | | |
| Cash | | 7,330 |
| Building | | 3,750,000 |
| Land | | 150,000 |
| Liabilities assumed: | | |
| Deferred tax liability | | (174,582) |
| Long term debt | | <u>(2,849,500)</u> |
| Total identifiable net assets: | | <u>883,248</u> |
| Excess of assets acquired over consideration | | <u>376,589</u> |
| Less investment eliminated upon consolidation | | (41,538) |
| Gain on acquisition of ENP Peru | \$ | <u>335,051</u> |

A summary of the Company's investment follows:

| | | |
|----------------------------------|----|---------------|
| Balance, December 31, 2021 | \$ | 22,642 |
| Return of equity | | (8,750) |
| Gain in equity method investment | | <u>27,646</u> |

| | |
|---|----------|
| Investment eliminated upon consolidation | (41,538) |
| Balance, December 31, 2022 and September 30, 2023 | \$ - |

(b) In December 2018 the Company invested \$200,000 in Applied Holding Corp. ("Applied"). Applied is a captive insurance company and the Company received a non-convertible promissory note for its investment which becomes due in 2021 but may be extended with notice for a maximum of two years. During the year ended December 31, 2021, the Company entered an agreement with Applied to extend the maturity date of this promissory note to December 6, 2023. In accordance with FASB Codification Topic 323, *Investments – Equity Method and Joint Ventures* (ASC 323), the Company has elected to account for this investment at cost. See subsequent events.

(c) In December 2018 the Company invested \$500,000 in Trio Opportunity Corp. ("Trio"), a privately held entity and a further \$470,000 was invested in April 2023. Trio is a real estate investment vehicle and the Company received 97,000 non-voting Class B shares at \$10.00/share. In accordance with FASB Codification Topic 321, *Investments – Equity Securities* (ASC 321), the Company has elected to account for this investment at cost.

(d) In January 2019, the Company invested 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 Florida based LLC but does not have control. A summary of the Company's investment follows:

| | |
|----------------------------------|--------------|
| Balance, December 31, 2021 | \$ 3,701,368 |
| Gain in equity method investment | 307,527 |
| Return of equity | (250,000) |
| Balance, December 31, 2022 | \$ 3,758,895 |
| Gain in equity method investment | 422,923 |
| Return of equity | (100,000) |
| Balance, September 30, 2023 | \$ 4,081,818 |

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

| | Nine months ended September 30, 2023 | Nine months ended September 30, 2022 |
|--------------|---|---|
| Net sales | \$ 11,915,398 | \$ 11,101,350 |
| Gross profit | 3,514,142 | 2,519,331 |
| Net income | 845,846 | \$ 359,938 |

During the nine months ended September 30, 2023, the Company had sales of \$7,116,232 (2022 - \$7,931,549) to the Florida based LLC, of which \$2,274,958 is included within Accounts Receivable as at September 30, 2023 (December 31, 2022 - \$2,423,285).

(e) In December 2020, the Company invested \$500,000 in Lygos Inc. ("Lygos"), a privately held entity, under a Simple Agreement for Future Equity ("SAFE") agreement. Lygos is a company developing a sustainable aspartic acid microbe strain. In 2021, the Company made a second SAFE investment of \$500,000 for a total of \$1,000,000. In accordance with ASC 321, the Company has elected to account for this investment at cost.

11. SHORT-TERM LINE OF CREDIT.

(a) In June 2023, ENP Investments signed a new agreement with Stock Yards Bank and Trust ("Stock Yards"). Increasing the limit by \$500,000, the revolving line of credit is for an aggregate amount of up to the lesser of (i) \$4,500,000, or (ii) 50-80% of eligible domestic accounts receivable plus 50% of inventory, capped at \$2,000,000. Interest on the unpaid principal balance of this loan will be calculated using the greater of prime or 8.25%. The interest rate at September 30, 2023 is 8.5% (December 31, 2022 - 7.5%).

