FORM 10KSB

Annual and transition reports of small business issuers [Section 13 or 15(d), not S-B Item 405]

Filing Date: **1999-09-10** | Period of Report: **1998-12-31**
SEC Accession No. 0000918411-99-000008

FILER

FORESTRY INTERNATIONAL INC

CIK:**918411**| IRS No.: **841116284** | State of Incorp.:**CO** | Fiscal Year End: **1231**
Type: **10KSB** | Act: **34** | File No.: **001-14909** | Film No.: **99709913**
SIC: **2421** Sawmills & planting mills, general

Mailing Address
1205 AMPERE STREET
SUITE 206
BOUCHERVILLE QC A8

Business Address
1205 AMPERE STREET
SUITE 206
BOUCHERVILLE QC J4B A8
39305
5144957747

Form 10-KSB
ANNUAL OR TRANSITION REPORT
UNDER SECTION 13 OR 15(d)

(As last amended by Exch Act Rel No. 35113, eff.1/30/95)
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

X ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [No Fee Required]

For the fiscal year ended December 31, 1998

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [No Fee Required]
For the period from

Forestry International, Inc.

(Name of small business issuer as specified in its charter)

Colorado
84-1116284

(State or other jurisdiction of
(I.R.S. Employer
incorporation or organization)
Identification No.)

1205, Ampere Street
Suite 206
Boucherville, Quebec
Canada
J4B 7M6

(Address of principal executive offices) (Zip Code)

Issuer's telephone number (514) 495-7747

Securities registered under Section 12(b) of the Exchange Act: None

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

Common Stock, $0.0001 Par Value per Share

(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 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. X 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 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. X

State issuer's revenues for its most recent fiscal year $ 0 .

State the aggregate market value of the voting stock held by non-affiliates computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within the past 60 days. (See definition of affiliated in Rule 12b-2 of the Exchange Act).

As of December 31, 1998, 17,377,833 voting shares were outstanding, 15,650,763 of which were held by non-affiliates. On that date the bid and ask prices were $0.14 to $0.17. Therefore, the aggregate market value of voting stock held by non-affiliates as of December 31, 1998 was $2,191,107.

Note: If determining whether a person is an affiliate will involve an unreasonable effort and expense, the issuer may calculate the aggregate market value of the common equity held by non-affiliates on the basis of reasonable assumptions, if the assumptions are stated.

(ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Check whether the issuer has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after distribution of securities under a plan confirmed by a court. N/A

(APPLICABLE TO CORPORATE REGISTRANTS)

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:
18,721,833 as of June 30, 1999 which 1,038,678 shares in Stop Transfer

DOCUMENTS INCORPORATED BY REFERENCE

If the following documents are incorporated by reference, briefly describe them and identify the part of the Form 10-KSB (e.g.,Part I, Part II, etc.) into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement: and (3) any prospectus filed pursuant to Rule 424 (b) or (c) of the Securities Act of 1933 (Securities Act"). The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1990). Not Applicable

Transitional Small Business Disclosure Format (Check one):

Yes X No
(Added by Exch Act Rel No. 31905, eff 4/26/93)

PART 1

ITEM 1. DESCRIPTION OF BUSINESS

Development

Established in December of 1992, Forestry International is a Colorado based company. Initial involvement in the wood industry was the acquisition of clonal technology relating to the accelerated development of rapid-growth hardwood trees as an alternative wood species source. In September of 1997, a new management team evolved from major shareholders that saw the need for change. The company took another direction with this new management team and established a growth strategy plan.

Management's corporate objective is highly focused on growth via niche markets in order to increase Forestry's net asset worth and enhance shareholder value via the acquisition of businesses which are active within the timber and wood products industry, led by strong and professional management teams. As it expands, the Company should gain competitive advantages relative to smaller operators, including greater purchasing power for large timber tracts, a lower cost of capital, significant market recognition, and the ability to provide customers with a broader range of products and services in response to customer demand.

By way of careful analysis and evaluation of private and public acquisition targets, management intends to develop a vertically integrated corporate operation within the forest products industry.

Sale of Significant Amount of Assets not in the Ordinary Course of Business

Dickson Plantation Assets

The Paulownia trees were planted in Elongata, the fastest growing species of Paulownia, in 1994, with expectations of a harvest within five to seven years. Thereafter, with self regeneration, the harvest would be every ten years for the next forty years. The plantation was sold in March of 1997 with a lease being paid yearly on the existing acreage of Paulownia. As the lease became due in April of 1998, and with the annual expenses continuing, management decided to evaluate the Paulownia investment to determine its viability by looking at the present net worth, annual equivalent value, and internal rate of return.

In May 1998 the new management realized the excessive costs of keeping the Paulownia project alive, so the Company sold its interest in the lease along with the trees, greenhouses, equipment and all assets affiliated with the Paulownia project.

Loss of Control of Dixieland Forest Products, Inc.

On February 25, 1998 Mr. Louis Turp met with Mr. Randy Pope and Dixieland Forest Products' CPA firm. During that meeting Mr. Pope imposed upon Forestry International to renegotiate the original offer and change the financial structure of the buyout. He wanted an all cash offer without notes and restricted common shares in order to complete the acquisition.

On February 26, 1998 Forestry proposed an all cash offer of $

320,211 to Mr. Pope in addition to the $1,000,000 cash that he had previously received. On March 20, 1998 Forestry received a counter proposal from Mr. Pope. This counter offer, a minimum of $900,000 cash, was rejected as unrealistic according to the economic equivalent and relative performance to be received. A letter dated March 23rd was sent to Mr. Pope to that effect and the Company would continue in good faith to negotiate the transaction for its true value. It was also mentioned that if there was no mutual agreement, the Company would have no other alternative than to exercise its right to protect this investment for the benefit of the shareholders. There was no further written communication received concerning this offer and Mr. Pope was avoiding all subsequent communications with Forestry International.

On July 8, 1998 a letter was sent to Mr. Pope concerning the audit of Forestry and Dixieland for the year ended December 1997. After a period of two months and several inquires, Mr. Pope set forth a proposal that the Company felt would jeopardize its legal position with respect to claim its capital investment in Dixieland. At this point, upon advise of its attorney, Forestry determined to proceed without the financial information from Dixieland.

