Australian Forest Industries
Form 10-Q
August 19, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D. C. 20549

FORM 10-Q

x QUARTERLY REPORT UNDER SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2008

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number 0-25909

Australian Forest Industries
(Exact name of small business issuer as specified in its charter)

| Nevada | 86-0931332 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

4/95 Salmon Street, Port Melbourne, Victoria
Australia, 3207
(Address of principal executive offices) (Zip Code)

Issuer's telephone number: 011 61 3 8645 4340

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate by check mark whether the registrant is a large accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer o Smaller Reporting Company x

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes o No o (not applicable)

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

The number of shares of the issuer’s outstanding common stock, which is the only class of its common equity, on August 19, 2009, was 257,600,680.

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ITEM 1 FINANCIAL STATEMENTS

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ITEM 1. FINANCIAL STATEMENTS

AUSTRALIAN FOREST INDUSTRIES, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

ASSETS

| | June 30, 2008 | December 31, 2007 (Audited) |
|---|---|---|
| TOTAL ASSETS | - | - |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES | | |
| Net liabilities of entities discontinued | $ 30,481,346 | $ 34,412,897 |
| Total Current Liabilities | 30,481,346 | 34,412,897 |
| STOCKHOLDERS' DEFICIT | | |
| Preferred stock, par value $0.001, 5,000,000 shares authorized, none issued and outstanding | | |
| Common stock, par value $0.001, 300,000,000 shares authorized, 257,600,680 and 257,600,680 issued and outstanding in 2008 and 2007, respectively | 257,600 | 257,600 |
| Additional paid-in capital | 4,573,217 | 4,573,217 |
| Accumulated other comprehensive income | (4,740,625) | (1,843,600) |
| Accumulated deficit | (30,571,538) | (37,400,114) |
| Total Stockholders' Deficit | (30,481,346) | (34,412,897) |
| Total Liabilities and Stockholders' Deficit | $ - | $ - |

See accompanying notes to financial statements.

AUSTRALIAN FOREST INDUSTRIES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| DISCONTINUED OPERATIONS | | | | |
| (Gain) loss from discontinued operations | | | | |
| (Net of income tax expense of $0) | $ 251,642 | $ 1,827,876 | $ 455,137 | $ 4,132,676 |
| (Gain) on disposal of discontinued assets | (7,283,713) | - | (7,283,713) | - |
| (Net of income tax expense of $0) | - | - | - | - |
| Total Discontinued Operations | 7,032,071 | 1,827,867 | 6,828,576 | 4,132,672 |
| NET INCOME (LOSS) | $ 7,032,071 | $ (1,827,867) | $ 6,828,576 | $ (4,132,672) |
| NET GAIN (LOSS) PER SHARE (BASIC AND DILUTED) | | | | |
| Continuing operations | - | - | - | - |
| Discontinued operations | $ 0.03 | $ (0.01) | $ 0.03 | $ (0.02) |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING | 257,600,680 | 257,600,680 | 257,600,680 | 257,600,680 |

See accompanying notes to financial statements.

AUSTRALIAN FOREST INDUSTRIES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| | For the Six Months Ended June 30, | |
|---|---|---|
| | 2008 | 2007 |
| CASH FLOWS FROM OPERATING ACTIVITIES | - | - |
| DISCONTINUED OPERATIONS | | |
| Gain (loss) from discontinued operations | $ (455,137) | $ (4,132,672) |
| Gain on sale of land, buildings, and equipment | 7,283,713 | - |
| (Decrease) increase in net liabilities of entities discontinued | (3,931,551) | 4,870,286 |
| Cash provided by (used in) discontinued operations | 2,897,025 | 737,614 |
| EFFECT OF EXCHANGE RATE ON CASH | 2,897,025 | (737,614) |
| CASH END OF YEAR | $ - | $ - |

See accompanying notes to financial statements.

