

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 June 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 August 15, 2006 was 257,400,680.

ITEM 1 FINANCIAL STATEMENTS

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Item 1. Condensed Financial Statements

AUSTRALIAN FOREST INDUSTRIES

CONSOLIDATED BALANCE SHEETS

ASSETS

<TABLE>
<CAPTION>

	June 30, 2006	December 31, 2005
	----- (Unaudited)	-----
CURRENT LIABILITIES		
<S>	<C>	<C>
Bank overdraft	\$ 1,617,446	\$ 117,772

Accounts payable	3,782,209	2,690,957
Current portion of capitalized lease obligations	1,076,013	1,076,013
Due to Timberman shareholders	5,702,293	3,213,912
Related party payable	592,925	592,844
Accrued payroll, related taxes and benefits	643,171	599,389
	-----	-----
Total Current Liabilities	13,414,057	8,290,887
OTHER LIABILITIES		
Capitalized lease obligations	4,293,539	3,512,882
Deferred capital gain	1,235,554	1,396,481
Due to National Australian Bank	4,818,660	4,818,000
	-----	-----
Total Liabilities	23,761,810	18,018,250
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	256,165	333,619
Accumulated deficit	(6,766,385)	(5,555,688)
	-----	-----
Total Stockholders' Equity	(1,749,403)	(461,252)
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 22,012,407	\$ 17,556,998
	=====	=====

</TABLE>

See accompanying notes to financial statements.

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<TABLE>
<CAPTION>

AUSTRALIAN FOREST INDUSTRIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
		(Restated)		(Restated)
<S>	<C>	<C>	<C>	<C>
REVENUE - SALES	\$ 3,892,949	\$ 3,439,748	\$ 7,342,061	\$ 6,746,314
COSTS AND EXPENSES				
Cost of goods sold	2,315,311	822,929	4,110,147	3,859,151
Selling, general and administrative	1,970,657	3,208,714	4,030,781	3,941,458
Provision for Doubtful Accounts	631	132,495		
Interest expense	191,986	154,472	393,084	279,733
Depreciation and amortization	147,119	173,495	287,125	372,254
	-----	-----	-----	-----
Total Costs and Expenses	4,625,704	4,359,610	8,953,632	8,452,596
	-----	-----	-----	-----
OPERATING LOSS	(732,755)	(919,862)	(1,611,571)	(1,706,282)
NON-OPERATING INCOME				
Other income	40,788	(1,371)	133,288	2,533
Interest income	82,406	164,031		
Gain on disposal of assets	493	1,164,303	103,555	1,164,303
	-----	-----	-----	-----
Total Non-Operating Income	123,687	1,162,932	400,874	1,166,836
NET INCOME (LOSS)	\$ (609,068)	\$ 243,070	\$ (1,210,697)	\$ (539,446)
	=====	=====	=====	=====
NET LOSS PER SHARE	\$ 0.01	\$ 0.01	\$ (0.01)	\$ 0.01
	=====	=====	=====	=====

</TABLE>

See accompanying notes to financial statements.

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AUSTRALIAN FOREST INDUSTRIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<TABLE>
<CAPTION>

