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MULTI TECH INTERNATIONAL CORP
Form 10QSB
November 20, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D. C. 20549
FORM 10-QSB
QUARTERLY REPORT UNDER SECTION 13 or 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2006
Commission file number 0-25909

Australian Forest Industries
(Exact name of small business issuer as specified 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

Check whether the issuer (1) has 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

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 November 17, 2006 was 500,423.

ITEM 1 FINANCIAL STATEMENTS

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Item 1. Condensed Financial Statements

AUSTRALIAN FOREST INDUSTRIES

CONSOLIDATED BALANCE SHEETS

ASSETS

| | September 30 2006 | Decem 2005 |
|---|----------------------|---------------|
| | ----- (Unaudited) | ----- |
| CURRENT ASSETS | | |
| Cash | | \$ |
| Accounts receivable | \$ 2,667,853 | 1 |
| Inventory | 2,340,943 | 1 |
| Prepaid expenses and other | 71,256 | |
| | ----- | ----- |
| Total Current Assets | 5,080,052 | 3 |
| PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of \$2,794,801 and \$2,402,939 in 2006 and 2005, respectively | 16,482,095 | 13 |
| OTHER ASSETS | | |
| Long-term timber supply contract, net of amortization of \$107,400 and \$91,843 in 2006 and 2005, respectively | 712,586 | |
| | ----- | ----- |
| | \$ 22,274,733 | \$ 17 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Bank overdraft | \$ 2,106,989 | \$ |
| Accounts payable | 4,681,752 | 2 |
| Current portion of capitalized lease obligations | 1,076,013 | 1 |
| Due to Timberman shareholders | 5,991,199 | 3 |
| Related party payable | 606,487 | |
| Accrued payroll, related taxes and benefits | 898,739 | |
| | ----- | ----- |
| Total Current Liabilities | 15,361,179 | 8 |
| OTHER LIABILITIES | | |
| Capitalized lease obligations | 4,067,491 | 3 |
| Deferred capital gain | 1,181,414 | 1 |
| Due to National Australian Bank | 4,928,880 | 4 |
| | ----- | ----- |
| Total Liabilities | 25,538,964 | 18 |
| 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, 500,473 and 257,400,680 issued and outstanding at September 30, 2006 and December 31, 2005 respectively | 257,600 | |
| Additional paid-in capital | 4,573,217 | 4 |
| Accumulated other comprehensive income | 225,992 | |

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| | | |
|--|---------------|-------|
| Accumulated deficit | (8,321,040) | (5 |
| Total Stockholders' Equity | (3,264,231) | |
| Total Liabilities and Stockholders' Equity | \$ 22,274,733 | \$ 17 |

See accompanying notes to financial statements.

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AUSTRALIAN FOREST INDUSTRIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30, | |
|--|--|--------------|--|------------|
| | 2006 | 2005 | 2006 | 2005 |
| | | (Restated) | | (Restate |
| REVENUE - SALES | \$ 4,008,572 | \$ 3,377,974 | \$ 11,350,633 | \$ 10,124, |
| COSTS AND EXPENSES | | | | |
| Cost of goods sold | 2,414,890 | 1,894,605 | 6,525,037 | 5,753, |
| Selling, general and administrative | 2,706,697 | 1,888,529 | 6,737,478 | 5,829, |
| Provision for Doubtful Accounts | 134,154 | 266,649 | | |
| Interest expense | 254,564 | 138,355 | 647,648 | 418, |
| Depreciation and amortization | 149,162 | 208,597 | 436,287 | 580, |
| Total Costs and Expenses | 5,659,467 | 4,130,086 | 14,613,099 | 12,582, |
| OPERATING LOSS | (1,650,895) | (752,112) | (3,262,466) | (2,458, |
| NON-OPERATING INCOME | | | | |
| Other income | 12,037 | 97,382 | 145,325 | 99, |
| Interest income | 83,555 | 247,586 | | |
| Gain on disposal of assets | 648 | 799,496 | 104,203 | 1,963, |
| Total Non-Operating Income | 96,240 | 896,878 | 497,114 | 2,063, |
| NET INCOME (LOSS) | \$ (1,554,655) | \$ 144,766 | \$ (2,765,352) | \$ (394, |
| NET LOSS PER SHARE | \$ (3.11) | \$ 0.29 | \$ (5.53) | \$ (0 |
| WEIGHTED AVERAGE SHARES OUTSTANDING | 500,473 | 500,473 | 500,473 | 500, |

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See accompanying notes to financial statements.

