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MULTI TECH INTERNATIONAL CORP  
Form 10KSB  
May 19, 2006

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-KSB  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

Commission File  
Number 0-25909

AUSTRALIAN FOREST INDUSTRIES (f/k/a Multi-Tech International, Corp.)  
(Name of small business issuer in its charter)

Nevada  
(State or other jurisdiction  
of incorporation or organization)

86-0931332  
(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

Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class	Name of Each Exchange on Which Registered
NONE	NONE

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$0.001 par value  
(Title of Class)

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  NO

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of May 9, 2006 was approximately \$380,646 based on 400,680 shares of common stock. The number of shares of Common Stock of the registrant outstanding on May 9, 2006 was 257,400,680.

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## PART I

### ITEM 1. DESCRIPTION OF BUSINESS

#### HISTORY

Australian Forest Industries f/k/a Multi-Tech International, Corp., hereinafter referred to as "the Company", "we" or "us", was originally organized by the filing of Articles of Incorporation with the Secretary of State of the State of Nevada on September 21, 1998 under the name Oleramma, Inc. The Articles of Incorporation authorized the issuance of one hundred five million (105,000,000) shares, consisting of one hundred million (100,000,000) shares of Common Stock at par value of \$0.001 per share and five million (5,000,000) shares of Preferred Stock at par value of \$0.001.

On April 28, 1999, the Company changed its name to BuckTV,Com, Inc. on the basis that the Company would market consumer products through an InteractiveWeb site. The Company again changed its name in November 2002 to Multi-Tech International, Corp.

On September 1, 2004, we entered into a Share Exchange Agreement with Timbermans Group Pty Ltd, an Australian corporation and its wholly-owned subsidiary at the time Integrated Forest Products Pty Ltd, an Australian corporation as well ("Share Exchange Agreement" and "Share Exchange", respectively). Pursuant to such Share Exchange Agreement, we:

- o completed a 200-1 reverse stock split of our common stock
- o increased our authorized number of shares from 100,000,000 to 300,000,000
- o changed our name from Multi-Tech International, Inc. to Australian Forest Industries
- o appointed Messrs. Michael Timms, Norman Backman, Colin Baird, Antony Esplin and Roger Timms to the board of directors
- o issued 257,000,000 shares of our common stock as a result of the Share Exchange Agreement

Thus, upon completion of the Share Exchange, Integrated Forest Products Pty Ltd ("IFP") became a wholly-owned subsidiary of the Company and the Company's symbol on the OTC-BB was changed from "MLTI" to "AUFII".

#### GENERAL

The majority of the issued and outstanding ordinary shares in the capital of the Company are held by Timbermans Group, a leading supplier of softwood timber products in Australia. The shareholders of Timbermans Group are the same individuals who comprise our board of directors.

IFP owns a minority interest in Radiata Forest Services Pty Ltd which is a company owned jointly by a number of timber companies in the Canberra region. Radiata purchases logs on behalf of its shareholders and distributes them among those shareholders.

The timber industry in Australia experienced a strong demand from internal growth in residential and commercial construction along the Eastern coast of Australia. Additionally, export demand from China and elsewhere in Asia for lumber and other wood products continued to be very strong in recent years and management expects that this trend will continue in the foreseeable future.

The facilities of the Company are located in Australia. The business of the Company consists of a pine sawmilling and timber facility at Canberra, which has a capacity to process 200,000 cubic meters of sawn timber. This sawmill produced

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120,000 cubic meters of log in the Fiscal Year 2005. The Company is currently in the process of arranging the financing for the construction of a second sawmill. With this second sawmill, the Company intends to exploit the log resource generated by our contract with Timbermans Group which grants us the right to the Bombala Agreement described below.

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In April 2003, Timbermans Group Pty Ltd entered into an agreement with the government of New South Wales which granted Timbermans the 20 year wood supply rights to timber from the Bombala forest, equal to approximately 300,000 cubic meters of wood ("Bombala Agreement"). This Agreement was assigned to the Company at that time with the full knowledge of New South Wales government. Management believes that this is the last significant undeveloped pine forest in Eastern Australia. The Bombala Agreement provides, inter alia, that the log purchase price review mechanism is linked to the sawn timber actual price achieved for the products produced at the new sawmill to be built at Bombala, the market price for structural radiata pine timber, the ABS producer price index for softwood in Sydney and input costs such as wages and fuel. This mechanism is expected to adequately protect the Company from any decreasing market prices and in part from increased costs during the term of the Bombala Agreement. With the signing of the Bombala Agreement, the Company has insured its supply for at least 20 years and is renewable at the Company's option. With this asset the Company believes it has secured a major asset.

The Company's core markets are Australia and Southern Asia. The Company's revenues are generated solely in its core markets.

### Recent events

The proposed new sawmill at Bombala is planned to begin construction in the 3rd quarter of 2006 after the approvals of the government of New South Wales and local council have been obtained.

The new mill operation will be situated on approximately 300 acres of land on the Monaro Highway, just south of Bombala. Management believes that the new mill will be a state of the art mill. It will be constructed by industry experts, including Acora Reneco Group, and will utilize state of the art machinery and technology.

The mill is expected to comprise sawing machines from the USA, Canada, Europe and Australia, and to have proven production capabilities, as well as safety, environmental and efficiency capabilities.

The total mill and ancillary investment are expected to be approximately \$30 million (US). Most of the timber from the new mill will be transported in green form to the Integrated Forest Products plant at Canberra, for drying and dressing processing. The balance will be sold in green form.

The new mill is expected to initially process 300,000 cubic meters per year of log, although designed to cut in excess of 400,000 cubic meters per year, under the Bombala Agreement.