It is the position of management that Mr. Randy Pope unilaterally recaptured the Dixieland common shares sold to Forestry. The alleged default was without merit and was based on the non-release of Mr. Pope's personal guarantees. Officers of Forestry, with the knowledge of Mr. Pope, were still negotiating with financial institutions to execute that obligation. Forestry had performed such that the alleged default was not sufficiently material to allow Mr. Pope to assert a breach of the agreement. On the contrary, Forestry

contends that Mr. Pope in fact breached the contract with poor management
and excessive losses during the year. The financial institutions made this
clear and plain to Forestry.

The status of a public company places a heightened responsibility to protect
the assets of the company for the benefit of the public shareholders. Because
of the delay and intransigence of the various parties involved with Dixieland,
Forestry took on November 17, 1998 legal action against Randy Pope.
Forestry has incurred a substantial loss which has materially affected the
operations and management intends to pursue these legal actions to attempt
to redress the losses incurred.

Growth Strategy

Forestry International has targeted several acquisitions to fulfill its
management objectives. The Company is seeking to acquire timberland and
companies of varying size. In evaluating potential acquisition targets, the
Company considers a number of factors, including their market niche, the
quality of the assets and management, the opportunities to improve operating
margins and increase internal growth of the target, the economic prospects of
the region in which the target is located, and the potential for additional
acquisitions in the region. The Company will seek expansion opportunities
in the United States, with an emphasis in the southeast. Canada will also be
considered in our future development program. Management will pursue
acquisition candidates with varying types of equipment (Chip mills,
Sawmills, Lumber mills) and customer specializations within the domestic
and export markets. Forestry believes that geographic and customer
diversification will enhance the Company's stability to fluctuations in
regional economic conditions or changes that affect particular

market segments.

Management believes there will be significant opportunities to improve operating margins of acquired companies through the efficient integration of these acquisitions, the elimination of duplicated costs, reduction in overhead and the centralization of functions. A lack of capital has constrained expansion and modernization of many small and medium sized companies within the industry. As a result there is significant potential to increase internal growth of many acquired entities through capital investment. The Company will seek efficiency by investing in additional and upgraded equipment, using advanced technology systems to improve asset utilization.
The Company intends also to establish a sales and marketing program targeted toward the major domestic and export players within the industry.
Management will continually evaluate its organizational structure and manufacturing operations to identify opportunities to more effectively meet its customers' requirements and to reduce cost.

Industry Outlook

Mergers, acquisitions, divestitures and alliances are among the tools for rationalizing and restructuring to achieve greater cost efficiencies and higher return on investments. For example, since the former Abitibi-Price Inc. and Stone Consolidated Corp. merged in 1998, the successor company has reduced costs by over $200 million.

To reduce the volatility in pulp and paper markets, companies have focused on consolidation. In two blockbuster mergers in 1999, International Paper Co. acquired rival Union Camp Corp. for $7.9 billion and it is expected to create $425 million in savings for International Paper and a second one, Weyerhaeuser Co., announced a takeover of MacMillan Bloedel Ltd., Canada's largest paper and forest products group. This follows last year's $2.5 billion merger of Avenor Inc., a Montreal-based company, and Bowater Inc., creating the second largest newsprint manufacturer in North America.

Louisiana-Pacific Corp., the largest U.S. maker of OSB emerged as the winner against Boise Cascade Corp. in the bidding war for Canada's leading producer of oriented strand board (OSB) Le Groupe Forex, with a total offer of $33 per share or U.S. $512 million. The Forex deal fills a geographic hole for Louisiana-Pacific in the Northeast and parts of the Midwest and will become No. 1 in the North American OSB industry and is expecting to grow from its current 50 percent share in structural paneling to a 70 to 80 percent market share within 8 to 10 years.

Companies are purchasing paper mill assets rather than building new greenfield operations, a trend which has been pushed by Wall Street observers for years. Today's basic structures under which the industry operates is different. There is room for new thinking and being more innovative in this fragmented industry with a disciplined approach. The balance of production, supply, and demand has changed in the Forest Products Industry. According to current market dynamics, the overall picture appears brighter by looking at capacity, consumption, pricing, and inventory.
Another positive change has occurred in forest practices, as a direct result of activism by environmentalists. Their efforts have helped create a more sensitive and environmentally responsible industry.

The market pulp industry is showing signs of sustainable recovery. Prices began turning upward in April 1999, reaching $520/mton in Europe for benchmark northern bleached softwood kraft (NBSK). This momentum could enable producers to seek modest increases in the fall, setting the stage for NBSK to reach as high as $650/mton by the end of 2000. The other immediate good news for producers is from Asia, where demand has been picking up for some months now as the region recovers from the financial crisis that began in mid-1997 and sent the pulp industry into a tailspin.

The newsprint market has seen some positive signs of late, including lower operating rates, declining mill inventories, and the continued removal of capacity from the market. In May 1999, Canadian operating rates dropped to 88% from 95% in April, the lowest since November. Total North American mill inventories also dropped for the first time since November. Canadian mill stocks were down 3.5% from April while U.S. mill stocks were basically flat, according to CPPA. Still, North American mill inventory levels in May were about 25% higher than May 1998.

The expansion and consolidation activity in the North American tissue market continues to be very active with a number of projects completed earlier this year and 11 new machines are scheduled for start-up in the period 1999 to 2001 in the U.S. which indicates that capacity growth will remain strong. Global Tissue LLC (formerly Shepherd Tissue Inc.) from Memphis, Tenn., was acquired by Montreal-based Kruger Inc. in February. Georgia-Pacific Corp. and Chesapeake Corp. announced that they will form a joint venture combining their away-from-home tissue businesses.

The merger of two of North America's largest papermakers dominated developments in the printing/writing paper markets during the first-half of

1999. International Paper and Union Camp Corp. completed their merger in April and the combination radically changed the makeup of the North American uncoated free-sheet and containerboard markets, boosting International Paper's share of the former to more than 20% of capacity. Georgia-Pacific also merge with distributorship Unisource Worldwide Inc. the U.S.'s largest merchant with a $851 million offer. Georgia-Pacific said it could deliver $75 million annually in savings over the next two years.