AUSTRALIAN FOREST INDUSTRIES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008

NOTE A - BASIS OF PRESENTATION AND NATURE OF BUSINESS

The accompanying condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary in order to make the financial statements not misleading have been included. Results for the three and six month periods ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. For further information, refer to the financial statements and footnotes thereto included in the Australian Forest Industries Inc. annual report on Form 10-KSB/A for the year ended December 31, 2007.

Nature of Business

Australian Forest Industries ("the Company"), through its wholly owned subsidiary Integrated Forest Products Pty Ltd ("Integrated"), previously operated a saw mill in Australia which cut pine timber into building products to supply the commercial and residential industry along the eastern coast of Australia. In July 2008, its wholly owned subsidiary in Australia went into receivership and ultimately into bankruptcy, and has formerly discontinued its operations.

Going Concern and Liquidation

As shown in the accompanying consolidated financial statements, the Company incurred a net income of $6,828,576 in 2008 and had an accumulated deficit of $30,571,538 at June 30, 2008. Management plans to dissolve the business and liquidate the liabilities. It also plans to spin out the bankrupt subsidiary and look for a merger candidate for the public shell. The Company's wholly owned subsidiary is entering into bankruptcy under Australian laws. The accompanying consolidated financial statements and discontinued operations of the Australian subsidiary have been prepared on a liquidation basis.

NOTE B – LITIGATION

Oz Investment Corp Pty. Ltd. has initiated a letter of demand for the $1,578,600 due from the Timbermans Group for full payment of funds lent to the Timbermans Group. The Company is currently negotiating with Oz and had agreed to provide additional collateral.

NOTE C - ADMINISTRATION

The Company's wholly owned subsidiary in Australia, Integrated Forest Products, is currently in Administration and is being operated by Court appointed administrators. Administration in Australia is similar to receivership in the U.S. The administrators plan to put the subsidiary into bankruptcy.

NOTE D - GAIN ON SALE OF DISCONTINUED ASSETS

In October 2007, the Company's administrator received a contract of sale for its land, buildings, and plant equipment which was dependent upon obtaining certain land use approvals and other related environmental approvals. At December 31, 2007, there was no assurance that such approvals would be obtained. The Company accordingly, at December 31, 2007, reduced the value of its plant and equipment to the contract amount of $964,403. There was no adjustment for land and buildings since the contract value exceeded the carrying value of the land on the books and records of the Company. An analysis of the gain on sale of discontinued assets is as follows:

AUSTRALIAN FOREST INDUSTRIES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008

NOTE D - GAIN ON SALE OF DISCONTINUED ASSETS (CONTINUED)

| | |
|---|---|
| Sale price of land, buildings, and plant equipment | $ 11,091,600 |
| Net value of land, buildings, and plant equipment | 3,414,373 |
| Gross profit and sale of assets | 7,677,227 |
| Administrative expenses | 393,514 |
| Net gain on disposition | $ 7,283,713 |

The proceeds of sale will be used principally to liquidate secured debt and pay administrative expenses.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

It should be noted that this Management's Discussion and Analysis of Financial Condition and Results of Operations may contain "forward-looking statements." The terms "believe," "anticipate," "intend," "goal," "expect," and similar expressions may identify forward-looking statements. These forward-looking statements represent the Company's current expectations or beliefs concerning future events. The matters covered by these statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those set forth in the forward-looking statements, including the Company's dependence on weather-related factors, introduction and customer acceptance of new products, the impact of competition and price erosion, as well as supply and manufacturing restraints and other risks and uncertainties. The foregoing list should not be construed as exhaustive, and the Company disclaims any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statements, or to reflect the occurrence of anticipated or unanticipated events. In light of the significant uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation that the strategy, objectives or other plans of the Company will be achieved. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made.

