Avery
RESOURCES INC

First Quarter

Management's Discussion & Analysis

as at June 30, 2006 and for the

three months ended June 30, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) is dated August 28, 2006. The MD&A should be read in conjunction with Avery Resources Inc.'s (Avery or the Company) unaudited interim consolidated financial statements as at and for the three months ended June 30, 2006, and Avery's audited consolidated financial statements and MD&A for the year ended March 31, 2006. The financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

The quarterly financial statements were prepared following the same accounting policies and methods that were used in the 2006 audited consolidated financial statements.

Certain statements herein may constitute forward-looking statements, which can generally be identified as such because of the context of the statements, including words such as believes, anticipates, expects, plans, estimates or words of a similar nature. The forward-looking statements are based on current expectations and are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results.

All such forward-looking information is based on certain assumptions and analyses made by Avery in light of the Corporation's experience and perception of historical trends, current conditions and expected future developments, as well as other factors Avery believes are appropriate in the circumstances. The risks, uncertainties, and assumptions are difficult to predict and may affect operations, including, without limitation: the risks of foreign operations; foreign exchange fluctuations; commodity prices; equipment and labor shortages; inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of oil and natural gas companies to raise capital; the effect of weather conditions on operations and facilities; the existence of operating risks; volatility of oil and natural gas prices; oil and natural gas product supply and demand; uncertainties associated with estimating reserves; incorrect assessments of the value of acquisitions; geological, technical, drilling and processing problems; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by Avery and other factors, many of which are beyond the Corporation's control. The foregoing factors are not exhaustive and are further discussed herein under the heading "Business Risks" and under the heading "Risk Factors" in the Annual Information Form of Avery dated July 24, 2006 and filed on SEDAR at www.sedar.com.

NON-GAAP MEASURES

Included in this report are references to terms commonly used in the oil and gas industry, such as operating netback, which are not recognized measures under Canadian GAAP and therefore may not be comparable to performance measures presented by others. Operating netbacks represent revenue less royalties and operating costs. Management believes that operating netback is a useful supplemental measure as it provides an indication of the operating performance, leverage and liquidity.

In conformity with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities, natural gas volumes have been converted to barrels of oil equivalent ("boe") using a conversion ratio of six thousand cubic feet ("mcf") of natural gas to one barrel of oil ("bbl"). This ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Readers are cautioned that boe's may be misleading, particularly if used in isolation.

DESCRIPTION OF BUSINESS

Avery Resources Inc. is a junior international oil and gas explorer. The Company is currently focusing its exploration activities on a number of prospects in Australia. The Company is a reporting issuer in Alberta, British Columbia, Saskatchewan, Manitoba and Ontario and trades on the TSX Venture Exchange under the symbol ARY.

OIL & GAS REVENUE AND RELATED EXPENSES

The first quarter of fiscal 2007 has no comparative figures for the same period in the previous year, as the producing assets were acquired in November, 2005.

Gross natural gas and liquids (NGL's) revenue for the first quarter ended June 30, 2006 were $270,529 compared with NIL for the same period in the previous year. Gas production averaged 368 mcf/d (thousand cubic feet) for the first quarter of fiscal 2007 and liquids production averaged 11 barrels per day for the same period. The average price received for the first quarter of fiscal 2007 was $6.35 per mcf for gas and $58.85 per barrel for liquids.

Royalties for the first quarter of fiscal 2007 were $60,070 or 22.2 percent of revenue. On a per barrel basis royalties were $1.27 per mcf and 16.71 per barrel for gas and liquids respectively.

