

***FAB-FORM***

***ECONOMIC***

***GREEN***

## REPORT TO OUR SHAREHOLDERS

Fabric forming has two main attributes: '*economic*' and '*green*'.

Green technologies are typically more expensive than conventional methods; fabric forming is economic. Over the last two months, our website featured three projects where the contractors demonstrated huge savings:

<i>Product</i>	<i>Fabric</i>	<i>Convent.</i>	<i>Savings</i>
FAST-TUBE™	\$117.86	\$424.41	<b>72%</b>
FASTFOOT®	\$1.34	\$4.67	<b>71%</b>
FASTFOOT® Edging	\$922.36	\$1,881.72	<b>51%</b>

Fabric forming is not only eco-friendly; it's healthy - promoting cleaner air and healthier living in homes and work spaces. With Fastfoot, the membrane stays in the ground to prevent rising damp that can lead to mould and respiratory problems. Lumber forms require expensive, inefficient recycling, ultimately ending in landfills. Stripped Fast-Tube™ becomes an under slab vapour retarder. Stripped cardboard pollute our landfills.

Our new HD Fast-Tube™ video is making its premier on our website. Take a look - your opinion is important - see the link on our home page.

Our major challenge is getting a contractors attention and user interest in our low-cost but high-value products. Fab-Form is entering into a unique marketing partnership to boost our visual advertising displays in lumber yards and forming dealerships across Canada. The contractor would be hard-pressed **not** to give our products a test drive. More to come on this exciting venture soon!

As always, thank you Board Members, Shareholders, and progressive Dealers and Contractors for continued support and commitment to fabric forming.

Sincerely



Richard Fearn  
President  
August 29 2009

2009 SECOND QUARTER 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 period ended 30<sup>th</sup> June 2009.

QUARTERLY FINANCIAL SUMMARY

	2009		2008				2007		
	2nd Qtr	1 <sup>st</sup> Qtr	4th Qtr	3rd Qtr	2nd Qtr	1 <sup>st</sup> Qtr	4th Qtr	3rd Qtr	2nd Qtr
Revenues	111,747	30,273	38,196	60,456	56,628	38,163	57,646	91,044	105,874
Net Income (loss)	18,300	(40,569)	(48,086)	5,861	(11,538)	(19,380)	4,025	(6,694)	3,647
Shares outstanding (diluted)	8,680,855	8,680,855	6,807,292	6,807,292	6,807,292	6,807,292	6,807,292	6,807,292	6,807,292
Income (loss) per diluted share	0.00	(0.00)	(0.01)	0.00	(0.00)	(0.00)	0.00	(0.00)	0.00

FINANCIAL RESULTS

Sales

Sales for the quarter were \$111,747, a 97.3% increase over 2008's \$56,628. Sales in Canada were \$26,728, a 28.3% decrease over 2008, reflecting the slowdown in the Canadian economy. US sales, however, increased to \$36,677, an 81.0% increase over 2008's second quarter. Slow housing sales are expected to continue in both the USA and Canada as asset values return to levels supported by earnings of building occupants, not speculation. Sales to new dealers in Poland and Germany increased international sales to \$48,342.

Quarterly sales of Fastfoot® increased 17.4%, Fastbags® 17.4%, while Fast-Tube™ increased 458.9% primarily due to European orders. The 'Other' category is for shipping and marketing materials.

	Apr - Jun 09	Apr - Jun 08	\$ Change	% Change
<b>Sales</b>				
Fastfoot®	45,816	39,030	6,787	17.4%
Fastbag®	5,040	4,225	815	19.3%
Fast-Tube™	57,318	10,255	47,064	458.9%
Other	3,573	3,119	454	14.5%
<b>Total Sales</b>	<b>111,747</b>	<b>56,628</b>	<b>55,119</b>	<b>97.3%</b>

Cost of goods sold

Gross margins for the quarter were 53%, a drop over 2008's 64%, as margins returned to normal levels.

