

**FAB-FORM ANNUAL REPORT**



***Fabric: Forming a green future.***



## REPORT TO OUR SHAREHOLDERS

"Green" is a hot issue these days, but our products have always been green. This year we are going all-out to market to this sector.

The green building market is on the rise with people more aware than ever of the environment around them. Rising energy costs are spurring consumers to find more efficient and sustainable green building materials. Green homes are expected to be 10% of all housing starts by 2010.

Fab-Form products offer significant advantages for the green building consumer. All our products are "GreenSpec®" listed in both Canada and the USA. Fabric is lean, mean and green, 300 times lighter than lumber, fast to install, and stays in place to prevent rising damp and mold.



Our cover shows Mutual Construction of Vancouver, BC using Fastfoot® to form the foundations for the new University in Squamish, BC. Fastfoot® is the green solution for contractors with a single 12 pound roll of fabric replacing over 900 pounds of forming lumber.

I heartily thank our Board Members, Shareholders, Dealers and Contractors for their enthusiasm and commitment to our revolutionary concrete forming technology.

Sincerely

Richard Fearn  
President  
April 25 2007

## 2006 YEAR END REPORT

### MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis (MD&A) provides a detailed analysis of the business of Fab-Form Industries Ltd. and compares the Company's three most recently completed financial years. This should be read in conjunction with the Company's financial statements and related notes for the year ended 31 December 2006.

#### QUARTERLY FINANCIAL SUMMARY

	2006				2005				2004
	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr	4th Qtr
Revenues	76,752	77,332	113,972	87,658	69,030	77,735	166,781	76,491	36,071
Net Income (loss)	(177,670)	(9,994)	6,951	(8,156)	(1,382)	(3,173)	48,190	(7,019)	(21,499)
Shares outstanding (diluted)	6,807,292	6,807,292	6,807,292	6,807,292	7,283,604	7,283,604	7,283,604	6,794,928	6,794,928
Income (loss) per diluted share	(0.02)	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00

#### FINANCIAL RESULTS

##### Sales

Sales for the year were \$355,714, an 8.8% decrease over 2005. In the fourth quarter, sales were \$76,752, an 11.2% increase over the previous year's \$69,030. Sales of Fastfoot® increased 4.5%, Fastbags® decreased 20.4%, and Fast-Tube™ decreased 37.2% over the previous year. The decrease in Fast-Tube™ was attributable to a return by a distributor.

	2006	2005	\$ Change	% Change
<b>Fastfoot®</b>	231,196	221,140	10,056	4.5%
<b>Fastbag®</b>	52,079	65,449	(13,370)	-20.4%
<b>Fast-Tube™</b>	48,289	76,919	(28,630)	-37.2%
<b>Other</b>	24,150	26,529	(2,379)	-9.0%
<b>Total Sales</b>	<b>355,714</b>	<b>390,037</b>	<b>(34,323)</b>	<b>-8.8%</b>

##### Cost of goods sold

Gross margins for the year were 54%, in line with 2005.

##### Expenses

Operating expenses increased to \$219,272 from \$178,063 the previous year, an increase of 23.1%, due primarily to:

Expenses	2006	2005	Change
Administrative expenses	\$ 22,590	\$ 12,203	85%
Management fees	52,681	36,521	44%
Professional fees	9,285	6,871	35%
Public company expenses	\$ 10,818	\$ 5,962	81%

Administrative and management expenses increased towards market rates. Professional fees and public company expenses are as expected for a venture public company.

##### Statement of operations & deficit

The company's net income before other items was a loss of \$26,437, compared with 2005's profit of \$36,616. This loss was attributable to lower sales and increased operating expenses as detailed above.

The company wrote off the Fabwall™ deferred development costs of \$134,368 and patent of \$16,865 as commercialization has been deferred. Fabwall™ development will take place when time and working capital permits. After write-offs, the company's net loss was \$177,670.