Background

As shown in the accompanying consolidated financial statements, the Company incurred a net income of $6,828,576 in 2008 and had an accumulated deficit of $30,571,538 at June 30, 2008. Management plans to dissolve the business and liquidate the liabilities. It also plans to spin out the bankrupt subsidiary and look for a merger candidate for the public shell. The Company's wholly owned subsidiary is entering into bankruptcy under Australian laws. The accompanying consolidated financial statements and discontinued operations of the Australian subsidiary have been prepared on a liquidation basis.

Oz Investmentcorp Pty Ltd. initiated a letter of demand for the $1,578,600 due from the Timbermans Group for full payment of funds lent to the Timbermans Group. Timbermans Group is currently negotiating with Oz and had agreed to provide additional collateral.

On November 14, 2007, the Company was named as a co-defendant in a lawsuit brought in the High Court of Justice Chancery Division, England by Courical Holding B.V. ("Plaintiff") whereby it is alleged that the Plaintiff invested $650,000 in Zebra Mining Services Limited ("Co-Defendant") in exchange for 325,000 shares of Company common stock and 325,000 warrants to purchase Company common stock pursuant to an agreement between the three parties. The Plaintiff alleges that it never received any consideration for its investment from either the Co-Defendant or the Company. This matter was settled in the first quarter of fiscal year end December 31, 2008.

On July 31, 2007, PricewaterhouseCoopers Australia was appointed Receivers and Managers of both Integrated Forest Products Pty. Ltd., the Company's wholly owned subsidary, and Timbermans Group Pty. Ltd., our major shareholder. On this same date, Deloitte was appointed Liquidator of Timbermans. Romanis Cant was appointed Liquidator of Integrated on October 18, 2007.

Business operations of Integrated were continued until November 30, 2007 when all the assets of Integrated were offered for sale as a going concern. No offers capable of acceptance by the Receivers were submitted. As a result, the Receivers entered into contracts to sell the land, plant and equipment of IFP as individual assets. Settlement of these contracts is currently pending.

Timbermans owned two major assets, a rural property and the shares in the Company. In October 2007, the Company's administrator received a contract of sale for its land, buildings, and plant equipment which was dependent upon obtaining certain land use approvals and other related environmental approvals. At December 31, 2007, there was no assurance that such approvals would be obtained. The Company accordingly, at December 31, 2007, reduced the value of its plant and equipment to the contract amount of $964,403. There was no adjustment for land and buildings since the contract value exceeded the carrying value of the land on the books and records of the Company. (See Note D of the Financial Statement). Management's plans include the dissolution of the business and the liquidation of all liabilities. It also plans to spin out the bankrupt subsidiary and look for a merger candidate. The Company's subsidiary is in bankruptcy under Australian laws.

Our current business objective is to investigate and, if such investigation warrants, acquire a target company or business seeking the perceived advantages of being a publicly held corporation. We will not restrict our potential candidate target companies to any specific business, industry or geographical location and, thus, may acquire any type of business.

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We do not currently engage in any business activities that provide us with positive cash flows. As such, the costs of investigating and analyzing business combinations will be paid through funds from financing to be obtained.

We anticipate incurring costs related to filing of Exchange Act reports and costs relating to consummating an acquisition.

We believe we will be able to meet these costs with amounts to be loaned to or invested in us by our stockholders or other investors.

We may consider a business which has recently commenced operations, is a developing company in need of additional funds for expansion into new products or markets, is seeking to develop a new product or service, or is an established business which may be experiencing financial or operating difficulties and is in need of additional capital. In the alternative, a business combination may involve the acquisition of, or merger with, a company which does not need substantial additional capital, but which desires to establish a public trading market for its shares, while avoiding, among other things, the time delays, significant expense, and loss of voting control which may occur in a public offering.

Any target business that is selected may be a financially unstable company or an entity in its early stages of development or growth, including entities without established records of sales or earnings. In that event, we will be subject to numerous risks inherent in the business and operations of financially unstable and early stage or potential emerging growth companies. In addition, we may effect a business combination with an entity in an industry characterized by a high level of risk, and, although our management will endeavor to evaluate the risks inherent in a particular target business, there can be no assurance that we will properly ascertain or assess all significant risks.

