Avery RESOURCES INC

ANNUAL REPORT 2008

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# Letter to Shareholders

Fellow Shareholders,

In Avery's 2008 fiscal year the Company established a solid platform for growth. We closed the year with a strong balance sheet, a stable production base, a large and highly prospective land base, a well-capitalized and experienced drilling joint venture partner, and a significantly improved store of technical geological information. These assets will serve us well as we expand our horizons in the junior international oil and gas sector, and we are grateful to the prior executive team of David Little, Richard Edgar and John Carruthers for establishing this solid base for growth.

Late in the 2007 fiscal year the decision was taken to suspend drilling activities in Australia and focus on acquiring additional technical information through the acquisition, processing and interpretation of 3D seismic survey data. This information is being used to improve the determination of drilling targets and mitigate risk. Capital spending was reduced to approximately $1.6 Million dollars with almost 60% allocated to 3D seismic surveys.

The Schwarzer offshore 3D seismic survey was completed in April 2007. The objective of this survey is to locate a well that would establish commerciality of the 81,300-acre AC/P 24 license area in the Timor Sea where the Katandra discovery is located. The structure was discovered in December 2004, when the exploration well, Katandra-1, encountered light sweet oil in a Vulcan Sub Basin prospect at a depth of 1,450 meters. The original well, which is situated in approximately 100 meters of water and took approximately two weeks to drill, earned Avery a 10% interest in the block. The seismic data has been processed and interpreted, and we, along with our joint venture partners, have decided that an additional processing stage is required prior to making a decision regarding a potential follow-up appraisal well. With our 10% interest in the license, a commercial discovery at Katandra could be very significant to Avery, given that nearby oilfields have produced in excess of 100 million barrels of light sweet crude to date.

We also completed the Watson and Cook 3D seismic surveys with our joint venture partner, Santos Ltd. These surveys, which covered over 300 square kilometres in the Barta and Wompi blocks of PEL 752 in the Queensland sector of Australia's Cooper Basin, have given us a much more comprehensive picture of the geology of those blocks. The surveys were undertaken as part of a formal agreement with Santos, signed in October 2007, to jointly explore and develop the 631,000-acre Barta Block and the 236,700-acre Wompi Block. The agreement also includes drilling up to seven wells over 18 months. Once the program is completed, Avery will have earned a 30% interest in the Wompi Block and a 25% interest in the Barta Block. We believe that Santos' application of large 3D seismic programs and their proven track record of finding and developing commercial discoveries in the Cooper Basin greatly improve our chances of success and add value for our shareholders going forward. The Barta and Wompi blocks are adjacent to lands held by Santos which are the subject of an accelerated exploration and development program being undertaken as part of the Santos Cooper Oil Project.

The first well in the Santos joint venture program, Cuisinier-1, was cased and suspended as a potential oil producer in early May 2008. The well logs indicate six meters of potential pay sands within the Murta sandstone, a new zone for the area. The discovery of this new potential target zone for the area improves the overall exploration potential of the acreage. We expect that the well will be brought into production in mid-July with the oil transported through existing infrastructure operated by Santos, since the well is only six kilometres west of the Santos operated Cook Oil Field. The second well in the program, Hudson-1, is located 20 kilometres southwest of Cuisinier-1 and is testing a structural oil prospect on trend with the Cuisinier-1 discovery.

In February 2008 Avery purchased Bengal Energy Inc., a privately held international oil and gas exploration and acquisition company, with an active inventory of highly prospective international opportunities in India, Libya and Madagascar, as well as a 50% interest in producing assets at Oak, British Columbia and a 12% interest in associated natural gas-handling facilities. At the same time Avery brought in a highly experienced business and technical team to strengthen our approach in Australia and expand our opportunities into other producing basins. Our qualifications are as follows:

Bradley Johnson, Chief Executive Officer:

- Former Chief Executive Officer of Sequoia Oil and Gas Trust. Under his leadership the Trust grew from an enterprise value of $30 million to over $500 million, until Sequoia's merger with Daylight Energy Trust in 2006.
- Former co-founder and President of an international energy consulting practice that advised on over $10 billion of successful transactions and optimized production for companies in producing basins worldwide

Chayan Chakrabarty, President:

