MULTI TECH INTERNATIONAL CORP
Form 10KSB
April 17, 2007

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

For the fiscal year ended December 31, 2006 — Commission File Number 0-25909

AUSTRALIAN FOREST INDUSTRIES (f/k/a Multi-Tech International, Corp.)
(Name of small business issuer 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
Securities registered under Section 12(b) of the Exchange Act:

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

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

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

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

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of April 13, 2007 was approximately $180,204 based on 600,680 shares of common stock. The number of shares of Common Stock of the registrant outstanding on April 13, 2007 was 257,600,680.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

HISTORY

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

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

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

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

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

GENERAL

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

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

The facilities of the Company are located in Australia. The business of the Company consists of a pine sawmilling and timber facility at Canberra, which has a capacity to process 200,000 cubic meters of sawn timber. This sawmill processed approx. 170,000 cubic meters of log in the Fiscal Year 2007. The Company is currently in the process of arranging the financing for the construction of a second sawmill. With this second sawmill, the Company intends to exploit the log resource generated by our contract with Timbermans Group which grants us the right to the Bombala Agreement described below.

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

2

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

Recent events

The proposed new sawmill at Bombala is planned to begin construction in 2008 after the approvals of the government of New South Wales and local council have been obtained.

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

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

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

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

Furthermore, negotiations are at an advanced stage for the sale of all mill residues of sawdust, bark and waste wood chips into a Co Generation Plant located at the Canberra Sawmill site, which will then sell electricity to a major Australian Electricity supplier.

The new sawmill at Bombala and the Co Generation Plant at Canberra is expected to put the Company in a position to produce at a lower cost relative to its current cost level, and in compliance with all applicable safety standards. In addition, it is expected to provide access to the Company to a large and high quality log supply, to Acora Reneco Group as leading Australian timber technology, mill and equipment suppliers, low cost production from expanding Integrated Forest Products and will allow the Company to concentrate on structural timber. Finally, the new sawmill is expected to create competitive economics of scale and to generate profits from the future integration of the Company's operations in Canberra and Bombala.

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

Furthermore, Integrated Forest Products commissioned a new sawlog line in 2005 which has lifted the log intake rate of its facility in Canberra to over 170,000 cubic meters per year, thereby increasing its sawing capacity by over 40%, providing a recovery increase, a higher sawing accuracy, greater operator safety and a better timber finish.

On September 27, 2006, Norman Backman resigned as a member of the Board of Directors of the Company. The Company has no plans to fill the vacancy on the Board left by Mr. Backman.

3

On September 18, 2006, Australian Forest Industries (the "Company"), entered into a stock purchase and recapitalization agreement (the "Stock Purchase Agreement") with SIMBA Mines, Inc., a Nevada corporation ("SIMBA") pursuant to which the Company proposed to purchase from SIMBA all of the issued and outstanding shares of its wholly-owned subsidiary Simbajamba Mines Limited, a company incorporated pursuant to the laws of Samoa. On March 24, 2007, all parties agreed to terminate the Stock Purchase Agreement. As a result, the Company continues to operate to operate its business as if the Stock Purchase Agreement never occurred.

Strategy

The Company's strategy is to maximize shareholder value, inter alia, by realizing economics of scale and profits, initially through the securing of access to additional log supplies from private forests, the installation of a new log sawing line at Integrated Forest Products to improve its efficiency, and the continuation of the meeting of milestones laid down in the Bombala Agreement. The medium term strategy of the Company is to combine its wood chip production facilities, utilizing the Co Generation Plant, which will be constructed at the Canberra Sawmill. The long term strategy of the Company is to build a new green sawmill in Bombala, and to expand its drying and planing facilities for the intake of green sawn timber from the facilities then operated at Bombala.

Employees

At the end of December 2006, we employed 122 full time equivalents. In the Company's vision, employees play a crucial role in the success of the Company. We encourage our employees to take initiative to further enhance our efficiency in timber production. In order to assist our employees, we constantly seek to train and educate them, either on an individual basis (product knowledge and quality control) or on a more collective basis (office automation and management skills). We have never experienced a work stoppage resulting from labor problems.

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

Competition

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

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

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

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

It is our belief that, when we get the new facility in operation in 2008, we can record operating performance equal or better than that shown by the large capital forestry companies including the high growth ones.