Operating costs were $63,748 for the first quarter of fiscal 2007 or $9.34 per boe (barrel of oil equivalent with gas converted to barrels at 6 to 1)

The following table sets out Avery's gas and liquids production and revenues and related expenses for the three months ended June 30, 2006:

Three months ended	**June 30, 2006**
Revenue	
Natural Gas Sales	$ 212,566
Natural Gas Liquids Sales	57,963
Total Revenue	270,529
Per boe	$ 39.64
Royalties	$ 60,070
% of revenue	22.2%
Per boe	$ 8.80
Operating Expense	$ 63,748
Per boe	$ 9.34
Netback	
($/boe)	
Revenue	$ 39.64
Royalties	8.80
Operating	9.34
Operating Netback	21.50
Volumes	
Gas (mcf/d)	368
NGL's (boe/d)	11
Total boe/d (6:1)	75

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were $466,509 for the period ended June 30, 2006 compared to $261,540 for the same period in the prior year. General and administrative expenses increased during the first quarter of fiscal 2007 reflecting the Company's increased exploration activity.

Three months ended	June 30, 2006	June 30, 2005
Consultants	$16,480	$108,805
Salaries and employee benefits	239,272	79,750
Travel	28,677	24,122
Professional fees	36,506	18,378
Shareholder communication	37,203	10,239
Office expenses	17,750	8,176
Insurance and other	12,912	6,564
Rent	37,870	5,506
	$426,670	**$261,540**

- Salaries and benefits increased due to additional staffing requirements in Canada and opening an office in Australia.
- International travel has increased over the prior year due to business requirements to travel to Australia more often.
- Professional fees include the cost of an engineering evaluation report as well as audit and legal costs.
- Consulting fees have decreased as the company's requirements for more full time expertise has expanded and consulting positions have been filled by full-time staff.

DEPLETION, DEPRECIATION AND ACCRETION

Concurrent with the acquisition of Canadian oil and gas properties on November 24, 2005 and the commencement of production from these properties, the Company began providing depletion on its Canadian properties, which, along with depreciation of office equipment, was $151, 797 for the three months ended June 30, 2006 versus $2,214 for the same period in the prior year.

ACCRETION OF CONVERTIBLE TERM NOTE

On March 6, 2006 the Term Note was converted to 987,667 common shares. During the three months ended June 30, 2005 $8,430 of accretion on the Term Note of $592,600 face value was expensed.

STOCK BASED COMPENSATION

The Company recorded a stock-based compensation expense of $398,173 for the three month period ended June 30, 2006, compared with $52,157 for the same period in 2005. The increase over fiscal 2005 is a result of an increase in the number of options outstanding, the immediate vesting of a portion of the options granted in the current quarter, and increased volatility in the Company's share price.

INCOME TAXES

At June 30, 2006, the Company had approximately $3.2 million of non-capital losses available to reduce future taxable income (June 30, 2005 - $2.5 million). The losses expire at various dates to March 31, 2013. The Company also has approximately $5.0

million in resource income tax pools (June 30, 2005 - $0.85 million). The Company has not recognized a future income tax recovery on the pretax loss due to the uncertainty as to whether or not there will be sufficient future income to utilize its tax pools

In addition, approximately $11,755,000 of capital losses are available to offset future capital gains.

CAPITAL EXPENDITURES

Capital expenditures totaled $150,449 during the quarter ended June 30, 2006. The expenditures related to preparation of the site to drill the Lightfingers exploration well in the Cooper Basin of Australia and equipping of the Australian office.

Costs of unproved properties excluded from costs subject to depletion and depreciation at June 30, 2006 were $4.3 million.

SHARE CAPITAL

The Company has authorized an unlimited number of common shares. At August 18, 2006 there are 56,092,297 common shares outstanding.

In the three months ended June 30, 2006 warrants to purchase 2,805,106 common shares were exercised for proceeds of $1,539,801.

During the quarter ended June 30, 2006 the Company granted 1,910,000 options to purchase common shares of the Company at and average exercise price of $0.73. These options were granted to employees and directors of the Company and have a five year term.

LIQUIDITY AND CAPITAL RESOURCES

The Company had working capital of $4,205,205 at June 30, 2006 compared to working capital of $3,079,788 at March 31, 2006.

As the Corporation is in the early stages of exploration and development without significant operating revenue to date, all activities have been funded through the issuance of share capital, convertible debt, and shareholder loans. It is expected that further equity financings will be used to fund ongoing operations and the Company's projected capital program, supplemented by cash flow from future operations, working capital` and debt when the level of operations provide borrowing capacity.