U.S. containerboard prices moved from their trough at the end of December 1998 to a new peak by July. The rapid turnaround was caused by North American producers eliminating 6% of containerboard capacity at the end of 1998, and demand for corrugated containers remaining steady, growing at or nearly 2% above 1998 volume. In the U.S. and Canada, box makers followed the containerboard price increases in February and March 1999 with an increase on boxes of 10% to 14% in primarily March and April. Box makers also proposed increases of 10% to 12% for July and August.

Capital investments by North American paper and forest product companies are expected to increase slightly in 1999 following three years of declines. Current fiscal 1999 spending estimates by 54 U.S. and Canadian-based companies total $9.52 billion, an increase of 6.7% over actual spending in 1998.

Due to the highly fragmented nature of the industry, Forestry believes that there is a large number of attractive acquisition opportunities in the Forest Products Industry. The inability of many small and mid-sized companies to expand and modernize due to capital constraints, and the desire of many long-time owners for liquidity which Forestry has identified, will allow the company to immediately start its strategic acquisition program and capitalize with these niche markets.

Today's industry competes mostly on the basis of price, quality, availability, product choice, sustainability and environmental impact. Consequently, the future of U.S. and Canadian Forest Products Industry depends mainly upon factors which are products that are second-to-none, access to world markets, industry innovation, and a comprehensive global approach to sustainable forestry practices. Market competitiveness starts with economic viability and the outlook is favorable. Notwithstanding the cyclical nature of the industry, being a low cost producer with adequate and attractive financial returns is acceptable, but the ultimate goal for a company is to earn it's cost of capital.

Significant Calendar 1998 Operating Results and Subsequent Developments

Tax Assessments

The Arizona Department of Revenue is asserting a tax lien for fiscal 1993 and 1994 in the amount of $10,869.34 for unpaid Arizona state taxes against the Company. As of March 9, 1999, the total amount including interest was approximately $42,763.66 .

Sale of Dickson Plantation

In April 1998 the new management realized the excessive costs of keeping the Paulownia project alive, so the Company sold its interest in the lease along with the trees, greenhouses, equipment and all assets affiliated with the Paulownia project.

Future Operations

New management has been consistently involved in the identification and analysis of potential acquisition targets within the timber and

forest product
industry, including undertakings such as saw mills, chip mills,
pole
production plants and timber lots. The Company expects that
these activities
will result in further acquisitions and anticipates that such
will provide
additional corporate growth during the coming years.

Future Project Acquisition

Forestry International, Inc. has reached a final agreement to
purchase all
common shares of a fully integrated wood products operation
located in the
southeast of the United States. Under the terms of the
agreement, Forestry
International is acquiring the company for US $22 million,
payable in cash
and stock, including the assumption of all liabilities at the
time of closing.
The transaction is subject to the completion of the financing
which Forestry
International expects to take place at any time before the end
of 1999.

ITEM 2. DESCRIPTION OF PROPERTY

As of August 26, 1998, the principal business office of the
Company is
located at 1205, Ampere Street, Suite 206, Boucherville,
Quebec, Canada
J4B 7M6. The telephone number is (514) 495-7747.

ITEM 3. LEGAL PROCEEDINGS

A civil action for back-wages claims for approximately $97,000
was filed on
March 19, 1998 by David L. Shorey, former President of the
Company in
Arizona Superior Court against Forestry International. The
Company is
vigorously defending the lawsuit against it, and has several
defenses and
claims that Forestry believes eliminate all of David Shorey's
claims.
Forestry's defense is based upon the fact that there are no
written documents
or materials that support David Shorey's claims for compensation
independent of his own assertions. Moreover, there are claims
and setoffs

based upon Mr. Shorey's actions while he was President, which more than offsets his claims for compensation.

To that effect, on October 2, 1998, Forestry filed a counterclaim against Mr. David Shorey based on the alleged conversion of Company property to his own use, and also a second claim contending a breach of fiduciary duty as an officer and director of Forestry International, Inc. The latter claim stipulates that Mr. Shorey substituted a promissory note to allow the conversion of that debt into a recourse debt convertible into Forestry common shares without any consideration to the Company. Although final resolution of this matter may not occur until December 1999 or thereafter, it is Forestry International's position that David Shorey's claims are not valid claims against the company.

Forestry filed, on July 24, 1998 in Tucson Arizona Superior Court, a Declaratory Judgement action against several individuals and entities claiming benefits under a Promissory Note on the basis that the Company never received consideration for the Note or Notes. To that effect, on May 4 and May 17, 1999, Forestry obtained default judgments in its favor against six (6) defendants which constitutes final judgment confirming the Company's contention that $763,225 of principal amount of certain indebtedness previously reflected on the Company's balance sheet is not owed to the defendants.

Although Forestry International's books and records reflect an indebtedness in the amount of $146,606 plus interest attributable to a promissory note executed by the former President of Forestry, in favor of Dylan-Hutton, Inc. Forestry's position is that the debt is not valid. Forestry is undertaking steps to obtain declaration from the appropriate court that this debt is null, void and unenforceable as against Forestry International, Inc.

The case is continuing as to $125,000 plus interest of the indebtedness that is held by Mr. David Shorey where he will represent himself in this litigation on a trial that is set for December 17, 1999. Management expects to achieve the same results where the Court will ultimately declare this debt invalid.

On November 17, 1998 in the United States District Court of Jackson Mississippi, Forestry filed a $35,000,000 civil action against Randy Pope, President of Dixieland Forest Products, Inc. for breach of contract, breach of duty of good faith and fair dealing including wrongful foreclosure. The Company is seeking restitution in equity as well as compensatory and punitive damages as a result of Defendant's actions. By this action, Forestry intends to redress the losses incurred by the loss of control of Dixieland Forest Products. A trial has been set for the trial calender commencing February 7, 2000 and ending February 25, 2000. Unless there is a settlement before such time, the trial should proceed within that time frame.

On March 17, 1999 the Arizona Department of Revenue filed an amended complaint against Forestry International, Inc. claiming $10,869.34 in unpaid income taxes, plus interest as of March 9, 1999 in the amount of $31,894.32, for the audited period of March 31, 1993 through March 31, 1994. Although the initial audit by the Arizona Department of Revenue reflected a tax liability base on the sale of certain common shares by Forestry. It appears that Forestry may not have owned the common shares in question and therefore, no gain should have been recognize on the transaction. If this assumption is correct, there should be no tax liability related to the transaction. Although one can never predict with absolute accuracy the outcome of litigation, it is our opinion that Forestry has a good case and is prepared to see it through conclusion. The result of this case is presently indeterminable.