Expenses

Operating expenses for the quarter decreased by 14.7% to \$40,918 from \$47,958 in 2008. The largest changes were due to:

	2009	2008	\$ Diff.	Difference
Administrative expenses	<b>5,368</b>	4,063	1,305	32.1%
Foreign exchange loss (gain)	<b>1,167</b>	1	1,166	116600.0%
Occupancy	<b>5,348</b>	4,276	1,072	25.1%
Marketing and advertising	<b>10,009</b>	9,012	997	11.1%
Interest on long-term debt	<b>1,249</b>	1,940	(691)	-35.6%
Telecommunications	<b>587</b>	1,357	(770)	-56.7%
Management fees	<b>381</b>	10,685	(10,304)	-96.4%

Management fees were reduced to conserve cash. Occupancy increased by 25% due to the signing of a new lease agreement in June of 2008.

Statement of operations & deficit

The company's net profit for the quarter was \$18,300, compared with 2008's loss of (\$11,538).

## 2009 SECOND QUARTER REPORT

### MANAGEMENT DISCUSSION & ANALYSIS

#### **Investing activities**

Investing activities were minimal.

#### **Financing activities**

Financing activities were minimal.

#### **Discussion of the Financial and Housing Markets**

The Company believes the housing markets in G7 countries will continue to remain soft as a result of the massive deleveraging of asset values in developed countries. The Company's strategy under these conditions is two fold:

1. Conserve cash;
2. Focus selling efforts in stronger markets.
3. Develop new marketing strategies to get the attention of contractors.

#### **Cash flow**

Operating activities for the quarter increased cash by \$16,858, compared with a reduction of \$11,123 in 2008.

#### **Liquidity**

The Company's working capital at the end of the second quarter was \$26,447, compared with the previous year's negative (\$33,933).

#### **DISCUSSION OF NON FINANCIAL ITEMS**

##### **Off balance sheet arrangements**

None

##### **Material contracts**

None

##### **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

2009 SECOND QUARTER REPORT  
MANAGEMENT DISCUSSION & ANALYSIS

SELECTED ANNUAL INFORMATION

<i>Year ended</i>	<i>31-Dec-08</i>	<i>31-Dec-07</i>	<i>31-Dec-06</i>	<i>31-Dec-05</i>
Revenues	\$ 193,443	\$ 317,558	\$ 355,714	\$ 390,037
Cost of sales	\$ 80,208	\$ 141,619	\$ 162,879	\$ 175,358
Gross profit	\$ 113,236	\$ 175,939	\$ 192,835	\$ 214,679
% gross profit	59%	55%	54%	55%
Expenses	\$ 185,233	\$ 218,158	\$ 219,272	\$ 178,063
Net income (loss)	\$ (71,998)	\$ (19,312)	\$ (177,670)	\$ 36,616
Shares outstanding (diluted)	6,807,292	6,807,292	6,807,292	7,283,604
Income (loss) per diluted share	\$ (0.02)	\$ (0.00)	\$ (0.00)	\$ 0.01
Total assets	\$ 198,519	\$ 310,489	\$ 284,476	\$ 501,714
Long term debt (excluding current portion)	\$ 40,400	\$ 40,400	\$ 43,467	\$ 61,347
Cash dividends declared	\$ None	\$ None	\$ None	\$ None

Approved  
*"Board of Directors"*  
August 29 2009

## 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.

These financial statements have not been audited.

Richard N. Fearn  
President, CEO & CFO  
**FAB-FORM INDUSTRIES LTD.**  
29 August 2009

