Australian Forest Industries
Form 10QSB
May 20, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D. C. 20549

FORM 10-QSB

x QUARTERLY REPORT UNDER SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2008

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from ________________ to _____________

Commission file number 0-25909

Australian Forest Industries
(Exact name of small business issuer as specified in its charter)

Nevada	86-0931332
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4/95 Salmon Street, Port Melbourne, Victoria
Australia, 3207
(Address of principal executive offices) (Zip Code)

Issuer's telephone number: 011 61 3 8645 4340

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes o No o (not applicable)

APPLICABLE ONLY TO CORPORATE ISSUERS

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 May 20, 2008, was 257,600,680.

Transitional Small Business Disclosure Format (Check one): Yes o No x

ITEM 1 FINANCIAL STATEMENTS

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ITEM 1. FINANCIAL STATEMENTS

AUSTRALIAN FOREST INDUSTRIES, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31, 2008	December 31, 2007 (Audited)
TOTAL ASSETS	-	-
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Net liabilities of entities discontinued	$ 36,229,368	$ 34,412,897
Total Current Liabilities	36,229,368	34,412,897
STOCKHOLDERS' DEFICIT		
Preferred stock, par value $0.001, 5,000,000 shares authorized, none issued and outstanding		
Common stock, par value $0.001, 300,000,000 shares authorized, 257,600,680 and 257,600,680 issued and outstanding in 2008 and 2007, respectively	257,600	257,600
Additional paid-in capital	4,573,217	4,573,217
Accumulated other comprehensive income	(3,456,576)	(1,843,600)
Accumulated deficit	(37,603,609)	(37,400,114)
Total Stockholders' Deficit	(36,229,368)	(34,412,897)
Total Liabilities and Stockholders' Deficit	$ -	$ -

See accompanying notes to financial statements.

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AUSTRALIAN FOREST INDUSTRIES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	For the Three Months Ended March 31, 2008	2007
DISCONTINUED OPERATIONS		
Loss from discontinued operations		
(Net of income tax expense of $0)	$ 203,495	$ 2,304,805
Loss on disposal of discontinued operations		
(Net of income tax expense of $0)	-	-
Total Discontinued Operations	203,495	2,304,805
NET LOSS	$ 203,495	$ 2,304,805
NET LOSS PER SHARE (BASIC AND DILUTED)		
Continuing operations	-	-
Discontinued operations	$ (0.00)	$ (0.01)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	257,600,480	257,600,480

See accompanying notes to financial statements.

AUSTRALIAN FOREST INDUSTRIES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Three Months Ended March 31, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES	-	-
DISCONTINUED OPERATIONS		
Loss from discontinued operations	$ (203,495)	$ (2,304,805)
Increase in net liabilities of entities discontinued	1,816,471	2,536,037
Cash provided by (used in) discontinued operations	1,612,976	231,232
EFFECT OF EXCHANGE RATE ON CASH	(1,612,976)	(231,232)
CASH END OF YEAR	$ -	$ -

See accompanying notes to financial statements.

AUSTRALIAN FOREST INDUSTRIES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2008

NOTE A - BASIS OF PRESENTATION AND NATURE OF BUSINESS

The accompanying condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary in order to make the financial statements not misleading have been included. Results for the three month periods ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. For further information, refer to the financial statements and footnotes thereto included in the Australian Forest Industries Inc. annual report on Form 10-KSB/A for the year ended December 31, 2007.

Nature of Business

Australian Forest Industries (the "Company"), through its wholly owned subsidiary Integrated Forest Products Pty Ltd ("Integrated"), previously operated a saw mill in Australia which cut pine timber into building products to supply the commercial and residential industry along the eastern coast of Australia. In July 2008, its wholly owned subsidiary in Australia went into bankruptcy and has formerly discontinued its operations.

Going Concern and Liquidation

As shown in the accompanying consolidated financial statements, the Company incurred a net loss of $203,495 in 2008 and had an accumulated deficit of $37,603,609 at March 31, 2008. Management plans to dissolve the business and liquidate the liabilities. It also plans to spin out the bankrupt subsidiary and look for a merger candidate for the public shell. The Company's wholly owned subsidiary is in bankruptcy under Australian laws. The accompanying consolidated financial statements and discontinued operations of the Australian subsidiary have been prepared on a liquidation basis.

NOTE B – LITIGATION

Oz has initiated a letter of demand for the $1,578,600 due from the Timbermans Group for full payment of funds lent to the Timbermans Group. Timbermans Group is currently negotiating with Oz and had agreed to provide additional collateral.

NOTE C - ADMINISTRATION

The Company's wholly owned subsidiary in Australia, Integrated Forest Products, is currently in Administration and is being operated by Court appointed administrators. Administration in Australia is similar to Chapter 11 Bankruptcy or receivership in the U.S. There is no assurance that the Company's subsidiary will emerge from the administrative proceedings.

