Australian Forest Industries
Form 10-Q
November 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 September 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 x No o

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

The number of shares of the issuer's outstanding common stock, which is the only class of its common equity, on November 17, 2009, was 257,600,680.

ITEM 1 FINANCIAL STATEMENTS

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ITEM 1. FINANCIAL STATEMENTS

AUSTRALIAN FOREST INDUSTRIES, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

ASSETS

		September 30, 2008 (Unaudited)		December 31, 2007
TOTAL ASSETS		-		-

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES				
Net liabilities of discontinued entities	$	$25,647,641	$	$34,412,897
Total Current Liabilities		25,647,641		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		204,559		(1,843,600)
Accumulated deficit		(30,683,017)		(37,400,114)
Total Stockholders' Deficit		(25,647,641)		(34,412,897)
Total Liabilities and Stockholders' Deficit	$	-	$	-

See accompanying notes to financial statements.
AUSTRALIAN FOREST INDUSTRIES AND SUBSIDIARY

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AUSTRALIAN FOREST INDUSTRIES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	For the Three Months Ended September 30th, 2008	2007	For the Nine Months Ended September 30th, 2008	2007
DISCONTINUED OPERATIONS				
Loss from discontinued operations				
(Net of income tax expense of $0)	$ 111,479	$ 598,056	$ 566,616	$ 4,730,732
Gain on disposal of discontinued assets	-	-	(7,283,713)	-
(Net of income tax expense of $0)	-	-	-	-
Total Discontinued Operations	111,479	598,056	(6,717,097)	4,730,732
NET Income (Loss)	$ (111,479)	$ (598,056)	$ 6,717,097	$ (4,730,732)
NET GAIN (LOSS) PER SHARE (BASIC AND DILUTED)				
Continuing operations	-	-	-	-
Discontinued operations	$ -	$ -	$ 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 AND SUBSIDIARY

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		
Loss from discontinued operations	$ (566,616)	$ (4,730,732)
Gain on sale of land, buildings, and equipment	7,283,713	-
(Decrease) increase in net liabilities of entities discontinued	(8,765,256)	4,870,286
Cash provided by (used in) discontinued operations	(2,048,159)	139,554
EFFECT OF EXCHANGE RATE ON CASH	2,048,159	(139,554)
CASH END OF YEAR	$ -	$ -

See accompanying notes to financial statements.

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AUSTRALIAN FOREST INDUSTRIES AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
September 30, 2008

NOTE A - BASIS OF PRESENTATION AND NATURE OF BUSINESS

The accompanying 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 nine months ended September 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 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 2007, Integrated went into receivership and has formally discontinued its operations.

Going Concern and Liquidation

As shown in the accompanying financial statements, the company had an accumulated deficit of $30,683,017 at September 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, Integrated, is entering into bankruptcy under Australian laws. The accompanying consolidated financial statements have been prepared on a liquidation basis.

NOTE B – LITIGATION

Oz Investmentcorp 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. Timbermans Group controls the majority of common stock in the Company. The Company had agreed to provide additional collateral and is currently negotiating with Oz.

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

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AUSTRALIAN FOREST INDUSTRIES AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
September 30, 2008

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

carrying value of the land on the books and records of the Company. In 2008, the sale was completed. A summary of the gain on sale of discontinued assets is as follows:

Sale price of land, buildings, and plant equipment	$ 11,091,600
Net value of land, buildings, and plant equipment	3,414,373
Gross profit on 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.

NOTE E - PRO-FORMA FINANCIAL STATEMENT-SUBSEQUENT EVENT

The Company's wholly owned subsidiary in Australia is Integrated Forest Products, which was put into receivership during the year 2007. In connection with the receivership, the receiver formed a new Australian wholly owned subsidiary, Australian Forest Industries, LTD., and exchanged all of the shares of Integrated Forest Products for Australian Forest Industries, LTD. shares. On October 15, 2008, the board of Directors of Australian Forest Industries approved the transfer of all the outstanding shares of Australian Forest Industries, LTD. to the principal shareholders and Directors, personally. Accordingly, the unaudited pro-forma financial statements as at September 30, 2008 are as follows:

	Balance Sheet As at September 30th, 2008	Pro-Forma Adjustments	Pro-Forma Balance Sheet September 30th 2008
	ASSETS		
Total Assets	-	-	-
LIABILITIES AND STOCKHOLDERS' DEFICIT			
Current Liabilities			
Net liabilities of discontinued entities	$ 25,647,641	$ (25,647,641) (1)	
Total Current Liabilities	25,647,641	(25,647,641)	
Stockholders' Deficit			
Preferred stock, par value $0.001, 300,000,000 shares authorized, 257,600,680 issued and outstanding at September 30, 2008	257,600		$ 257,600
Additional paid -in capital	4,573,217		4,573,217

Accumulated other comprehensive income	204,559	(204,559)(2)	
Accumulated deficit		204,559(2)	
	(30,683,017)	25,647,641(1)	(4,830,817)
Total Liabilities and Shareholders' Deficit	$ (25,647,641)	25,647,641	$ -

Adjustments
(1) Transfer of Debt to principal shareholder, personally.
(2) Realization of currency gains.