SECOND QUARTER CONSOLIDATED FINANCIAL STATEMENTS

BALANCE SHEETS

30th June

Unaudited

<b>ASSETS</b>	<b>2009</b>	<b>2008</b>
<b>Current</b>		
Cash	\$ -	\$ -
Accounts receivable	<b>53,735</b>	46,104
Prepaid expenses and advances	<b>19,895</b>	18,944
Inventory	<b>35,965</b>	51,810
<b>Total current assets</b>	<b>109,595</b>	116,858
<b>Property, plant and equipment</b> (Note 6)	<b>59,699</b>	73,651
<b>Deferred development</b> (Note 7)	<b>15,763</b>	18,119
<b>Patents</b> (Note 8)	<b>41,173</b>	89,853
<b>Trademarks</b> (Note 9)	<b>3,463</b>	4,959
	<b>120,098</b>	186,582
	<b>\$ 229,693</b>	\$ 303,440
<b>LIABILITIES</b>		
<b>Current</b>		
Bank overdraft	\$ 7,694	\$ 26,216
Accounts payable and accrued liabilities	<b>40,451</b>	84,899
Accounts payable – related (Note 15)	<b>11,973</b>	9,149
Due to related parties (Note 15)	<b>4,560</b>	6,407
Current portion of long-term debt (Note 11)	<b>18,470</b>	24,120
<b>Total current liabilities</b>	<b>83,148</b>	150,791
<b>Long-term debt</b> (Note 11)	<b>33,150</b>	40,400
<b>Obligation to issue shares</b> (Note 12)	<b>63,500</b>	63,500
	<b>96,650</b>	103,900
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital</b> (Note 13)	<b>769,520</b>	691,942
<b>Deficit</b>	<b>(719,625)</b>	(643,193)
	<b>49,895</b>	48,749
	<b>\$ 229,693</b>	\$ 303,440

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 DEFICIT

30<sup>th</sup> June

Unaudited

	THREE MONTHS		SIX MONTHS	
	2009	2008	2009	2008
<b>Sales</b>	\$ 111,747	\$ 56,628	\$ 142,020	\$ 94,791
<b>Cost of Sales</b>	<b>52,529</b>	20,208	<b>67,472</b>	35,288
<b>Gross Profit</b>	<b>59,218</b>	36,420	<b>74,548</b>	59,503
(Percent Gross Profit)	53%	64%	52%	63%
<b>Expenses</b>				
Administrative expenses	<b>5,368</b>	4,063	<b>9,168</b>	8,975
Amortization and depreciation (Note 10)	<b>6,625</b>	6,677	<b>13,037</b>	13,332
Interest on short-term debt, bank charges	<b>1,186</b>	1,351	<b>2,283</b>	2,713
Interest on long-term debt	<b>1,249</b>	1,940	<b>2,227</b>	3,642
Foreign exchange loss (gain)	<b>1,167</b>	1	<b>1,091</b>	421
Management fees	<b>381</b>	10,685	<b>21,421</b>	21,799
Marketing and advertising	<b>10,009</b>	9,012	<b>20,861</b>	19,869
Occupancy	<b>5,348</b>	4,276	<b>10,832</b>	9,228
Patent maintenance	<b>199</b>	199	<b>398</b>	398
Production	<b>104</b>	10	<b>32</b>	25
Professional fees	<b>2,500</b>	2,400	<b>5,000</b>	5,400
Public company expenses	<b>6,025</b>	5,910	<b>8,695</b>	16,461
Telecommunications	<b>587</b>	1,357	<b>1,071</b>	2,068
Wages and benefits	<b>170</b>	77	<b>696</b>	1,088
	<b>40,918</b>	47,958	<b>96,816</b>	105,421
<b>Net income (loss)</b>	<b>18,300</b>	(11,538)	<b>(22,268)</b>	(45,918)
<b>Deficit – beginning of period</b>	<b>(737,925)</b>	(631,655)	<b>(697,357)</b>	(597,275)
<b>Deficit – end of period</b>	<b>(719,625)</b>	(638,164)	<b>(719,625)</b>	(643,193)
<b>Average shares outstanding</b>				
Basic	4,700,048	3,387,985	4,044,017	3,387,985
Diluted	8,680,855	6,807,292	8,212,464	6,807,292
<b>Earnings (loss) per share</b>				
Basic	0.00	0.00	\$ (0.01)	(0.01)
Diluted	0.00	0.00	\$ (0.00)	(0.01)