ITEM 2. DESCRIPTION OF PROPERTY

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

ITEM 3. LEGAL PROCEEDINGS

We are not a party to any material pending legal proceedings or government actions, including any bankruptcy, receivership, or similar proceedings. Management of the Company does not believe that there are any proceedings to which any director, officer, or affiliate of the Company, any owner of record of the beneficially or more than five percent of the common stock of the Company, or any associate of any such director, officer, affiliate of the Company, or security holder is a party adverse to the Company or has a material interest adverse to the Company. See Item 6 for a discussion involving a lawsuit in which Timbermans Group Pty. Ltd., our majority stockholders, was a named party.

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

None.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) The Company's Common Stock is traded on the OTC-Bulletin Board under the symbol AUFI. The following sets forth the range of the closing bid prices for the Company's Common Stock for the period January 1, 2003 through April 13, 2007. Such prices represent inter-dealer quotations, do not represent actual transactions, and do not include retail mark-ups, mark-downs or commissions. Such prices were determined from information provided by a majority of the market makers for the Company's Common Stock.

	High Close	Low Close
2005		
First Quarter	1.51	1.50
Second Quarter	1.50	1.50
Third Quarter	1.75	1.60
Fourth Quarter	8.00	1.25

2006		
First Quarter	4.35	0.75
Second Quarter	0.94	0.75
Third Quarter	0.30	0.12
Fourth Quarter	0.42	0.31

2007		
First Quarter	0.22	0.22
Second Quarter	0.31	0.20

(b) The approximate number of holders of the Common Stock of the Company as of April 13, 2007 was 1,000.

(c) No cash dividends were declared by the Company during the fiscal year ended December 31, 2006. While the payment of dividends rests within the discretion of the Board of Directors, it is not anticipated that cash dividends will be paid in the foreseeable future, as the Company intends to retain earnings, if any, for use in the development of its business. The payment of dividends is contingent upon the Company's future earnings, if any, the Company's financial condition and its capital requirements, general business conditions and other factors.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

It should be noted that this Management's Discussion and Analysis of Financial Condition and Results of Operations may contain "forward-looking statements." The terms "believe," "anticipate," "intend," "goal," "expect," and similar expressions may identify forward-looking statements. These forward-looking statements represent the Company's current expectations or beliefs concerning future events. The matters covered by these statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those set forth in the forward-looking statements, including the Company's dependence on weather-related factors, introduction and customer acceptance of new products, the impact of competition and price erosion, as well as supply and manufacturing restraints and other risks and uncertainties. The foregoing list should not be construed as exhaustive, and the Company disclaims any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statements, or to reflect the occurrence of anticipated or unanticipated events. In light of the significant uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation that the strategy, objectives or other plans of the Company will be achieved. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made.

On April 14, 2005, Timbermans Group Pty Ltd. ("Borrower") entered in to a loan agreement with Oz Investmentcorp Pty Ltd. ("Lender") that articulates the terms of two loans (collectively, "Loan Agreement"). The first loan in the amount of $1,000,000 was made pursuant to a letter agreement dated August 9, 2005. The second loan of $1,000,000 is to be paid to the Borrower upon 14 days written notice from the Borrower.

In consideration for the Lender's loans, Borrower agreed to pay to Lender a total principal of $2,000,000 ("Total Principal") together with interest. Additionally, The Borrower granted to the Lender a conversion right entitling the Lender in its sole discretion to convert all or part of the Total Principal outstanding to issued ordinary shares in the Borrower ("Conversion Right").

Both principal and interest are payable to the Lender on or before August 9, 2007. Prior to that date, the Borrower may not repay all or part of the Total Principal unless it gives the Lender 14 days notice articulating the amount it desires to repay so long as the Lender has not exercised any conversion rights.

In early 2007, Lender filed a lawsuit in Australia alleging that the Borrower defaulted under the Loan Agreement. Although management believes that adequate protections are in place, there is no guarantee that the Borrower will successfully defend itself in such lawsuit. As a result, if the Lender prevails or a settlement is not reached, the Borrower may be forced to tender some or all of its shares in AUFI or sell off certain assets of AUFI to satisfy such liability.

During the fourth quarter, 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.

RESULTS OF OPERATIONS

We are currently in the fourth 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 re-construction of our first sawmill also in the Canberra region.

Operating costs for the twelve-month period ended December 31, 2005 aggregated $17,069,222. We incurred an operating loss of $(3,569,423) and a total net loss of $(2,789,783) or $(0.01) per share.