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 Stock Yards, Stock Yard's access to collateral, formation or acquisition of subsidiaries, incurrence of indebtedness, dispositions of assets, granting liens, changes in business, ownership or business locations, engaging in mergers and acquisitions, making investments or distributions and affiliate transactions. NanoChem is a guarantor of 65% of all the principal and other loan costs not to exceed \$2,925,000. The non-controlling interest is the guarantor of the remaining 35% of all the principal and other loan costs not to exceed \$1,575,000. As of September 30, 2023, ENP Investments was in compliance with all loan covenants.

To secure the repayment of any amounts borrowed under the revolving line of credit, the Company granted Stock Yards a security interest in substantially all of the assets of ENP Investments, exclusive of intellectual property assets.

Short-term borrowings outstanding under the revolving line as of September 30, 2023 were \$ nil (December 31, 2022 - \$2,477,794).

(b) In June 2023, the Company signed a new agreement with Stock Yards Bank and Trust ("Stock Yards"). The revolving line of credit is for an aggregate amount of up to the lesser of (i) \$4,000,000, or (ii) 80% of eligible domestic accounts receivable and certain foreign accounts receivable plus 50% of inventory, capped at \$2,000,000. Interest on the unpaid principal balance of this loan will be calculated using the greater of prime or 8.25%. The interest rate at September 30, 2023 was 8.5% (December 31, 2022 - 7.5%).

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 Stock Yards, Stock Yards 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 September 30, 2023, the 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 Stock Yards a security interest in substantially all of the assets of NanoChem, exclusive of intellectual property assets.

Short-term borrowings outstanding under the revolving line as of September 30, 2023 were \$ nil (December 31, 2022 - \$340,797).

12. LONG TERM DEBT.

(a) In October 2020, NanoChem signed a loan for \$1,980,947 with Midland with a rate of 3.85% to be repaid over 5 years with equal monthly payments including interest. The money was used to retire the debt at Harris related to the loan to purchase a 65% interest in ENP Investments. In June 2022, the loan was paid in full with funds from Stock Yards. Interest expense for the nine months ended September 30, 2023 was \$nil (2022 - \$30,334). The balance owing at September 30, 2023 was \$nil (December 31, 2022 - \$nil).

(b) In October 2020, NanoChem signed a loan for \$894,253 with Midland with an interest rate 3.85% to be repaid over two years with equal monthly payments including interest. The funds were used to replace the loan at Harris for the purchase of new manufacturing equipment. In June 2022, the loan was paid in full with funds from Stock Yards. Interest expense for the nine months ended September 30, 2023 was \$nil (2022 - \$5,816). The balance owing at September 30, 2023 was \$nil (December 31, 2022 - \$nil)

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(c) In January 2020, ENP Mendota refinanced its mortgage and signed a loan for \$ 450,000 with Stock Yards to be repaid over 10 years with monthly installments plus interest. Interest for the first five years is at 4.35% and it will be adjusted for the last five years to the Cincinnati Federal Home Bank Loan 5 year fixed index plus 2.5%. Interest expense for the nine months ended September 30, 2023 was \$ 13,459 (2022 - \$13,959). The balance owing at September 30, 2023 was \$402,137 (December 31, 2022 - \$415,430).

(d) In June 2022, NanoChem signed a loan for \$1,935,000 with Stock Yards with an interest rate of 4.90% to be repaid over three years with equal monthly payments including interest. The funds were used to replace the loans at Midland for the purchase of the 65% interest in ENP Investments and the new manufacturing equipment. Interest expense for the nine months ended September 30, 2023 was \$53,176 (2022 - \$23,632). The balance owing at September 30, 2023 was \$1,164,686 (December 31, 2022 - \$1,632,672).

(e) In January 2020 ENP Peru signed a \$3,000,000 loan with an interest rate 4.35% to be repaid over ten years with equal monthly payments including interest. Upon the purchase of the remainder of ENP Peru in June 2022, the Company assumed the first mortgage at Stock Yards with a balance of \$2,849,500. Interest expense for the nine months ended September 30, 2023 was \$ 92,304 (2022 - \$23,632). The balance owing at September 30, 2023 was \$2,756,573 (December 31, 2022 - \$2,813,015).

(f) In June 2022, ENP Peru obtained a second mortgage for \$259,000 with Stock Yards to be repaid over 10 years with monthly installments plus interest with an interest rate of 5.4%. Interest expense for the nine months ended September 30, 2023 was \$ 10,447 (2022 - \$3,568). The balance owing at September 30, 2023 was \$251,735 (December 31, 2022 - \$256,162).

