



Ron Kautzma, Sunset Builders, produces decorative columns with Fast-Tube™.

# ***FAB-FORM INDUSTRIES LTD.***

2005 Second Quarter Report

# REPORT TO OUR SHAREHOLDERS

## **Strong North American Sales**

We are pleased to report record sales and profits in the second quarter of 2005.

The Board and I would like to thank our shareholders, suppliers and customers for their belief and support in the revolutionary and paradigm shifting technology of fabric forms for concrete.

Sincerely

A handwritten signature in black ink, appearing to read 'R. Fearn', with a horizontal line extending to the right.

Richard Fearn  
President  
August 5 2005

SECOND QUARTER REPORT  
**MANAGEMENT DISCUSSION & ANALYSIS**

(Canadian funds, unaudited)

**QUARTERLY FINANCIAL SUMMARY**

	2005		2004				2003			
	2nd Qtr	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr
Revenues	166,781	76,491	36,071	112,454	63,852	45,896	40,837	39,597	43,109	28,081
Net Income (loss) before ext. items	48,190	(7,019)	(21,499)	22,587	5,077	1,314	(7,930)	(3,089)	(16,087)	(18,093)
Shares outstanding (diluted)	7,283,604	6,794,928	6,794,928	6,794,928	6,794,928	6,794,928	6,613,772	6,872,178	6,872,178	6,433,116
Income (loss) per diluted share	0.007	(0.001)	(0.003)	0.003	0.001	0.000	(0.001)	(0.000)	(0.002)	(0.003)

**FINANCIAL RESULTS**

**Sales**

Sales for the second quarter were \$166,781, a 161% increase over the previous year's \$63,852. Sales of Fastfoot® increased 221% over 2004; Fastbags® 137%, and Fast-Tube™ 106% over the previous year.

	<u>Apr - Jun 05</u>	<u>Apr - Jun 04</u>	<u>\$ Change</u>	<u>% Change</u>
<b>Fastfoot®</b>	91,712	28,611	63,101	220.5%
<b>Fastbag®</b>	29,502	12,444	17,058	137.1%
<b>Fast-Tube™</b>	36,659	17,809	18,850	105.8%
<b>Other</b>	8,908	4,988	3,920	78.6%
<b>Total Sales</b>	<u>166,781</u>	<u>63,852</u>	<u>102,929</u>	<u>161.2%</u>

**Cost of Goods Sold**

Gross margins for the quarter were 58%, compared with 57% in the previous year.

**Expenses**

Operating expenses increased to \$48,389 from \$31,377 the previous quarter. This was due to the expensing of management fees instead of capitalizing under production equipment. Marketing expense increased to \$10,606 from the previous quarter as a result of providing marketing materials to dealers and distributors. Higher levels of amortization of \$15,913 in 2005, compared with \$8,712 in 2004, is a result of the use of "sum-of-the-digits" amortization method.

**Statement of Operations & Deficit**

The Company's net profit for the quarter was \$48,190, compared with the previous year's \$5,077. This increase was a result of sales at levels significantly greater than breakeven.

**Investing Activities**

The Company invested \$16,025 in patents for the Fast-Tube™ around the world and \$4,789 for improvements to production machinery.

**Financing Activities**

On June 2<sup>nd</sup>, the Company completed its private placement of \$78,268. This money will be used for working capital and the development of larger diameter Fast-Tube™ production machinery.

**Cash Flow**

Operating activities for the quarter generated cash of \$23,628, compared with \$2,378 in 2004. The net increase in cash during the second quarter was \$68,060, a substantial increase over a deficit of \$17,445 in 2004.

**Liquidity**

The Company achieved a positive working capital of \$19,049, a significant improvement over the previous year's (\$125,887).

SECOND QUARTER REPORT  
MANAGEMENT DISCUSSION & ANALYSIS

(Canadian funds, unaudited)

DISCUSSION OF NON FINANCIAL ITEMS

**Off Balance Sheet Arrangements**

None

**Material Contracts**

The Company has an exclusive distribution agreement with Can-Cell Industries Inc. in western Canada.

**Changes in Accounting Policy**

There have been no changes in accounting policies.

**Internal Control over Financial Reporting**

Fab-Form has worked closely with the auditors to ensure adequate internal controls to provide correct financial reporting.

**Effectiveness of Disclosure Controls**

Our board has discussed proper disclosure, and has placed controls in place to ensure all relevant information is properly disclosed to the market.

