

# FAB-FORM

MD&A  
For the quarter ended  
30 September 2020



With lumber prices at an all time high, so is Fastfoot® use. Since mid April lumber prices have risen by 130%. With no end in site to this supply and demand issue, we expect more builders to start using Fastfoot®.

## MD&A TO OUR SHAREHOLDERS

Demand for our proprietary products, especially Fastfoot® has significantly increased during the last quarter. This increase is promising amid unprecedented challenging market conditions due to Covid-19.

Management is continuing to invest time and funds in developing new and innovative products. We are also making the corporate website mobile friendly as 44% of viewers are now using their phones to access the information.

As always, thank you, board members, shareholders, and progressive dealers and contractors for your continued support and commitment.

**The Company's independent auditors have neither reviewed nor audited this financial information.**

Sincerely



Richard Fearn  
President and CEO  
20 October 2020



Don Russell  
Chief Financial Officer  
20 October 2020

## MANAGEMENT DISCUSSION & ANALYSIS

*Third Quarter 2020*

This discussion and analysis of the financial results of Fab-Form Industries Ltd. (Fab-Form or the Company) should be read in conjunction with the consolidated audited financial statements for the year 2019 and accompanying notes. The results reported herein have been prepared in accordance with International Financial Reporting Standards (IFRS) and are presented in Canadian dollars unless otherwise stated. Additional information relating to the Company can be found on the SEDAR (System for Electronic Document Analysis and Retrieval) website at [www.sedar.com](http://www.sedar.com).

### FORWARD-LOOKING STATEMENTS

Some statements contained in this MD&A constitute "forward-looking statements" as is defined in applicable securities laws. These statements include, without limitation, the success of developing, manufacturing, and distributing new products and other similar statements concerning anticipated future events, conditions, or results that are not historical in nature, and reflect management's current estimates, beliefs, intentions, and expectations; they are not guarantees of future performance. The Company cautions that all forward-looking information is inherently uncertain and that actual performance may be affected by several material factors, many of which are beyond the Company's control. Such factors include, among others, risks and uncertainties relating to product development; the ability of the Company to obtain additional financing; the Company's limited operating history; the need to comply with environmental and governmental regulations; potential defects in product performance; fluctuations in currency exchange rates; fluctuating prices of commodities; operating hazards and risks; competition; the uncertainty of capturing market share and other risks and uncertainties. Accordingly, actual future events, conditions, and results may differ materially from the estimates, beliefs, intentions, and expectations expressed or implied in the forward-looking information. All statements are made as of the Report Date and, except as required by law, the Company is under no obligation to update or alter any forward-looking information.

### COMPANY DESCRIPTION

Fab-Form Industries Ltd. (the "Company" or "Fab-Form") is a company domiciled in Canada and incorporated under the Company Act of British Columbia. The address of the Company's head office is Unit 19, 1610 Derwent Way, Delta BC V3M 6W1. The Company develops, manufactures, and distributes proprietary technology to form concrete footings, columns, foundations, and walls for building structures. The Company also exclusively distributes Helix® micro rebar into the BC market and Nudura® insulating concrete form into the Lower Mainland market. The Company has traded on the TSX Venture Exchange ("TSX-V" under the symbol FBF) since 2000.

### INTERIM MD&A REPORTING

The reader should refer to our interim consolidated financial statements for the three-month period ended 30 September 2020 and our Annual financial statements for the year ended 31 December 2019 while reading this discussion. The reader should also refer to the MD&A in our 2019 Annual Financial Statements as any MD&A information that has not changed materially since year-end is not repeated here.

FAB-FORM INDUSTRIES LTD.  
MANAGEMENT DISCUSSION & ANALYSIS  
Third Quarter 2020

**OPERATING RESULTS**

	Quarterly Results			
	July to Sep 2020	July to Sep 2019	Change	%
	\$	\$	\$	
Revenue	872,305	945,004	(72,699)	-7.69%
Cost of sales	(555,585)	(662,453)	106,868	-16.13%
<b>Gross profit</b>	<b>316,720</b>	<b>282,551</b>	<b>34,169</b>	<b>12.09%</b>
<b>Other operating expense</b>	(6,489)	(4,393)	(2,096)	47.72%
<b>Expenses</b>				
General and administration expenses	(80,997)	(51,239)	(29,758)	58.08%
Selling and marketing expenses	(37,312)	(41,117)	3,805	-9.25%
Credit card processing fees	(10,321)	(11,048)	727	-6.58%
Provision for expected credit losses	(18,496)	-	(18,496)	100.00%
<b>Total expenses</b>	<b>(147,126)</b>	<b>(103,404)</b>	<b>(43,722)</b>	<b>42.28%</b>
<b>Profit before interest and taxes</b>	<b>163,105</b>	<b>174,754</b>	<b>(11,649)</b>	<b>-6.67%</b>
Finance cost	(510)	-	(510)	100.00%
<b>Profit before taxation</b>	<b>162,595</b>	<b>174,754</b>	<b>(12,159)</b>	<b>-6.96%</b>
<b>Income tax expense</b>	(43,859)	(42,760)	3,289	-7.69%
<b>Profit for the quarter/period/year</b>	<b>118,735</b>	<b>131,994</b>	<b>(13,259)</b>	<b>-10.04%</b>
Other comprehensive income	-	-	-	
<b>Total comprehensive income for the period</b>	<b>118,735</b>	<b>131,994</b>	<b>(13,259)</b>	<b>-10.04%</b>