RELATED PARTY TRANSACTIONS

Certain directors and executives exercised warrants or participated in financings under the same terms and conditions as third parties.

OFF BALANCE SHEET TRANSACTIONS

The Company does not have any off balance sheet transactions.

OPERATING LEASE COMMITMENTS

The Corporation is committed to minimum annual operating lease payments on its premises in Canada and Australia as follows:

Fiscal Year	
2007	$ 168,934
2008	168,934
2009	168,934
2010	168,934

SUBSEQUENT EVENT

On August 7, 2006 the Company announced that the Lightfingers-1 exploration well located in central Australia has finished testing and a decision was made to abandon the well. By drilling the well, Avery has completed its earning requirements for the balance of the Murteree block, giving the Company a 35% working interest in 12,850 acres of Petroleum Exploration License 113.

OUTLOOK

The Corporation is building a strong presence in Australia through farm-ins and drilling and continues to pursue strategic acquisitions. Avery expects to drill up to 12 wells in 2006-2007 in the Cooper Basin, with the bulk of this drilling scheduled for the last few months of 2006. The net cost of the drilling program is expected to be approximately $13 million and will require one or more equity financings during the year. Near-term details are as follows:

- A 3D seismic survey of the Innamincka area was acquired in 2006 and one additional well is planned for the last half of 2006.
- Avery expects to participate in five exploration wells to earn up to 50 percent interest in each of the Wompi and Barta blocks. Drilling is planned for the last half of 2006, subject to the clearing of native titles.

For the Katandra prospect in the Timor Sea, data has been reworked to reveal four new drilling prospects. The joint venture operated by OMV Timor Sea Pty Ltd., is evaluating pool reserves, production capability, permit prospectivity and defining a 3D work program for the area. The partners intend to shoot a new 3D seismic program over the area during 2006 leading to a drill decision in 2007.

With its significant land holdings in the Cooper Basin, the opening of the office in Australia and with the addition of key personnel to its Calgary head office, the Corporation plans to further augment its portfolio in other regions of Australia, including the Perth and Carnarvon basins. Management and the Board continue to monitor opportunities worldwide where the size of the potential reserves warrants the risk and where experience and efforts can mitigate such risk.

Toparoa Pipeline Unit

On June 5, 2006 Avery announced an arrangement to produce the Toparoa-1 well into pipeline-connected unit production facilities immediately adjacent to the license. The agreement is expected to provide Avery with improved economics for the well due to lower initial capital requirements, operating cost savings and less expected downtime when compared to the original plan for trucking of the oil. Avery has earned a 35 percent interest in the production license. Avery's interest may be unitized down to 32.67% from 35.00% percent following discussions with the adjoining production license holders. Production from the Toparoa-1 well is expected to commence in mid-September.

Sunshine Farm-In, Queensland, Australia

On May 3, 2006 Avery announced that it has executed a binding "Heads of Agreement", effective March 1, 2006, with Sunshine Gas Limited ("Sunshine") on the ATP-789P block located in western Queensland, Australia. ATP-789P is 1,478 square kilometers (365,000 acres) along the southeastern oil rim of the Cooper Basin. Avery has contracted to earn a 40 percent interest in ATP-789P in return for funding a 150 kilometer 2D seismic program and drilling one well. Sunshine will remain operator.

BUSINESS RISKS

Business risks have not materially changed from year-end and can be viewed in the Company's consolidated financial statements and MD&A for the year ended March 31, 2006.

ADDITIONAL CORPORATE INFORMATION

Additional information relating to the Company can be found on SEDAR at www.sedar.com and on the Company's website at www.averyresources.com.