- Has been involved in the oil and gas industry for 20 years, holding a number of senior executive positions
- Most recently was Vice President International with Daylight Resources Trust
- Former co-founder and senior executive of Verenex Energy, an international exploration and production company with operations in France and Libya
- Holds a Ph.D. in Petroleum Engineering from the University of Alberta and an MBA from the University of Calgary

James A. Mott, Vice President Exploration:

- An expert at the practical application of new technology and ideas to both new and existing oil and gas fields
- Involved in a number of geological evaluations of various basins in Oman, India, Madagascar and Peru as well as the new shale-gas play in the Beaver River gas field in British Columbia
- Obtained a Ph.D. in geology from Queens University in 1989

Success in the international oil and gas arena involves working closely with our own government representatives as well as foreign country governments in establishing effective relationships. In addition, partnering with local companies familiar with the regulatory environment, local laws and community relations, and local service providers is essential in optimizing the effectiveness of executing our plans. Our extensive international experience enables us to be effective in initiating and maintaining the relationships necessary to grow successfully in the global marketplace.

Going forward, we look to grow production and reserves through mergers and acquisitions, drilling and optimizing existing field developments, and increasing our international inventory of exploration lands. Our strategy is centered on building a balanced portfolio of assets, projects and growth opportunities.

In the short term, we are focused on increasing production and reserves from our existing properties in Australia through disciplined investments in new wells and niche acquisitions.

In the medium term, we are looking to expose the Company to exploitable resource plays that provide multiple, repeatable drilling opportunities in lower risk exploitation plays. We are focusing on basins in countries where we can partner with experienced national oil companies on accelerating development of some of their discovered resources. We intend to leverage our production optimization and enhancement expertise, utilizing Canadian technology and operating practices, to add production and reserves that are accretive.

We are also planning on aggressively pursuing international bid rounds where we will be focused on building an inventory of exploration lands with 3-5 year cycle times, in order to enhance the portfolio with longer term assets. For example, we recently signed a Joint Bidding Agreement with one of India's government-owned national oil companies and a large Indian private sector energy company to participate in the upcoming NELP VII Round of land parcels offered by the Indian government for oil and gas exploration. Our bidding partners are experienced with the NELP process and are well capitalized, greatly improving our chances of success. India is an excellent place for us to expand our business, since it is a net importer of oil and gas and the fourth largest consumer of energy products in the world. It is also the world's largest democracy, with a long established history of British common law and an attractive fiscal environment.

We will be asking you, our shareholders, to approve that Avery's name be changed to Bengal Energy Ltd. at our upcoming Annual General and Special Meeting. Avery's identity, and in particular its international opportunities and management skill set, has changed significantly. With the acquisition of Bengal Energy Inc. we now have a major footprint in the international junior oil and gas business and a new management team that brings a significant and broad range of international experience along with exceptional technical and transactional skills. Given these substantial changes, we feel that it is appropriate that we re-brand the company to reflect its new identity.

This is a very exciting time to be invested in our company. We are building a high-growth international exploration and production company with strong partnerships, excellent technical expertise and a superior and diverse portfolio of assets and projects. Within five years we intend to be a 10,000 boe per day producer with 50 million boe of reserves. These are lofty goals, but we have achieved similarly lofty goals in the past.

Welcome to Bengal Energy.

Sincerely,

Bradley Johnson

Bradley Johnson
Chief Executive Officer

Chayan Chakrabarty

Chayan Chakrabarty
President

Avery
RESOURCES INC

International exploration & production

# Management's Discussion & Analysis

# Years Ended March 31, 2008 and 2007

**MANAGEMENT'S DISCUSSION AND ANALYSIS – June 11, 2008**

The following Management's Discussion and Analysis ('MD&A') as provided by the management of Avery Resources Inc. ("Avery" or the "Company") should be read in conjunction with the audited Consolidated Financial Statements and notes thereto for the years ended March 31, 2008 and 2007. The reader should be aware that historical results are not necessarily indicative of future performance.