##### Investing activities

Investment for the year was primarily in the Fast-Tube™ patent of \$7,809, and Fastbag® and Fastfoot® production machinery of \$8,847.

##### Financing activities

The company reduced long term debt by \$17,880.

2006 YEAR END REPORT  
MANAGEMENT DISCUSSION & ANALYSIS

**Cash flow**

Operating activities for the year generated cash of \$18,250, compared with \$29,495 in 2005. The net decrease in cash for the year was \$17,076 compared with an increase of \$50,499 in 2005.

**Liquidity**

The Company's working capital at the end of 2006 was \$28,470, in line with the previous year's \$28,405.

DISCUSSION OF NON FINANCIAL ITEMS

**Off balance sheet arrangements**

None

**Material contracts**

None

**Changes in accounting policy**

There have been no changes in accounting policies.

**Internal control over financial reporting**

Fab-Form management has provided adequate internal controls to ensure correct financial information is produced.

**Effectiveness of disclosure controls**

The Fab-Form board has placed the required controls to ensure all relevant information is properly disclosed to the market.

**Subsequent events**

None

SELECTED ANNUAL INFORMATION

<i>Year ended</i>	<i>31-Dec-06</i>	<i>31-Dec-05</i>	<i>31-Dec-04</i>	<i>31-Dec-03</i>
Revenues	\$ 355,714	\$ 390,037	\$ 258,273	\$ 151,624
Cost of sales	\$ 162,879	\$ 175,358	\$ 117,083	\$ 69,921
Gross profit	\$ 192,835	\$ 214,679	\$ 141,190	\$ 81,703
% gross profit	54%	55%	55%	54%
Expenses	\$ 219,272	\$ 178,063	\$ 133,711	\$ 126,902
Net income (loss)	\$ (177,670)	\$ 36,616	\$ 7,479	\$ (45,199)
Shares outstanding (diluted)	6,807,292	7,283,604	6,794,928	6,794,928
Income (loss) per diluted share	\$ (0.02)	\$ 0.01	\$ 0.00	\$ (0.01)
Total assets	\$ 284,476	\$ 501,714	\$ 463,380	\$ 454,322
Long term debt (excluding current portion)	\$ 43,467	\$ 61,347	\$ 79,227	\$ 37,360
Cash Dividends Declared	\$ None	\$ None	\$ None	\$ None

Approved  
"Board of Directors"  
April 25 2007

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that the assets are safe guarded. All transactions are authorized and duly recorded, and financial records are properly maintained to facilitate financial statements in a timely manner. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors has reviewed the financial statements with management and the external auditors. Culver & Co., an independent firm of chartered accountants, appointed as external auditors by the shareholders, have audited the consolidated financial statements and their report is shown below.

Richard N. Fearn  
President, CEO & CFO  
**FAB-FORM INDUSTRIES LTD.**  
25 April 2007

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## AUDITORS' REPORT

To the Shareholders of Fab-Form Industries Ltd.

We have audited the consolidated balance sheets of Fab-Form Industries Ltd. as at 31 December 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at 31 December 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**CULVER & CO.**  
Chartered Accountants  
Vancouver, BC  
25 April 2007