SELECTED FINANCIAL INFORMATION

Quarterly Financial Information

The following tables set forth selected financial information of the Corporation for the periods indicated:

Statement of Loss
($000 except per share amounts)

	June. 30/06	Mar. 31/06	Dec. 31/05	Sept. 30/05
Total revenue	$ 299	$ 393	$ 121	$ 5
Net loss	(819)	(918)	(2,042)	(313)
Net loss per share - basic and diluted	(0.02)	(0.04)	(0.07)	(0.01)

	June 30/05	Mar. 31/05	Dec. 31/04	Sept. 31/04
Total revenue	$ 2	$ 23	$ 5	$ 2
Net loss	(322)	(262)	(224)	(158)
Net loss per share - basic and diluted	(0.01)	(0.04)	(0.01)	(0.01)

Avery
RESOURCES INC

Interim Financial Statements

As at June 30, 2006 and for the
three months ended June 30, 2006

AVERY RESOURCES INC.
Consolidated Balance Sheets

	June 30, 2006	March 31, 2006
	(Unaudited)	(Audited)
ASSETS		
Current assets:		
Cash and short term deposits	$ 3,877,940	$ 3,636,247
Accounts receivable and prepaid expenses	685,762	907,708
	4,563,702	4,543,955
Property, plant and equipment (note 2)	6,992,224	6,992,791
	$ 11,555,926	$ 11,536,746
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 358,497	$ 1,464,167
Asset retirement obligations	68,883	67,615
Non-controlling interest	74,931	75,539
Shareholders' equity:		
Share capital (note 3)	28,775,352	27,230,203
Warrants	1,230,028	1,230,028
Contributed surplus	1,345,964	947,791
Deficit	(20,297,729)	(19,478,567)
	11,053,615	9,929,455
	$ 11,555,926	$ 11,536,746

See accompanying notes to consolidated financial statements.

AVERY RESOURCES INC.
Consolidated Statements of Loss and Deficit
(Unaudited)

Three months ended June 30,

	2006	2005
Revenue:		
Petroleum and natural gas sales	$ 270,529	$ –
Royalties	(60,070)	–
Interest income	28,587	2,118
	239,046	
Expenses:		
General and administrative	426,670	261,540
Production	63,748	–
Stock-based compensation (note 4)	398,173	52,157
Foreign exchange loss	20,779	–
Depletion and depreciation	151,797	2,214
Accretion on convertible term note	–	8,430
	1,061,167	324,341
Non-controlling interest	2,959	–
Loss for the period	(819,162)	(322,223)
Deficit, beginning of period	(19,478,567)	(15,883,166)
Deficit, end of period	$ (20,298,729)	$ (16,205,389)
Basic and diluted loss per share	$ (0.02)	$ (0.02)

See accompanying notes to consolidated financial statements.

AVERY RESOURCES INC.
Consolidated Statements of Cash Flows
(Unaudited)

Three months ended June 30,	2006	2005
Cash provided by (used in):		
Operations:		
Loss for the period	$ (819,162)	$ (322,223)
Items not involving cash:		
Depletion and depreciation	151,797	2,214
Stock-based compensation	398,173	52,157
Accretion on convertible term note	–	8,430
	(269,192)	(259,422)
Changes in non-cash working capital:		
Accounts receivable and prepaids	221,946	32,599
Accounts payable	(1,105,761)	150,544
Cash used in operations	(1,153,007)	(76,279)
Financing:		
Share capital, net of share issue expenses	1,545,149	(3,907)
Investments:		
Purchase of property, plant and equipment	(150,449)	(114,217)
Increase (decrease) in cash	241,693	(194,403)
Cash and short term deposits, beginning of period	3,636,247	681,124
Cash and short term deposits, end of period	$ 3,877,940	$ 486,721

See accompanying notes to consolidated financial statements.

1. Significant accounting policies:

The consolidated financial statements of Avery Resources Inc. (the "Company") have been prepared by management in accordance with accounting principles generally accepted in Canada. The preparation of 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 the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. During the period the Company increased its ownership in its non-wholly owned Australian subsidiary from 54.3% to 68.2%.

These Interim unaudited consolidated financial statements have been prepared by management following the same accounting policies and methods that were used and disclosed in the audited financial statements for the year ended March 31, 2006. These interim consolidated financial statement note disclosures do not include all those required by Canadian generally accepted accounting principles applicable for annual financial statements. These interim financial statements should therefore be read in conjunction with the consolidated financial statements and the notes thereto in the Company's annual report for the year ended March 31, 2006.