Furthermore, negotiations are at an advanced stage for the sale of all mill residues of sawdust, bark and waste wood chips.

The new sawmill at Bombala is expected to put the Company in a position to produce at a lower cost relative to its current cost level, and in compliance with all applicable safety standards. In addition, it is expected to provide

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access to the Company to a large and high quality log supply, to Acora Reneco Group as leading Australian timber technology, mill and equipment suppliers, low cost production from expanding Integrated Forest Products and will allow the Company to concentrate on structural timber. Finally, the new sawmill is expected to create competitive economics of scale and to generate profits from the future integration of the Company's operations in Canberra and Bombala.

In early 2005, the Company recently purchased a new timber treatment facility for its operations in Canberra. With this new timber treatment facility, management has been able to offer treated pine framing to the market since March 2005. With the new facility, the Company has been able to meet an increased demand for treated timber as a result of changing rules and regulations for the construction of new homes that require the use of such timber for framing to be termite resistant.

Furthermore, Integrated Forest Products commissioned a new sawlog line in 2005 which has lifted the log intake rate of its facility in Canberra to over 160,000 cubic meters per year, thereby increasing its sawing capacity by 38%, providing a recovery increase, a higher sawing accuracy, greater operator safety and a better timber finish.

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### Strategy

The Company's strategy is to maximize shareholder value, inter alia, by realizing economics of scale and profits, initially through the securing of access to additional log supplies from private forests, the installation of a new log sawing line at Integrated Forest Products to improve its efficiency, and the continuation of the meeting of milestones laid down in the Bombala Agreement. The medium term strategy of the Company is to build a new green sawmill in Bombala, and to expand its drying and planing facilities for the intake of green sawn timber from the facilities then operated at Bombala. The long term strategy of the Company is to combine its wood chip production facilities, and to export wood chips with its strategic partner the State Forest of New South Wales, utilizing both the Company's and the State Forest of New South Wales' supply, or, alternatively, to establish a fibre board factory at Bombala utilizing its available wood chips. Other options are also being investigated.

### Employees

At the end of December 2005, we employed 121 full time equivalents. In the Company's vision, employees play a crucial role in the success of the Company. We encourage our employees to take initiative to further enhance our efficiency in timber production. In order to assist our employees, we constantly seek to train and educate them, either on an individual basis (product knowledge and quality control) or on a more collective basis (office automation and management skills). We have never experienced a work stoppage resulting from labor problems.

Our employees are members of the CFMEU which is one of the largest unions in Australia. As a result, each non-executive employee is a party to a collective bargaining agreement known as an Enterprise Bargaining Agreement which determines the terms of employment of each non-executive employee. Management believes that its relations with such union are impeccable and the risk of work stoppages is extremely unlikely.

### Competition

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The Australian wood products market is a competitive market and could become more competitive in the future. Our competitors are diverse and offer products similar to our products. Some of our competitors have access to significantly greater financial, marketing and other resources than us. Increased competition may result in price reductions for our products, reduced revenues and gross margins and loss of market share. We are committed to executing our strategy as set out above, *inter alia*, by focusing on our ability to source capital equipment at very competitive prices and effectively manage facilities as a result of management's extensive consulting experience.

At the time many sawmills in Australia are facing limitations on log supply as older forests are becoming less productive and a series of significant forest fires over the past five years have diminished the availability of high quality logs.

We believe that we have certain competitive advantages our (i) ability to construct efficient low cost mills, as a result of our strategic alliance with Acora Reneco Group, (ii) access to log resources through the Bombala Agreement, (iii) excess drying and dressing capacity in the Canberra processing facilities, (iv) low cost operating and management techniques, and (v) operations management system, which we believe to be superior to the systems of our competitors.

Finally, unlike most of our competitors, we believe that we have the ability for low cost incremental expansion of our Canberra and future Bombala facilities, mainly because of our spare processing capacity, subject to the availability of logs - the supply of which we believe to have secured through our Bombala Agreement, our log merchandising facility at Bombala for greater fibre recovery from whole log, and the availability of in-house process control and selective hi-tech equipment.

It is our belief that, when we get the new facility in operation in 2007, we can record operating performance equal or better than that shown by the large capital forestry companies including the high growth ones.

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### ITEM 2. DESCRIPTION OF PROPERTY

Our main facility is located in Australia which consists of pine sawmilling and timber facility at Canberra, which has a capacity to process 200,000 cubic meters of log. We are currently in the process of arranging the financing for the construction of a second in the Bombala region to further exploit the log resources generated by the Bombala Agreement.

### ITEM 3. LEGAL PROCEEDINGS

We are not a party to any material pending legal proceedings or government actions, including any bankruptcy, receivership, or similar proceedings. Management of the Company does not believe that there are any proceedings to which any director, officer, or affiliate of the Company, any owner of record of the beneficially or more than five percent of the common stock of the Company, or any associate of any such director, officer, affiliate of the Company, or security holder is a party adverse to the Company or has a material interest adverse to the Company.

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## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

## PART II

### ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) The Company's Common Stock is traded on the OTC-Bulletin Board under the symbol AUF1. The following sets forth the range of the closing bid prices for the Company's Common Stock for the period January 1, 2003 through May 9, 2006. Such prices represent inter-dealer quotations, do not represent actual transactions, and do not include retail mark-ups, mark-downs or commissions. Such prices were determined from information provided by a majority of the market makers for the Company's Common Stock.