No other legal proceedings to which the Company is a party or to which the property of the Company is subject is currently pending against the Company, and no such material proceeding is known to be contemplated against any officer or director which is adverse to the Company, except as mentioned in the preceding paragraphs.

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

There has not, during the period covered by this report, up to and including the date of signature of this report, been any submission of matters to a vote of security holders.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

The common stock of the Company is quoted on the Bulletin Board maintained by the NASD. The following table sets forth the range of closing bid and ask quotations for the common stock in each full quarterly period since January 1, 1993.

	CLOSING BID	CLOSING ASK
March 31, 1993	1.50	2.50
June 30, 1993	1.875	2.50
September 30, 1993	2.50	4.00
December 31, 1993	2.75	4.00
March 31, 1994	3.00	4.50
June 30, 1994	3.00	5.00
September 30, 1994	3.00	4.00
December 31, 1994	3.00	3.875
March 31, 1995	2.00	4.00
June 30, 1995	2.00	3.00
September 30, 1995	0.75	1.125
December 31, 1995	0.47	0.53
March 31, 1996	0.29	0.30
June 30, 1996	0.12	0.12
September 30, 1996	1.00	1.07
December 31, 1996	1.38	1.38
March 31, 1997	1.20	1.22
June 30, 1997	0.375	0.4375
September 30, 1997	0.18	0.21
December 31, 1997	0.08	0.10
March 31, 1998	0.09	0.15
June 30, 1998	0.09	0.10
September 30, 1998	0.055	0.065
December 31, 1998	0.14	0.17
March 31, 1999	0.21	0.25
June 30, 1999	0.22	0.23

The above prices were obtained from National Quotation Bureau, Inc. These quotations represent inter-dealer quotations, without retail

mark-up,
markdown or commission, and may not necessarily represent actual transactions. On August 25, 1999, the closing bid was $0.21 and the closing ask price was $0.24, as quoted on the Bulletin Board for the common stock of the Company. On that date, there were 11 broker-dealers publishing quotes.

Dividends

Neither the Company nor any of its subsidiaries have, during their respective existences, declared or paid or set aside for payment any cash dividends on their common shares and no dividends are contemplated at any time in the foreseeable future. There are no current or contemplated restrictions attributable to any contractual commitment of the Company which will limit the ability of the Company to declare and pay dividends.

ITEM 6. MANAGEMENTS' PLAN OF OPERATION

Forestry International's initial involvement and primary business was the acquisition of clonal technology relating to the accelerated development of rapid-growth hardwood trees as an alternative wood species source. Effective September 5, 1997, the Company took another direction with a new management team and a growth strategy plan.

The Company sold its interest in the remaining Paulownia plantation located in Sparta Georgia to pursue other business opportunities. While actively negotiating on an acquisition and until a new business venture is determined, the Company has eliminated the majority of its payroll and will utilize contract consultants to maintain its reporting requirements. It is anticipated that only nominal funding should be necessary for the next several months, which amounts should be available from equity or debt financing.

The Company, as of December 31, 1998 had net operating loss carryforwards for federal and state income tax purposes of approximately $3,374,000 and $2,021,000 respectively and a net capital loss carryforwards for federal and state income taxes of approximately $1,318,000. Management plans to use these losses to its advantage to save taxes on the operations of future acquisitions and against capital gains. Forestry will consult tax specialists to determine to which extent this may be used to its greatest benefit.

New management has determined that the Company's new business strategy plan is primarily to seek one or more potential businesses which may, in the opinion of its Board of Directors, warrant the Company's involvement. In seeking to attain its business objective, the Company will mainly focus on targets within the Forest Products Industry but will not restrict its search to that industry. Forestry may investigate businesses of essentially any kind or nature, including but not limited to, high technology, manufacturing, service, research and development, communications and others. Management's discretion is otherwise unrestricted, and it may participate in any business whatsoever which may, in the opinion of management, meet the business objectives discussed herein.

The Company may acquire any entity or position in a company which is (i) a fully integrated corporation in a specific segment of its industry; or (ii) in its preliminary or development stage; or (iii) is a going concern. In other instances, possible business endeavors may involve the acquisition of or a merger with a company that does not need additional equity, but seeks to establish a public trading market for its securities. Businesses that seek the Company's participation in their operations may desire to do so to avoid what such businesses deem to be adverse factors related to undertaking a public offering. Such factors include substantial time requirements and legal costs, along with other conditions or requirements imposed by Federal and State securities laws.

Since new management got involved in the daily operation of Forestry International, the analysis of potential business endeavors will be undertaken by or under the supervision of the Company's Directors and their principal consultants. The Directors and principal consultants are comprised of individuals of varying business experiences, and management will rely on their own business judgment in formulating decisions as to the types of businesses that the Company may acquire or in which the Company may participate.

In analyzing prospective businesses, management will consider such factors as available technical, financial and managerial resources, working capital and other financial requirements such businesses history of operations, if any, and prospect for the future, the nature of present and expected compensation, the quality and experience of management services, the depth of that management, the potential for further research and development and risk factors. Forestry will also consider their niche market, the opportunities to improve operating margins, potential growth and expansion, the economic of the region in which the target is located, the potential for profit, the perceived public recognition or acceptance of such businesses, products, services and other relevant factors. The Company will seek opportunities in the United States, with an emphasis in the southeast. Canada will also be considered in future development program. Management believes that geographic and customer diversification will enhance the Company's stability to fluctuations in regional economic conditions or changes that affect particular market segments. Generally, the Company will analyze all available information and make a determination based upon a composite of available facts, without reliance upon a single factor as controlling.

Forestry has targeted several acquisitions to fulfill its management objectives. Also, it is anticipated that prospective businesses will be available to the Company from various sources, including its management, its professional advisors, securities broker dealers, venture capitalists members of the financial community, and others who may present unsolicited proposals. In some instances, the Company may publish notices or advertisements in financial or trade publications seeking potential business acquisition. In certain circumstances, the Company may agree, in connection with an acquisition, to pay a finder's fee or other compensation to an investment banking firm or other person who submits to the Company a business in which Forestry participates.