**Subsequent Events**

None

SELECTED ANNUAL INFORMATION

	31-Dec-04	31-Dec-03	31-Dec-02	31-Dec-01
Revenues	\$ 258,273	\$ 151,624	\$ 260,926	\$ 188,366
Cost of Sales	\$ 117,083	\$ 69,921	\$ 117,248	\$ 108,317
Gross Profit	\$ 141,190	\$ 81,703	\$ 143,678	\$ 80,049
% Gross Profit	55%	54%	55%	42%
Expenses	\$ 133,711	\$ 126,902	\$ 130,029	\$ 179,153
Net Income (loss)	\$ 7,479	\$ (45,199)	\$ 70,358	\$ (99,104)
Shares Outstanding (diluted)	6,794,928	6,794,928	6,433,116	5,472,058
Income (loss) per diluted share	\$ 0.000	\$ (0.007)	\$ 0.011	\$ (0.018)
Total Assets	\$ 463,380	\$ 454,322	\$ 435,008	\$ 405,389
Total Long Term Financial Liabilities	\$ 79,227	\$ 37,360	\$ 1,980	\$ 9,587
Cash Dividends Declared	None	None	None	None

Approved  
"Board of Directors"  
August 5 2005

SECOND QUARTER CONSOLIDATED FINANCIAL STATEMENTS

BALANCE SHEETS

(Canadian funds, unaudited)

<b>ASSETS</b>	<b>2005</b>	2004
<b>Current</b>		
Cash	\$ 37,383	\$ -
GST receivable	2,734	3,094
Accounts receivable	61,636	16,373
Prepaid expenses and advances	7,967	8,699
Inventory	39,513	33,810
	<b>149,233</b>	61,976
<b>Property, Plant and Equipment</b> (Note 5)	<b>101,410</b>	108,601
<b>Deferred Development costs</b> (Note 6)	<b>194,895</b>	216,137
<b>Patents</b> (Note 7)	<b>105,252</b>	94,426
<b>Trademarks</b> (Note 8)	<b>9,385</b>	10,860
	<b>\$ 560,175</b>	\$ 492,000
<b>LIABILITIES</b>		
<b>Current</b>		
Bank overdraft (Note 9)	\$ -	\$ 22,603
Accounts payable and accrued liabilities	105,664	102,890
Accounts payable - related (Note 14)	2,913	16,183
Loans from related parties (Notes 10 and 14)	3,727	5,400
Current portion of long-term debt (Note 11)	17,880	40,787
	<b>130,184</b>	187,863
<b>Long-Term Debt</b> (Note 11)	<b>70,287</b>	64,960
<b>Obligation to Issue Shares</b> (Note 12)	<b>63,500</b>	63,500
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share Capital</b> (Note 13)	<b>691,942</b>	613,674
<b>Deficit</b>	<b>(395,738)</b>	(437,997)
	<b>296,204</b>	175,677
	<b>\$ 560,175</b>	\$ 492,000

ON BEHALF OF THE BOARD:

**"Richard Fearn"**

\_\_\_\_\_, Director

**"Herb Bentz"**

\_\_\_\_\_, Director

See accompanying notes to the consolidated financial statements

SECOND QUARTER CONSOLIDATED FINANCIAL STATEMENTS  
 STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

(Canadian funds, unaudited)