Operating costs for the twelve-month period ended December 31, 2006 aggregated $21,559,680. This includes an increase in costs of goods sold of $9,423,786 which were a result of general costs associated with the growth of our business and costs associated with selling and general and administrative costs of $10,460,611. As a result of the above we realized an operating loss of $(6,232,589) for the twelve-month period ended December 31, 2006 or $(0.02) per share.

LIQUIDITY AND CAPITAL RESOURCES

On December 31, 2005 and 2006 we had current assets of $3,722,067 and $2,271,872, respectively.

Net cash used in operating activities for the twelve-month period ended December 31, 2005 was $(4,148,578). Net cash used in operating activities for the twelve-month period ended December 31, 2006 was $(1,003,662). The decrease in net cash was a result of an increase in accounts payable and other liabilities of $2,620,144 which was a consequence of our growing business.

7

In the twelve-month period ending December 31, 2006, the Company experienced an increase in net proceeds from capital leases of $799,182 and during that same period an increase in loans to related parties of $3,380,039 and an increase in a bank overdraft of $1,781,466, thus resulting in net cash provided by financing activities of $6,352,067.

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

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.

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

Report of Independent Registered Public Accounting Firm

To the Board of Directors
Australian Forest Industries
Melbourne, Australia

We have audited the accompanying consolidated balance sheets of Australian Forest Industries as of December 31, 2006 and 2005 (restated) and the related consolidated statements of operations, stockholders' deficit, and cash flows for each of the two years in the period ended December 31, 2006 (2005 restated). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Australian Forest Industries as of December 31, 2006 and 2005 (restated), and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2006 (2005 restated), in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note B to the consolidated financial statements, the Company has incurred a net loss of $6,232,558 in 2006 and had a stockholders' deficit of $6,834,184 at December 31, 2006, and there are existing uncertain conditions the Company faces relative to its ability to obtain capital and operate successfully. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note B. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

See also Note A as to Restatements of Consolidated Financial Statements of amounts previously recorded.

/s/ Meyler & Company, LLC

Middletown, NJ

April 10, 2007

F-1

AUSTRALIAN FOREST INDUSTRIES AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	December 3
	2006
ASSETS	
CURRENT ASSETS	
Cash	$ 4,894
Accounts receivable, net	1,493,473
Inventory	740,384
Prepaid expenses and other	33,121
Total Current Assets	2,271,872
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation Of $3,189,690 and $2,402,939 in 2006 and 2005, respectively	17,929,297
OTHER ASSETS	
Long term limber supply contract, net of amortization of $144,345 and $91,843 in 2006 and 2005, respectively	742,307
Total Assets	20,943,476
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES	
Bank overdraft	1,899,238
Due to National Australia Bank	5,209,380
Accounts payable	5,311,101
Current portion of capitalized lease obligations	1,977,755
Due to Timberman shareholders	6,593,951
Related party payable	641,003
Accrued payroll, related taxes and benefits	1,213,106
Total Current Liabilities	22,845,534
OTHER LIABILITIES	
Capitalized lease obligations	3,410,322
Deferred capital gain	1,521,804
	4,932,126
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 257,400,680 issued and outstanding in 2006 and 2005, Respectively	257,600

Additional paid-in capital	4,573,217
Accumulated other comprehensive income	302,278
Accumulated deficit	(11,967,279)
Total Stockholders' Deficit	(6,384,184)
Total Liabilities and Stockholders' Deficit	20,943,476

See accompanying notes to financial statements.

AUSTRALIAN FOREST INDUSTRIES AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended December 31,	
	2006	2005
		(Restated)
REVENUE - SALES	$ 15,327,091	$ 13,499,799
COSTS AND EXPENSES		
Cost of Goods Sold	9,423,786	15,272,772
Selling, general and administrative	10,460,611	611,867
Interest expense	1,072,772	703,757
Depreciation and amortization	602,511	480,826
Total costs and expenses	21,559,680	17,069,222
OPERATING LOSS	(6,232,589)	(3,569,423)
NON-OPERATING INCOME		
Interest income	31	1,359
Gain on disposal of assets	--	778,281
Total non-operating income	31	779,640
NET LOSS	(6,232,558)	(2,789,783)
Net Loss per share (basic and diluted)	$ (0.02)	$ (0.01)
Weighted average shares outstanding	257,600,132	257,400,680

See accompanying notes to financial statements.