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.

As indicated in the accompanying financial statements, the Company incurred a net loss of $4,730,732 for the nine months ended September 30, 2007, and has a Stockholders' Deficit of $12,834,656 at September 30, 2007.   Management's plans include the raising of capital through the equity markets to fund future operations, seeking additional acquisitions, and generating of revenue through its business. Additionally, even if the Company does raise sufficient capital to support its operating expenses and generate adequate revenues, there can be no assurances that the revenue will be sufficient to enable it to develop business to a level where it will generate profits and cash flows from operations. Additionally, during the fourth quarter of 2006, the Company experienced a severe liquidity problem and was having difficulty obtaining logs to operate its businesses. Currently, management has entered into a processing contract with Weyerhaeuser to process their logs for which the Company is receiving a processing fee. The Company's wholly owned subsidiary in Australia, Integrated Forest Products, is currently under administration in Australia (in the U.S. this is tantamount to a Chapter 11 Bankruptcy). There is no assurance that the company will emerge from the administrative proceedings and be self-sufficient and profitable. (See Note D to the Financial Statement.) These matters raise substantial doubt about the Company's ability to continue as a going concern. However, the accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. These consolidated financial statements do not include any adjustments relating to the recovery of the recorded assets or the classification of the liabilities that might be necessary should the Company be unable to continue as a going concern.

Oz Investmentcorp Pty Ltd. initiated a letter of demand for the $1,578,600 due from the Timbermans Group for full payment of funds lent to the Timbermans Group. Timbermans Group is currently negotiating with Oz and had agreed to provide additional collateral.

On November 14, 2007, the Company was named as a co-defendant in a lawsuit brought in the High Court of Justice Chancery Division, England by Courical Holding B.V. ("Plaintiff") whereby it is alleged that the Plaintiff invested $650,000 in Zebra Mining Services Limited ("Co-Defendant") in exchange for 325,000 shares of Company common stock and 325,000 warrants to purchase Company common stock pursuant to an agreement between the three parties. The Plaintiff alleges that it never received any consideration for its investment from either the Co-Defendant or the Company. This matter was settled in the first quarter of fiscal year end December 31, 2008.

On July 31, 2007, PricewaterhouseCoopers Australia was appointed Receivers and Managers of both Integrated and Timbermans. On this same date, Deloitte was appointed Liquidator of Timbermans. Romanis Cant was appointed Liquidator of Integrated on October 18, 2007.

Business operations of Integrated were continued until November 30, 2007 when all the assets of Integrated were offered for sale as a going concern. No offers capable of acceptance by the Receivers were submitted. As a result, the Receivers entered into contracts to sell the land, plant and equipment of IFP as individual assets. Settlement of these contracts is currently pending.

Timbermans owned two major assets, a rural property and the shares in the Company. The rural property was sold by auction on March 14, 2008. The Company has entered into a contract to sell its land and buildings for $9,556,357 and all of its manufacturing equipment for $964,403. Settlement of this sale is currently pending. The sale of the Company’s shares is expected to conclude shortly after the completion of the audit of Integrated and Timbermans' accounts, and lodgment of the requisite reports with the authorities in the United States.

Management's plans include the dissolution of the business and the liquidation of all liabilities. It also plans to spin out the bankrupt subsidiary and look for a merger candidate. The Company’s subsidiary is in bankruptcy under Australian laws.

Our current business objective is to investigate and, if such investigation warrants, acquire a target company or business seeking the perceived advantages of being a publicly held corporation. We will not restrict our potential candidate target companies to any specific business, industry or geographical location and, thus, may acquire any type of business.

We do not currently engage in any business activities that provide us with positive cash flows. As such, the costs of investigating and analyzing business combinations will be paid through funds from financing to be obtained.

We anticipate incurring costs related to filing of Exchange Act reports and costs relating to consummating an acquisition.

We believe we will be able to meet these costs with amounts to be loaned to or invested in us by our stockholders or other investors.

We may consider a business which has recently commenced operations, is a developing company in need of additional funds for expansion into new products or markets, is seeking to develop a new product or service, or is an established business which may be experiencing financial or operating difficulties and is in need of additional capital. In the alternative, a business combination may involve the acquisition of, or merger with, a company which does not need substantial additional capital, but which desires to establish a public trading market for its shares, while avoiding, among other things, the time delays, significant expense, and loss of voting control which may occur in a public offering.

Any target business that is selected may be a financially unstable company or an entity in its early stages of development or growth, including entities without established records of sales or earnings. In that event, we will be subject to numerous risks inherent in the business and operations of financially unstable and early stage or potential emerging growth companies. In addition, we may effect a business combination with an entity in an industry characterized by a high level of risk, and, although our management will endeavor to evaluate the risks inherent in a particular target business, there can be no assurance that we will properly ascertain or assess all significant risks.