	THREE MONTHS		SIX MONTHS	
	2005	2004	2005	2004
<b>Sales</b>	\$ 166,781	\$ 63,852	\$ 243,272	\$ 109,748
<b>Cost of Sales</b>	<b>70,202</b>	27,398	<b>107,474</b>	47,885
<b>Gross Profit</b>	<b>96,579</b>	36,454	<b>135,798</b>	61,868
(Percent Gross Profit)	58%	57%	56%	56%
<b>Expenses</b>				
Administrative expenses	<b>2,411</b>	4,686	<b>6,723</b>	8,615
Amortization and depreciation	<b>15,913</b>	8,712	<b>30,230</b>	17,424
Interest, bank charges, short term debt	<b>1,093</b>	1,269	<b>2,466</b>	2,783
Interest, long term debt	<b>1,741</b>	1,850	<b>3,297</b>	2,942
Foreign exchange loss (gain)	<b>(797)</b>	(44)	<b>(743)</b>	(179)
Management fees	<b>10,467</b>	2,159	<b>20,497</b>	3,609
Marketing and advertising	<b>10,606</b>	3,273	<b>15,256</b>	3,149
Occupancy	<b>3,940</b>	2,434	<b>8,408</b>	5,276
Patent maintenance	<b>173</b>	240	<b>267</b>	481
Production	<b>368</b>	493	<b>562</b>	491
Professional fees	<b>1,908</b>	3,183	<b>4,831</b>	5,433
Public company expenses	<b>(520)</b>	2,212	<b>810</b>	3,336
Telecommunications	<b>1,004</b>	910	<b>1,941</b>	1,798
Wages and benefits	<b>82</b>	-	<b>82</b>	314
	<b>48,389</b>	31,377	<b>94,627</b>	55,472
<b>Net income (loss) before other item</b>	<b>48,190</b>	5,077	<b>41,171</b>	6,391
<b>Net Income (loss) for the Period</b>	<b>48,190</b>	5,077	<b>41,171</b>	6,391
Deficit - Beginning of Period	<b>(443,928)</b>	(443,074)	<b>(436,909)</b>	(444,388)
<b>Deficit - End of Period</b>	<b>(395,738)</b>	(437,997)	<b>(395,738)</b>	(437,997)
<b>Asset shares outstanding</b>				
Basic	2,898,809	2,898,809	2,898,809	2,898,809
Diluted	7,283,604	6,794,428	7,283,604	6,794,428
<b>Earnings per share (loss)</b>				
Basic	0.017	0.002	0.014	0.002
Diluted	0.007	0.001	0.006	0.001

See accompanying notes to the consolidated financial statements

SECOND QUARTER CONSOLIDATED FINANCIAL STATEMENTS

STATEMENTS OF CASH FLOW

(Canadian funds, unaudited)

<b>Cash Resources Provided By (Used In)</b>	<b>THREE MONTHS</b>		<b>SIX MONTHS</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
<b>Operating Activities</b>				
Cash receipts from customers	<b>\$134,466</b>	59,499	<b>194,255</b>	106,470
Direct costs	<b>(80,655)</b>	(40,417)	<b>(121,296)</b>	(67,269)
Cash paid to suppliers and employees	<b>(30,183)</b>	(16,704)	<b>(47,792)</b>	(34,322)
	<b>23,628</b>	2,378	<b>25,167</b>	4,879
<b>Investing Activities</b>				
Capital assets	<b>(4,789)</b>	(12,146)	<b>(7,205)</b>	(14,663)
Research & Development	-	(1,039)	-	(10,894)
Patents	<b>(16,125)</b>	(559)	<b>(16,125)</b>	(559)
	<b>(20,914)</b>	(13,744)	<b>(23,330)</b>	(26,116)
<b>Financing Activities</b>				
Long term debt	<b>(4,470)</b>	(7,520)	<b>(8,939)</b>	27,600
Due to related parties	<b>(3,503)</b>	1,441	<b>(6,246)</b>	1,631
Shares issued for cash	<b>78,268</b>		<b>78,268</b>	
Obligation to issue shares	<b>(3,000)</b>		-	
Directors loan	<b>(1,949)</b>	-	<b>(1,894)</b>	-
	<b>65,346</b>	(6,079)	<b>61,189</b>	29,231
<b>Net Increase (Decrease) in Cash</b>	<b>68,060</b>	(17,445)	<b>63,026</b>	7,994
Cash position, opening	<b>(30,677)</b>	(5,158)	<b>(25,643)</b>	(30,597)
<b>Cash position, ending</b>	<b>37,383</b>	(22,603)	<b>37,383</b>	(22,603)

See accompanying notes to the consolidated financial statements

## SECOND QUARTER CONSOLIDATED FINANCIAL STATEMENTS

### NOTES TO FINANCIAL STATEMENTS

*(Canadian funds, unaudited)*

#### **1. Future operations**

These financial statements have been prepared on a going concern basis, which presumes the recovery of assets and settlement of liabilities at their carrying values in the normal course of business for the foreseeable future. Continued operations and the recovery of carrying value of property, plant and equipment, deferred development, patent and trademark costs are dependent on the company's ability to continue product development, generate net income and positive cash flows on a commercial scale.

If the going concern assumption was not appropriate for these financial statements the adjustments would be necessary to the carrying values of assets and liabilities.