2. Property, plant and equipment:

June 30, 2006	Cost	Accumulated depletion and depreciation	Net book value
Canada:			
Office furniture and equipment	$ 232,752	$ 165,317	$ 67,435
Petroleum and natural gas properties	2,749,395	338,332	2,411,063
Ireland:			
Petroleum and natural gas properties	287,685	–	287,685
Australia:			
Office furniture and equipment	73,544	3,234	70,310
Petroleum and natural gas properties	5,818,832	1,663,101	4,155,731
	$ 9,162,208	$ 2,169,984	$ 6,992,224

March 31, 2006	Cost	Accumulated depletion and depreciation	Net book value
Canada:			
Office furniture and equipment	$ 227,875	$ 160,366	$ 67,509
Petroleum and natural gas properties	2,816,216	193,961	2,622,255
Ireland:			
Petroleum and natural gas properties	272,656	–	272,656
Australia:			
Office furniture and equipment	33,704	2,026	31,678
Petroleum and natural gas properties	5,661,795	1,663,102	3,998,693
	$ 9,012,246	$ 2,019,455	$ 6,992,791

Costs of unproved properties excluded from costs subject to depletion and depreciation at June 30, 2006 were $4.3 million. Subsequent to the end of the period the Company drilled an exploration well in the Cooper Basin in Australia for which no commercial reserves were discovered and the well has been plugged and abandoned.

3. Share capital:

(a) Authorized:

Unlimited number of common shares
Unlimited number of preferred shares, of which none have been issued

(b) Issued:

	Number of shares	Amount
Balance, March 31, 2006	53,194,741	$27,230,203
Exercise of options	33,300	14,985
Exercise of warrants	2,805,106	1,539,801
Share issuance cost	–	(9,637)
Balance, June 30, 2005	56,033,147	$28,775,352

(c) Warrants and Broker options:

At June 30, 2006 there were 8,400,000 warrants outstanding with an exercise price of $0.50 that expire on November 24, 2007.

At June 30, 2006 there were 569,287 broker options outstanding with an average exercise price of $0.38. These options expire between October 1, 2006 and February 27, 2007.

(d) Stock options:

The Company has a stock option plan for directors, officers, employees and consultants of the Company whereby up to 10% of the issued and outstanding common shares can be granted by the Board of Directors.
A summary of the status of the Company's stock option plan as of June 30, 2006 is presented below:

	Options	Weighted average exercise price ($)
Outstanding at March 31, 2006	1,940,167	0.44
Granted	1,910,000	0.73
Exercised	(33,300)	0.45
Outstanding at June 30, 2006	3,816,867	0.59
Exercisable at end of June 30, 2006	1,537,870	$ 0.57

The following table summarizes information about stock options outstanding at June 30, 2006.

Exercise price	Remaining life (years)	Number outstanding
$ 0.25	2.6	13,333
$ 0.30	1.8	75,000
$ 0.44	4.4	1,175,000
$ 0.45	2.3	66,700
$ 0.45	4.1	50,000
$ 0.48	3.8	66,834
$ 0.49	3.3	460,000
$ 0.72	5.0	1,760,000
$ 0.88	4.8	150,000
		3,816,867

(e) Stock based compensation:

During the period ended June 30, 2006, the Company granted 1,910,000 stock options with an average exercise price of \$0.73 (2005 – none). Options granted under the plan have a five year term and vest one-third immediately and one-third over each of the next two anniversaries of the grant date. The Company recorded stock based compensation expense of \$398,173 (2005 – \$52,157) for the three month period ended June 30, 2006.

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REGISTRAR AND TRANSFER AGENT
Valiant Trust Company • Calgary, Canada

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Richard N. Edgar
John H. Carruthers)
Bradley Johnson
Stephen Peacock
Ian Towers
James Howe

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All Directors are members of the Governance Committee

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RESOURCES INC

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Richard Edgar

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