YEAR END CONSOLIDATED FINANCIAL STATEMENTS

BALANCE SHEETS

31 December

<b>ASSETS</b>	<b>2006</b>	<b>2005</b>
<b>Current</b>		
Cash	\$ 7,780	\$ 24,856
Accounts receivable	28,252	37,214
Prepaid expenses and advances	22,491	17,575
Inventory	33,861	33,978
<b>Total current assets</b>	<b>92,384</b>	113,623
<b>Property, plant and equipment</b> (Note 5)	<b>78,986</b>	90,665
<b>Deferred development</b> (Note 6)	<b>13,345</b>	181,136
<b>Patents</b> (Note 7)	<b>92,973</b>	107,643
<b>Trademarks</b> (Note 8)	<b>7,172</b>	8,647
	<b>192,476</b>	388,091
	<b>\$ 284,860</b>	\$ 501,714
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	41,993	62,507
Due to related parties (Note 13)	4,041	4,831
Current portion of long-term debt (Note 10)	17,880	17,880
<b>Total current liabilities</b>	<b>63,914</b>	85,218
<b>Long-term debt</b> (Note 10)	<b>43,467</b>	61,347
<b>Obligation to issue shares</b> (Note 11)	<b>63,500</b>	63,500
	<b>106,967</b>	124,847
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital</b> (Note 12)	<b>691,942</b>	691,942
<b>Deficit</b>	<b>(577,963)</b>	(400,293)
	<b>113,979</b>	291,649
	<b>\$ 284,860</b>	\$ 501,714

ON BEHALF OF THE BOARD:

**"Richard Fearn"**

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

**"Herb Bentz"**

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

*See accompanying notes to the consolidated financial statements*

YEAR END CONSOLIDATED FINANCIAL STATEMENTS

STATEMENTS OF OPERATIONS AND DEFICIT

31 December

	<b>2006</b>	2005
<b>Sales</b>	<b>\$ 355,714</b>	\$ 390,037
<b>Cost of Sales</b>	<b>162,879</b>	175,358
<b>Gross Profit</b>	<b>192,835</b>	214,679
(Percent Gross Profit)	54%	55%
<b>Expenses</b>		
Administrative expenses	<b>22,590</b>	12,203
Amortization and depreciation <i>(Note 9)</i>	<b>61,037</b>	59,188
Interest on short-term debt, bank charges	<b>3,505</b>	3,850
Interest on long-term debt	<b>5,210</b>	6,041
Foreign exchange loss (gain)	<b>1,111</b>	(7,988)
Management fees	<b>52,681</b>	36,521
Marketing and advertising	<b>27,081</b>	31,451
Occupancy	<b>17,996</b>	17,476
Patent maintenance	<b>1,155</b>	812
Production	<b>452</b>	1,159
Professional fees	<b>9,285</b>	6,871
Public company expenses	<b>10,818</b>	5,962
Telecommunications	<b>4,569</b>	4,221
Wages and benefits	<b>1,782</b>	296
	<b>219,272</b>	178,063
<b>Net income (loss) before other items</b>	<b>(26,437)</b>	36,616
<b>Other items</b>		
Write-off of Fabwall assets <i>(Notes 6, 7)</i>	<b>(151,233)</b>	-
<b>Net income (loss)</b>	<b>(177,670)</b>	36,616
<b>Deficit – beginning of year</b>	<b>(400,293)</b>	(436,909)
<b>Deficit – end of year</b>	<b>\$ (577,963)</b>	\$ (400,293)
<b>Average shares outstanding</b>		
Basic	3,136,965	3,136,965
Diluted	6,807,292	7,283,604
<b>Earnings (loss) per share</b>		
Basic	(0.05)	0.01
Diluted	(0.02)	0.01

See accompanying notes to the consolidated financial statements

YEAR END CONSOLIDATED FINANCIAL STATEMENTS  
 STATEMENTS OF CASH FLOW

31 December

<b>Cash resources provided by (used in)</b>	<b>2006</b>	2005
<b>Operating activities</b>		
Cash receipts from customers	<b>\$ 364,676</b>	\$ 367,629
Direct costs	<b>(162,762)</b>	(189,696)
Cash paid to suppliers and employees	<b>(183,664)</b>	(148,438)
	<b>18,250</b>	29,495
<b>Investing activities</b>		
Property, plant and equipment	<b>(8,847)</b>	(7,880)
Deferred development	-	(234)
Patents	<b>(7,809)</b>	(21,322)
	<b>(16,656)</b>	(29,436)
<b>Financing activities</b>		
Long term debt	<b>(17,880)</b>	(17,880)
Accounts payable, related	<b>(1,018)</b>	(8,141)
Loan from related party	<b>228</b>	(1,807)
Shares issued for cash	-	78,268
	<b>(18,670)</b>	50,440
<b>Net increase (decrease) in cash</b>	<b>(17,076)</b>	50,499
<b>Cash position, opening</b>	<b>24,856</b>	(25,643)
<b>Cash position, ending</b>	<b>\$ 7,780</b>	\$ 24,856
<b>Supplementary cash flow information</b>		
Cash paid for interest	\$ 8,847	\$ 9,698
Cash paid for income taxes	\$ -	\$ -