#### **2. Incorporation and nature of business**

Fab-Form Industries Ltd. (the "company" or "Fab-Form") was incorporated 13 June 1995 under the Company Act of British Columbia as 498620 BC Ltd. On 11 October 1995 the company changed its name to Capital Gold Corporation. On 16 November 1995 the company changed its name to First Gold Corporation. On 25 October 1999 the company changed its name to Fastfoot Industries Ltd. On 14 December 2001 the company changed its name to Fab-Form Industries Ltd.

Initially, the company was involved in exploration and development of mineral properties. On 28 October 1999 the company acquired 100% of the issued and outstanding shares of Maxito Industries Ltd. ("Maxito"). Maxito develops proprietary technology to construct concrete footings, foundations, and walls for residential and commercial building structures. Maxito's wholly owned subsidiary, Fab-Form Industries (1986) Ltd. ("Fab-Form (1986)") is the operating company for the technology.

#### **3. Significant accounting policies**

##### **a) Basis of consolidation**

These consolidated financial statements include the accounts of the company, its wholly owned subsidiary Maxito, and the wholly owned subsidiary of Maxito, Fastfoot (1986). Maxito was incorporated under the Company Act of British Columbia on 28 May 1990. Fastfoot (1986) was incorporated under the Company Act of British Columbia on 18 November 1986.

##### **b) Inventory**

Inventory is valued at the lower of cost or net realizable value. Cost is determined on the first-in, first-out basis.

##### **c) Amortization**

The company provides for amortization of property, plant and equipment on the declining balance basis using the following annual rates:

- Manufacturing equipment - 20%
- Office furniture and equipment - 20%
- Computer equipment - 30%
- Vehicle - 30%
- Software - 100%

One-half of the above rates are taken in the year of acquisition. No amortization is taken on equipment under development.

##### **d) Patents**

Expenditures relating to patents are recorded at cost and are amortized on a straight-line basis over 17 years, commencing in the year in which the patent certificate is received.

NOTES TO FINANCIAL STATEMENTS

*(Canadian funds, unaudited)*

**e) Deferred development costs**

New product research and development costs are deferred to future periods when the product or process is clearly defined, the costs can be identified, the technical feasibility has been established, management intends to market the product or process, a market exists for the product or process, and adequate resources exist, or expected to be available, to complete the project. Research, as well as development costs that do not meet the preceding criteria are expensed in the period incurred.

The company provides for amortization using the reversed sum-of-the-years'-digits method, over the estimated useful life of the product or process from the date of completion.

Research and development investment tax credits and government grants are applied against the deferred costs or expense, as applicable, in the period in which the investment tax credits and government grants are received.

Deferred development costs include:

- i) direct costs of materials and services consumed during the development stage,
- ii) remuneration of personnel directly engaged in the development activities,
- iii) a reasonable portion of overhead costs,
- iv) amortization of capital assets used in the development activities.

**f) Trademarks**

Trademarks are recorded at cost and are amortized on a straight-line basis over 10 years, commencing in the year in which the trademark certificate is received.

**g) Foreign currency translation**

The company's foreign denominated transactions have been translated into Canadian dollars as follows:

- Monetary assets and liabilities at year-end rates,
- All other assets and liabilities at historical rates, and
- Revenue and expense and research and development items at the average rate of exchange prevailing during the year.

Exchange gains and losses arising from these transactions are reflected in income or expense in the year.

**h) Income taxes**

Income taxes are accounted for using the asset and liability method. Under this method, future income tax assets and liabilities are determined based on temporary differences between the financial statement carrying amount and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future income tax assets and liabilities from a change in tax rates is included in income in the period that includes the substantive enactment date. Future income tax assets are evaluated periodically and if realization is not considered more likely than not, a valuation allowance is provided.

As at 31 December 2004, the Company has recorded a valuation allowance to reduce the future income tax asset to \$nil, as the Company has not met the "more likely than not" criteria in respect of recovery of future income taxes.

**i) Stock-based compensation**

The company has adopted the recommendations of the Canadian Institute of Chartered Accountants for stock-based compensation. The new recommendations are applicable only to awards granted by the company after the date of adoption. No compensation expense relating to options was recorded during the year. Any consideration paid on the exercise of stock options is credited to share capital. See note 12 (d).

**j) Revenue recognition**

Revenue is recorded and related costs are recognized at the time the product is shipped.