(g) In December 2022, NanoChem signed a three year loan for up to \$2,000,000 with Stock Yards with an interest rate of 6.5%. Interest only payments are required for the first 18 months with interest and principal being paid in the last 18 months. The funds are being used to purchase new manufacturing equipment. Interest expense for the nine months ended September 30, 2023 was \$50,361 (2022 - \$nil). The balance owing at September 30, 2023 was \$1,036,798 (December 31, 2022 - \$1,036,798).

(h) In June 2023, 317 Mendota signed a five year loan for up to \$ 3,240,000 with Stock Yards Bank to purchase the building and any necessary renovations. Interest only payments are required for the first 12 months with interest and principal being paid the remaining four years and a lump sum due in June 2028. Interest expense for the nine months ended September 30, 2023 was \$47,450 (2022 - \$nil). The balance owing at September 30, 2023 was \$2,248,292 (December 31, 2022 - \$nil).

As of September 30, 2023, Company was in compliance with all loan covenants.

| | September 30, 2023 | December 31, 2022 |
|--|-------------------------------|------------------------------|
| Continuity | | |
| Balance, January 1 | \$ 6,154,077 | \$ 2,366,598 |
| Plus: Proceeds from loans | 2,248,292 | 3,230,798 |
| Plus: Loan acquired with acquisition of ENP Peru | - | 2,849,500 |
| Less: Payments on loan | (542,148) | (2,292,819) |
| Balance, end of period | \$ 7,860,221 | \$ 6,154,077 |
| Outstanding balance at December 31, | September 30, 2023 | December 31, 2022 |
| a) Long term debt – Midland States Bank | \$ - | \$ - |
| b) Long term debt – Midland States Bank | - | - |
| c) Long term debt – Stock Yards Bank & Trust | 402,137 | 415,430 |
| d) Long term debt – Stock Yards Bank & Trust | 1,164,686 | 1,632,672 |
| e) Long term debt – Stock Yards Bank & Trust | 2,756,573 | 2,813,015 |
| f) Long term debt – Stock Yards Bank & Trust | 251,735 | 256,162 |
| g) Long term debt – Stock Yards Bank & Trust | 1,036,798 | 1,036,798 |
| h) Long term debt – Stock Yards Bank & Trust | 2,248,292 | - |
| Long-term Debt | 7,860,221 | 6,154,077 |
| Less: current portion | (830,760) | (717,612) |
| | \$ 7,029,461 | \$ 5,436,465 |

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13. STOCK OPTIONS.

The Company has 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 option plan are that 100% of the options granted will vest the year following the grant. The maximum term of options granted is 5 years and the exercise price for all options are issued for not less than fair market value at the date of the grant.

The following table summarizes the Company's stock option activities for the year ended December 31, 2022 and the nine month period ended September 30, 2023:

| | Number of shares | Exercise price per share | Weighted average exercise price |
|----------------------------|------------------|-----------------------------|------------------------------------|
| Balance, December 31, 2021 | 789,500 | \$1.42 – 4.13 | \$ 2.78 |

| | | | | | |
|---------------------------------|-----------|---------------|------|------|------|
| Granted | 981,000 | \$3.55 – 3.61 | \$ | 3.55 | |
| Cancelled or expired | (13,486) | \$1.70 – 3.61 | \$ | 2.32 | |
| Exercised | (71,014) | \$1.42 – 2.44 | \$ | 1.98 | |
| Balance, December 31, 2022 | 1,686,000 | \$1.70 – 4.13 | \$ | 3.27 | |
| Cancelled or expired | (12,000) | \$3.46 – 4.13 | \$ | 3.60 | |
| Exercised | (8,000) | \$ | 1.70 | \$ | 1.70 |
| Balance, September 30, 2023 | 1,666,000 | \$1.75 – 4.13 | \$ | 3.27 | |
| Exercisable, September 30, 2023 | 664,000 | \$1.75 – 4.13 | \$ | 2.93 | |

The weighted average remaining contractual life of options outstanding is 3.4 years.