AUSTRALIAN FOREST INDUSTRIES AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	December 31, 2006	December 31, 2005 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$(6,232,558)	$(2,789,783)
Adjustments to reconcile net loss to cash flows from operating activities:		
Depreciation expense	550,013	438,947
Amortization of timber contract	52,498	54,900
Amortization of leaseback gain	(53,710)	(35,806)
Gain on sale of equipment	--	(2,389,601)
Stock based compensation	70,000	--
Changes in operating assets and liabilities:		
(Increase) decrease in prepaid expenses	160,617	(51,389)
Decrease in inventories	1,037,956	204,699
(Increase) decrease in receivables	129,501	(11,217)
(Increase) decrease in related party receivable	--	273,175
Increase (decrease) in accounts payable and other liabilities	2,620,144	(463,550)
Increase (decrease) in related party payable	48,159	592,844
Increase (decrease) in accrued payroll	613,718	28,203
Net cash used in Operating Activities	(1,003,662)	(4,148,578)
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposal costs	--	(118,866)
Capital additions	(5,439,184)	(5,200,874)
Investment in long-term timber supply contract	--	--
Disposal of capital assets	--	1,652,675
Net cash used in Investing Activities	(5,439,184)	(3,667,065)
CASH FLOWS FROM FINANCING ACTIVITIES		
Bank overdraft	1,781,466	(303,325)
Loans from shareholders	3,380,039	2,827,077
Capital leases	799,182	1,059,703
National Australian bank loan	391,380	(411,350)
Proceeds from sale of assets	--	4,233,540
Timberman controlling interest	--	--
Net cash provided by (used in) Financing Activities	6,352,067	7,405,645
EFFECT OF EXCHANGE RATE ON CASH	(31,341)	311,823
DECREASE IN CASH	(122,120)	(98,175)
CASH AT BEGINNING OF YEAR	127,014	225,189
CASH AT END OF YEAR	$ 4,894	$ 127,014

See accompanying notes to financial statements.

F-4

AUSTRALIAN FOREST INDUSTRIES AND SUBSIDIARY

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT

Accumulated

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit
Balance, December 31, 2002			5,319,764	$ 9,813,217		$ (2,034,1
Net loss for the year ended December 31, 2003						(56,3
Adjustments from exchange rate changes						
Balance, December 31, 2003 and prior to Reverse Merger			5,319,764	9,813,217		(2,090,5
Reverse Merger (Note 1)						
Exchange of Integrated Forest Products Pty Ltd shares for Australian Forest Industries			(5,319,764)	(9,813,217)	$ 9,813,217	
Shareholders equity of Australian Forest Industries at date of merger			400,680	400	11,257,463	(11,257,8
Reverse Merger capitalization					(11,257,863)	11,257,8
Issuance of shares at date of merger			240,000,000	240,000	(240,000)	
Issuance of shares for consulting agreement			17,000,000	17,000	238,000	
Timbermans Group Pty. Ltd. investment in Company					(5,307,400)	
Cumulative losses of Timber- man's Group Pty. Ltd.						(601,9
Adjustment from exchange rate changes						
Net loss for the year ended December 31, 2004						(252,4
Balance, December 31, 2004			257,400,680	257,400	4,503,417	(2,944,9
Adjustments from exchange rate changes						
Net loss for the year ended December 31, 2005						(2,789,7
Balance, December 31, 2005			257,400,680	$ 257,400	$ 4,503,417	$ (5,734,7

Adjustments from exchange

rate changes						
Issuance of shares for services			200,000	200	69,800	
Net loss for the year ended December 31, 2006						(6,232,5
Balance, December 31, 2006			257,600,680	$ 257,600	$ 4,573,217	$(11,967,2

See accompanying notes to financial statements.

AUSTRALIAN FOREST INDUSTRIES AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

NOTE A - RESTATEMENTS

The Company's financial statements for the year ended December 31, 2005 were restated. The effects of the restatements are presented in the following table:

	As Reported	Restated
Balance Sheet		
Current liabilities	8,290,887	13,108,887
Other liabilities	4,818,000	nil
Deferred capital gain	$ 1,396,481	$ 1,575,514 (1)
Accumulated deficit	(5,555,688)	(5,734,721)
Statement of Operations		
Cost of goods sold	15,441,948	15,272,772 (2)
Selling, general and administrative	653,091	611,867 (2)
Other income	225,851	nil (2)
Interest income	164,941	1,359 (2)
Net Loss	(2,610,750)	(2,789,783)
Loss per share	(0.01)	(0.01)

1) Recalculation of amortization relating to deferred gain on sale leaseback transaction. Amortization is based upon life of acquired equipment instead of loan repayment amortization.