**k) Earnings per share**

Basic earnings and loss per share are calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method and reflects the potential dilution of securities by including stock options in the weighted average number of shares outstanding, if dilutive.

## SECOND QUARTER CONSOLIDATED FINANCIAL STATEMENTS

### NOTES TO FINANCIAL STATEMENTS

(Canadian funds, unaudited)

#### 1) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

#### 4. Financial instruments

The company's financial instruments consist of accounts receivable, bank overdraft, accounts payable, amounts due to related parties, loans from related parties and long-term debt. Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation. As a significant portion of the company's sales is made in U.S. funds, there is significant exposure to the foreign currency fluctuation risk.

#### 5. Property, plant and equipment

	2005			2004
	Cost	Accum. Amort.	Net Book Value	Net Book Value
Manufacturing equipment	\$ 131,147	\$ (37,961)	\$ 93,186	\$ 6,690
Equipment under development	-	-	-	90,295
Office furniture	6,272	(5,512)	760	951
Computers	26,198	(23,833)	2,366	3,381
Vehicle	29,391	(24,293)	5,098	7,284
Software	1,678	(1,678)	-	-
<b>Total</b>	<b>\$ 194,687</b>	<b>\$ (93,277)</b>	<b>\$ 101,410</b>	<b>\$ 108,601</b>

#### 6. Deferred development costs

	2005			2004
	Cost	Accum. Amort.	Net Book Value	Net Book Value
Fabwall™	\$ 134,368	\$ -	\$ 134,368	\$ 134,368
Fastfoot®	124,858	(79,877)	44,981	69,508
Fast-Tube™	16,742	(1,196)	15,545	12,261
<b>Total</b>	<b>\$ 275,968</b>	<b>\$ (81,073)</b>	<b>\$ 194,895</b>	<b>\$ 216,137</b>

i) The company amortizes the Fastfoot® (started in 2000) and Fast-Tube™ (started in 2004) technology using a reversed sum-of-the-years'-digits method over seven years.

ii) No amortization of Fabwall™ has been recorded as this project is still under development. No material revenue has resulted from this technology.

#### 7. Patents

The company has an exclusive license agreement with its majority shareholder for use of proprietary technology protected by a number of current and pending patents for the life of the patents. No license fees are payable under the agreement except for the costs to register and maintain the patents. Costs and amortization of held patents are as follows:

	2005			2004
	Cost	Accum. Amort.	Net Book Value	Net Book Value
Fabwall™	\$ 16,865	\$ -	\$ 16,865	\$ 16,865
Fastfoot®	77,384	(15,909)	61,475	66,026
Foundation & Floor System	11,105	(8,166)	2,939	3,593
Concrete Foundation Wall	6,957	(3,069)	3,888	4,298
Fast-Tube™	20,085	-	20,085	3,644
<b>Total</b>	<b>\$ 132,396</b>	<b>\$ (27,144)</b>	<b>\$ 105,252</b>	<b>\$ 94,426</b>

SECOND QUARTER CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

(Canadian funds, unaudited)

**8. Trademarks**

The company has three registered trademarks:

	2005			2004	
	Cost	Accum. Amort.	Net Book Value	Net Book Value	
Fastfoot®	\$ 6,212	\$ (3,190)	\$ 3,022	\$	3,603
Fastfabric®	3,883	(1,360)	2,523		2,912
Fastbag®	5,070	(1,260)	3,830		4,345
<b>Total</b>	<b>\$ 15,165</b>	<b>\$ (5,780)</b>	<b>\$ 9,385</b>	<b>\$</b>	<b>10,860</b>

**9. Bank overdraft**

The company has two bank overdraft positions: one to a maximum of \$10,000 with an interest rate of prime plus 5% per annum secured by a general security agreement; the second to a maximum of \$30,000 with an interest rate of prime plus 4% per annum, secured by a general security agreement.

**10. Loans from related parties**

The loans are due from a director and officer, are due on demand and bear interest at prime compounded monthly.