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AUSTRALIAN FOREST INDUSTRIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| | For the Nine Months Ended September 30, | |
|--|--|--------------|
| | 2006 | 2005 |
| | | (Restated) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | \$ (2,765,352) | \$ (394,680) |
| Adjustments to reconcile net income to cash flows used in operating activities: | | |
| Depreciation | 391,862 | 372,254 |
| Stock based compensation | 70,000 | |
| Amortization of Timber contract | 15,557 | |
| Amortization of leaseback gain | (252,150) | |
| Changes in operating activities: | | |
| (Increase) decrease in prepaid expenses | 53,046 | 132,860 |
| (Increase) decrease in inventories | (562,603) | (241,717) |
| (Increase) decrease in receivables | (1,044,880) | (1,612,693) |
| (Increase) decrease in related party receivable | | (273,175) |
| (Increase) decrease in timber contract | 66,662 | 10,506 |
| Increase (decrease) in accounts payable and other liabilities | 1,990,795 | 1,181,904 |
| Increase (decrease) in bank overdraft | 1,989,217 | (421,097) |
| Increase (decrease) in related party payable | 13,643 | 1,061,522 |
| Increase (decrease) in accrued payroll | 299,350 | (11,795) |
| Increase (decrease) in taxes payable | 69,437 | |
| | ----- | ----- |
| Net Cash (Used in) Provided by Operating Activities | 334,584 | (196,111) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net capital additions | (3,833,830) | (1,172,640) |
| | ----- | ----- |
| Net Cash Used in Investing Activities | (3,833,830) | (1,172,640) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Loans from shareholders | 2,777,287 | 115,979 |
| Capital leases | 554,609 | 1,422,477 |
| National Australian bank loan | 110,880 | (184,983) |
| Sale leaseback deferred credit | 37,083 | |
| | ----- | ----- |
| Net Cash Provided by (Used In) Financing Activities | 3,479,859 | 1,353,473 |
| EFFECT OF EXCHANGE RATES ON CASH | (107,627) | (198,001) |
| | ----- | ----- |
| (DECREASE) INCREASE IN CASH | (127,014) | (213,279) |
| CASH AT BEGINNING OF PERIOD | 127,014 | 225,189 |
| | ----- | ----- |

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| | | | | |
|-----------------------|-------|---|-------|--------|
| CASH AT END OF PERIOD | \$ | 0 | \$ | 11,910 |
| | ===== | | ===== | |

See accompanying notes to financial statements.

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AUSTRALIAN FOREST INDUSTRIES

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The accompanying condensed consolidated 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 nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. For further information, refer to the financial statements and footnotes thereto included in Australian Forest Industries' annual report on Form 10-KSB for the year ended December 31, 2005.

NOTE 2 - LOAN FROM TIMBERMANS GROUP (RELATED PARTY)

During the nine months ended September 30, 2006, the company received an additional \$2,777,287 from Timberman investors.

NOTE 3 - CAPITALIZED LEASE OBLIGATIONS

During the nine months ended September 30, 2006, the Company purchased \$3,900,000 in new equipment of which \$1,981,000 was financed under capitalized leases over a five year period.

NOTE 4 - STOCKHOLDERS' EQUITY

During the quarter ended September 30, 2006, the company issued 200,000 shares of stock for consulting services received. The shares were valued at \$.35 per share.

On August 30, 2006, the Board of Directors declared a 515 to 1 reverse stock split of its common stock. As a result of this reverse split, 500,473 shares are considered issued and outstanding. All per share amounts have been adjusted to give effect to the reverse stock split.

NOTE 5 - CHANGE OF CONTROL

The Company has entered into a letter of intent dated August 25, 2006, under which and subject to a definitive agreement and closing thereof, it will acquire all the issued share capital of Simbajamba Mines Limited ("Simbajamba") a wholly owned subsidiary of Simba Mines Inc. ("Simba") for \$41,547,000 and all the issued share capital of Rockbury Properties Limited ("Rockbury"), a wholly owned subsidiary of Bongani International Group Limited ("BIG") for \$38,453,000.