2) Reclassification of components of other income deemed to be operating and therefore offset against cost of sales and selling, general and administrative expenses.

NOTE B - BASIS OF PRESENTATION AND NATURE OF BUSINESS

Nature of Business

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

Reverse Merger

On September 1, 2004, Integrated, owned by the Timbermans Group Pty Ltd ("Timbermans"), entered into a share exchange agreement with the Company and issued 240,000,000 shares of its common stock to acquire Integrated. In connection with the share exchange agreement, Integrated became a wholly owned subsidiary of the Company and Integrated's officers and directors became the officers and directors of the Company. Prior to the merger, the Company was a non-operating "shell" corporation.

Pursuant to Securities and Exchange Commission rules, the merger of a private operating company (Integrated) into a non-operating public shell corporation with nominal net assets is considered a capital transaction. Accordingly, for accounting purposes, the merger has been treated as an acquisition of the Company by Integrated and a recapitalization of the Company. The historical financial statements for the years ended December 31, 2006 and 2005 are those of Integrated. Since the merger is a recapitalization and not a business combination, pro forma information is not presented.

NOTE B - BASIS OF PRESENTATION AND NATURE OF BUSINESS (CONTINUED)

Going Concern

As shown in the accompanying consolidated financial statements, the Company has incurred a net loss of $6,232,558 in 2006 and had a stockholders' deficit of $6,384,184 at December 31, 2006. 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, 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. 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.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Currency Translation

For 2006 and 2005, the Company considered the Australian dollar to be its functional currency. Assets and liabilities were translated into US dollars at year-end exchange rates. Statement of operations amounts were translated using the average rate during the year. Gains and losses resulting from translating foreign currency financial statements were accumulated in other comprehensive income, a separate component of stockholders' equity.

Cash Equivalents

For purposes of reporting cash flows, cash equivalents include investment instruments purchased with an original maturity of three months or less. There were no cash equivalents in 2006 or 2005.

Inventories

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

F-7

AUSTRALIAN FOREST INDUSTRIES AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equipment and Depreciation

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

Consolidated Financial Statements

The consolidated financial statements include the Company and its wholly owned subsidiary. All significant intercompany transactions and balances have been eliminated in consolidation.

Net Loss Per Common Share

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

Stock and Common Stock equivalents outstanding during the periods.

Comprehensive Income (Loss)

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

Stock Based Compensation

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

Fair Values of Financial Instruments

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

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Doubtful Accounts

The allowance for doubtful accounts represents management's estimate of the amount of probable credit losses in accounts receivable, based upon experience and a review of past due balances.

Revenue Recognition

The Company is in the business of producing lumber for the building industry. In this connection, it receives orders from distributors and lumber yards throughout Australia. The Company ships its finished products FOB shipping point and title passes at that point. The Company also assures itself that there are valid sales arrangements, sales prices are fixed and determinable, and that collectibility is reasonably assured.

Recent Accounting Pronouncements

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

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

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.

NOTE D - VARIABLE INTEREST ENTITIES

In January 2003, the FASB issued Interpretation 46 ("FIN 46") and in December 2003, it issued a revised interpretation of FIN 46 (FIN 46-R), which supersedes FIN 46 and clarifies and expands current accounting guidance for VIE's. FIN 46 clarifies when a company should consolidate in its financial statements the assets, liabilities and activities of a VIE. FIN 46 provides general guidance as to the definition of a variable interest entity and requires it to be consolidated if a party with an ownership, contractual or other financial interest, absorbs the majority of the VIE's expected losses, or is entitled to receive a majority of the residual returns, or both. A variable interest holder that consolidates the VIE is the primary beneficiary and is required to consolidate the VIE's assets, liabilities and noncontrolling interests at fair value at the date the interest holder first becomes the primary beneficiary of the VIE.