	High Close	Low Close
2004		
First Quarter	0.015	0.015
Second Quarter	0.015	0.015
Third Quarter	0.015	0.015
Fourth Quarter	2.50	0.60
2005		
First Quarter	1.51	1.50
Second Quarter	1.50	1.50
Third Quarter	1.75	1.60
Fourth Quarter	8.00	1.25
2006		
First Quarter	4.35	.75
Second Quarter (through May 15th)	1.00	.75

(b) The approximate number of holders of the Common Stock of the Company as of May 16, 2006 was 900.

(c) No cash dividends were declared by the Company during the fiscal year ended December 31, 2005. While the payment of dividends rests within the discretion of the Board of Directors, it is not anticipated that cash dividends will be paid in the foreseeable future, as the Company intends to retain earnings, if any, for use in the development of its business. The payment of dividends is contingent upon the Company's future earnings, if any, the Company's financial condition and its capital requirements, general business conditions and other factors.

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### ITEM 6. 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.

#### RESULTS OF OPERATIONS

We are currently in the third year of operations and have generated significant revenues to date. Our activities from inception to date were related to our formation, preparation of our business model, arranging and planning financing and the acquiring all rights, title and interest to our timber rights located in the Canberra region in addition to the implementation and construction of our first sawmill also in the Canberra region.

Operating costs for the year ended December 31, 2004 aggregated \$13,916,006. This includes costs incurred in procuring our rights under the Bombala Agreement and operating expenses for our Canberra sawmill. We incurred an operating loss of \$(925,448) and a total net loss of \$(252,422) or \$(0.01) per share.

Operating costs for the twelve-month period ended December 31, 2005 aggregated \$17,279,622. This includes an increase in costs of goods sold of \$(3,756,490) which were a result of general costs associated with the growth of our business. As a result of the above we realized a loss of \$(3,779,823) for the twelve-month period ended December 31, 2005 or \$(0.01) per share.

#### LIQUIDITY AND CAPITAL RESOURCES

On December 31, 2004 and 2005 we had current assets of \$3,962,334 and \$3,722,067, respectively.

Net cash used in operating activities for the period from inception to December 31, 2004 was \$252,141. Net cash used in operating activities for the period from inception to December 31, 2005 was \$(1,635,993). The decrease in net cash was partially a result of an increase in related party payables and decrease in related party receivables of \$797,543 which was a consequence of our growing business and the addition of a significant number of employees.

The Company completed a new sawline in Canberra which was operational in the

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third quarter of 2005 which is used primarily for processing the logs resulting from the Bombala Agreement.

### 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 December 2004, the FASB issued SFAS No. 123 (revised 2004), or SFAS 123R, "Share-Based Payment." This statement replaces SFAS 123, "Accounting for Stock-Based Compensation" and supersedes Accounting Principles Board's Opinion No. 25 (ABP 25), "Accounting for Stock Issued to Employees." SFAS 123R will require us to measure the cost our employee stock-based compensation awards granted after the effective date based on the grant date fair value of those awards and to record that cost as compensation expense over the period during which the employee is required to perform services in exchange for the award (generally over the vesting period of the award). SFAS 123R addresses all forms of share-based payments awards, including shares issued under employee stock purchase plans, stock option, restricted stock and stock appreciation rights. In addition, we will be required to record compensation expense (as previous awards continue to vest) for the unvested portion of previously granted awards that remain outstanding at the date of adoption. SFAS 123R is effective for fiscal periods beginning after June 15, 2005. Therefore, we are required to implement the standard no later than our third fiscal quarter which begins on July 1, 2005. SFAS 123R permits public companies to adopt its requirements using the following methods: (1) a "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123R for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date; or (2) a "modified retrospective" method which includes the requirements of the modified prospective method described above, but also permits entities to restate their financial statements based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures for either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

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MEYLER & COMPANY, LLC  
CERTIFIED PUBLIC ACCOUNTANTS  
ONE ARIN PARK  
1715 HIGHWAY 35  
MIDDLETOWN, NJ 07748

Report of Independent Registered Public Accounting Firm

To the Board of Directors  
Australian Forest Industries  
Melbourne, Australia

We have audited the accompanying balance sheets of Australian Forest Industries as of December 31, 2005 and 2004 and the related statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Australian Forest Industries as of December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

/s/ Meyler & Company, LLC

Middletown, NJ  
May 17, 2005

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AUSTRALIAN FOREST INDUSTRIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31,	
	2005	2004
	-----	-----
		(Restated)
	-----	-----
<b>CURRENT ASSETS</b>		
Cash	\$ 127,014	\$ 225,189
Accounts receivable	1,622,974	1,611,756
Inventory	1,778,340	1,983,039
Prepaid expenses and other	193,739	142,350
	-----	-----
Total Current Assets	3,722,067	3,962,334
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of \$2,402,939 and \$2,349,923 in 2005 and 2004, respectively	13,040,126	10,317,803
<b>OTHER ASSETS</b>		
Receivable from related party	273,175	
Long-term timber supply contract, net of amortization of \$91,843 and \$36,943 in 2005 and 2004, respectively	794,805	849,705
	-----	-----
	\$ 17,556,998	\$ 15,403,017
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Bank overdraft	\$ 117,772	\$ 421,097
Accounts payable	2,690,957	3,154,507
Current portion of capitalized lease obligations	1,076,013	731,217
Due to Timberman shareholders	3,213,912	660,010
Related party payable	592,844	
Accrued payroll, related taxes and benefits	599,389	571,186
	-----	-----
Total Current Liabilities	8,290,887	5,538,017
<b>OTHER LIABILITIES</b>		
Capitalized lease obligations	3,512,882	2,797,975
Deferred capital gain	1,396,481	
Due to National Australian Bank	4,818,000	5,229,350
	-----	-----

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Total Liabilities	18,018,250	13,565,342
STOCKHOLDERS' EQUITY		
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, 257,400,680 issued and outstanding	257,400	257,400
Additional paid-in capital	4,503,417	4,503,417
Accumulated other comprehensive income	333,619	21,796
Accumulated deficit	(5,555,688)	(2,944,938)
	-----	-----
Total Stockholders' Equity	(461,252)	1,837,675
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 17,556,998	\$ 15,403,017
	=====	=====

See accompanying notes to financial statements.