**11. Long-term debt**

Description	2005	2004
Loan from the Program for Export Market Development. This money has been advanced to the company for allowable marketing expenditures, up to a maximum of \$39,854. The loan is repayable if sales target is exceeded.	\$ 22,907	\$ 22,907
Less current portion	-	(22,907)
Long-term portion	22,907	-
Machinery loan from the Business Development Bank for \$50,000. Secured by guarantee payable \$840 per month with interest presently at 8.00%, maturing May 18 <sup>th</sup> , 2008	32,760	42,840
Less current portion	(10,080)	(10,080)
Long-term portion	22,680	32,760
Working capital loan from the Business Development Bank for \$40,000. Secured by guarantee payable \$650 per month with interest presently at 8.25%, maturing Aug 23 2009. First principal payment is in July 2004.	32,500	40,000
Less current portion	(7,800)	(7800)
Long-term portion	24,700	32,200
General Motors Acceptance Corporation of Canada, vehicle loan bearing interest at 1.9% per annum, repayable in blended monthly principal and interest payments of \$644, maturing 6 March 2004, secured by vehicle	-	-
Less current portion	-	-
Long-term portion	-	-
<b>Total long term loans</b>	<b>88,167</b>	108,747
<b>Less current portion</b>	<b>(17,880)</b>	(40,787)
<b>Long-term portion</b>	<b>\$ 70,287</b>	\$ 64,960

Future payments on long-term debt are:

2005	\$ 8,940
2006	17,880
2007	17,880
2008	15,360
2009	5,200
Future	22,907
<b>Total</b>	<b>\$ 88,167</b>

SECOND QUARTER CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

(Canadian funds, unaudited)

**12. Obligation to issue shares / contingent liability**

During the 2000 fiscal year, a former director and officer of the parent company ("the plaintiff") initiated legal action against the company. The plaintiff alleges that during the 2000 fiscal year he made \$64,500 in loans to the company, and that the company owes him this money plus accrued interest. The company's current management believes that only \$63,500 was advanced to the company and that these funds were advanced for the exercise of warrants. No further legal action has been undertaken by the plaintiff or the company since fiscal 2000. The outcome of the dispute is still unknown.

**13. Share capital**

**a) Basis of presentation**

These consolidated financial statements are prepared using reverse takeover accounting, under which the capital structure of the consolidated entity is that of the legal parent (the company), but the dollar amount at the date of the reverse takeover of the issued share capital is that of the legal subsidiary (Maxito).

**b) Details of share capital**

- i) Authorized: 100,000,000 common shares without par value and 100,000,000 class A preferred shares without par value
- ii) Issued:

	<i>Quantity</i>	<i>\$ Amount</i>
Issued and outstanding:		
Balance - 31 December 1999	15,971,200	\$ 401,182
Exercise of warrants	100,000	39,500
Balance - 31 December 2000 and 14 December 2001 - pre-consolidated	16,071,200	440,682
Balance - 14 December 2001 and 31 December 2001 - post-consolidated	5,357,058	440,682
Debt settlement – 2 April 2002	961,058	172,992
Private placement – 2 June 2005	489,176	72,268
<b>Balance – 30 June 2005</b>	<b>6,807,292</b>	<b>\$ 685,942</b>

As at 30 June 2005, 51.9% (2003 – 55.9%) of the issued and outstanding voting common shares of the company were owned by a director and officer of the company and a relative of the director and officer.

**c) Escrow shares**

As at 30 June 2005:

- i) As a result of the 1999 reverse takeover, 3,419,307 (2003 - 3,419,307) shares were held in escrow to be released for every \$1.014 of cumulative positive cash flow before tax. The release of escrow shares must be made before June 30 2009.
- ii) As a result of the June 2005 private placement, 489,176 shares are held in escrow for a period of four months, until October 2<sup>nd</sup> 2005.

**d) Options and warrants**

Details of stock options are as follows:

<i>Date</i>	<i>Description</i>	<i>Expiry</i>	<i>Value</i>	<i>Quantity</i>	<i>Balance</i>
01-Feb-03	New options	01-Feb-06	\$ 0.10	631,312	631,312
30-Apr-03	Cancellation of options	01-Feb-06	\$ 0.10	(155,000)	476,312
<b>30-June-05</b>	<b>Ending balance</b>	<b>01-Feb-06</b>	<b>\$ 0.10</b>		<b>476,312</b>

There were no warrants outstanding.

SECOND QUARTER CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

(Canadian funds, unaudited)

**e) Stock based compensation (continued)**

The company accounts for its grants of share options under the fair value method. Under this method, options granted to non-employees are charged against income at the time of granting while no compensation expense is recorded for options granted to employees when the exercise price of the company's employee stock awards is not less than the fair value of the options at the date of grant.