The Company has concluded that Timbermans Group Pty. Ltd. is deemed to be a VIE under FIN 46 and accordingly has been consolidated in the financial statements for 2006 and 2005. Timbermans Group, a holding company which acquired the Company through an exchange agreement, became the majority shareholder of Australian Forest Industries by investing $5,307,400 in the Company which was borrowed from National Australia Bank (See Note H - Short-Term Borrowing.) Timbermans Group Pty. Ltd. had total assets of $5,719,107 and $7,357,379, total liabilities of $12,042,392 and $8,050,323, accumulated deficits of $6,323,285 and $693,017 at December 31, 2006 and 2005, respectively, and net losses of $971,775 and $354,176 for the years then ended.

NOTE E - INVENTORY

Inventory consists of the following at December 31,

	2006	2005
Raw materials and supplies	$ 75,093	$ 228,547
Work in progress	212,502	605,692
Finished goods	452,789	944,101
	$ 740,384	$ 1,778,340

NOTE F - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is comprised of the following at December 31,

	Useful Life	2006	2005
Land		$ 947,160	$ 1,133,042
Buildings	40	1,642,216	1,261,795
Plant and equipment	30	16,885,091	11,866,257
Capital works in progress		1,421,804	987,936
Motor vehicles	5	222,716	194,035
		21,118,987	15,443,065
Less: accumulated depreciation		(3,189,690)	(2,402,939)
		$ 17,929,297	$ 13,040,126

Depreciation expense for the years ended December 31, 2006 and 2005 was $550,013 and $438,947, respectively.

NOTE G - DUE TO TIMBERMANS SHAREHOLDERS

Due to Related Party

Included in the related party debt is a loan to Timberman's from Oz Investmentcorp Pty. Ltd. ("Oz")In the amount of $1,578,600, which bears interest at 7.5% per annum. The loan is due on or before August 9, 2007. The loan is convertible into Timberman's shares at a conversion price that will give Oz a proportionate share of the total issued shares of Timbermans Group (See Note M - Litigation.)

At December 31, 2006 and 2005, the Company was indebted to the shareholders of Timbermans for $6,593,951 and $3,213,912, respectively. The loans are non interest bearing, are unsecured and have no specific repayment date. This indebtedness is the net result of transactions between the Company and Timbermans.

Long-Term Log Supply Contract

In November 2004, the Timbermans Group entered into a 20 year long-term log supply contract with the New South Wales State Government. To obtain the contract, the Timbermans Group paid $886,648. In February 2005, it assigned the contract to the Company's wholly owned subsidiary, Integrated Forest Products Pty, Ltd. The contract is being amortized over 20 years. The Company recognized $52,498 and $54,900 in amortization expense in 2006 and 2005, respectively. Estimated amortization expense for the next five years is $265,000.

NOTE H - SHORT TERM BORROWING

The Company has an overdraft facility with the National Bank of Australia in the amount of $2,738,871 at the Australian base rate plus 1.80% annually. The amount of the overdraft at December 31, 2006 and 2005 was $1,899,238 and $117,772, respectively. The facility is secured by the assets of the Company and Timbermans Group Pty. Ltd., and personal guarantees of the principal Officers and Directors of the Company. The notes currently bear interest at the rate of 11.9% per annum with a default rate of 18.4% per annum. The facility is currently due and is negotiated with the bank on a monthly basis.

AUSTRALIAN FOREST INDUSTRIES AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

NOTE H - SHORT TERM BORROWING (CONTINUED)

The Company, in connection with the Long Term Timber Supply contract, has placed a bank guarantee in the amount of $576,700 with the New South Wales government with an issue fee of 1.40% of fair value and a fee of 1.40% of face value payable semi-annually to insure a steady supply of timber. Of the $576,700 bank guarantees, $489,100 is secured by the wife of a principal Officer and Director and $87,600 is secured by the assets of the Company, Timbermans Group Pty. Ltd., and the personal guarantees of the principal Officer and Directors of the Company.

In 2004, the Timbermans Group Pty. Ltd. obtained a credit facility of $5,209,380 to acquire a majority interest in Australian Forest Industries. The credit facility is secured by the assets of Australian Forest Industries, Timbermans Group Pty. Ltd., the personal guarantees of the principal Officers and Directors of Australian Forest Industries and Timbermans Group Pty. Ltd., as well as personal properties of certain principal Officers and Directors. The loan bears interest at the rate of 6.2% on $2,880,000 and a floating rate on the balance of the loan. The loan balance at December 31, 2006 and 2005 was $5,209,380 and $4,818,000, respectively.