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AUSTRALIAN FOREST INDUSTRIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended December 31,	
	2005	2004
	-----	-----
REVENUE - SALES	\$ 13,499,799	\$ 12,990,558
		(Restated)
COSTS AND EXPENSES		
Cost of goods sold	15,441,948	11,685,458
Selling, general and administrative	653,091	1,285,332
Stock based compensation	255,000	
Interest expense	703,757	374,847
Depreciation and amortization	480,826	315,369
	-----	-----
Total Costs and Expenses	17,279,622	13,916,006
	-----	-----
OPERATING LOSS	(3,779,823)	(925,448)
NON-OPERATING INCOME		
Other income	225,851	443,041
Interest income	164,941	1,328
Gain on disposal of assets	778,281	228,657
	-----	-----
Total Non-Operating Income	1,169,073	673,026
	-----	-----
NET LOSS	\$ (2,610,750)	\$ (252,422)
	=====	=====
Net Loss per share (Basic and Diluted)	\$ (0.01)	\$ (0.01)
	=====	=====

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Weighted Average Common Shares Outstanding	257,400,680	257,400,680
	=====	=====

See accompanying notes to financial statements.

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## AUSTRALIAN FOREST INDUSTRIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended	
	December 31, 2005	2004
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		(Restated)
Net income (loss)	\$ (2,610,750)	\$ (252,422)
Adjustments to reconcile net income to cash flows used in operating activities:		
Depreciation	438,947	315,369
Amortization of Timber contract	41,878	
Amortization of leaseback gain	224,492	255,000
Changes in operating activities:		
(Increase) decrease in prepaid expenses	18,048	(59,895)
(Increase) decrease in inventories	204,699	(952,240)
(Increase) decrease in receivables	(11,217)	261,247
(Increase) decrease in related party receivable	273,175	(273,175)
(Increase) in Timber contract	(886,648)	
Increase (decrease) in accounts payable and other liabilities	(463,550)	1,392,082
Increase (decrease) in bank overdraft	(303,325)	421,097
Increase (decrease) in related party payable	592,844	
Increase (decrease) in accrued payroll	28,203	31,726
Increase in taxes payable	(69,437)	
Net Cash (Used in) Provided by Operating Activities	(1,635,993)	252,141
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital additions	(5,327,925)	(5,078,041)
Disposition of capital assets	1,716,416	815,150
Net Cash Used in Investing Activities	(3,611,509)	(4,262,891)
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans from shareholders	2,553,902	660,010
Capital leases	1,059,703	3,172,256
National Australian bank loan	(411,350)	5,229,350
Sale/leaseback deferred credit	1,611,320	
Timberman controlling interest	(5,307,400)	
Net Cash Provided by (Used In) Financing Activities	4,813,575	3,754,216
EFFECT OF EXCHANGE RATES ON CASH	335,752	21,796

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(DECREASE) INCREASE IN CASH	(98,175)	(234,738)
CASH AT BEGINNING OF PERIOD	225,189	459,927
CASH AT END OF PERIOD	\$ 127,014	\$ 225,189

See accompanying notes to financial statements.

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AUSTRALIAN FOREST INDUSTRIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Preferred Stock		Common Stock		Additional
	shares	Amounts	Shares	Amount	Paid-In Capital
Balance, December 31, 2002			5,319,764	\$ 9,813,217	
Net loss for the year ended December 31, 2003					
Adjustments from exchange rate changes					
Balance, December 31, 2003 and prior to Reverse Merger			5,319,764	9,813,217	
Reverse Merger (Note 1)					
Exchange of Integrated Forest Products Pty Ltd shares for Australian Forest Industries Shareholders equity of Australian Forest Industries at date of merger					400,680
Reverse Merger capitalization					
Issuance of shares at date of merger					
Issuance of shares for consulting agreement Timbermans Group Pty. Ltd. investment in Company			17,000,000	17,000	238,000
Cumulative losses of Timber- man's Group Pty. Ltd.					(5,307,400)
Adjustment from exchange rate changes					
Net loss for the year ended December 31, 2004					
Balance, December 31, 2004			257,400,680	257,400	4,503,417

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Adjustments from exchange  
rate changes  
Net loss for the year ended  
December 31, 2005

Balance, December 31, 2005	-----	-----	-----	-----	-----
	=====	=====	=====	=====	=====
			257,400,680	\$ 257,400	\$ 9,810,817

	Accumulated Deficit	Other Comprehensive Income (loss)	Total Stockholders' Equity
Balance, December 31, 2002	\$ (2,034,164)		\$ 7,779,053
Net loss for the year ended December 31, 2003	(56,369)		(56,369)
Adjustments from exchange rate changes			\$ 65,590
			65,590
Balance, December 31, 2003 and prior to Reverse Merger	(2,090,533)	65,590	7,788,274
Reverse Merger (Note 1)			
Exchange of Integrated Forest Products Pty Ltd shares for Australian Forest Industries	(5,319,764)	(9,813,217)	\$ 9,813,217
Shareholders equity of Australian Forest Industries at date of merger	400	11,257,463	(11,257,863)
Reverse Merger capitalization		(11,257,863)	11,257,863
Issuance of shares at date of merger	240,000,000	240,000	(240,000)
Issuance of shares for consulting agreement Timbermans Group Pty. Ltd. investment in Company			255,000
Cumulative losses of Timber- man's Group Pty. Ltd.	(601,983)		(601,983)
Adjustment from exchange rate changes		(43,794)	(43,794)
Net loss for the year ended December 31, 2004	(252,422)		(252,422)
	-----	-----	-----
Balance, December 31, 2004	(2,944,938)	21,796	1,837,675
Adjustments from exchange rate changes		311,823	311,823
Net loss for the year ended December 31, 2005	(2,610,750)		(2,610,750)
	-----	-----	-----
Balance, December 31, 2005	\$ (5,555,688)	\$ 333,619	\$ (461,252)
	=====	=====	=====

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See accompanying notes to financial statements.