See accompanying notes to the consolidated financial statements

SECOND QUARTER CONSOLIDATED FINANCIAL STATEMENTS

STATEMENTS OF CASH FLOW

30<sup>th</sup> June

Unaudited

	SECOND QUARTER		FIRST HALF	
	2009	2008	2009	2008
<b>Cash resources provided by (used in)</b>				
<b>Operating activities</b>				
Cash receipts from customers	\$ 82,225	\$ 30,815	\$ 107,820	\$ 83,237
Direct costs	(53,951)	(11,027)	(68,997)	(18,509)
Cash paid to suppliers and employees	(14,784)	(19,734)	(69,703)	(78,565)
	<b>13,490</b>	(54)	<b>(30,880)</b>	(13,837)
<b>Investing activities</b>				
Property, plant and equipment	(25)	(441)	(873)	(441)
Research and development	(925)	(8,714)	(925)	(8,714)
Patents	(3,323)	(300)	(2,974)	(520)
	<b>(4,273)</b>	(9,455)	<b>(4,772)</b>	(9,675)
<b>Financing activities</b>				
Long term debt	(4,350)	(4,350)	(7,250)	-
Due to related parties	11,967	2,578	(6,310)	8,595
Shares issue for cash	-	-	77,578	-
Subscriptions received	-	-	(34,344)	-
Directors loan	26	50	58	2,112
	<b>7,643</b>	(1,722)	<b>29,732</b>	10,707
<b>Net increase in cash</b>	<b>16,858</b>	(11,123)	<b>(5,920)</b>	(12,805)
<b>Cash position, opening</b>	<b>(24,552)</b>	(15,093)	<b>(1,773)</b>	(13,411)
<b>Cash position, ending</b>	<b>\$ (7,694)</b>	\$ (26,216)	<b>\$ (7,694)</b>	\$ (26,216)
<b>Supplementary cash flow information</b>				
Cash paid for interest	\$ 2,409	\$ 3,341	\$ 4,452	\$ 6,467
Cash paid for income taxes	\$ -	\$ -	\$ -	\$ -

See accompanying notes to the consolidated financial statements

## NOTES TO FINANCIAL STATEMENTS

30<sup>th</sup> June, 2009

Unaudited

**1. Future operations and nature of business**

These financial statements have been prepared assuming the Company will continue 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 the carrying value of property, plant and equipment, deferred development, patent and trademark costs are dependent on the company's ability to continue product development and 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.

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.

**2. Significant accounting policies****a) Consolidation**

These consolidated financial statements include the accounts of the company, and its wholly owned subsidiaries Maxito Industries Ltd. and 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. Cost includes all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The inventory is comprised of the following:

Raw materials	\$	12,411
Work in progress		205
Finished goods		23,349
Total	\$	<u>35,965</u>

**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

30<sup>th</sup> June, 2009

Unaudited

**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 or when only 17 years remains in the potential life of the patent. Costs related to abandoned patent applications are written off in the year the application is abandoned.

**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 or where the life is determined by the application date when 2 years remain to the expiry date. Costs related to discontinued patent applications are written off at the date of abandonment.

**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 2008 and 2007, 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 2008, 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.

## NOTES TO FINANCIAL STATEMENTS

30<sup>th</sup> June, 2009

Unaudited

**i) Stock-based compensation**

The company uses the fair value method for measuring compensation costs and therefore all stock based awards to employees and nonemployees are recorded at fair value on the date of the grant and the associated expense is recognized over the vesting period.

**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 held in escrow 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. Significant amounts that require estimates as a basis for determining the stated amounts include plant and equipment, deferred development and patents.

**3. Adoption of new accounting policies*****Current changes*****a) Accounting Changes**

Effective January 1 2008, the Company implemented the new CICA accounting section 1506 (Accounting Changes). Under these new recommendations, voluntary changes in accounting policy are permitted only when they result in the financial statements providing reliable and more relevant information. This section requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and requires enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. These recommendations also require the disclosure of new primary sources of generally accepted accounting principles that have been issued but not yet effective. The impact that the adoption of this section will have on the Company's financial statements will depend on the nature of future accounting changes and the required additional disclosure on recent accounting pronouncements.

**b) Capital Disclosures**

Effective January 1 2008, the Company implemented the new CICA accounting section 1535 (Capital Disclosures). Section 1535 specifies the disclosure of (i) an entity's objectives, policies, and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such noncompliance. Disclosures required by this standard are included in note 4.