In addition, the Company has a $5,760,000 facility with National Australia Bank to acquire capital equipment which would be secured by such purchases. At December 31, 2006, the Company has executed Capital Lease Agreements aggregating $5,388,077 (See Note I - Capital Lease Obligation.)

All of the above credit facilities are renewable every six months.

NOTE I - CAPITAL LEASE OBLIGATIONS

The Company has obtained various pieces of equipment under capital leases expiring through 2010. The assets and liabilities under these capital leases ($7,758,474) with the National Bank of Australia are recorded at the lower of the present values of the minimum lease payments or the fair values of the assets. The assets are included in property and equipment and are being depreciated over their estimated useful lives. The capitalized leases are secured by the equipment purchased.

As of December 31, 2006, minimum future lease payments under these capital leases are:

	For the Years Ending December 31,	Amount
	2007	1,977,755
	2008	1,977,755
	2009	1,546,936
	2010	711,907
Total minimum lease payments		$6,214,353

	December 31, 2006	December 31, 2005
Total minimum lease payments	$6,214,353	$5,354,455
Less: amounts representing interest	826,277	765,560
Net minimum lease payments	5,388,077	4,588,895
Less: current portion	1,977,755	1,076,013
Long-term portion	$3,410,322	$3,512,882

NOTE J - INCOME TAXES

The Company has adopted Financial Accounting Statement SFAS No. 109, Accounting for Income Taxes. Under this method, the Company recognizes a deferred tax liability or asset for temporary differences between the tax basis of an asset or liability and the related amount reported on the financial statements. The principal types of differences, which are measured at current tax rates, are net operating loss carry forwards. At December 31, 2006 and 2005, these differences resulted in a deferred tax asset of approximately $2,095,000 and $887,700. SFAS No. 109 requires the establishment of a valuation allowance to reflect the likelihood of realization of deferred tax assets. Since realization is not assured, the Company has recorded a valuation allowance for the entire deferred tax asset, and the accompanying financial statements do not reflect any net asset for deferred taxes at December 31, 2006 or 2005.

The Company's net operating loss carry forwards amounted to approximately $11,967,000 and $5,735,000 at December 31, 2006 and 2005, which have unlimited expiration.

NOTE K - STOCKHOLDERS' DEFICIT

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

During the year ended December 31, 2006, the Company issued 200,000 shares at $0.35 which was recorded as stock based compensation of $70,000.

NOTE L - SALE - LEASEBACK TRANSACTION

In April 2005, the Company entered into a transaction to sell equipment to the National Bank of Australia and leased it back under a new capitalized lease agreement. Under SFAS No. 98, the gain of $1,611,320 will be deferred and amortized over the life of the related equipment. For the year ended December 31, 2006 and 2005, $ 53,710 and $35,806 has been included in operating income.

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

Year	Gain Amortization
2007	53,710
2008	53,710
2009	53,710
2010	53,710
2011	53,710
Thereafter	1,253,254
	$ 1,521,804

NOTE M - 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. The Company is currently negotiating with Oz and had agreed to provide additional collateral.

NOTE N - ALLOWANCE FOR DOUBTFUL ACCOUNTS

At December 31, 2006, the allowance for doubtful accounts was $539,172.

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

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

ITEM 8A. DISCLOSURE CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures.

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

(i) Definition of Disclosure Controls and Procedures.

Disclosure controls and procedures are controls and other procedures that are designed with the objective of ensuring that information required to be disclosed in our periodic reports filed under the Exchange Act, such as this report, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. As defined by the SEC, such disclosure controls and procedures are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the President and Chief Financial Officer, in such a manner as to allow timely disclosure decisions.

(ii) Limitations on the Effectiveness of Disclosure Controls and Procedures and Internal Controls.

The Company recognizes that a system of disclosure controls and procedures (as well as a system of internal controls), no matter how well conceived and operated, cannot provide absolute assurance that the objectives of the system are met. Further, the design of such a system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented in a number of ways. Because of the inherent limitations in a cost-effective control system, system failures may occur and not be detected. However, our officers and directors believe that our system of disclosure controls and procedures provides reasonable assurance of achieving their objectives.

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

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

(b) Changes in Internal Controls.

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

ITEM 8B. OTHER INFORMATION

Not applicable.