RESULTS OF OPERATIONS

Operating costs for the three-months ended March 31, 2007 aggregated $2,304,805. This resulted from a loss from discontinued operations of the same amount. We incurred an operating loss of $2,304,805 and a total net loss of $2,304,805 or $(0.01) per share.

Operating costs for the three-month period ended March 31, 2008 aggregated $203,495. This resulted from a loss from discontinued operations of the same amount. We incurred a net loss of $203,495 for the three-month period ended March 31, 2008 or $(0.00) per share.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by discounted operations for the three-month period ended March 31, 2007 was $231,232. Cash provided by discounted operations for the three-month period ended March 31, 2008 was $1,612,976.

The loss from discounted operations for the three-month period ended March 31, 2007 was $(2,304,805). The loss from discounted operations for the three-month period ended March 31, 2008 was $(203,495). The Company realized no net cash provided by either financing or investing activities the three-month periods ended March 31, 2007 and 2008.

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 June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation 48, "Accounting for Income Tax Uncertainties" ("FIN 48"). FIN 48 defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. Recently issued literature also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company expects to adopt the provisions of FIN 48 beginning in the first quarter of 2007. The Company is currently in the process of determining the impact, if any, of adopting the provisions of FIN 48 on its financial position, results of operations and liquidity.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value under other accounting pronouncements that permit or require fair value measurements, changes the methods used to measure fair value and expands disclosures about fair value measurements. In particular, disclosures are required to provide information on the extent to which fair value is used to measure assets and liabilities; the inputs used to develop measurements; and the effect of certain of the measurements on earnings (or changes in net assets). SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Early adoption, as of the beginning of an entity's fiscal year, is also permitted, provided interim financial statements have not yet been issued. The Company expects to adopt the provisions of FIN 48 beginning in the first quarter of 2008. The Company is currently evaluating the potential impact, if any, that the adoption of SFAS No. 157 will have on its consolidated financial statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB No. 108"). SAB No. 108 provides guidance on how prior year misstatements should be considered when quantifying misstatements in the current year financial statements. SAB No. 108 requires registrants to quantify misstatements using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB No. 108 does not change the guidance in SAB No. 99, "Materiality," when evaluating the materiality of misstatements.

SAB No. 108 is effective for fiscal years ending after November 15, 2006. Upon initial application, SAB No. 108 permits a one-time cumulative effect adjustment to beginning retained earnings. The Company adopted SAB No. 108 for the fiscal year ended December 31, 2006. Adoption of SAB No. 108 did not have a material impact on the consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159"). SFAS 159 allows entities to measure at fair value many financial instruments and certain other assets and liabilities that are not otherwise required to be measured at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We have not determined what impact, if any, that adoption will have on our results of operations, cash flows or financial position.

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 deficiencies and material weaknesses.

(c) Not applicable

ITEM 3A(T). CONTROLS AND PROCEDURES

Not applicable

PART II

Item 1. Legal Proceedings

Integrated and Timbermans were placed under administration in Australia (in the U.S. this is tantamount to a Chapter 11 Bankruptcy). On July 31, 2007, PricewaterhouseCoopers Australia was appointed Receivers and Managers of both Integrated and Timbermans. Also on this same date, Deloitte was appointed Liquidator of Timbermans. Romanis Cant was appointed Liquidator of Integrated on October 18, 2007.

Business operations of Integrated were continued until November 30, 2007 when all of the assets of Integrated were offered for sale as a going concern. No offers capable of acceptance by the Receivers were submitted. As a result, the Receivers entered into contracts to sell the land, plant and equipment of Integrated as individual assets. Settlement of these contracts is currently pending.

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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 April 7, 2008, we filed a current report on Form 8-K informing the public that we will amend our periodic report on Form 10-QSB for the three-month period ended March 31, 2005, our periodic report on Form 10-QSB for the three- and six-month periods ended June 30, 2005 and our periodic report on Form 10-QSB for the three- and nine-month periods ended September 30, 2005.

On April 11, 2008, we filed an amended current report on Form 8-K/A informing the public that we will amend our periodic report on Form 10-QSB for the three-month period ended March 31, 2005, our periodic report on Form 10-QSB for the three- and six-month periods ended June 30, 2005 and our periodic report on Form 10-QSB for the three- and nine-month periods ended September 30, 2005.

On April 11, 2008, we filed a second amended current report on Form 8-K/A informing the public that we will amend our periodic report on Form 10-QSB for the three-month period ended March 31, 2005, our periodic report on Form 10-QSB for the three- and six-month periods ended June 30, 2005 and our periodic report on Form 10-QSB for the three- and nine-month periods ended September 30, 2005.

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: May 20, 2008

/s/ Colin Baird
Name: Colin Baird
Title: Chief Financial Officer
Date: May 20, 2008