ITEM 7. FINANCIAL STATEMENTS

The audited financial statements and supporting schedules required under this item are listed under Item 13 below, and are set forth in the pages immediately following Item 13.

ITEM 8. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS: COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

The following table sets forth all current directors, executive officers and significant employees of the Company and of each significant subsidiary, as well as their ages:

Name	Age	Positions With The Company
Louis R. Turp	41	President and CEO
Andrea Audet	47	Secretary / Treasurer

Richard Jamieson 64 Chief Financial Officer

No Director or executive officer has any arrangement or understanding whereby they have been or will be selected as a director of the Company. Further, no executive officer or director of the Company is related to any other executive officer or director, other than Louis R. Turp and Andrea Audet, who are husband and wife. All directors of the Company hold office until the next annual meeting of shareholders, and until their successors have been duly elected and qualified. Executive officers are selected by the board at its annual meeting and hold office until the first to occur of their death, resignation or removal from office.

Biographical Profiles

The following biographical profiles relate to each individual currently serving as a director, and executive officer of the Company.

Louis R. Turp - Portfolio manager associated with several major Canadian brokerage firms for 14 years. Accepted the invitation to serve as a director of FII on July 21 1997 and became President and CEO on September 1997. Corporate restructuring objective with fundamental emphasis on selected strategic acquisitions and business combinations with profitable operating companies in niche markets, within the Paper and Forest Products Industry.

Richard Jamieson - Chief Financial Officer of FII, Mr. Jamieson has been associated as a Vice President Finance with Commercial Credit Corporation Ltd. and Royal Insurance Company Ltd. He brings an impressive array of financial, administrative and marketing skills with a strong background in the commercial credit industry.

Andrea Audet - Mrs. Audet has been involved internationally with various companies as a Bookkeeper. As the Director of public relations for a family business for several years, Mrs. Audet is also a real estate agent and a graduate with honors in computer applications. She offers to the Company an international experience with evidence of administrative competence.

ITEM 10. EXECUTIVE COMPENSATION

No compensation was paid in fiscal 1996 and 1997 to the Board of Directors of the Company in their capacities as such. On December 1, 1998 the Board of Directors authorized the granting of stock options to Louis R. Turp, President and Andrea Audet, Secretary-Treasurer. The options were granted in recognition of past services and the shares to be received by their exercise are subjected to Rule 144 of the Securities Act of 1933. The following table sets forth all cash and any other compensation paid for each of the two years ended March 31, 1996 and the calendar years ended 1996, 1997 and 1998:

		Annual Compensation			Long Term Compensation
Name And Principal	Year	Salary ($)	Bonus	Other Compensation	Options
David L. Shorey 9 months (cal)	1996	$57,692(1)	nil	$ 4,500	nil
	1997	$43,269	nil	nil	nil
James M. Gibson	1996	$68,044	$7,250	$ 6,000	nil
9 months(cal)	1996	$54,000	nil	nil	nil
	1997	$52,615	nil	nil	nil
Douglas Shorey	1996	$58,788	$5,000	nil	nil
9 months(cal)	1996	$46,154	nil	nil	nil
	1997	$30,000			

nil nil nil
Randy Pope 1997 $87,500 nil nil
nil
Steve Busby 1997 $5,417 nil nil
nil
Louis R. Turp 1997 nil nil
nil nil
1998 $75,000(2)
100,000(3)
Perry Gower 1997 nil nil
nil nil
1998 $36,000
nil nil nil
Andrea Audet 1998 nil
nil nil 50,000(4)

(1) See Item 3 Legal Proceedings.
(2) Was paid in 500,000 restricted common shares at $0.10 per share and the remaining portion of $25,000 cash is to be paid.
(3) Right to purchase up to a maximum of 100,000 shares each of common stock of the company at $0.05 per share for a period of five years.
(4) Right to purchase up to a maximum of 50,000 shares each of common stock of the company at $0.05 per share for a period of five years.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Based upon information which has been made available to the Company by its stock transfer agent, the following table sets forth, as of July 27, 1999, the shares of common stock owned by each current Director and executive officer, by Directors and officers as a group and by each person known to the Company to own more than 5% of the outstanding common shares:

Title Of Class	Name & Address Of Beneficial Owner	Amount Of Beneficial Ownership	Percent of Class (1)
Common	Louis R. Turp 474 Cote Ste-Catherine Montreal, (QC) Canada	1,414,414	7.5

H2V 2B4

Common Richard Jamieson 87,500
0.5
543 Croissant Simonet
Ile Bizard, (QC) Canada
H9C 2R9

Common Andrea Audet 225,156
1.2
474, Cote Ste-Catherine
Outremont, (QC) Canada
H2V 2B4

Officers & Directors
1,727,070 9.2
as a Group (3 persons)

(1) The figures in this column are based upon approximately 18,721,833 common shares which had been or were to be issued and were outstanding on August 24, 1999.

ITEM 12. EXHIBITS AND REPORTS ON FORM 8-K

The following reports have been filed as a part of this report:

(1) Report of Sylvie Monette-Houle, CA and Robert Kliaman, CA, CPA (Massachusetts).

The following 8-K reports were filed on the dates indicated:

(1) A report on Form 8-K was filed by the company on February 9, 1998 reporting an new director, change of address of the registrant, receipt of a notice of default from Randy Pope, President of Dixieland Forest Products, Inc. and resignation of a director of the Company.

(2) A report on Form 8-K was filed by the company on August 7, 1998 reporting the sale of common stock.

(3) A report on Form 8-K was filed by the company on September 17, 1998 reporting the appointment of a director, change in registrant's certifying

accountant, and resignation of a director.

(4) A report on Form 8-K was filed by the company on November 10, 1998 reporting the new address of principal executive offices.

(5) A report on Form 8-K was filed by the company on November 12, 1998 reporting that Mr. Robert Kliaman, CA, CPA (Massachusetts) was joining Mrs. Sylvie Monette-Houle as an auditor of the Company.

(6) A report on Form 8-K A was filed by the company on February 16, 1999 clarifying the Form 8 K that was filed on November 12, 1998.

Independent Auditor's Report

Board of Directors
Forestry International, Inc.