**c) Financial Instruments**

All financial instruments are classified into one of the following five categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- (i) Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net earnings.
- (ii) Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in other comprehensive income until the asset is removed from the balance sheet.
- (iii) Held for trading financial instruments are measured at fair value. All gains and losses are included in net earnings in the period in which they arise.
- (iv) All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and

## NOTES TO FINANCIAL STATEMENTS

30<sup>th</sup> June, 2009

Unaudited

losses are included in net earnings in the period they arise. In accordance with this new standard, the Company has classified its financial instruments as follows: Marketable securities and investments are classified as available-for-sale securities. Such securities are measured at fair market value in the consolidated financial statements with unrealized gains or losses recorded in comprehensive income (loss). At the time securities are sold or otherwise disposed of, gains or losses are included in net earnings (loss).

- (v) The Company had no "other comprehensive income or loss" transactions during the period ended March 31 2009 and no opening or closing balances for accumulated other comprehensive income or loss.
- (vi) 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.

**d) Going Concern – amendments of Section 1400**

- (i) CICA 1400, General Standards of Financial Statements Presentation, was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008.

***Future changes in accounting policies***

**a) Goodwill and intangible assets, Section 3064**

The CICA issued the new Handbook Section 3064, "Goodwill and Intangible Assets", which will replace Section 3062, "Goodwill and Intangible Assets". The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start up costs and requires that these costs be expensed as incurred. The new standard applies to the fiscal year beginning on January 1, 2009.

**b) International Financial Reporting Standards ("IFRS")**

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1 2011. The transition date of January 1 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

**4. MANAGEMENT OF CAPITAL**

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the design, development, manufacture and sale of its fabric based forms and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash.

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company expects its current working capital will be sufficient to carry out its operations through its current operating period.

**5. FINANCIAL INSTRUMENTS**

**a) Fair Value**

SECOND QUARTER CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

30<sup>th</sup> June, 2009

Unaudited

The fair value of financial instruments at June 30 2009 and 2008 is summarized as follows:

	2009		2008	
	Carrying \$	Fair value \$	Carrying \$	Fair value \$
<b>Financial Assets</b>				
Accounts receivable	\$ 53,735	\$ 53,735	\$ 46,104	\$ 46,104
<b>Financial liabilities</b>				
Bank overdraft	7,694	7,694	26,216	26,216
Accounts payable, accrued liabilities	40,453	40,453	84,899	84,899
Loans from related parties	4,560	4,560	6,407	6,407

Fair value estimates are made at the balance sheet date, based on relevant market information and other information about the financial instruments.

**b) Financial Risk Management**

The Company's activities potentially expose it to a variety of financial risks, including credit risk, foreign exchange risk (currency), liquidity risk, and interest rate risk.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist of cash, short term investments and amounts receivable. The maximum credit risk represented by the Company's financial assets is represented by their carrying amounts. The Company deposits the majority of its cash with high credit quality financial institutions in Canada and the USA.

Currency risk

The Company operates in a number of countries, including Canada and the United States, and is therefore exposed to foreign exchange risk arising from transactions denominated in foreign currencies.

The Company had the following balances in foreign currencies at March 31 2009:

	US \$
Cash	\$ -
Equivalent in Canadian dollars	\$ -

Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. Current financial assets and financial liabilities are generally not exposed to significant interest rate risk because of their short term to maturity.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial liabilities.

**6. Property, plant and equipment**

	2009			2008		
	Cost	Accum. Amort.	NBV	Cost	Accum. Amort.	NBV
Manufact. equip	\$ 154,416	\$ (95,941)	\$ 58,475	\$ 153,417	\$ (81,514)	\$ 71,903
Vehicle	29,391	(28,167)	1,224	29,391	(27,643)	1,748
Total	\$ 183,807	\$ (124,108)	\$ 59,699	\$ 182,808	\$ (109,157)	\$ 73,651