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

| | 2022 |
|--|----------------|
| Expected life – years | 3.0 |
| Interest rate | 1.76 – 3.64% |
| Volatility | 66.01 – 69.66% |
| Weighted average fair value of options granted | \$ 1.46 – 1.65 |

During the nine months ended September 30, 2023 and 2022, the Company did not grant any new options to consultants. Options granted in previous quarters resulted in expenses in the amount of \$47,391 for consultants (2022 - \$47,380). During the nine months ended September 30, 2023 the Company did not grant any new options to employees. The Company issued 5,000 new options to employees in the nine months ended September 30, 2022 for an expense of \$5,475. Options granted in previous quarters resulted in expenses in the amount of \$ 491,013 for employees during the nine months ended September 30, 2023 (2022 - \$111,804).

There were 8,000 employee and nil consultant stock options exercised during the nine months ended September 30, 2023 (2022 – 29,500 employee; nil consultant).

As of September 30, 2023, there was approximately \$ 887,957 compensation expense related to non-vested awards. This expense is expected to be recognized over a weighted average period of 1.9 years.

The aggregate intrinsic value of vested options outstanding at September 30, 2023 is \$ nil (2022 – \$nil).

14. CAPITAL STOCK.

During the nine months ended September 30, 2023, 8,000 shares were issued upon the exercise of employee stock options (2022 – 29,500).

During the nine months ended September 30, 2023, the Company issued 1,272 shares to a consultant for services rendered, resulting in an expense of \$4,070 on the unaudited interim condensed consolidated statements of operations and comprehensive income for the nine months ended September 30, 2023.

In nine months ended September 30, 2023, the Company announced a special dividend of \$ 0.05 per share that was paid on May 16, 2023 to shareholders.

15. NON-CONTROLLING INTERESTS

(a) ENP Investments is a limited liability corporation (“LLC”) that manufactures and distributes golf, turf and ornamental agriculture products in Mendota, Illinois. The Company owns a 65% interest in ENP Investments through its wholly-owned subsidiary NanoChem. An unrelated party (“NCI”) owns the remaining 35% interest in ENP Investments. ENP Mendota is a wholly owned subsidiary of ENP Investments. ENP Mendota is a LLC that leases warehouse space. For financial reporting purposes, the assets, liabilities and earnings of both of the LLC’s are consolidated into these financial statements. The NCI’s ownership interest in ENP Investments is recorded in non-controlling interests in these consolidated financial statements. The non-controlling interest represents NCI’s interest in the earnings and equity of ENP Investments. ENP Investments is allocated to the TPA segment.

ENP Investments makes cash distributions to its equity owners 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 \$3,043,833.

| | | |
|--|----|-----------|
| Balance, December 31, 2021 | \$ | 2,602,843 |
| Distribution | | (689,434) |
| Non-controlling interest share of income | | 691,625 |
| Balance, December 31, 2022 | | 2,605,034 |
| Distribution | | (537,314) |
| Non-controlling interest share of income | | 490,012 |
| Balance, September 30, 2023 | \$ | 2,557,732 |

During the nine months ended September 30, 2023, the Company had sales of \$ 4,728,562 (2022 - \$4,913,342) to the party that holds 35% interest in ENP Investments, of which \$2,154,033 is included within Accounts Receivable as of September 30, 2023 (December 31, 2022 – \$ 3,634,083).

b) 317 Mendota is a LLC that owns real estate that the Company intends to occupy part of while renting out the excess. The Company owns a 80% interest in 317 Mendota and an unrelated party (“NCI”) owns the remaining 20% interest in 317 Mendota. For financial reporting purposes, the assets, liabilities and earnings of 317 Mendota are consolidated into these financial statements. The NCI’s ownership interest in 317 Mendota is recorded in non-controlling interests in these consolidated financial statements. The non-controlling interest represents NCI’s interest in the earnings and equity of 317 Mendota. 317 Mendota is allocated to the TPA segment as that is the intended use of the building.

| | | |
|--|----|----------------|
| Balance, December 31, 2022 | \$ | - |
| Acquisition | | 200,000 |
| Non-controlling interest share of loss | | (10,615) |
| Balance, September 30, 2023 | \$ | <u>189,385</u> |

16. 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 blankets which save energy and water by inhibiting evaporation from the pool surface, and (ii) food-safe powdered form of the active ingredient within the liquid blankets and which are designed to be used in still or slow moving drinking water sources.