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## AUSTRALIAN FOREST INDUSTRIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Nature of Business

Australian Forest Industries ("the Company"), through its wholly owned subsidiary Integrated Forest Products Pty Ltd ("Integrated"), operates a saw mill in Australia which cuts pine timber into building products to supply the commercial and residential industry along the eastern coast of Australia.

##### Reverse Merger

On September 1, 2004, Integrated, owned by the Timbermans Group Pty Ltd ("Timbermans"), entered into a share exchange agreement with the Company and issued 240,000,000 shares of its common stock to acquire Integrated. In connection with the share exchange agreement, Integrated became a wholly owned subsidiary of the Company and Integrated's officers and directors became the officers and directors of the Company. Prior to the merger, the Company was a non-operating "shell" corporation. Pursuant to Securities and Exchange Commission rules, the merger of a private operating company (Integrated) into a non-operating public shell corporation with nominal net assets is considered a capital transaction. Accordingly, for accounting purposes, the merger has been treated as an acquisition of the Company by Integrated and a recapitalization of the Company. The historical financial statements for the years ended December 31, 2005 and 2004 are those of Integrated. Since the merger is a recapitalization and not a business combination, pro forma information is not presented.

##### Foreign Currency Translation

For 2005 and 2004, the Company considered the Australian dollar to be its functional currency. Assets and liabilities were translated into US dollars at the year-end exchange rates. Statement of operations amounts were translated using the average rate during the year. Gains and losses resulting from translating foreign currency financial statements were accumulated in other comprehensive income, a separate component of stockholders' equity.

##### Cash Equivalents

For purposes of reporting cash flows, cash equivalents include investment instruments purchased with a maturity of three months or less. There were no cash equivalents in 2005 or 2004.

##### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the

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financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Inventories

Inventories are stated at the lower of cost or market value. Cost is determined using the first-in, first-out (FIFO) method.

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### AUSTRALIAN FOREST INDUSTRIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2005

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Equipment and Depreciation

Equipment is stated at cost and is depreciated using the straight line method over the estimated useful lives of the respective assets. Routine maintenance, repairs and replacement costs are expensed as incurred and improvements that extend the useful life of the assets are capitalized. When equipment is sold or otherwise disposed of, the cost and related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is recognized in operations.

##### Net Loss Per Common Share

The Company computes per share amounts in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share". SFAS No. 128 requires presentation of basic and diluted EPS. Basic EPS is computed by dividing the income (loss) available to Common Stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS is based on the weighted-average number of shares of Common Stock and Common Stock equivalents outstanding during the periods.

##### Comprehensive Income (Loss)

SFAS No. 130 establishes standards for the reporting and disclosure of comprehensive income and its components to be presented in association with a company's financial statements. Comprehensive income is defined as the change in a business enterprise's equity during a period arising from transactions, events or circumstances relating to non-owner sources, such as foreign currency translation adjustments and unrealized gains or losses on available-for-sale securities. It includes all changes in equity during a period except those resulting from investments by or distributions to owners. Comprehensive income is accumulated in accumulated other comprehensive income (loss), a separate component of stockholders' equity.

##### Stock Based Compensation

The Company accounts for stock issued for services using the fair value method. In accordance with the Emergency Issues Task Force ("EITF") 96-18, the measurement date of shares issued for service is the date at which the counterpart's performance is complete.



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### Fair Values of Financial Instruments

The Company uses financial instruments in the normal course of business. The carrying values of cash, accounts receivable, advance receivable, bank overdraft, accounts payable and accrued expenses approximate their fair value due to the short-term maturities of these assets and liabilities. The carrying values of notes payable and loans payable approximate their fair value based upon management's estimates using the best available information.

### Recent Accounting Pronouncements

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153 (SFAS 153), "Exchanges of Non-monetary Assets." SFAS 153 amends the guidance in APB No. 29,

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### AUSTRALIAN FOREST INDUSTRIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Recent Accounting Pronouncements (Continued)

"Accounting for Non-monetary Assets." APB No.29 was based on the principle that exchanges of non-monetary assets should be measured on the fair value of the assets exchanged. SFAS 153 amends APB No. 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 151 is effective for financial statements issued for fiscal years beginning after June 15, 2005. The adoption of SFAS 153 is not expected to have a material effect on the Company's financial position or results of operations.

In December 2004, the FASB revised Statement of Financial Accounting Standards No. 123 (SFAS 123(R)), "Accounting for Stock-Based Compensation." The SFAS 123(R) revision established standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services and focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. It does not change the accounting guidance for share-based payment transactions with parties other than employees. For public entities that file as small business issuers, the revisions to SFAS 123(R) are effective as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. The adoption of SFAS 123(R) is not expected to have a material effect on the Company's financial position or results of operations.