In settlement of the above purchases, The Company proposes to issue 5,193,375 new ordinary shares to Simba and 4,806,625 new common shares to BIG. They will rank equal with the consolidated 500,473 common shares of AUFI and have a book value of \$8 per share.

Upon closing of the acquisitions, AUFI will control 80% of the Cachoeiras de Binga and 70% respectively of the Benguela and Zenza copper licenses in Angola. In addition, discussions are in progress with BIG for the acquisition of a controlling interest in two significant copper/cobalt concession areas in the DRC. At closing, AUFI will change its name to Zebra Copper Inc ("Zebra").

AUFI has also entered into a letter of intent to sell its wholly owned subsidiary Integrated Forest Products Pty Ltd ("IFP") to an Australian unlisted company, Australian Forest Industries Limited ("AFIL"), which will issue new ordinary shares ranking equal as consideration. It is intended that following the closing of this proposed transaction, the AFIL shares will be distributed as a dividend to the shareholders of AUFI listed on its share register at August 30, 2006

NOTE 6 - RESTATEMENT

The financial statements for the nine months ended September 30, 2006 have been restated to include the financial information of Timbermans Group which is considered a Variable Interest Entity under the Provisions of FIN 46.

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.

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

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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 nine-months ended September 30, 2006 aggregated \$14,613,099. 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 \$3,262,466 and a total net loss of \$2,765,352 or \$(5.53) per share.

Operating costs for the three-month period ended September 30, 2006 aggregated \$5,659,467. This includes an increase in costs of goods sold of \$2,030,417 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 \$1,554,655 for the three-month period ended September 30, 2006 or \$(3.11) per share.

During the nine months ended September 30, 2006, we purchased \$3,900,000 in new equipment of which \$1,981,000 was financed under capitalized leases over a five year period. Additionally, during this time period, we received an additional \$2,77,287 from Timbermann investors.

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On August 25, 2006, we entered into a letter of intent under which and subject to a definitive agreement and closing thereof, we will acquire all the issued share capital of Simbajamba a wholly owned subsidiary of Simba for \$41,547,000 and all the issued share capital of Rockbury, a wholly owned subsidiary of BIG for \$38,453,000.

In settlement of the above purchases, we propose to issue 5,193,375 new ordinary shares to Simba and 4,806,625 new common shares to BIG. These issuances will rank equal to our consolidated 500,473 common shares and will have a book value of \$8 per share.

Upon closing of the acquisitions, we will control 80% of the Cachoeiras de Binga and 70% respectively of the Benguela and Zenza copper licenses in Angola. In addition, discussions are in progress with BIG for the acquisition of a controlling interest in two significant copper/cobalt concession areas in the DRC. At closing, we will change our name to "Zebra Copper Inc."

We have also entered into a letter of intent to sell our wholly owned subsidiary IFP to an Australian unlisted company, AFIL, which will issue new ordinary shares ranking equal as consideration. It is intended that following the closing of this proposed transaction, the AFIL shares will be distributed as a dividend to our shareholders listed on the Company's share register on August 30, 2006.

LIQUIDITY AND CAPITAL RESOURCES

On September 30, 2006 we had current assets of \$5,080,052 and on December 31, 2005 we had current assets of \$3,722,067.

Net cash used in operating activities for the period from inception to September 30, 2005 was (\$196,111). Net cash used in operating activities for the period from inception to September 30, 2006 was \$334,584.

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

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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 September 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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ITEM 3. CONTROLS AND PROCEDURES

(a) Our principal executive officer and principal financial officer have each evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) as of a date within 90 days prior to the filing date of this quarterly report and have each concluded that our disclosure controls and procedures are adequate.

(b) There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant

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deficiencies and material weaknesses.

(c) Not applicable

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PART II Item 1. Legal Proceedings
None.

Item 2. Changes in Securities
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 and Reports on Form 8-K

a. Exhibit Index

Exhibit 31.1 Certification of Chief Executive Officer

Exhibit 31.2 Certification of Chief Financial Officer

Exhibit 32.1 Certification of Chief Executive Officer

Exhibit 32.1 Certification of Chief Financial Officer

b. Reports on Form 8-K

On October 10, 2006, we filed a current report on Form 8-K disclosing that a director, Mr. Norman Backman, resigned from our board to pursue other business interests.

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, 2006

/s/ Colin Baird

Name: Colin Baird
Title: Chief Financial Officer
Date: November 17, 2006