(b) Biodegradable polymers, also known as TPA's (as shown under the column heading "BCPA" below), 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.

The third product line is nitrogen conservation products used for the agriculture industry. These products decrease the loss of nitrogen fertilizer after initial application and allows less fertilizer to be used. These products are made and sold by the Company's TPA division.

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 September 30, 2023:

| | EWCP | BCPA | Total |
|---------------------------------|------------|--------------|--------------|
| Revenue | \$ 144,794 | \$ 8,575,827 | \$ 8,720,621 |
| Interest expense | - | 119,599 | 119,599 |
| Depreciation and amortization | 4,380 | 459,217 | 463,597 |
| Income tax expense | 12,770 | 206,942 | 219,712 |
| Segment profit (loss) | (22,105) | (696,056) | (718,161) |
| Segment assets | 3,697,284 | 49,397,348 | 53,094,632 |
| Expenditures for segment assets | - | (542,014) | (542,014) |

Three months ended September 30, 2022:

| | EWCP | BCPA | Total |
|---------------------------------|------------|---------------|---------------|
| Revenue | \$ 179,007 | \$ 11,506,100 | \$ 11,685,107 |
| Interest expense | - | 80,609 | 80,609 |
| Depreciation and amortization | 9,091 | 330,508 | 339,599 |
| Income tax expense | 24,035 | 325,146 | 349,181 |
| Segment profit (loss) | 69,376 | 1,038,755 | 1,108,131 |
| Segment assets | 2,345,580 | 46,462,283 | 48,807,863 |
| Expenditures for segment assets | - | (233,862) | (233,862) |

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Nine months ended September 30, 2023:

| | EWCP | BCPA | Total |
|---------------------------------|------------|---------------|---------------|
| Revenue | \$ 446,056 | \$ 28,453,373 | \$ 28,899,429 |
| Interest expense | - | 369,967 | 369,967 |
| Depreciation and amortization | 13,099 | 1,202,072 | 1,215,171 |
| Income tax expense | 25,341 | 848,520 | 873,861 |
| Segment profit (loss) | (215,095) | 1,191,168 | 976,073 |
| Segment assets | 3,697,284 | 49,397,348 | 53,094,632 |
| Expenditures for segment assets | - | (4,326,208) | (4,326,208) |

Nine months ended September 30, 2022:

| | EWCP | BCPA | Total |
|---------------------------------|------------|---------------|---------------|
| Revenue | \$ 415,830 | \$ 33,217,700 | \$ 33,633,530 |
| Interest expense | - | 190,366 | 190,366 |
| Depreciation and amortization | 27,537 | 784,340 | 811,877 |
| Income tax expense | 35,341 | 1,569,088 | 1,604,429 |
| Segment profit (loss) | (139,362) | 4,443,007 | 4,303,645 |
| Segment assets | 2,345,580 | 46,462,283 | 48,807,863 |
| Expenditures for segment assets | - | (647,232) | (647,232) |

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

| | Nine months ended September 30, 2023 | Nine months ended September 30, 2022 |
|--------------------------|---|---|
| Canada | \$ 413,265 | \$ 449,106 |
| United States and abroad | 28,486,164 | 33,184,424 |
| Total | <u>\$ 28,899,429</u> | <u>\$ 33,633,530</u> |

The Company's long-lived assets (property, equipment, leaseholds intangibles, goodwill, and right of use assets) are located in Canada and the United States as follows:

| | September 30, 2023 | December 31, 2022 |
|---------------|----------------------|----------------------|
| Canada | \$ 143,811 | \$ 150,890 |
| United States | 17,779,273 | 14,699,896 |
| Total | <u>\$ 17,923,084</u> | <u>\$ 14,850,786</u> |

Three primary customers accounted for \$14,020,837 (49%) of sales during nine months ended September 30, 2023 (2022 - \$ 19,050,848 or 57%).

17. COMPARATIVE FIGURES.

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

18. SUBSEQUENT EVENTS .

In October 2023, the Company received the payment of \$ 200,000 to settle its promissory note issued by Applied Holdings.