In May 2005, the FASB issued SFAS no. 154, "Accounting Changes and Error Corrections ("SFAS No. 154") which replaces APB Opinion No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements—An Amendment of ABP Opinion No. 28. SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. Specially, this statement requires "retrospective application" of the direct effect for a

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voluntary change in accounting principle to prior periods' financial statements, if it is practical to do so. SFAS No. 154 also strictly defines the term "restatement" to mean the correction of an error revising previously issued financial statements. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 and are required to be adopted by the Company in the first quarter of fiscal year 2006. Management does not anticipate that adoption will have a material impact on our results of operations, financial position or cash flows.

### Revenue Recognition

The Company's policy is to recognize revenue at the time products are shipped from its facilities.

### NOTE B - VARIABLE INTEREST ENTITIES

In January 2003, the FASB issued FIN 46 and in December 2003, it issued a revised interpretation of FIN 46 (FIN 46-R), which supersedes FIN 46 and clarifies and expands current accounting guidance for determining whether certain entities should be consolidated in the Company's consolidated financial statements. An entity is subject to FIN 46 and is called a Variable Interest Entity (VIE) if it has (1) equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) equity investors that cannot make significant decisions about

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## AUSTRALIAN FOREST INDUSTRIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

### NOTE B - VARIABLE INTEREST ENTITIES (CONTINUED)

the entity's operations, or that do not absorb the expected losses or receive the expected returns of the entity. A VIE is consolidated by its primary beneficiary, which is the party that has a majority of the expected losses or a majority of the expected residual returns of the VIE, or both.

The Company has concluded that the entity, Timbermans Group Pty. Ltd. is deemed to be VIE under FIN 46 and accordingly has been consolidated in the financial statements for 2005 and 2004. Timbermans Group, a holding company, had total assets of \$7,357,379 and \$5,307,658, total liabilities of \$8,050,323 and \$5,181,152, accumulated earnings (deficits) of \$(693,017) and \$126,428 at December 31, 2005 and 2004, respectively, and income (losses) of \$(354,176) and \$243,935 for the years then ended.

### NOTE C - INVENTORY

Inventory consists of the following at December 31,

	2005	2004
	-----	-----
Raw materials and supplies	\$ 228,547	\$ 53,298
Work in progress	605,692	456,694
Finished goods	944,101	1,473,047

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\$1,778,340	\$1,938,039
=====	=====

NOTE D - EQUIPMENT

Equipment is comprised of the following at December 31,

	Useful Life	2005	2004
	-----	-----	-----
Land		\$ 1,133,042	\$ 1,166,139
Buildings	40	1,261,795	1,343,034
Plant and equipment	40	11,866,257	9,607,919
Capital works in progress		987,936	395,134
Motor vehicles	5	194,035	155,500
		-----	-----
		15,443,065	12,667,726
Less: accumulated depreciation		2,402,939	2,349,923
		-----	-----
		\$13,040,126	\$10,317,803

NOTE E - RELATED PARTY TRANSACTIONS

Due to Related Party

At December 31, 2005 and 2004, the Company was indebted to the shareholders of Timberrmans for \$3,213,912 and \$660,010, respectively. The loans are non interest bearing, they are unsecured and have no specific repayment date.

Long-Term Log Supply Contract

In November 2004, the Timberrmans Group entered into a 20 year long-term log supply contract with the New South Wales State Government. To obtain the contract, the Timberrmans Group paid \$886,648. In February 2005, it assigned the contract to the Company's wholly owned subsidiary in Australia - Integrated Forest Products Pty, Ltd. The contract is being amortized over 20 years.

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AUSTRALIAN FOREST INDUSTRIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2005

NOTE F - SHORT TERM BORROWING

The Company has an overdraft facility with the National Bank of Australia in the amount of \$780,000 at the Australian base rate plus 1.80% annually. The amount of the overdraft at December 31, 2005 and 2004 was \$117,772 and \$421,097, respectively.

The Company, in connection with the Long Term Timber Supply Contract, has placed a bank guarantee in the amount of \$780,000 with the New South Wales Government to insure a steady supply of timber.

All of the credit facilities are secured by a first ranking mortgage debenture over all the assets and undertakings of Integrated, a first ranking mortgage over the land and buildings at Morwell, Canberra, a

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fixed charge over all the Company's receivables, a term deposit letter of set-off over Integrated for \$1,000,000, a master lease agreement with Directors Guarantee and Indemnity for \$1,666,080, and a \$1,560,000 guarantee and indemnity from the Directors of Integrated.

To the extent that the Timbermans Group advances funds to Integrated, the Timbermans Group loan facility with the National Bank of Australia has a letter of subordination up to \$1,800,000.

### NOTE G - CAPITAL LEASE OBLIGATIONS

The Company has obtained various pieces of equipment under capital leases expiring through 2010. The assets and liabilities under these capital leases (\$5,354,455) with the National Bank of Australia) are recorded at the lower of the present values of the minimum lease payments or the fair values of the assets. The assets are included in property and equipment and are being depreciated over their estimated useful lives. The capitalized leases are secured by the equipment purchased.

As of December 31, 2005, minimum future lease payments under these capital leases are:

	For the Years Ending December 31,	Amount
	-----	-----
	2006	\$1,376,073
	2007	1,376,073
	2008	1,376,073
	2009	962,772
	2010	263,463
		=====
Total minimum lease payments		\$5,354,455
	December 31,	
	2005	2004
	-----	-----
Total minimum lease payments	\$5,354,455	\$4,136,976
Less: amounts representing interest	765,560	607,784
	-----	-----
Net minimum lease payments	4,588,895	3,529,192
Less: current portion	1,076,013	731,217
	-----	-----
Long-term portion	\$3,512,882	\$2,797,975
	=====	=====

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AUSTRALIAN FOREST INDUSTRIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2005

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### NOTE H - DUE TO AUSTRALIAN NATIONAL BANK

The Timbermans Group has a loan with the National Bank of Australia in the amount of \$4,818,000 at December 31, 2005. The loan is secured by the assets of the Company and personal guarantees of the Company's Directors. The loan bears interest at the rate of 5.9% and is due July 7, 2008.