Total sales for the quarter ended 30 September 2020 declined by 7.69%, compared to the corresponding quarter ended in 2019. This was mainly due to the continued impact from the Covid-19 pandemic and related economic conditions that have directly impacted the construction industry. Proprietary product sales increased, resulted in an increase in overall gross profit margin for the quarter by 12.09%.

Profit before income taxes and interest (PBIT) has dropped by 10.04% compared to the quarter ended 30 September 2019 due to a reduction in overall sales, an increase in administration expenses, and an additional impairment provision on accounts receivable of \$18,496.

The company made a net profit of \$118,735 for the quarter ended 30 September 2020 increasing the net assets position of the company by 6.9% from previous quarter.

## MANAGEMENT DISCUSSION &amp; ANALYSIS

Third Quarter 2020

## 1. Analysis of Revenue – By Product

	July to Sep 2020	July to Sep 2019	Change	%
Fast-Pad	2,110	-	2,110	100.00%
Fastfoot	116,441	75,718	40,723	53.78%
Fast-Tube	6,934	7,953	(1,019)	-12.81%
Helix	56,880	88,456	(31,576)	-35.70%
Monopour	17,764	19,633	(1,869)	-9.52%
Nudura	382,082	518,164	(136,082)	-26.26%
Rentals	23,314	31,152	(7,838)	-25.16%
Bracing	221,704	158,890	62,814	39.53%
ICF accessories	36,441	41,424	(4,984)	-12.03%
Used bracing & accessories	8,636	3,053	5,583	182.86%
Sundry income	-	561	(561)	-100.00%
	<b>872,305</b>	<b>945,004</b>	<b>(72,699)</b>	<b>-7.69%</b>

Proprietary product sales volumes have increased during the quarter recording an increase of revenue by \$104,627 over the corresponding quarter in 2019 as a result increase in lumber prices. Nudura and Helix revenue dropped by 26% and 35% respectively, as a result of Covid-19. Demand for Fast-Pad is continuing to increase with the official product launch to take place in the final quarter of 2020. Zont Bracing showed excellent performance of 39.53% due to increasing acceptance by the ICF industry.

## 2. Analysis of cost of sales

	July to Sep 2020	July to Sep 2019	Change	%
<b>Total direct product COGS</b>	537,456	649,991	(112,535)	-17.31%
<b>Indirect product COGS</b>				
Inventory adjustment account	2	106	(104)	-98.11%
Waste disposal	283	27	256	949.70%
GS1 charges	225	327	(102)	-31.19%
Packing materials	810	26	(784)	3015.85%
Amortization production equipment and tools	2,601	1,124	(1,477)	131.41%
Production lease rental amortization	9,636	9,453	183	1.94%
Variable overhead	4,572	1,399	3,173	226.79%
<b>Total indirect product COGS</b>	<b>18,129</b>	<b>12,462</b>	<b>5,667</b>	<b>45.48%</b>
	<b>555,585</b>	<b>662,453</b>	<b>(106,868)</b>	<b>-16.13%</b>

The introduction of strict cost control strategies has resulted in a decrease in the direct production costs of proprietary products. This has resulted in a reduction in the cost of sales partially and contributed by a drop in overall sales during the quarter corresponding to quarter in 2019. Management continues to evaluate the various strategies to optimize production and cost saving opportunities. The total indirect cost for the quarter ended 30 September 2020 increased 45.48% over the previous year's quarter. This was due to an increase in variable overheads resulting substantially from inventory counting which did not take place in 2019.

## MANAGEMENT DISCUSSION &amp; ANALYSIS

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**3. Analysis of administration expenses**

	<b>July to Sep 2020</b>	<b>July to Sep 2019</b>	<b>Change</b>	<b>%</b>
Amortization & depreciation	204	967	(763)	-78.90%
Office rental amortisation	5,456	5,505	(49)	-0.89%
Patent & TM maintenance fees	71	451	(380)	-84.22%
Professional Fees	8,184	5,965	2,219	37.20%
Pubco expenses	2,719	3,963	(1,244)	-31.40%
General expenses	12,216	10,060	2,156	21.43%
Wages and benefits	47,144	19,035	28,109	147.67%
Telecommunications & computers	5,003	5,293	(290)	-5.48%
<b>Total administrative expenses</b>	<b>80,997</b>	<b>51,239</b>	<b>29,758</b>	<b>58.08%</b>

Administration expenses increased by 58% during the quarter in corresponding to the quarter that ended in 2019. Mainly due to the recognition of staff bonus provision amounting to \$21,000 based on year to date performance of the company, and provisionally approved by the Board of Directors.