On November 2, 2023 the Board of Directors voted to cancel all stock options granted to Dan O'Brien on December 14, 2022.

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

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 three product lines.

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

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

The third product line is nitrogen conservation products used for the agriculture industry. These products decrease the loss of nitrogen fertilizer after initial application and allows less fertilizer to be used. These products are made and sold by the Company's TPA division.

Material changes in the Company's Statement of Operations for the nine and three months ended September 30, 2023 compared to the same period in the prior year are discussed below:

Nine Months ended September 30, 2023

| Item | Increase (I) or Decrease (D) | Reason |
|--|---------------------------------|---|
| Sales | | |
| EWCP products | I | Increased customer orders. |
| TPA products | D | Decreased customer orders along with decrease in pricing. |
| Cost of goods sold, as a percentage of sales | I | Increased raw material costs and increased wages to add and retain manufacturing employees along with added costs associated with obtaining new certifications. |
| Administrative salaries | I | Increased wages and stock option expense for employee retention. |
| Insurance | I | Prior year increase in assets and in sales resulted in higher insurance costs. |
| Interest expense | I | Increased debt resulted in increased interest expense. |

| | | |
|---------------------------|---|--|
| Professional fees | D | Decreased due to one time costs associated with the planned merger with Lygos in 2022. |
| Consulting | D | Addition of new employees decreased the need for consultants. |
| Travel | I | Travel has resumed as COVID-19 has become an endemic. |
| Advertising and promotion | I | Increased outreach to customers and prospects. |
| Investor relations | I | Increased due to higher stock transactions and costs associated with the dividend payment. |

| | | |
|-------------------|---|---|
| Lease expense | D | Purchases of ENP Mendota and ENP Peru, the businesses we were renting from, reduced our lease expense. |
| 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 months ended September 30, 2023

| Item | Increase (I) or Decrease (D) | Reason |
|--|------------------------------|---|
| Sales | | |
| EWCP products | D | Decreased customer orders. |
| TPA products | D | Decreased customer orders along with decrease in pricing. |
| Cost of goods sold, as a percentage of sales | I | Increased raw material costs and increased wages to add and retain manufacturing employees along with added costs associated with obtaining new certifications. |
| Administrative salaries | I | Increased wages and stock option expense for employee retention. |
| Insurance | I | Prior year increase in assets and in sales resulted in higher insurance costs. |
| Interest expense | I | Increased debt resulted in increased interest expense. |
| Professional fees | D | Decreased due to one time costs associated with the planned merger with Lygos in 2022. |
| Travel | I | Travel has resumed as COVID-19 has become an endemic. |
| Consulting | D | Addition of new employees decreased the need for consultants. |
| Advertising and promotion | I | Increased outreach to customers and prospects. |
| Currency exchange | D | Currency exchange decreased 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 accounting for 67% of our sales during the three months ended September 30, 2023 (2022 – 64%) and 49% of our sales during the nine months ended September 30, 2023 (2022 - 57%). The amount of revenue attributable to each customer is shown below.

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| Customer | Three months ended September 30, | | Nine months ended September 30, | |
|-----------|----------------------------------|--------------|---------------------------------|---------------|
| | 2023 | 2022 | 2023 | 2022 |
| Company A | \$ 2,524,802 | \$ 2,152,681 | \$ 4,728,562 | \$ 4,913,342 |
| Company B | \$ 2,561,698 | \$ 2,480,590 | \$ 7,116,232 | \$ 7,931,549 |
| Company C | \$ 725,347 | \$ 766,342* | \$ 2,176,042 | \$ 1,912,121* |
| Company D | \$ 343,776* | \$ 2,819,590 | \$ 2,035,666* | 6,205,957 |

*Not a primary customer in that period

Customers with balances greater than 10% of our receivables as of September 30, 2023 and 2022 are shown below:

| | September 30, | |
|----------------|---------------|-----------|
| | 2023 | 2022 |
| Company A | 2,154,033 | 1,904,110 |
| Company B | 2,274,958 | 2,422,104 |
| Company D | 1,512* | 2,086,502 |
| *less than 10% | | |