### NOTE I - INCOME TAXES

The Company has adopted Financial Accounting Statement SFAS No. 109, Accounting for Income Taxes. Under this method, the Company recognizes a deferred tax liability or asset for temporary differences between the tax basis of an asset or liability and the related amount reported on the financial statements. The principal types of differences, which are measured at current tax rates, are net operating loss carry forwards. At December 31, 2004, these differences resulted in a deferred tax asset of approximately \$887,700. SFAS No. 109 requires the establishment of a valuation allowance to reflect the likelihood of realization of deferred tax assets. Since realization is not assured, the Company has recorded a valuation allowance for the entire deferred tax asset, and the accompanying financial statements do not reflect any net asset for deferred taxes at December 31, 2005.

The Company's net operating loss carry forwards amounted to approximately \$2,958,000 at December 31, 2004, which have unlimited expiration.

### NOTE J - STOCKHOLDERS' EQUITY

In connection with the Reverse Merger on September 1, 2005, the company issued 17,000,000 shares to a consultant. The shares were valued at \$0.015 per share which was the average trading price for the third quarter.

### NOTE K - SALE - LEASEBACK TRANSACTION

Under the terms of the sale-leaseback arrangement, a gain of \$1,611,320 was realized on the transaction and has been deferred and will be amortized to income over a five year period. \$214,839 has been included in other income for the period ended December 31, 2005.

The amortization of the gain for the next five years is as follows.

Year	Gain Amortization
----	-----
2006	\$ 322,264
2007	322,264
2008	322,264
2009	322,264
2010	107,425
	-----
	\$ 1,396,481

### NOTE L - RESTATEMENT

The financial statements for the year ended December 31, 2004 have been restated to include the financial statements of the Timbermans Group which the Company has considered a VIE.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Through the September 30, 2004 reporting period, our accountants were Michael Johnson & Co., LLC. In January 2005, we changed accountants to Meyler & Company LLC, independent certified public accountants. At no time has there been any disagreement with such accountants regarding any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

ITEM 8A. DISCLOSURE CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures.

As of the end of the period covering this Form 10-KSB, we evaluated the effectiveness of the design and operation of our "disclosure controls and procedures". The Company's President conducted this evaluation by himself.

(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 President 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.

The Company recognizes 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. However, our officers and directors believe that our system of disclosure controls and procedures provides reasonable assurance of achieving their objectives.

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

Our officers and directors have concluded, based on the evaluation of these controls and procedures, that our disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in our periodic SEC filings.

(b) Changes in Internal Controls.

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There have been no changes in our internal controls over financial reporting during the last fiscal quarter of 2005 that has materially affected or is reasonably likely to affect the Company's internal control over financial reporting.

### ITEM 8B. OTHER INFORMATION

Not applicable.

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## PART III

### ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

#### OFFICERS AND DIRECTORS

We have 5 executive officers who also serve as our board of directors. Our directors are elected at each annual meeting of shareholders. The following individuals are all of our executive officers and directors:

Name	Age	Positions and Offices With The Company
Michael Timms	55	Chief Executive Officer; President; Chairman of the Board
Norman Backman	57	Chief Operating Officer; Director
Colin Baird	47	Chief Financial Officer; Director
Tony Esplin	43	Executive Vice President - Marketing; Director
Roger Timms	50	Executive Vice President - Engineering; Director

The following is a biographical summary of the directors and officers of the Company:

#### Michael Timms

Mr. Michael Bruce Timms was born at 30 May 1950 in Bega, New South Wales, Australia. He has spent over thirty years in the sawmilling industry. He has been involved with design and construction of over seven greenfield sawmill facilities and scores of equipment upgrades across Australia and Canada in both the Hardwood and Softwood sectors, through his engineering business, Acora Reneco Group Pty Ltd. Among other responsibilities he works as Chief Executive Officer and President of the Company and is Chairman of the Board.

#### Norman Backman

Mr. Norman William Backman was born at 20 September 1948 in Melbourne, Australia. He has over thirty years of experience in the sawmilling industry. He has worked for a long period with Amcor and Brown & Dureau as Mill Manager at

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the Morwell facility. At Integrated Forest Industries Pty Ltd he will work as Director of Operations. Mr. Backman has access to a team of industry experienced individuals possessing relevant and highly refined sawmill information technology systems technology and cost accounting experience.

Colin Baird

Mr. Colin Baird was born at 22 June 1958 in Melbourne, Australia. He is a qualified accountant who has operated his own practice, Colib Pty Ltd since 1987. He has been involved in the timber industry through his association with some of his clients since 1983. At present his practice has in excess of 500 clients. Mr. Baird is Director of Finance of the Company.

Tony Esplin

Mr. Tony Esplin was born at 23 August 1962 in Melbourne, Australia. He has had twelve years of experience in the sawmill industry covering fabrication of sawmill equipment, project management of new sawmills through his own business, Acora Reneco Group Pty Ltd. Over the last four years he has been involved in the on site management of Integrated Forest Products, covering all aspects of sawmill administration, including log procurement and product marketing. He works as Director of Marketing & Log Procurement for the Company.