***Basis of Presentation -*** *The financial statements and financial data presented herein were prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The reporting and the measuring currency is the Canadian dollar. For the purpose of calculating unit costs, 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 ("bbl") of oil. The following Management Discussion and Analysis compares the results of the year ended March 31, 2008 ("2008") to the year ended March 31, 2007 ("2007") and the results of the three months ended March, 31, 2008 ("Q4-2008") to the three months ended March 31, 2007 ("Q4-2007") and the results of the three months ended December 31, 2007 ("Q3-2008")*

***Non-GAAP Measurements -*** *Included in this report are references to terms commonly used in the oil and gas industry, such as funds flow from operations and operating netback, which are not defined by Canadian GAAP and are referred to as non-GAAP measures and therefore may not be comparable to performance measures presented by others. The term funds flow from operations is used to represent cash flow from operating activities prior to changes in non-cash working capital. Operating netbacks represent petroleum and natural gas sales less royalties, operating and transportation costs calculated on a boe basis. Management believes that in addition to net earnings (loss), funds from operations and operating netback are useful supplemental measures as they provide an indication of Avery's operating performance and liquidity. Investors should be cautioned, however, that these measures should not be construed as an alternative to net earnings determined in accordance with GAAP as an indication of Avery's performance.*

*The following table reconciles cash provided by operations to funds flow from operations, which is used in the MD&A:*

| | **Three Months Ended** | | | **Twelve Months Ended** | |
|---|---|---|---|---|---|
| $000's | **03/31/08** | **03/31/07** | **12/31/07** | **03/31/08** | **03/31/07** |
| Cash provided by (used in) operations | **(527)** | (47) | (20) | **(486)** | 734 |
| Changes in non-cash working capital | **301** | (324) | 185 | **293** | 909 |
| Funds flow from operations | **(226)** | (371) | 165 | **(193)** | 1,643 |

***Forward Looking Statements -*** *Certain statements contained within the Management's Discussion and Analysis, and in certain documents incorporated by reference into this document, constitute forward looking statements. These statements relate to future events or Avery's future performance. All statements other than statements of historical fact may be forward looking statements. Forward looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward looking statements. Avery believes the expectations reflected in those forward looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A or as of the* *date specified in the documents incorporated by reference into this Management's Discussion and Analysis, as the case may be.*

*In particular, this Management's Discussion and Analysis, and the documents incorporated by reference, contain forward-looking statements pertaining to the following:*

- *the performance characteristics of Avery's oil and natural gas properties;*
- *oil and natural gas production levels;*
- *the size of the oil and natural gas reserves;*
- *projections of market prices and costs;*
- *supply and demand for oil and natural gas;*
- *expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development;*
- *treatment under governmental regulatory regimes and tax laws; and*
- *capital expenditures programs.*

*The actual results could differ materially from those anticipated in these forward looking statements as a result of the risk factors set forth below and elsewhere in this Management's Discussion and Analysis:*

- *volatility in market prices for oil and natural gas;*
- *liabilities inherent in oil and natural gas operations;*
- *uncertainties associated with estimating oil and natural gas reserves;*
- *competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;*
- *incorrect assessments of the value of acquisitions;*
- *geological, technical, drilling and processing problems; and*
- *changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry.*

*Statements relating to "reserves" or "resources" are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward looking statements contained in this MD&A and the documents incorporated by reference herein are expressly qualified by this cautionary statement. Avery does not undertake any obligation to publicly update or revise any forward-looking statements except as required by securities law.*

*Additional information can also be found in Avery's Annual Information Form dated June 11, 2008 and available on SEDAR at www.sedar.com. The reader is cautioned that assumptions used in the preparation of such information, although considered reasonable by Avery at the time of preparation, may prove to be incorrect.*

**Corporate Acquisition – Bengal Energy Inc.**

On February 13, 2008 Avery acquired all of the issued and outstanding common shares and common share purchase warrants of Bengal Energy Inc. in exchange for 14,300,002 common shares of Avery and 4,700,000 common share purchase warrants.

Bengal Energy Inc. has producing gas assets in Oak, British Columbia as well as an interest in a gas processing facility.

As a result of the transaction, the management team from Bengal Energy Inc. were appointed as the new management team of Avery Resources Inc.

Funds flow from operations for the three months ended March 31, 2008 shown in the table below was reduced by $839,000 as a result of costs incurred in relation to the acquisition.