**4. Analysis of selling and marketing expenses**

	<b>July to Sep 2020</b>	<b>July to Sep 2019</b>	<b>Change</b>	<b>%</b>
Fastfoot residential	8,089	4,893	3,196	65.32%
Fast-Pad	909	-	909	100.00%
Monopour	622	2,061	(1,439)	-69.81%
Fast-Tube	1,321	1,320	1	0.05%
Bracing	14,000	13,348	652	4.89%
Helix	289	135	154	114.07%
Nadura	12,082	18,710	(6,628)	-35.42%
Other	-	650	(650)	-100.00%
<b>Total selling &amp; marketing</b>	<b>37,312</b>	<b>41,117</b>	<b>(3,805)</b>	<b>-9.25%</b>

As we progress on tracking effective modes of marketing campaigns for each product, steps have been taken to discontinue ineffective campaigns. This has resulted in a decrease in overall selling and marketing costs over 2019. Social media and Adwords are continuing to deliver effective results as opposed to traditional modes of marketing. Corporate website design is being improved during the quarter to ease navigation and provide a better user experience to our stakeholders and customers. Reduced labor cost on Nadura selling expenses was in line with the drop in sales.

## MANAGEMENT DISCUSSION &amp; ANALYSIS

Third Quarter 2020

**5. Covid-19 and accounting impact****Impairment of non-financial assets**

Management assessment of the impact of Covid-19 has not identified any impairment indicators that would require an adjustment on non-financial assets. Management will continue to monitor as the situation evolves.

**Expected credit losses – Accounts receivables**

In the light of uncertainty arising from the Covid-19 pandemic, significant judgment is applied in assessing the range of potential outcomes, so as to meet IFRS 9's requirement. Given the speed at which events are unfolding, measuring ECL was challenging. The management developed an estimate based on the best available data and past events, current conditions, and forecasts of future economic conditions. An additional provision of \$18,496 is recognized in the comprehensive statement of income for the quarter ended 30 September 2020, this has been disclosed on the face of the statement as required by IAS 1 – Presentation of Financial Statements.

The management will continue to monitor changes to increase credit risk as the market conditions evolve.

**Liquidity, cash flow position, and going concern**

Net cash generated from operating activities increased to \$146,513 for the quarter ended 30 September 2020 compared to \$7,197 cash used in the corresponding quarter ended 30 September 2019. The increase is mainly due to the performance, the net improvement in collections of accounts receivables and decrease in accounts payables at the quarter ended partially set off by an increase in inventory held and advance payments to suppliers at the end of the quarter.

Capital expenditure incurred is limited to the purchase of office equipment, apart from that no other material capital expenditure incurred during the quarter. Cash used in financing activities has been increased by \$8,067 compared to the corresponding quarter in 2019. Financing activities represent principle elements of lease payments for three months.

The overall performance of the quarter has resulted in an increase in cash & cash equivalent by \$120,687. Total cash & cash equivalent at the quarter-end was \$1,178,614 compared to \$889,351 at the end of the corresponding quarter in 2019. The entity is debt-free and has financial liquidity and flexibility.

The financial statements have been prepared based on accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realization of assets and settlement of liabilities, contingent obligations, and commitments will occur in the ordinary course of business of the Company.

**6. Selected quarterly financial summary**

The following table provides selected quarterly financial information derived from the Company's financial statements for each of the nine recently completed quarters.

	2020			2019			2018		
	3rd Qtr	2nd Qtr	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	4th Qtr	3rd Qtr
Revenues	872,305	877,482	318,493	554,701	945,004	1,020,627	371,379	608,663	780,534
Net Income	118,735	98,234	31,181	85,979	131,994	121,921	6,644	117,805	115,122
No of shares (diluted)	8,822,055	8,822,055	8,822,055	8,822,055	8,822,055	8,822,055	8,822,055	8,822,055	8,822,055
EPS	0.0135	0.0111	0.0035	0.0097	0.0150	0.0138	0.0008	0.0134	0.013

Additional financial information on the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Approved

"Board of Directors"

20 September 2020

FAB-FORM INDUSTRIES LTD.

FURTHER INFORMATION

*FAB-FORM INDUSTRIES LTD., headquartered in Delta BC, is a manufacturer and distributor of green and cost-effective concrete forming products for the building industry. Its common shares trade on the Toronto Venture Exchange under the symbol "FBF".*

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Shareholders and interested investors should visit:

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[www.vancouvericf.com](http://www.vancouvericf.com)

[www.steelfiberswest.com](http://www.steelfiberswest.com)