*See accompanying notes to the consolidated financial statements*

## YEAR END CONSOLIDATED FINANCIAL STATEMENTS

### NOTES TO FINANCIAL STATEMENTS

31 December 2006

#### 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 adjustments would be necessary to the carrying values of assets and liabilities. At 31 December 2006 the Company had working capital of \$28,470 (2005 of \$28,405) and a deficit of \$577,963 (2005 deficit of \$400,293).

#### 2. Nature of business

Fab-Form Industries Ltd. (the "company" or "Fab-Form") was incorporated 13 June 1995 under the Company Act of British Columbia. Fab-Form develops, manufactures and distributes proprietary fabric-based technology to form concrete footings, foundations, and walls for building structures. The company is currently distributing three products: Fastfoot® footing form, Fastbag® point load footing form, and Fast-Tube™ column form.

#### 3. Significant accounting policies

##### a) Consolidation

These consolidated financial statements include the accounts of the company, its wholly owned subsidiary Maxito, and the wholly owned subsidiary of Maxito, Fab-Form Industries (1986) Ltd.

##### 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 of assets

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) 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 are 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 lesser of seven years and the estimated useful life of the product or process from the date the product is sold commercially.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2006

**d) Deferred development costs (continued)**

Deferred development costs include:

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

**e) 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.

**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) Impairment of long-lived assets**

Long-lived assets, including capital assets and intangible assets with finite useful lives, are amortized over their useful lives. The company annually reviews the useful lives and the carrying values of its long-lived assets for continued appropriateness. The company performs an impairment assessment of long-lived assets held for use whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the undiscounted expected future cash flows expected to result from the use and eventual disposition of an asset is less than its carrying amount, it is considered to be impaired. An impairment loss is measured at the amount by which the carrying amount of the asset exceeds its fair value, which is estimated as the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset. At December 31 2006 and 2005, no events or changes in circumstances had occurred which indicated that the carrying amounts of long-lived assets may not be recoverable.

**h) Comparative figures**

Certain comparative figures have been reclassified to conform to the current year's presentation.

**i) 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 2006, 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 adopted prospectively in 2003 the recommendations of the Canadian Institute of Chartered Accountants for stock-based compensation. The 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.

YEAR END CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

31 December 2006

**j) Revenue recognition**

Revenue is recorded and related costs are recognized at the time the product is shipped, the title to the goods has passed, and collection is reasonably assured.

**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.

**l) Use of estimates**

The preparation of financial statements 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, 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 US funds, there is significant exposure to the foreign currency fluctuation risk. The company does not use derivative instruments to reduce its currency risk.

**5. Property, plant and equipment**

	<b>2006</b>		<b>2005</b>	
	<i>Cost</i>	<i>Accum. Amort.</i>	<b>Net Book Value</b>	<i>Net Book Value</i>
Manufacturing equipment	\$ 132,969	\$ (58,218)	\$ <b>74,751</b>	\$ 83,841
Office furniture	1,723	(1,380)	<b>343</b>	676
Computers	13,006	(12,053)	<b>953</b>	1,949
Vehicle	29,391	(26,452)	<b>2,939</b>	4,199
Total	\$ 177,089	\$ (98,103)	\$ <b>78,986</b>	\$ 90,665