	For the Six Months Ended June 30,	
	2006	2005
		(Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
<S>	<C>	<C>
Net income (loss)	\$ (1,210,697)	\$ (539,446)
Adjustments to reconcile net income to cash flows used in operating activities:		
Depreciation	170,362	372,254
Amortization of Timber contract	3,133	
Amortization of leaseback gain	(161,148)	
Changes in operating activities:		
(Increase) decrease in prepaid expenses	(26,347)	110,021
(Increase) decrease in inventories	(537,597)	(197,888)
(Increase) decrease in receivables	(1,260,223)	(574,235)
(Increase) decrease in related party receivable	(273,175)	
(Increase) decrease in timber contract	84,998	13,249
Increase (decrease) in accounts payable and other liabilities	1,091,252	1,082,439
Increase (decrease) in bank overdraft	1,499,674	(421,097)
Increase (decrease) in related party payable	81	(7,956)
Increase (decrease) in accrued payroll	43,782	(27,294)
Increase (decrease) in taxes payable	69,437	
	-----	-----
Net Cash (Used in) Provided by Operating Activities	(233,292)	(463,128)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital additions	(3,232,510)	(906,737)
Disposition of capital assets	237,250	
	-----	-----
Net Cash Used in Investing Activities	(2,995,260)	(906,737)
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans from shareholders	2,488,382	(7,956)
Capital leases	780,656	1,633,588
National Australian bank loan	660	(160,957)
Sale leaseback deferred credit	221	
	-----	-----
Net Cash Provided by (Used In) Financing Activities	3,269,919	1,464,676
EFFECT OF EXCHANGE RATES ON CASH	(168,381)	(181,625)
	-----	-----
(DECREASE) INCREASE IN CASH	(127,014)	(86,814)
CASH AT BEGINNING OF PERIOD	127,014	225,189
	-----	-----
CASH AT END OF PERIOD	\$	\$ 138,375
	=====	=====

</TABLE>

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 six months ended June 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 TO TIMBERMANS GROUP (RELATED PARTY)

During the six months ended June 30, 2006, the company received an additional \$2,488,382 from Timberman investors.

NOTE 3 - CAPITALIZED LEASE OBLIGATIONS

During the six months ended June 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.

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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 six-months ended June 30, 2006 aggregated \$8,953,632. 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 \$1,611,571 and a total net loss of \$1,210,697 or \$(0.01) per share.

Operating costs for the three-month period ended June 30, 2006 aggregated \$4,625,704. This includes an increase in costs of goods sold of \$520,475 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 \$609,068 for the three-month period ended June 30, 2006 or \$(0.01) per share.

LIQUIDITY AND CAPITAL RESOURCES

On June 30, 2005 and 2006 we had current assets of \$5,349,783 and \$3,722,067, respectively.

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Net cash used in operating activities for the period from inception to June 30, 2005 was \$463,128. Net cash used in operating activities for the period from inception to June 30, 2006 was \$233,292.

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.

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.

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

None.

SIGNATURES

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

AUSTRALIAN FOREST INDUSTRIES

/s/ Michael Timms

Name: Michael Timms
Title: CEO, President and Chairman of the Board
Date: August 15, 2006

/s/ Colin Baird

Name: Colin Baird
Title: Chief Financial Officer
Date: August 15, 2006

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND PRESIDENT

I, Michael Timms, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Australian Forest Industries;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report my conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of my most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: August 15, 2006

/s/ Michael Timms

Name: Michael Timms

Title: Chief Executive Officer and President

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Colin Baird, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Australian Forest Industries;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report my conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of my most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: August 15, 2006

/s/ Colin Baird

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Name: Colin Baird

Title: Chief Financial Officer

EXHIBIT 32.1

Certification Pursuant to 18 U.S.C. Section 1350 As Adopted Pursuant to Section
906 of the Sarbanes-Oxley Act of 2002

I, Michael Timms, Chief Executive Officer and President of Australian Forest
Industries (the "Company"), certify, pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) the Quarterly Report on Form 10-QSB of the Company for the quarter ended
June 30, 2006 (the "Report") fully complies with the requirements of Section
13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material
respects, the financial condition and results of operations of the Company.

Date: August 15, 2006

/s/ Michael Timms

Michael Timms
Chief Executive Officer and President

Exhibit 32.2

Certification Pursuant to 18 U.S.C. Section 1350 As Adopted Pursuant to Section
906 of the Sarbanes-Oxley Act of 2002

I, Colin Baird, Chief Financial Officer of Australian Forest Industries (the
"Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002,
18 U.S.C. Section 1350, that:

(1) the Quarterly Report on Form 10-QSB of the Company for the quarter ended
June 30, 2006 (the "Report") fully complies with the requirements of Section
13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material
respects, the financial condition and results of operations of the Company.

Date: August 15, 2006

/s/ Colin Baird

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Colin Baird
Chief Financial Officer