We have audited the accompanying balance sheets of Forestry International, Inc. as of December 31, 1998 and December 31, 1997 and the related statements of operations, stockholders' equity (deficit) , and cash flows for years ended December 31, 1998 and December 31, 1997. The 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 United States' generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement preparation. 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 Forestry International, Inc. as of December 31, 1998 and December 31, 1997 and the results of its operations and its cash flows for the years then ended in conformity with United States generally accepted accounting principles.

/s/ Sylvie Monette-Houle, CA

Calgary, Alberta
Canada
August 26, 1999

/s/ Robert Kliaman, CA, CPA (Massachusetts)

Toronto, Ontario
Canada
August 26, 1999

Forestry International, Inc.
Balance Sheets
December 31, 1998 and 1997

	1998	1997
Assets		
Current Assets:		
Cash and Cash Equivalents(Note 2)	$ 967	$2,772
Equipment held for sale	-	60,175
Prepaid Expenses and Deposits		330
Total Current Assets	1,297	62,947

Property and Equipment		
Office Equipment	6,000	6,000
Computers and Software	6,000	6,000
	12,000	12,000
Less Accumulated Depreciation	10,400	8,000
Net Property and Equipment	1,600	4,000
Total Assets	$ 2,897	$ 66,947

(See Accompanying Notes to Financial Statements)

Forestry International, Inc.
Balance Sheets
December 31, 1998 and 1997

	1998	1997
Liabilities and Stockholders' Equity (Deficit)		
Current Liabilities		
Current portion of long term debt (Note 6)	323,568	-
Accounts Payable	131,049	109,779
Accrued Payroll and Other Expenses	152,540	118,158
Income Tax Payable (Note 7)	40,308	40,908
Due to Related Party		9,895

Total Current Liabilities	647,465	278,740
Long Term Debt - Unrelated (Note 6)	-	1,052,127
Contingency (Note 9)		
Stockholders' Equity (Deficit):		
Preferred Stock, Par Value $.0001 Per Share, Authorized 10,000,000 Shares		
Common Stock, Par Value $.0001 Per Share, Authorized 100,000,000 Shares: Issued and Outstanding 17,377,833 Shares	1,738	1,542
Common stock subscribed 325,000 shares	18,275	-
Capital in Excess of Par Value	7,078,223	6,941,327
Accumulated deficit	(7,742,804)	(8,206,789)
Total Stockholders' Equity	(644,568)	(1,263,920)
Total Liabilities and Stockholders' Equity	$ 2,897	$ 66,947

(See Accompanying Notes to Financial Statements)

Forestry International, Inc.
Statement of Operations
For the years ended December 31, 1998 and 1997

	1998	1997
Operating Revenue	$ -	$ 9,375
Cost of Sales		

	-	6,467
Gross Margin	-	2,908
Operating Expenses:		
General & Administrative	257,683	598,710
Operating Loss	(257,683)	(595,802)
Other Income (Expense):		
Interest and Dividends	-	11,702
Interest Expense	(41,557)	(183,789)
Gain on Settlement of debt	-	95,009
Loss on DFP investment	-	(1,519,375)
Total Other Income and Expense	(41,557)	(1,596,453)
Loss Before Discontinued Operations, and Extraordinary Item	(299,240)	(2,192,255)
Loss from operations of Discontinued Operations	-	(475,546)
Loss on disposal of Segment Assets (Note 5)	-	(814,918)
Net Loss Before taxes and Extraordinary Item	($ 299,240)	($ 3,482,719)
Extraordinary gain (Note 6)	763,225	-
Net Income (Loss)	$463,985	($ 3,482,719)
Earnings per Common Share:		
Net loss before Extraordinary Item	$ (0.02)	($ 0.22)
Extraordinary Item	0.05	-
Net Income (Loss)	$ 0.03	$ (0.22)

Weighted Average Number
of Common Shares 17,319,249
15,599,517

(See Accompanying Notes to Financial Statements)

Forestry International, Inc.

Statement of Stockholder's Equity (Deficit)

For the years ended December 31, 1998 and 1997

Common Stock Paid in
Common Stock

Capital in Subscribed

Net
Number Par
Excess of
Accumulated
Stockholders
of Shares Value
Par Value
Deficit
Equity

Balances at
Dec. 31, 1996
as stated 15,599,517
1,560 6,844,571 -
(4,724,070)
2,122,061

Issuance of
Common stock
for cash 440,000
44 96,756 -
-
96,800

Cancellation of
Common Stock (1,200,000)
(120) - -
-
(120)

Issuance of
Common stock
for Services 578,316
58 -
- -
58

Net Loss -
- -
- (3,482,719)
(3,482,719)

Balances at
Dec. 31, 1997 15,417,833
1,542 6,941,327 -
(8,206,789)
(1,263,920)

Subscription and
Issuance of
Common Stock
for Cash 1,860,000
186 96,361 18,275

114,822

Cancellation of
Common Stock (241,375)
(24) - -
-
(24)

Issuance of
Common Stock
for Services 341,375
34 40,535 -
-
40,569

Net Income -
- -
- (463,985)
(463,985)

Balances at
Dec. 31, 1998 17,377,833 1,738
7,078,223 18,275
(7,742,804)
(644,568)

(See Accompanying Notes to Financial Statements)

Forestry International, Inc.
Statement of Cash Flows
For the years ended December 31, 1998 and 1997

	1998	1997
Cash Flows from Operating Activities:		
Net Loss before Extraordinary Item	($ 299,240)	($3,482,719)
Adjustments to Reconcile Net Loss		
Amortization & Depreciation	2,400	85,524
Amortization of Note Receivable Discount	-	(10,000)
Loss on investment on Dixieland Forest Products, Inc.	-	1,519,375
Loss from operations of Discontinued Operations	-	475,546
Loss on disposal of segment assets	-	814,918
(Increase) Decrease in:		
Notes and Accounts Receivable	-	30,461
Equipment held for sale	60,175	-
Prepaid Expenses and Deposits	(330)	3,698
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	55,652	(168,426)
Income Tax Payable	(600)	(211,512)
Net Cash Used by Operating Activities	(163,175)	(704,035)
Cash Flows from (Applied to) Investing Activities:		
Purchase of Property and Equipment	-	