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**7. Deferred development**

	2009			2008		
	Cost	Accum. Amort.	NBV	Cost	Accum. Amort.	NBV
Fast-Tube™	\$ 16,975	\$ (10,905)	\$ 6,070	\$ 17,928	\$ (7,571)	\$ 10,357
Fastfoot®	9,963	-	9,693	7,762	-	7,762
<b>Total</b>	<b>\$ 26,668</b>	<b>\$ (10,905)</b>	<b>\$ 15,763</b>	<b>\$ 25,690</b>	<b>\$ (7,571)</b>	<b>\$ 18,119</b>

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

**8. 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:

	2009			2008		
	Cost	Accum. Amort.	NBV	Cost	Accum. Amort.	NBV
Fastfoot®	\$ 42,015	\$ (32,033)	\$ 9,982	\$ 77,384	\$ (29,563)	\$ 47,822
Found. & Floor System	11,105	(10,779)	326	11,105	(10,125)	980
Concrete Found Wall	6,957	(4,705)	2,252	6,957	(4,296)	2,661
Fast-Tube™	37,737	(9,124)	28,613	38,090	-	38,390
<b>Total</b>	<b>\$ 97,814</b>	<b>\$ (56,641)</b>	<b>\$ 41,173</b>	<b>\$ 133,837</b>	<b>\$ (43,984)</b>	<b>\$ 89,853</b>

**9. Trademarks**

The company has three registered trademarks:

	2009			2008		
	Cost	Accum. Amort.	NBV	Cost	Accum. Amort.	NBV
Fastfoot®	\$ 6,212	\$ (5,531)	\$ 681	\$ 6,212	\$ (4,930)	\$ 1,282
Fastfabric®	3,883	(2,912)	971	3,883	(2,524)	1,359
Fastbag®	5,070	(3,259)	1,811	5,070	(2,752)	2,317
<b>Total</b>	<b>\$ 15,165</b>	<b>\$ (11,702)</b>	<b>\$ 3,463</b>	<b>\$ 15,165</b>	<b>\$ (10,206)</b>	<b>\$ 4,959</b>

**10. Amortization and depreciation**

	2009	2008
Property, plant and equipment	\$ 6,665	\$ 8,273
Deferred development	1,819	1,516
Patents	3,795	2,806
Trademarks	758	738
<b>Total</b>	<b>\$ 13,037</b>	<b>\$ 13,332</b>

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**11. Long-term debt**

<i>Description</i>	<b>2009</b>	<b>2008</b>
Machinery loan from the Business Development Bank for \$50,000. Secured by guarantee, payable \$840 per month plus interest currently 8.75%, maturing September 18 2009	\$ <b>2,520</b>	\$ 6,720
Less current portion	<b>(2,520)</b>	(6,720)
Long-term portion	-	-
Working capital loan from the Business Development Bank for \$40,000. Secured by guarantee, payable \$650 per month plus interest, currently 9.5%, maturing August 23 2010.	<b>9,100</b>	13,000
Less current portion	<b>(7,150)</b>	(7,800)
Long-term portion	<b>1,950</b>	5,200
Working capital loan from the Business Development Bank for \$50,000. Secured by guarantee, payable \$800 per month plus interest, currently 10.5%, maturing August 23 2013.	<b>40,000</b>	44,800
Less current portion	<b>(8,800)</b>	(9,600)
Long-term portion	<b>31,200</b>	35,200
<b>Total long-term debt</b>	<b>51,620</b>	64,520
<b>Less current portion</b>	<b>(18,470)</b>	(24,120)
<b>Long-term portion</b>	<b>\$ 33,150</b>	\$ 40,400

Future principal payments on long-term debt are:

2009	11,220
2010	14,800
2011	9,600
2012	9,600
2013	6,400
<b>Total</b>	<b>\$ 51,620</b>

**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) 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
Private placement, debt settlement – 28 Jan 2009	1,312,063	77,578
<b>Balance – 31 March 2009</b>	<b>8,119,355</b>	<b>\$ 769,520</b>

As at 30 June 2009, 49.1% (2008 – 51.9%) 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.