RESULTS OF OPERATIONS

Total income from discontinued operations for the three months ended June 30, 2008 was $7,032,071 and for the six months ended June 30, 2008 was $6,828,576. By comparison, the three months and six months ended June 30, 2008, we had a net loss from discontinued operations of $1,827,867 and $4,136,672, respectively. This change over the comparison period is attributable to a gain on the disposal of discontinued assets in the three months ended June 30, 2008 of $7,283,713.

Total gain from discontinued operations for the three-months ended June 30, 2008 aggregated $7,283,713. We incurred net income from discontinued operations of $7,032,071 or $(0.03) per share.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by discounted operations for the six-month period ended June 30, 2007 was $737,614. Cash provided by discounted operations for the six-month period ended June 30, 2008 was $2,897,025.

This change was brought about as a result of a decrease in the loss from discontinued operations from $4,132,672 to $455,137 over the two periods and a gain on the sale of land, buildings and equipment of $7,283,713 in the six months ended June 30, 2008, which was partially offset by a decrease in net liabilities from discontinued operations from $4,876,286 to ($3,931,551) over the two periods. The Company realized no net cash provided by either financing or investing activities the six-month periods ended June 30, 2007 and 2008.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company’s discussion and analysis of its financial condition and results of operations are based upon its financial statements, which have been prepared in accordance with accounting principles generally accepted in the United

States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to bad debts, income taxes and contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Recent Accounting Pronouncements Affecting The Company:

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation 48, "Accounting for Income Tax Uncertainties" ("FIN 48"). FIN 48 defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. Recently issued literature also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company expects to adopt the provisions of FIN 48 beginning in the first quarter of 2007. The Company is currently in the process of determining the impact, if any, of adopting the provisions of FIN 48 on its financial position, results of operations and liquidity.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value under other accounting pronouncements that permit or require fair value measurements, changes the methods used to measure fair value and expands disclosures about fair value measurements. In particular, disclosures are required to provide information on the extent to which fair value is used to measure assets and liabilities; the inputs used to develop measurements; and the effect of certain of the measurements on earnings (or changes in net assets). SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Early adoption, as of the beginning of an entity's fiscal year, is also permitted, provided interim financial statements have not yet been issued. The Company expects to adopt the provisions of FIN 48 beginning in the first quarter of 2008. The Company is currently evaluating the potential impact, if any, that the adoption of SFAS No. 157 will have on its consolidated financial statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB No. 108"). SAB No. 108 provides guidance on how prior year misstatements should be considered when quantifying misstatements in the current year financial statements. SAB No. 108 requires registrants to quantify misstatements using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB No. 108 does not change the guidance in SAB No. 99, "Materiality," when evaluating the materiality of misstatements.

SAB No. 108 is effective for fiscal years ending after November 15, 2006. Upon initial application, SAB No. 108 permits a one-time cumulative effect adjustment to beginning retained earnings. The Company adopted SAB No. 108 for the fiscal year ended December 31, 2006. Adoption of SAB No. 108 did not have a material impact on the consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159"). SFAS 159 allows entities to measure at fair value many financial instruments and certain other assets and liabilities that are not otherwise required to be measured at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We have not determined what impact, if any, that adoption will have on our results of operations, cash flows or financial position.

Item 3. Quantitative and Qualitative Disclosure About Market Risk.

Not applicable

Item 4/4T. – Controls and Procedures

(a) Disclosure Controls and Procedures.

As of the end of the period covering this Form 10-Q, we evaluated the effectiveness of the design and operation of our "disclosure controls and procedures". We conducted this evaluation under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer.

(i) Definition of Disclosure Controls and Procedures.

Disclosure controls and procedures are controls and other procedures that are designed with the objective of ensuring that information required to be disclosed in our periodic reports filed under the Exchange Act, such as this report, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. As defined by the SEC, such disclosure controls and procedures are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, in such a manner as to allow timely disclosure decisions.