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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 our 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. The foregoing list should not be construed as exhaustive, and we disclaim 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 of our plans will be achieved. We wish 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, we realized a net income of $6,828,576 in 2008 but had an accumulated deficit of $30,683,017 at September 30, 2008. The accompanying consolidated financial statements and discontinued operations of the Australian subsidiary have been prepared on a liquidation basis. Since the end of the quarter covered by the report, we spun out our wholly owned subsidiary which held all of our total current liabilities of $25,647,641 as at September 30, 2008. We have been, and are still, looking for a merger candidate for the public shell.

On July 31, 2007, PricewaterhouseCoopers Australia was appointed Receivers and Managers of both Integrated Forest Products Pty. Ltd., our 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 sold the land, plant and equipment of IFP as individual assets.

Timbermans owned two major assets, a rural property and a majority of our shares. In October 2007, our 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. Accordingly, at December 31, 2007, we reduced the value of our 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 our books and records. (See Note D of the Financial Statements).

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.

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.

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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 loss from discontinued operations for the three months ended September 30, 2008 was $111,479, and total gain from discontinued operations for the nine months ended September 30, 2008 was $6,717,097. By comparison, the three months and nine months ended September 30, 2007, we had a net loss from discontinued operations of $598,056 and $4,730,732, respectively. The change over the nine-month comparison period is attributable to a gain on the disposal of discontinued assets in the nine months ended September 30, 2008 of $7,283,713. The gain on the disposal of discontinued activities was brought about by the sale by our administrator of our land, buildings, and plant equipment.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by discounted operations for the nine-month period ended September 30, 2007 was $139,554. Cash used in discounted operations for the nine-month period ended September 30, 2008 was $2,048,159.

This change was brought about as a result of a decrease in the loss from discontinued operations from $4,730,732 to $566,616 over the two periods and decrease in net liabilities from discontinued operations from $4,870,286 to ($8,765,256) over the two periods which was partially offset by a gain on the sale of land, buildings and equipment of $7,283,713 in the nine months ended September 30, 2008. We realized no net cash provided by either financing or investing activities for the nine-month periods ended September 30, 2007 and 2008.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our 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 us 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, we evaluate our estimates, including those related to bad debts, income taxes and contingencies and litigation. We base our 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 Us:

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. We are currently in the process of determining the impact, if any, of adopting the provisions of FIN 48 on our 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. We are currently evaluating the potential impact that the adoption of SFAS No. 157 will have on our 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 yet 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) 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.

PART II

Item 1. Legal Proceedings

No material changes.

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

Although we have not submitted any matters to a vote of our security holders, on November 14, 2008, we informed our shareholders in a Preliminary Information Statement filed on Schedule 14C with the U.S. Securities and Exchange Commission that a majority of our shareholders have signed a written consent to change our jurisdiction of incorporation from Nevada to Delaware by merging with a wholly-owned subsidiary or ours, and we hereby reference the information in that Preliminary Information Statement. If we proceed with this reincorporation, it will become effective approximately twenty days after we file a Definitive Information Statement on Schedule 14C with the U.S. Securities and Exchange Commission and we mail a copy of such Definitive Information Statement to our shareholders. As a result of the incorporation and as set out in the Preliminary Information Statement,

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certain of your rights as shareholders will change as we will be governed by different laws and different charter documents,

the number of our authorized stock will decrease from three-hundred million shares of common stock and five million shares of preferred stock to one hundred and forty five million shares of common stock and five million shares of preferred stock,

every one hundred of our shares currently held by our shareholders will be exchanged for one share of our wholly-owned subsidiary's common stock resulting in an increase in the number of authorized but unissued common stock,

our name will become the name of our wholly-owned subsidiary, and

certain of our directors and their affiliates will sell their shares of our common stock.

Although we have yet to identify a merger partner, we have previously announced that we are seeking a merger partner. Our majority shareholders and management believe that these actions will make us a more attractive merger candidate.

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

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: November 17, 2008

/s/ Colin Baird
Name: Colin Baird
Title: Chief Financial Officer
Date: November 17, 2008