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- iii) Escrow: As at 30 June 2009 3,419,307 (2008 - 3,419,307) shares were held in escrow. 3,419,307 of the escrow shares will be time released as shown:

<i>Date</i>	<i>% released</i>	<i># released</i>	<i>Balance</i>
23-Jun-09	0.0%	0	3,419,307
23-Dec-09	5.0%	170,965	3,248,342
23-Jun-10	5.3%	170,965	3,077,377
23-Dec-10	5.6%	170,965	2,906,412
23-Jun-11	5.9%	170,965	2,735,447
23-Dec-11	12.5%	341,931	2,393,516
23-Jun-12	14.3%	341,931	2,051,585
23-Dec-12	16.7%	341,931	1,709,654
23-Jun-13	20.0%	341,931	1,367,723
23-Dec-13	25.0%	341,931	1,025,792
23-Jun-14	33.3%	341,931	683,861
23-Dec-14	50.0%	341,931	341,930
23-Jun-15	100.0%	341,930	0
		<b><u>3,419,307</u></b>	

**b) Options and warrants**

As a result of the private placement and debt settlement which completed on January 28 2009, 561,500 warrants were issued (with an exercise price of \$0.10 per common share, and exercisable until January 23<sup>rd</sup> 2011).

**14. Subsequent events**

None

**15. Related party transactions**

The following related party transactions occurred during the fiscal quarter:

<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>2009</b>	-	-	-
		2008	2,000	-	949
Liability	Balance due to Related Parties incurred in the course of business	<b>2009</b>	<b>5,986</b>	<b>5,986</b>	<b>4,534</b>
		2008	4,000	572	10,357
Expenses	Management fees	<b>2009</b>	<b>191</b>	<b>190</b>	-
		2008	5,557	5,557	-

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.

**16. Income taxes**

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

	<b>2009</b>	<b>2008</b>
Income (loss) for the year	\$ (101,227)	\$ (19,312)
Expected income tax (recovery)	(31,380)	(6,566)
Non taxable items	19,200	9,840
Unrecognized benefit of non-capital losses	12,180	(3,274)
	<b>\$ -</b>	<b>\$ -</b>

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Details of future income taxes assets are as follows:

	<b>2009</b>	<b>2008</b>
Non capital loss carry forwards	\$ 71,500	\$ 96,500
Equipment, patents and trademarks	57,900	(11,300)
Development	58,000	54,000
Research tax credits	40,000	40,000
Total future income tax assets	227,400	179,200
Less valuation allowance	(227,400)	(179,200)
	<u>\$ -</u>	<u>\$ -</u>

**16. Income taxes continued**

At 31 December 2008 the company had tax losses of approximately \$231,000 available for deduction against future taxable income. The losses expire as follows:

2009	76,000
2010	3,000
2014	57,000
2015	12,000
2016	3,000
2026	42,000
2027	38,000
	<u>\$ 231,000</u>

**17. Concentration of customers (2<sup>nd</sup> quarter)**

In **2009, 23.1%** (2008, 16.4%) of the company's sales were made to one customer.

**18. Segmented information (2<sup>nd</sup> quarter)**

	<b>2009</b>		<b>2008</b>	
<i>Gross sales</i>	Canada	\$ <b>26,728</b> <b>23.9%</b>	\$ 37,274	65.8%
	U.S.	<b>36,677</b> <b>32.8%</b>	19,354	34.2%
	ROW	<b>48,342</b> <b>43.3%</b>	-	0.0%
	Total	<b>\$ 111,747</b> <b>100.0%</b>	\$ 56,628	100.0%
<i>Total assets</i>	Canada	\$ <b>198,576</b> <b>100.0%</b>	\$ 303,440	100.0%
	U.S.	- <b>0.0%</b>	-	0.0%
	Total	<b>\$ 198,576</b> <b>100.0%</b>	\$ 303,440	100.0%
<i>Capital expenditures</i>	Canada	\$ <b>349</b> <b>100.0%</b>	\$ 9,455	100.0%
	U.S.	- <b>0.0%</b>	-	0.0%
	Total	<b>\$ 349</b> <b>100.0%</b>	\$ 9,455	100.0%

## SECOND QUARTER FINANCIAL STATEMENTS

### FURTHER INFORMATION

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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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