(3,110)
Proceeds from Loss of DFP -
141,251
Proceeds from Sale of
Property & Equipment -
1,174,235
Proceeds from Sale of
Forestry Development Costs
- 131,160
Increase in Forestry Devel. Costs
- (6,390)
Increase in Long-Term Investments
- (88,187)

Net Cash Used by Investing Activities:
- 1,348,959

Cash Flows From (Applied to) Financing Activities:
Repayment of Note Payable -
(2,090)
Increase in Long-Term Debt 34,666
80,547
Repayment of Long-Term Debt -
(1,669,390)
Net decrease in Related Party Debt (9,895)
(3,455)
Issuance of Common Stock 137,092
96,800
Subscription of common stock
18,275 -
Net Cash applied to
Financing Activities
180,138 (1,497,588)

Net increase (decrease) in Cash (1,805)
(852,664)
Cash, beginning of period 2,772
855,436

Cash, end of Period $ 967 $
2,772

1998 1997
Supplemental Disclosure of
Cash Flow Information:

Cash Paid for Income Tax
600 160,000

Supplemental Schedule of
Noncash Financing and Investing:
Extinguishment of long-term debt 763,225

Note payable relating to
disposal of Dickson Plantation
- 927,500

Note Payable relating to loss of
DFP, Inc. Investment
- 614,390

Intercompany advances, receivable
relating to loss of DFP, Inc. Investment -
441,915

Disposal of business - Dickson Plantation:

Total assets disposed on sale
of Dickson Plantation
- 1,245,040
Total debt reduced on sale
of Dickson Plantation
- 1,171,641

Disposal of Business DFP, Inc.:

Working capital other than cash
- (839,562)
Advances receivable
- (441,915)
Equipment
- (225,240
Cash Surrender Value
- (4,450)
Long-term debt
- 1,650,771
Note payable
- 508,419
Goodwill
- (2,167,398)

- (1,519,375)

(See Accompanying Notes to Financial Statement)

FORESTRY INTERNATIONAL, INC
Notes to Financial Statements
December 31, 1998

(1) Organization and Purposes

Plantation Capital corporation ("Plantation"), was incorporated in the State of Colorado on August 9, 1988, for the primary purpose of seeking selected mergers or acquisitions with a small number of business entities expected to be private companies, partnerships or sole proprietorships. On August 10, 1990, Plantation acquired RehabNet, Inc. through an exchange of stock. Subsequently, RehabNet, Inc. was merged into Plantation with a name change to RehabNet, Inc.

On September 18, 1992, the stockholders of RehabNet, Inc. approved the acquisition of all assets and the assumption of all liabilities of RehabNet, Inc. by an unrelated public entity in a tax-free stock exchange.

On January 2, 1993, the stockholders approved a name change to Forestry International, Inc. (The "Company").

On March 1, 1993, the Company acquired the exclusive right to the use of clonal research and development pertaining to the paulownia tree, a hardwood species developed by BioTech Plants Pty, Ltd. At that time the Company planted, grew, developed and marketed this rapid growing hardwood tree on a global basis.

The Company was in its development stage until December 16, 1996 when it acquired Dixieland Forest Products, Inc ("DFP"), a Mississippi corporation. DFP, a wholly owned subsidiary, supplied timber to pulp, paper, and lumber mills and provided landowner assistance with replanting, thinning, and timber transportation.

On November 12, 1997 the Company loss control of Dixieland Forest Products, Inc. through a unilateral decision of Mr. Randy Pope that was not recognized by Forestry.

In May 1998 the Company has also discontinued the operations of planting, developing and marketing Paulownia trees.

The Company has restructured its operations for the primary purpose of seeking selected acquisitions with a number of entities primarily in the forest products industry.

(2) Summary of Significant Accounting Policies

(a) Cash and Cash Equivalents

All short-term investments purchased with an original maturity of three months or less are considered to be cash equivalents. Cash and cash equivalents primarily include cash on hand.

(b) Property and Equipment

Property and equipment are stated at cost. Property and equipment of the Company are depreciated using the straight-line method over the estimated useful lives of the respective assets, which has been determined to be five to seven years for equipment.

(c) Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of the existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

(d) Computation of Earnings Per Share

Earnings per share is based upon the weighted average number of common shares outstanding. Outstanding stock options are non-dilutive as of December 31, 1998.

(e) 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 amounts reported in the financial statements and related notes to the financial statements. Changes in such estimates may affect amounts reported in future periods.

(3) Going Concern

The Company's financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company's business plan calls for the use of banks, investment and merchant bankers, and venture capital firms to provide capital to acquire future investments.

Since the Company lost control of Dixieland, it has lost substantially all of the assets of the Company. In order to meet its liability requirements, management has proceeded to dispose of certain assets and substantially reduce and delay expenditures. It is likely that management's plans for dealing with such adverse circumstances can be implemented for the duration of the fiscal year ending December 31, 1999.

(4) Fair Value of Financial Instruments

The fair values of cash and cash equivalents, notes payable and accounts payable approximate cost because of the short-term maturity of these financial instruments. Long-term debt including current maturities are at variable rates tied to the prime rate and therefore carrying values approximate fair values. The estimated fair values of the Company's financial instruments are as follows:

	December 1998 Carrying Amount	December 1998 Fair Value	December 1997 Carrying Amount	December 1997 Fair Value
Financial assets:				
Cash and cash equivalents	$ 967	$ 967	$ 2,772	$ 2,772
Financial Liabilities:				
Accounts Payable	109,717	109,717	131,049	131,049
Long term debt Incl Maturities	323,568	323,568	1,052,127	1,052,127

(5) Discontinued Operations

On May 5, 1998, the Company sold all greenhouses, all associated supplies and equipment, and all Paulownia trees located on the Dickson Plantation. The sale price of $42,000 resulted in a loss of $734,361 which has been recognized as a loss from disposal of segment assets in the year 1997.
Other assets relating to the operation of the plantation have been sold. The sales price of those assets of $90,490 has resulted in a loss of $33,841 which has been recognized as a loss from disposal of segment assets in the year 1997.

Due to the discontinued operations the value of certain long-lived assets has been reduced to net realizable value, this has resulted in a loss of $35,994 which has also been recognized as a loss from disposal of segment assets in the year 1997.

