

Fab-Form Industries Ltd.

Schedule B – ANALYSIS OF EXPENSES & DEFERRED COSTS
QUARTER ENDING 30 JUNE 2003

ANALYSIS OF EXPENSES AND DEFERRED COSTS

See consolidated financial statements for details.

1. RELATED PARTY TRANSACTIONS

See consolidated financial statements for details.

2. SUMMARY OF SECURITIES ISSUED AND OPTIONS GRANTED DURING THE PERIOD

a) Securities issued:

NONE

b) Options granted:

NONE

3. SUMMARY OF SECURITIES AS AT THE END OF THE REPORTING PERIOD

a) Authorized share capital:

See consolidated financial statements for details.

b) Shares issued and outstanding:

See consolidated financial statements for details.

c) Options, warrants and convertible securities outstanding:

See consolidated financial statements for details.

d) Shares subject to escrow or pooling agreements.

See consolidated financial statements for details.

4. NAMES OF DIRECTORS AND OFFICERS AS AT THE DATE THIS REPORT IS SIGNED AND FILED

Richard Fearn - President, Director, CEO, CFO

Herb Bentz - Director, Corporate secretary

Chris Mattock - Director

Schedule C – MANAGEMENT DISCUSSION

QUARTER ENDING 30 JUNE 2003

DESCRIPTION OF BUSINESS

Fab-Form Industries Ltd. is a developer, manufacturer and marketer of forming products using fabric in place of lumber to form and damp proof concrete for the building industry (see www.fab-form.com for details of products, distribution structure and public company background). Fab-Form is the only company commercializing this technology.

Since going public in October of 1999, the Company has been severely constrained with a shortage of working capital. In 2002, the Company achieved profitable operations for the first time.

The Company's long-term business goal is to take fabric-forming technology to mainstream distributors, and earn significant profits for its shareholders.

The Company is a reporting issuer in British Columbia and Alberta, and trades on the TSX Venture Exchange under the symbol 'FBF'.

DISCUSSION OF OPERATIONS & FINANCIAL CONDITIONS

Sales

Sales for the second quarter were \$43,109, a 54% increase over the first quarter's sales of \$28,081, but below breakeven levels of approximately \$75,000 per quarter. Repeat sales amounted to over 90% of sales, as shown in the following table:

	<i>Repeat</i>	<i>New</i>	<i>Total</i>
Sales	\$39,286	\$4,128	\$43,414
Percentage	90.5%	9.5%	100%

Sales of Fastfoot® fabric for the first half year were **up 163%** over 2002, while sales of steel Fast-Yokes™ (no longer in production) dropped 99% and Fastbags® dropped 85%. This 163% increase of fabric sales shows that the Company is making steady progress in the market place with its core product.

	<u>Jan - Jun 03</u>	<u>Jan - Jun 02</u>	<u>\$ Change</u>	<u>% Change</u>
Sales				
Fastfoot® fabric	\$ 52,004	\$ 19,805	\$ 32,200	163%
Fastbags®	\$ 14,752	\$ 95,512	-\$ 80,759	-85%
Fast-Tube	\$ -	\$ -	\$ -	0%
Fast-Yoke™, brackets	\$ 159	\$ 19,542	-\$ 19,383	-99%
Other	\$ 4,274	\$ 6,062	-\$ 1,788	-30%
Total Sales	\$ 71,189	\$ 140,920	-\$ 69,731	-49%

During the first six months of 2002, a single customer accounted for \$80,059 of Fastbag® sales, or 57% of total sales. In 2003 sales to this customer fell to \$9,342, a reduction of \$70,717, as a result of their unsuccessful distribution strategy.

Cost of Goods Sold

Gross margins for the quarter were 44%, a drop over the previous quarter's 53%. This was primarily due to a significant reduction in the value of the US dollar, with the result that export sales were valued about 11% less than before the currency change. In June, a price increase to the US market was put into effect, which will improve gross margins in the coming quarters.

The Cost of Goods Sold components remained unchanged with material costs 61%, labour 25% and transportation 14%.

Expenses

Operating expenses of \$35,061 represented a 6% increase over the previous year's \$32,913. Marketing and advertising expenses for the second quarter increased \$6,478 from the previous year, whereas professional fees dropped \$3,784.

Statement of Operations & Deficit

The Company's loss for the second quarter of \$16,087 continued the first quarter's loss of \$18,093, compared with a profit of \$8,665 for the second quarter in 2002. These losses are primarily attributable to lower sales as previously discussed.

Fab-Form Industries Ltd.

Schedule C – MANAGEMENT DISCUSSION

QUARTER ENDING 30 JUNE 2003

Working Capital Position

The Company's working capital position at the end of the second quarter was (\$117,556) an increase from the first quarter's (\$89,373), but an improvement over (\$175,983) in the second quarter of 2002. This increase was due to sales levels continuing below breakeven.

Finance & Cash Flow

Operating activities for the quarter provided cash of \$7,567, compared with \$10,634 in 2002. Investing activities totalled \$18,828, compared with \$15,634 in 2002. The investment was machinery for the production of the Fast-Tube™, which totalled \$35,116 for the first two quarters.

Fast-Tube™ Update

At the end of the first quarter the welding machine was operational, with samples were sent to thirty contractors across USA and Canada. The Fast-Tube™ functioned perfectly in all cases but one where a tear in the fabric caused form failure. Stripping of the fabric is easily achieved by peeling along the weld line. For pictures go to: <http://www.fab-form.com/projects/Qualico.html>

A large part of the Fast-Tube™ manufacturing process is the accurate folding of the fabric before it enters the welder. The prototype folder has been completed and tested satisfactorily. The integration of the welder into the folding machine required substantial redesign of the welding configuration. The welder working drawings are now substantially complete, with fabrication expected to take six weeks.

Distribution Strategy

As unit sales of footing fabric amount to about \$220 per house; it is clearly not possible or profitable to spend large marketing and selling dollars on each sale. As a result, the marketing strategy is two fold: first, use the cost effective Internet to find early adopters; and second, find distributors with the capacity of selling innovative technology into the construction marketplace. Both these strategies are being successfully implemented.

Fastfoot® Marketing Strategy

A CMHC study carried out in 1995-1996 in the Ottawa valley region showed that half of the 405 houses "had signs of moisture in the basement". The study then selected 22 for further investigation. Molds were found in 18 of the 22 houses, or 82%. Mold samples were taken from 16 of the 18 houses. In 100% of those houses, "molds with properties that are harmful to humans were found." For further information, go to: [http://www.fab-form.com/news/pr/Harmful%20Molds%20in%20Finished%20Basements%20\(full\).html](http://www.fab-form.com/news/pr/Harmful%20Molds%20in%20Finished%20Basements%20(full).html)

The housing market is very concerned with dampness and mold in buildings. As the footing fabric prevents rising damp in the concrete foundation, and as most moisture is located at the base of the excavation where the footing concrete is located, there is an important and large market for the footing fabric. The communication of the benefits of the footing membrane to the homeowner and architect/designer is essential for Fastfoot® to be sold on this basis.

The Company is developing a marketing strategy with support materials to be used to sell Fastfoot® as an anti-wicking membrane. This material will be ready by the end of the third quarter.

MATERIAL CONTRACTS

There were no material contracts in 2003.

INVESTOR RELATIONS

There are no agreements for investor relations.

SUBSEQUENT EVENTS

None