PART III

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

OFFICERS AND DIRECTORS

We have 4 executive officers who also serve as our board of directors. Our directors are elected at each annual meeting of shareholders. The following individuals are all of our executive officers and directors:

Name	Age	Positions and Offices With The Company
Michael Timms	56	Chief Executive Officer; President; Chairman of the Board

Colin Baird	48	Chief Financial Officer; Director
Tony Esplin	44	Executive Vice President - Marketing; Director
Roger Timms	50	Executive Vice President - Engineering; Director

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

Michael Timms

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

Colin Baird

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

Tony Esplin

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

Roger Timms

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

Director Positions in Other Public Companies

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

Code of Conduct

The Company does not have an Audit or Strategy committee. Neither does the

Company have a standing nominating committee or any committee performing a similar function. For the above reasons, the Company has not adopted a code of ethics.

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

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

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

ITEM 10. EXECUTIVE COMPENSATION

The table below sets forth all annual and long-term compensation paid by the Company through the latest practicable date to the Chief Executive Officer of the Company and to all executive officers of the Company who received total annual salary and bonus in excess of $100,000 for services rendered in all capacities to the Company and its subsidiaries during the fiscal years ended December 31, 2005 and 2006.

Summary Compensation Table

			Long-Term Compensation Awards	
Name and Principal Position	Year	Salary ($)	Bonus	Secur Under Optio /S
Michael Timms - Chairman of the Board; CEO and President	2006	0	None	N
	2005	75,000	None	N
Coin Baird - Chief Financial Officer and Director	2006	0	None	N
	2005	60,000	None	N
Tony Esplin - Executive Vice President - Marketing; Director	2006	0	None	N
	2005	75,000	None	N
Norman Backman - Chief Operating Officer; Director (resigned)	2006	0	None	N

	2005	140,000	None	N
Roger Timms - Executive Vice President - Marketing; Director	2006	0	None	N
	2005	20,000	None	N

Directors' Compensation

13

Other than minimal expenses incurred for traveling to Canberra which were reimbursed by the Company, during the fiscal year ended December 31, 2006 our Directors did not received a fee for serving in that capacity.

Employment Contracts

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

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Beneficial Owners

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

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

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

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

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

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

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

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

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

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

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

Exhibit Number Exhibit Description

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K.

On September 18, 2006, we filed a current report on Form 8-K disclosing that on that date, Australian Forest Industries (the "Company"), entered into a stock purchase and recapitalization agreement (the "Stock Purchase Agreement") with SIMBA Mines, Inc., a Nevada corporation ("SIMBA") pursuant to which the Company proposed to purchase from SIMBA all of the issued and outstanding shares of its wholly-owned subsidiary Simbajamba Mines Limited, a company incorporated pursuant to the laws of Samoa ("Simbajamba"), for various consideration.

Included in the above Form 8-K we also reported that on September 18, 2006, the Company entered into a shares sale agreement (the "Share Sale Agreement") with

Bongani International Group Limited ("BIG"), a company incorporated pursuant to the laws of the British Virgin Islands, pursuant to which the Company proposed to purchase from BIG all of the issued and outstanding shares of its wholly-owned subsidiary, Rockbury, for (a) 4,806,625 shares of common stock of the Company(post consolidation); and (b) the settlement of all outstanding loan balances between Bongani International Group Limited and Rockbury.

On March 28, 2007, we filed a current report on Form 8-K disclosing that on March 24, 2007, Australian Forest Industries terminated agreements with each of Simba Mines, Inc., and Bongani International Group Limited due to the parties' failure to reach agreement on key terms. As a result of the termination, both the Stock Purchase Agreement and the Share Sale Agreement (as those terms are defined below) were mutually terminated by the parties thereto on March 24, 2007.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees

For the Company's fiscal year ended December 31, 2006, the cost for professional services rendered for the audit of our financial statements and the review of the Form 10-KSB aggregated $40,000.

All Other Fees

The Company did not incur any other fees related to services rendered by our principal accountant for the fiscal year ended December 31, 2006.

SIGNATURES

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

AUSTRALIAN FOREST INDUSTRIES

/s/ Michael Timms

Name: Michael Timms
Title: Chief Executive Officer, President and Chairman
Date: April 17, 2007

/s/ Colin Baird

Name: Colin Baird
Title: Chief Financial Officer and Director
Date: April 17, 2007

/s/ Roger Timms

Name: Roger Timms
Title: Executive Vice President and Director
Date: April 17, 2007