

## NI 51-102

### MANAGEMENT'S DISCUSSION & ANALYSIS

Incorporated as part of: Quarterly Financial Statements

#### ISSUER DETAILS:

**Name of Issuer:** **FAB-FORM INDUSTRIES LTD.**  
**Issuer Address:** #212 - 6333 148<sup>th</sup> Street, Surrey, B.C. V3S 3C3  
**Issuer Fax No.:** (604) 501-6090  
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**Contact Position:** President  
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**Web Site Address:** [www.fab-form.com](http://www.fab-form.com)  
**For Quarter Ended:** 31 March 2004  
**Date of Report:** 26 May 2004

#### *CERTIFICATE:*

THE DISCLOSURE CONTAINED HEREIN HAS BEEN APPROVED BY THE BOARD OF DIRECTORS.  
A COPY OF THIS REPORT WILL BE PROVIDED TO ANY SHAREHOLDER WHO REQUESTS IT.

"Richard Fearn" Richard Fearn 26 May 2004

"Herb Bentz" Herb Bentz 26 May 2004

# MANAGEMENT'S DISCUSSION & ANALYSIS

## QUARTER ENDED 31 March 2004

### DESCRIPTION OF BUSINESS

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

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'.

### OVERALL PERFORMANCE

#### *Sales*

Sales for the quarter were \$45,896, a 63% increase over the previous year's \$28,081. Sales of Fastfoot® dropped 26.8% over 2003, while Fastbag® increased 354% over 2003. Fast-Tube™ sales began in March, with the product showing ready acceptance by the market.

	<u>Jan - Mar 04</u>	<u>Jan - Mar 03</u>	<u>\$ Change</u>	<u>% Change</u>
<b>Fastfoot®</b>	15,361.60	20,997.29	-5,635.69	-26.84%
<b>Fastbag®</b>	24,131.30	5,314.03	18,817.27	354.11%
<b>Fast-Tube™</b>	4,100.25	0.00	4,100.25	100.0%
<b>Other</b>	<u>2,303.03</u>	<u>1,777.34</u>	<u>525.69</u>	<u>29.58%</u>
<b>Total Sales</b>	<u>45,896.18</u>	<u>28,088.66</u>	<u>17,807.52</u>	<u>63.4%</u>

#### *Cost of Goods Sold*

Gross margins for the quarter were 55%, a small decrease over the previous year's quarter of 56%. The Cost of Goods Sold components remained relatively unchanged from the previous quarter.

#### *Expenses*

Operating expenses of \$24,096 fell 29%% from the previous year's quarter of \$33,947. This reduction was due primarily to a reduction in marketing expenses. Interest costs increased from \$650 in 2003 to \$2,606 this quarter due to loans for the production machinery and working capital for the Fast-Tube™.

#### *Statement of Operations & Deficit*

The Company's net income for the quarter was \$1,314, compared with the previous year's quarterly loss of \$18,093, due primarily to increased sales as well as a reduction in marketing expenditures.

#### *Finance & Cash Flow*

Operating activities for the quarter generated cash of \$2,741, compared with a use of \$23,787 in 2003. Investing activities totalled \$12,372, compared with \$19,616 in 2003. The investment was machinery and product development for the Fast-Tube™, which totalled \$89,371 at quarter-end. Financing activities (long term debt) were a source of \$35,120 in 2004, compared with \$56,369 the previous year's quarter.

#### *Fast-Tube™ Production*

The production machinery is now fully functional, with both 10" and 12" diameters being sold into a receptive market. Packaging methodology is now complete, and is designed for skid optimization.

#### *Distribution Strategy*

The Fast-Tube™ is currently being distributed into the BC lumberyard market, with nine lumberyards currently carrying the product. Three have already reordered product. The North America product launch will occur after penetration of the local market has been achieved, with this introduction expected in late May or June of 2004.

# MANAGEMENT'S DISCUSSION & ANALYSIS

## QUARTER ENDED 31 March 2004

### SELECTED ANNUAL INFORMATION

	31-Dec-03	31-Dec-02	31-Dec-01
Revenues	\$ 151,624	\$ 260,926	\$ 188,366
Cost of Sales	\$ 69,921	\$ 117,248	\$ 108,317
Gross Profit	\$ 81,703	\$ 143,678	\$ 80,049
% Gross Profit	54%	55%	42%
Expenses	\$ 126,902	\$ 130,029	\$ 179,153
Net Income (loss)	\$ (45,199)	\$ 70,358	\$ (99,104)
Shares outstanding (diluted)	6,794,928	6,433,116	5,472,058
Income (loss) per diluted share	\$ (0.007)	\$ 0.011	\$ (0.018)
Total Assets	\$ 454,322	\$ 435,008	\$ 405,389
Total Long Term Financial Liabilities	\$ 37,360	\$ 1,980	\$ 9,587
Cash Dividends Declared	None	None	None

Sales variations from year to year are due the innovative nature of the fabric forming products, and the reliance on early adopter distribution, which can vary substantially from year to year.

### SUMMARY OF QUARTERLY RESULTS

	2004		2003				2002		
	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	
Revenues	45,896	40,837	39,597	43,109	28,081	42,531	77,372	75,473	
Net Income (loss) before extraordinary items	1,314	(7,930)	(3,089)	(16,087)	(18,093)	3,250	6,777	7,432	
Shares outstanding (diluted)	6,794,928	6,613,772	6,872,178	6,872,178	6,433,116	5,952,587	5,952,587	5,952,587	
Income (loss) per diluted share	0.000	(0.001)	(0.000)	(0.002)	(0.003)	0.001	0.001	0.001	

Sales tend to be higher during the construction months, and lower during winter freeze up.

### LIQUIDITY

The Company's working capital position at the end of the first quarter was (\$118,411) an increase from 2003 first quarter of (\$89,373). However if the PEMD loan of \$12,707 is shown as current in 2003, the comparative 2003 working capital position is (\$102,080), with the deterioration due to the yearly loss for the year 2003.

### CONTRACTUAL OBLIGATIONS

See Note 11, Long Term Debt in the financial statements.

### CAPITAL RESOURCES

The Company has limited capital resources, and is relying on sales with high gross margins to provide future capital.

### OFF BALANCE SHEET ARRANGEMENTS

None.

### MATERIAL CONTRACTS

There were no material contracts in 2004.

### TRANSACTIONS WITH RELATED PARTIES

See Note 13, Related Party Transactions in the financial statements.

### PROPOSED TRANSACTIONS

None.

**MANAGEMENT'S DISCUSSION & ANALYSIS**  
**QUARTER ENDED 31 March 2004**

## **CHANGES IN ACCOUNTING POLICIES**

There have been no changes in accounting policies. The unaudited consolidated interim financial statements for the three months ended March 31 2004 have been prepared in accordance with Canadian generally accepted accounting principles. The reporting currency is the Canadian dollar.

## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

None.

## **INVESTOR RELATIONS**

There are no agreements for investor relations.

## **SUBSEQUENT EVENTS**

None