(6) Long Term Debt

A summary of unrelated long-term debt follows:

	Dec 31, 1998	Dec 31, 1997
Notes payable to unrelated parties, 12% interest bearing; convertible into common shares; principal and interest was due December 31, 1997	$ 323,568	$ 1,052,127
Less: current portion of long-term debt	$ 323,568	
	-	$ 1,052,127

New management disputes the validity or existence of this debt. In that regard, the Company has initiated litigation to have the debt declared invalid and is otherwise seeking to have the debt determined invalid.

(7) Income Taxes

At December 31, 1998 the Company had net operating loss carryforwards for federal and state income tax purposes of approximately $3,374,000 and $2,021,000 respectively.

Year of loss	Year of expiration	Losses Federal	State
March 1995	2000	-	318,000
March 1996	2001	-	781,000
March 1996	2011	2,485,000	270,000
December 1996	2012	237,000	

-

December 1997	2013	353,000	353,000
December 1998	2014	299,000	299,000
		-------------	-------------
		3,374,000	2,021,000

Other temporary differences between carrying amounts of the assets for financial reporting purposes and the amount used for income tax purposes are insignificant and are not included in the deferred tax asset. The deferred tax asset resulting from net operating loss carryforwards amount to approximately $1,318,000 at December 31, 1998 and $1,513,000 at December 31, 1997. Realization of this tax benefit depends upon the Company's future revenue from acquisitions.

A loss limitation applies if there is an acquisition of control of the Company. Generally the amount of net operating loss carryforwards would be limited to the value of the Company when control changed times the long-term tax-exempt rate.

At December 31, 1998, the Company also had net capital loss carryforwards for federal and state income tax purposes of approximately $1,500,000. Capital losses are deductible only to the extent of capital gains for a period of five years and may not offset operating income. The tax benefit will be reflected when realized.

Management is unable to predict whether future revenues will be adequate to generate taxable income before expiration of the loss carryforwards. Therefore valuation allowances of $1,318,000 and $1,513,000 have been provided at December 31, 1998 and December 31, 1997, respectively to reflect the estimated value of the deferred tax asset. If the Company achieves sufficient profitability to utilize the net operating loss carryforwards the valuation allowance will be reduced by a credit to income at that time.

Significant components of the provision for income taxes for the year ended December 31, 1998 and year ended December 31, 1997 are as follows:

	Dec 31, 1998	Dec 31, 1997
Deferred income tax (benefit):		
Federal	$1,147,000	$ 1,303,000
Less allowance	(1,147,000)	(1,303,000)
States	171,000	210,000
Less Allowance	(171,000)	(210,000)
Total deferred tax benefit	$ -	$ -

The current income tax liability consists of the following:

	1998	1997
Balance due from year ended March 31, 1993 and 1994:		
State tax	$ 10,869	10,869
Penalty and Interest	29,439	30,039
	$ 40,308	$ 40,908

A reconciliation of the provision for income taxes to the federal statutory rate is:

	1998	1997
Statutory federal rate	34.0%	34.0 %

Change in valuation allowance - -

	34.0%	34.0%

(8) Stock Options

On December 20, 1995, the stockholders approved a Stock Option Plan for a maximum of 1,000,000 shares of the Company's common stock to be sold to employees and others providing valuable services to the Company at option prices equal to the market price of the stock at the time of the grant. The options can be exercised for a period of up to ten years and are registerable by the Company at the time of exercise under the Securities Act of 1933. At December 31, 1998 there were options exercisable but none were exercised.

On December 1, 1998 the Board of Directors authorized the granting of stock options to Louis Turp, President and CEO, to purchase up to 100,000 shares each of common stock of the company at $.05 per share for a period of five years and Andrea Audet, Secretary-Treasurer, to purchase up to 50,000 shares of common stock of the Company at $.05 per share for a period of five years. The options were granted in recognition of past services and the shares to be received by their exercise are subjected to Rule 144 of the Securities Act of 1933.

(9) Contingency

A civil action for back-wages claims for approximately $97,000 was filed on March 19, 1998 by David L. Shorey, former President of the Company in Arizona Superior Court against Forestry International. The Company is vigorously defending the lawsuit against it, and has several defenses and claims that Forestry believes eliminate all of David Shorey's claims. Forestry's defense is based upon the fact that there are no written documents or materials that support David Shorey's claims for compensation independent of his own assertions. Moreover, there are claims and setoffs based upon

Mr. Shorey's actions while he was President, which more than offsets his claims for compensation.

To that effect, on October 2, 1998, Forestry filed a counterclaim against Mr. David Shorey based on the alleged conversion of Company property to his own use, and also a second claim contending a breach of fiduciary duty as an officer and director of Forestry International, Inc. The latter claim stipulates that Mr. Shorey substituted a promissory note to allow the conversion of that debt into a recourse debt convertible into Forestry common shares without any consideration to the Company.

Although final resolution of this matter may not occur until 1999 or thereafter, the occurrence of the future judgement is not determinable. As of December 31, 1997 the Company has accrued salaries payable to Mr. David Shorey in the amount of $59,774.

(10) Extraordinary Gain

As a result of a Judgment in a lawsuit filed by the Company against certain creditors, debts totalling $763,225 (net of tax of $323,989 and valuation allowance reduction of $323,989), were rendered null and void. This gain results in increased earnings of $0.05 per common share.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Forestry International, Inc.

(Registrant)

By: /s/ Louis R. Turp, President

(Signature and Title)

August 30, 1999

Date

August 26, 1999

Mr. Louis R. Turp
Forestry International, Inc.
1205 Ampere Street
Suite 206
Boucherville, Quebec
Canada   J4B 7M6

Dear Louis,

I hereby consent to the use of my name as joint auditor in the Annual Report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 1998 and year ended December 31, 1997 filed by Forestry International, Inc. on Form 10-KSB.

/s/
Sylvie Monette-Houle, CA
August 26, 1999

Calgary, Alberta
Canada

August 30, 1999

Mr. Louis R. Turp
Forestry International, Inc.
1205 Ampere Street
Suite 206
Boucherville, Quebec
Canada J4B 7M6

Dear Louis,

I hereby consent to the use of my name as joint auditor in the Annual Report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 1998 and year ended December 31, 1997 filed by Forestry International, Inc. on Form 10-KSB.

/s/
Robert Kliaman, CA, CPA (Mass)
August 30, 1999

Toronto, Ontario
Canada