**6. Deferred development costs**

	<b>2006</b>		<b>2005</b>	
	<i>Cost</i>	<i>Accum. Amort.</i>	<b>Net Book Value</b>	<i>Net Book Value</i>
Fastfoot®	-	-	-	31,604
Fabwall™	-	-	-	134,368
Fast-Tube™	16,975	(3,630)	<b>13,345</b>	15,164
Total	\$ 16,975	\$ (3,630)	\$ <b>13,345</b>	\$ 181,136

- 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) Fabwall deferred development costs of \$134,368 have been written off as the company is not marketing the product at this time.

YEAR END CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

31 December 2006

**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:

	<b>2006</b>		<b>2005</b>	
	<i>Cost</i>	<i>Accum. Amort.</i>	<i>Net Book Value</i>	<i>Net Book Value</i>
Fabwall™	\$ -	\$ -	\$ -	\$ 16,865
Fastfoot®	77,384	(22,736)	<b>54,648</b>	59,199
Foundation & Floor System	11,105	(9,145)	<b>1,960</b>	2,613
Concrete Foundation Wall	6,957	(3,682)	<b>3,275</b>	3,684
Fast-Tube™	33,090	-	<b>33,090</b>	25,282
<b>Total</b>	<b>\$ 145,401</b>	<b>\$ (35,563)</b>	<b>\$ 92,973</b>	<b>\$ 107,643</b>

Fabwall patent asset of \$16,865 has been written off as the company is not marketing the product at this time.

**8. Trademarks**

The company has three registered trademarks:

	<b>2006</b>		<b>2005</b>	
	<i>Cost</i>	<i>Accum. Amort.</i>	<i>Net Book Value</i>	<i>Net Book Value</i>
Fastfoot®	\$ 6,212	\$ (4,060)	\$ <b>2,152</b>	\$ 2,732
Fastfabric®	3,883	(1,941)	<b>1,942</b>	2,330
Fastbag®	5,070	(1,992)	<b>3,078</b>	3,585
<b>Total</b>	<b>\$ 15,165</b>	<b>\$ (7,993)</b>	<b>\$ 7,172</b>	<b>\$ 8,647</b>

**9. Amortization and depreciation**

	<b>2006</b>		<b>2005</b>	
Property, plant and equipment	\$ <b>20,525</b>	\$ 24,131		
Deferred development	<b>33,423</b>	27,968		
Patents	<b>5,614</b>	5,614		
Trademarks	<b>1,475</b>	1,475		
<b>Total</b>	<b>\$ 61,037</b>	<b>\$ 59,188</b>		

YEAR END CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

31 December 2006

**10. Long-term debt**

<i>Description</i>	<b>2006</b>	<b>2005</b>
Loan from the Program for Export Market Development. This money has been advanced to the company for allowable marketing expenditures. The loan is repayable if a sales target is exceeded.	<b>\$ 22,907</b>	\$ 22,907
Less current portion	-	-
Long-term portion	<b>22,907</b>	22,907
Machinery loan from the Business Development Bank for \$50,000. Secured by guarantee, payable \$840 per month plus interest currently 8.75%, maturing May 18 <sup>th</sup> , 2008	<b>17,640</b>	27,720
Less current portion	<b>(10,080)</b>	(10,080)
Long-term portion	<b>7,560</b>	17,640
Working capital loan from the Business Development Bank for \$40,000. Secured by guarantee, payable \$650 per month plus interest, currently 9.5%, maturing Aug 23 2009.	<b>20,800</b>	28,600
Less current portion	<b>(7,800)</b>	(7,800)
Long-term portion	<b>13,000</b>	20,800
<b>Total long-term debt</b>	<b>61,347</b>	79,227
<b>Less current portion</b>	<b>(17,880)</b>	(17,880)
<b>Long-term portion</b>	<b>\$ 43,467</b>	\$ 61,347