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;
- activity in the oil and gas industry, as we sell our TPA products to oil and gas companies;
- drought conditions, since we also sell our TPA products to farmers; and

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 nine months ended September 30, 2023 and 2022 are shown below:

| | 2023 | 2022 |
|---|-------------|-------------|
| Cash provided (used) by operations | 10,128,066 | (658,538) |
| Long term deposits | (387,614) | - |
| Non-controlling interest of 317 Mendota | 200,000 | - |
| Proceeds of equity investment | 101,034 | 108,750 |
| Additional investment in Trio | (470,000) | - |
| Purchase of equipment | (4,326,208) | (647,232) |
| Acquisition of ENP Peru | - | (499,329) |
| Repayments of short term line of credit | (2,818,591) | (276,079) |
| Repayment of long term debt | (542,148) | (2,117,928) |
| Proceeds of long term debt | 2,248,292 | 2,194,000 |
| Dividends paid | (626,777) | - |
| Lease payments | (43,560) | (44,435) |
| Distributions to non-controlling interest | (537,314) | (499,789) |
| Proceeds from issuance of common stock | 13,600 | 74,020 |
| Changes in exchange rates | 200,334 | (29,531) |

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The Company has sufficient cash resources to meet its future commitments and cash flow requirements for the coming year. As of September 30, 2023, working capital was \$19,240,656 (December 31, 2022 - \$20,692,527) and the Company has no substantial commitments that require significant outlays of cash over the coming fiscal year.

We are committed to minimum rental payments for property and premises aggregating approximately \$211,380 over the term of two leases, the last expiring on December 31, 2025.

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

| | |
|------|-----------|
| 2023 | \$ 69,000 |
| 2024 | \$ 70,440 |
| 2025 | \$ 71,940 |

Other than as disclosed above, the Company does not anticipate any capital requirements for the twelve months ending December 31, 2024.

Other than as disclosed above, 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.

See Note 2 to the condensed interim consolidated 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 September 30, 2023. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic reports with the Securities and Exchange Commission is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations, and that such information is accumulated and communicated to our management, including our principal executive and financial officer, as appropriate, to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are designed to provide a reasonable level of assurance of reaching desired disclosure control objectives. Based on the evaluation, our Principal Executive and Financial Officer concluded that these disclosure controls and procedures are effective as of September 30, 2023.

Changes in Internal Control over Financial Reporting

Our management, with the participation of our Principal Executive and Financial Officer, evaluated whether any change in our internal control over financial reporting occurred during the three months ended September 30, 2023. Based on that evaluation, it was concluded that there has been no change in our internal control over financial reporting during the three months ended September 30, 2023 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II

Item 6. Exhibits.

| Number | Description |
|---------|---|
| 3.1 | Articles of Continuance (Articles of Incorporation) (1) |
| 3.2 | Bylaws (2) |
| 31.1 | Certification of Principal Executive Officer Pursuant to §302 of the Sarbanes-Oxley Act of 2002.* |
| 31.2 | Certification of Principal Financial Officer Pursuant to §302 of the Sarbanes-Oxley Act of 2002.* |
| 32.1 | Certification of Principal Executive and Financial Officer Pursuant to 18 U.S.C. §1350 and §906 of the Sarbanes-Oxley Act of 2002.* |
| 101.INS | Inline XBRL Instance Document |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document |

| | |
|---------|---|
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document |
| 104 | Cover Page Interactive Data File (embedded within the Inline XBRL document) |

* Filed with this report.

- (1) Incorporated by reference the same exhibit filed with the Company's March 31, 2022 10-Q report.
- (2) Incorporated by reference to Exhibit 3(ii) filed the Company's 8-K report dated April 10, 2022.

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.

November 14, 2023

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(e) 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.

November 14, 2023

/s/ Daniel B. O'Brien
Daniel O'Brien
Principal Executive 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(e) 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.

November 14, 2023

/s/ Daniel B. O'Brien
Daniel O'Brien
Principal Financial Officer

**CERTIFICATION OF PRINCIPAL EXECUTIVE 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 September 30, 2023 (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.

November 14, 2023

/s/ Daniel B. O'Brien

Daniel B. O'Brien
Principal Executive and Financial Officer