(ii) Limitations on the Effectiveness of Disclosure Controls and Procedures and Internal Controls.

We recognize that a system of disclosure controls and procedures (as well as a system of internal controls), no matter how well conceived and operated, cannot provide absolute assurance that the objectives of the system are met. Further, the design of such a system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented in a number of ways. Because of the inherent limitations in a cost-effective control system, system failures may occur and not be detected.

(iii) Conclusions with Respect to Our Evaluation of Disclosure Controls and Procedures.

Our Chief Executive Officer and Chief Financial Officer determined that, as of the end of the period covered by this report, these controls and procedures are adequate and effective in alerting them in a timely manner to material information relating to us required to be included in our periodic SEC filings.

(b) Changes in Internal Controls.

There have been no changes in our internal controls over financial reporting that could significantly affect these controls subsequent to the date of their evaluation.

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PART II

Item 1. Legal Proceedings

Integrated and Timbermans were placed under administration in Australia (in the U.S. this is tantamount to a Chapter 11 Bankruptcy). On July 31, 2007, PricewaterhouseCoopers Australia was appointed Receivers and Managers of both Integrated and Timbermans. Also on this same date, Deloitte was appointed Liquidator of Timbermans. Romanis Cant was appointed Liquidator of Integrated on October 18, 2007.

Business operations of Integrated were continued until November 30, 2007 when all of the assets of Integrated were offered for sale as a going concern. No offers capable of acceptance by the Receivers were submitted. As a result, the Receivers entered into contracts to sell the land, plant and equipment of Integrated as individual assets. Settlement of these contracts is currently pending.

Timbermans owned two major assets, a rural property and the shares in the Company. In October 2007, the Company's administrator received a contract of sale for its land, buildings, and plant equipment which was dependent upon obtaining certain land use approvals and other related environmental approvals. At December 31, 2007, there was no assurance that such approvals would be obtained. The Company accordingly, at December 31, 2007, reduced the value of its plant and equipment to the contract amount of $964,403. There was no adjustment for land and buildings since the contract value exceeded the carrying value of the land on the books and records of the Company. (See Note D of the Financial Statement).

Oz Investmentcorp Pty Ltd. initiated a letter of demand for the $1,578,600 due from the Timbermans Group for full payment of funds lent to the Timbermans Group. Timbermans Group is currently negotiating with Oz and had agreed to provide additional collateral.

On November 14, 2007, the Company was named as a co-defendant in a lawsuit brought in the High Court of Justice Chancery Division, England by Courical Holding B.V. ("Plaintiff") whereby it is alleged that the Plaintiff invested $650,000 in Zebra Mining Services Limited ("Co-Defendant") in exchange for 325,000 shares of Company common stock and 325,000 warrants to purchase Company common stock pursuant to an agreement between the three parties. The Plaintiff alleges that it never received any consideration for its investment from either the Co-Defendant or the Company. This matter was settled in the first quarter of fiscal year end December 31, 2008.

Item 1A Risk Factors
No material changes.

Item 2. Unregistered Sale of Equity Securities and Use of Proceeds
None

Item 3. Defaults Upon Senior Securities
None

Item 4. Submission of Matters to a Vote of Security Holders
None

Item 5. Other Information
None

Item 6. Exhibits

Exhibit Index

Exhibit 31.1 Certification of Chief Executive Officer

Exhibit 31.2 Certification of Acting Principal Accounting Officer

Exhibit 32.1 Certification of Chief Executive Officer

Exhibit 32.1 Certification of Acting Principal Accounting Officer

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AUSTRALIAN FOREST INDUSTRIES

/s/ Michael Timms
Name: Michael Timms
Title: CEO, President and Chairman of the Board
Date: August 19, 2008

/s/ Colin Baird
Name: Colin Baird
Title: Chief Financial Officer
Date: August 19, 2008