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Roger Timms

Mr. Roger Kenneth Timms was born 24 April 1956 in Bega, New South Wales, Australia. He has spent over twenty-five years in the sawmilling industry. He is currently involved in the design, supply and installation of sawmill equipment in Australia and part owns a company, Acora Reneco Group Pty Ltd, which performs these functions. He is the Company's Director of Engineering.

Director Positions in Other Public Companies

No director holds any directorship in a company with a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934 or subject to the requirements of Section 15(d) of such Act. No director holds any directorship in a company registered as an investment company under the Investment Company Act of 1940. However, with the exception of Norman Backman, the remaining directors have other business interest and work for the Company on a part-time basis at the present time.

Code of Conduct

The Company does not have an Audit or Strategy committee. Neither does the Company have a standing nominating committee or any committee performing a similar function. For the above reasons, the Company has not adopted a code of ethics.

### COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934 requires executive officers and directors who beneficially own more than ten percent (10%) of the Company's Common Stock to file initial reports of ownership and reports of changes of ownership with the Securities and Exchange Commission. Executive officers, directors and greater than ten percent (10%) beneficial owners are required by



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Commission regulations to furnish the Company with copies of all Section 16(a) forms they file.

The information required to be compliant with Section 16(a) is found herein. However, at the present time the required individuals have not filed the appropriate Section 16(a) forms although it has been represented to the Company that such are being prepared and will be filed shortly after the filing of this annual report.

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### ITEM 10. EXECUTIVE COMPENSATION

The table below sets forth all annual and long-term compensation paid by the Company through the latest practicable date to the Chief Executive Officer of the Company and to all executive officers of the Company who received total annual salary and bonus in excess of \$100,000 for services rendered in all capacities to the Company and its subsidiaries during the fiscal years ended December 31, 2004 and 2005.

The following table sets forth information concerning all remuneration paid by the Company as of December 31, 2005 to the Company's Directors and Executive Officers:

#### Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Long-Term Compensation Awards	
				Securities Underlying Options (#) /SARS	All Other Compensation
Michael Timms - Chairman of the Board; CEO and President	2005	\$ 75,000			
	2004	56,000			
Coin Baird - Chief Financial Officer and Director	2005	60,000			
	2004	28,000			
Tony Esplin - Executive Vice President - Marketing; Director	2005	75,000			
	2004	56,000			
Norman Backman - Chief Operating Officer;					

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Director	2005	140,000
	2004	140,000
Roger Timms - Executive Vice President - Marketing; Director	2005	20,000
	2004	20,000

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### Directors' Compensation

Other than minimal expenses incurred for traveling to Canberra which were reimbursed by the Company, during the fiscal year ended December 31, 2005 our Directors did not received a fee for serving in that capacity.

### Employment Contracts

There are no employment agreements with the executive officers at this time.

## ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

### Security Ownership of Certain Beneficial Owners

The following table sets forth information regarding the beneficial ownership of the shares of the Common Stock (the only class of shares previously issued by the Company) at May 15, 2006 by (i) each person known by the Company to be the beneficial owner of more than five percent (5%) of the Company's outstanding shares of Common Stock, (ii) each director of the Company, (iii) the executive officers of the Company, and (iv) by all directors and executive officers of the Company as a group. Other than the Timbermans Group Pty Ltd, each person named in the table, has sole voting and investment power with respect to all shares shown as beneficially owned by such person and can be contacted at the address of the Company.

Title of Class	Name of Beneficial Owner	Shares of Common Stock	Percent of Class
Common	Timbermans Group Pty Ltd(1)	140,000,000	54.47%
Common	Jeffrey Reade	17,000,000	6.61%
Common	Norman Backman(2)	20,000,000	7.78%
Common	Colin Baird(3)	20,000,000	7.78%
Common	Tony Esplin(4)	20,000,000	7.78%
Common	Michael Timms(5)	20,000,000	7.78%
Common	Roger Timms(6)	20,000,000	7.78%
Directors and Officers as a		240,000,000	93.39%

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group

(1)Timbermans Group Pty Ltd is an Australian corporation with 5 shareholders who are the same individuals as our officers and directors. For the purposes of aggregating the securities ownership of officers and directors, we have included those shares held by Timbermans Group.

(2)Mr. Backman maintains his shares in his and his wife's name

(3)Mr. Baird maintains his shares in his and his wife's name

(4)Mr. Esplin maintains his shares in his and his wife's name

(5)Mr. Michael Timms maintains his shares in his and his wife's name

(6)Mr. Roger Timms maintains his shares in his and his wife's name

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### ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Timbermans Group Pty Ltd owns the majority of the shares of common stock of the Company and its shareholders are the same individuals as our officers and directors. Three of the directors of our Company also own 100% of Acora Reneco Group which is the largest Australian manufacturer and designer of original sawmilling equipment as well as an agent for sales and distribution for sawmilling equipment manufactured by other companies. The Company presently has an agreement in place pursuant to which Acora supplies the Company's sawmill equipment needs. All transactions between Acora and the Company are at arms length terms.

### ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

Exhibit Number Exhibit Description

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K.

None.

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### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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Audit Fees

For the Company's fiscal year ended December 31, 2005, the cost for professional services rendered for the audit of our financial statements and the review of the Form 10-KSB aggregated \$15,000.

All Other Fees

The Company did not incur any other fees related to services rendered by our principal accountant for the fiscal year ended December 31, 2005.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant has duly 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: Chief Executive Officer, President and Chairman  
Date: May 15, 2006

/s/ Colin Baird

-----  
Name: Colin Baird  
Title: Chief Financial Officer and Director  
Date: May 15, 2006

/s/ Roger Timms

-----  
Name: Roger Timms  
Title: Executive Vice President and Director  
Date: May 15, 2006