The options are exercisable at \$0.10 per share until February 1, 2006. The exercise price of all options granted was not less than the fair value of the options at the date of the grant.

The fair value of each option granted is estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 2.5%, dividend yield of 0%, volatility of 80% and an expected life of 2.5 years.

Had compensation cost for the stock based employee compensation been recorded, based on the fair value of share options, compensation expense for the year ended December 31, 2004 would have been \$17,037. The pro forma loss per share, assuming this additional compensation expense, would be as follows:

Pro forma loss for the year	\$	(62,235)
Pro forma loss per share	\$	(0.02)

Pro forma results may be materially different from actual results realized.

The Black-Scholes valuation model was developed for use in estimating the fair value of traded options, which are fully transferable and highly traded. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

**14. Related party transactions**

<i>Category</i>	<i>Description</i>	<i>Year</i>	<i>Director &amp; Officer</i>	<i>Relative of a Director &amp; Officer</i>	<i>Director or Company Controlled by Director</i>	<i>Former Director</i>
Asset	Deferred Development Costs	<b>2005</b>	<b>\$ 22,170</b>	<b>\$ 22,170</b>	<b>\$ -</b>	<b>-</b>
		2004	15,517	15,517	-	-
Asset	Capital Asset	<b>2005</b>	<b>21,857</b>	<b>21,857</b>	<b>-</b>	<b>-</b>
		2004	19,741	19,741	-	-
Liability	Balance due to Related Parties incurred in the ordinary course of business	<b>2005</b>	<b>-</b>	<b>-</b>	<b>3,727</b>	<b>2,913</b>
		2004	1,000	1,030	-	14,153
Expenses	Management Fees	<b>2005</b>	<b>10,249</b>	<b>10,249</b>	<b>-</b>	<b>-</b>
		2004	1,804	1,804	-	-

## SECOND QUARTER CONSOLIDATED FINANCIAL STATEMENTS

### NOTES TO FINANCIAL STATEMENTS

(Canadian funds, unaudited)

#### 15. Income taxes

There is no income tax payable on the current year's income as a result of the application of prior year's losses. The company and its subsidiaries have available non-capital losses for tax purposes of approximately \$411,000, which may be carried forward and used to reduce taxable income of future years. These losses expire as follows:

2006	\$	133,000
2007		130,000
2008		76,000
2009		3,000
2010		57,000
2011		12,000
Total	\$	411,000

Timing differences between accounting and tax values of property and intangible assets of \$78,000 will be offset against these losses in future years.

The company claims tax credits under the Scientific Research and Experimental Development investment tax credit program ("SR&D ITC"). SR&D ITC credits of \$40,000 are available to offset future income taxes.

Due to the uncertainty of future recovery, the potential tax benefit of these items has not been recognized in these consolidated financial statements.

#### 16. Concentration of customers

In 2005, **12.6%** (2004, 21.3%) of the company's sales were made to one customer.

#### 17. Segmented information

		2005		2004	
		\$	%	\$	%
<i>Gross sales</i>	Canada	<b>101,068</b>	<b>41.5%</b>	29,246	46.8%
	U.S.	<b>142,204</b>	<b>58.5%</b>	34,608	53.2%
	Total	<b>243,272</b>	<b>100.0%</b>	63,852	100.0%
<i>Total assets</i>	Canada	<b>560,175</b>	<b>100.0%</b>	492,000	100.0%
	U.S.	<b>0</b>	<b>0.0%</b>	0	0.0%
	Total	<b>560,175</b>	<b>100.0%</b>	492,000	100.0%
<i>Capital expenditures</i>	Canada	<b>20,914</b>	<b>100.0%</b>	13,744	100.0%
	U.S.	<b>0</b>	<b>0.0%</b>	0	0.0%
	Total	<b>20,914</b>	<b>100.0%</b>	13,744	100.0%

## SECOND QUARTER CONSOLIDATED FINANCIAL STATEMENTS

### FURTHER INFORMATION

*(Canadian funds, unaudited)*

FAB-FORM INDUSTRIES LTD. is a manufacturer and marketer of forming products using poly membranes to form and damp-proof concrete for the building industry. Fab-Form is the only company in the world commercializing this technology, and is headquartered in Surrey, BC. Its common shares trade on the Toronto Venture Exchange under the symbol "FBF".

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