Future principal payments on long-term debt are:

2007	17,880
2008	15,360
2009	5,200
Future	22,907
<b>Total</b>	<b>\$ 61,347</b>

**11. 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.

**12. 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>Common shares</i>	<i>Quantity</i>	<i>Amount</i>
Balance – 31 December 2004	6,318,116	\$ 613,674
Private placement – 2 June 2005	489,176	78,268
<b>Balance – 31 December 2005, 2006</b>	<b>6,807,292</b>	<b>\$ 691,942</b>

YEAR END CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

31 December 2006

**b) Details of share capital (continued)**

As at 31 December 2006, 55.9% (2005 – 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.

iii) Escrow: As at 31 December 2006: As a result of the 1999 reverse takeover, 3,419,307 (2004 - 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 30 June 2009.

**c) Options and warrants**

There are no stock options or warrants outstanding.

**13. Related party transactions**

The following related party transactions occurred during the fiscal year:

<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>
Asset	Capital asset	<b>2006</b>	-	-	-
		2005	1,800	1,800	-
Liability	Balance due to Related Parties incurred in the course of business	<b>2006</b>	-	-	<b>4,041</b>
		2005	-	1,018	3,813
Expenses	Management fees	<b>2006</b>	<b>26,341</b>	<b>26,340</b>	-
		2005	18,260	18,260	-

These transactions were in the normal course of operations and are measured at the exchange value, which represented the amount of the consideration established and agreed to by the related parties.

**14. Income taxes**

A reconciliation of income tax at statutory rates with the reported taxes is as follows:

	<b>2006</b>	<b>2005</b>
Income (loss) for the year	(177,670 )	36,616
Expected income tax (recovery)	(60,585 )	14,232
Non taxable items	(71,550 )	(22,925 )
Unrecognized benefit of non-capital losses	132,135	8,693
Less valuation allowance	(179,200 )	(163,600 )
	\$ -	\$ -

Details of future income taxes assets are as follows:

	<b>2006</b>	<b>2005</b>
Non capital loss carry forwards	96,500	132,700
Equipment, patents and trademarks	(11,300 )	(27,100 )
Development	54,000	18,000
Research tax credits	40,000	40,000
Total future income tax assets	179,200	163,600
Less valuation allowance	(179,200 )	(163,600 )
	\$ -	\$ -

YEAR END CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

31 December 2006

**14. Income taxes (continued)**

At 31 December 2006 the company had tax losses of approximately \$283,000 available for deduction against future taxable income. The losses expire as follows:

2007	\$	130,000
2008		76,000
2009		3,000
2010		57,000
2014		12,000
2015		3,000
2026		2,000
	<b>\$</b>	<b>283,000</b>

**15. Concentration of customers**

In 2006, **12.4%** (2005, 9.5%) of the company's sales were made to one customer.

**16. Segmented information**

	<i>2006</i>		<i>2005</i>	
<i>Gross sales</i>	Canada	<b>\$ 147,274 41.4%</b>	\$ 155,584	39.9%
	U.S.	<b>208,440 58.6%</b>	234,453	60.1%
	Total	<b>\$ 355,714 100.0%</b>	\$ 390,037	100.0%
<i>Total assets</i>	Canada	<b>\$ 284,860 100.0%</b>	\$ 501,714	100.0%
	U.S.	<b>0 0.0%</b>	0	0.0%
	Total	<b>\$ 284,860 100.0%</b>	\$ 501,794	100.0%
<i>Capital expenditures</i>	Canada	<b>\$ 16,656 100.0%</b>	\$ 29,436	100.0%
	U.S.	<b>0 0.0%</b>	0	0.0%
	Total	<b>\$ 16,656 100.0%</b>	\$ 29,436	100.0%

## YEAR END CONSOLIDATED FINANCIAL STATEMENTS

### FURTHER INFORMATION

*31 December 2006*

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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