**HIGHLIGHTS**

| $000's except per share, volumes and netback amounts | Three Months Ended | | | Twelve Months Ended | |
|---|---|---|---|---|---|
| | **03/31/08** | **03/31/07** | **12/31/07** | **03/31/08** | **03/31/07** |
| Revenue | | | | | |
| Natural gas | **$ 394** | $ 194 | $ 144 | **$ 978** | $ 744 |
| Natural gas liquids | **89** | 58 | 104 | **373** | 214 |
| Oil | **776** | 662 | 708 | **2,223** | 2,280 |
| Total | **1,259** | 914 | 956 | **3,574** | 3,238 |
| Royalties | **192** | 154 | 111 | **491** | 402 |
| % of revenue | **15.3** | 16.9 | 11.6 | **13.7** | 12.4 |
| Operating & transportation | **194** | 223 | 142 | **587** | 734 |
| Netback | **873** | 537 | 703 | **2,496** | 2,102 |
| Funds flow from operations: | **(226)** | (371) | 165 | **(193)** | 1,643 |
| Per share ($) (basic & diluted) | **(0.00)** | (0.00) | 0.00 | **(0.00)** | 0.03 |
| Net (loss): | **(632)** | (3,666) | (1,702) | **(3,645)** | (4,899) |
| Per share ($) (basic & diluted) | **(0.01)** | (0.05) | (0.02) | **(0.05)** | (0.08) |
| Capital expenditures | **$ 575** | $ 3,247 | $ (77) | **$ 1,583** | $ 6,535 |
| Volumes | | | | | |
| Natural gas (mcf/d) | **542** | 281 | 244 | **385** | 312 |
| Natural gas liquids (boe/d) | **13** | 13 | 14 | **15** | 10 |
| Oil (bbl/d) | **80** | 98 | 79 | **64** | 89 |
| Total (boe/d @ 6:1) | **184** | 157 | 134 | **144** | 151 |
| Netback ($/boe) | | | | | |
| Revenue | **$ 75.35** | $ 64.59 | $ 77.80 | **$ 68.01** | $ 58.64 |
| Royalties | **11.50** | 10.89 | 9.05 | **9.35** | 7.28 |
| Operating & transportation | **11.60** | 15.79 | 11.51 | **11.16** | 13.30 |
| Total | **$ 52.25** | $ 37.91 | $ 57.24 | **$ 47.50** | $ 38.06 |

## RESULTS OF OPERATIONS

### Production

The following table outlines Avery's production volumes for the periods indicated:

| Production | Three Months Ended | | | Twelve Months Ended | |
|---|---|---|---|---|---|
| | **03/31/08** | **03/31/07** | **12/31/07** | **03/31/08** | **03/31/07** |
| Natural Gas (mcf/d) | **542** | 281 | 244 | **385** | 312 |
| Oil (bbls/d) | **80** | 98 | 79 | **64** | 89 |
| NGLs (bbls/d) | **13** | 13 | 14 | **15** | 10 |
| Total (boe/d) | **184** | 157 | 134 | **144** | 151 |

Production for the year ended March 31, 2008 was relatively flat due to reduced drilling activity and natural declines offset by the acquisition of two producing gas wells in Oak, British Columbia in February 2008. For the year ended March 31, 2008, overall production decreased 5% or 7 boe/d to 144 boe/d compared to 151 boe/d in the prior year. Production from Oak is included in Avery's production volumes from February 13, 2008, increasing gas and liquids volumes by 67 mcf/d and 1 bbl/d respectively (12 boe/d) in the year ended March 31, 2008.

For the three months ended March 31, 2008 (Q4-2008), total oil, natural gas and natural gas liquids (NGL's) production averaged 184 boe/d, an increase of 17% from the 157 boe/d produced in the comparable prior period of 2007 and a 37% increase over Q3-2008 production of 134 boe/d mainly due to the acquisition of two producing gas wells in Oak, British Columbia. Production from Oak added 269 mcf/d and 2 bbl/d (47 boe/d) of gas and liquids volumes to Q4-2008 production.

***Natural gas and liquids production – Canada***

On February 13, 2008 Avery acquired all the outstanding common shares of Bengal Energy Inc., a private oil and gas company. Bengal's assets included a 50-percent interest in two producing gas wells at Oak, British Columbia and a 12-percent interest in an associated natural gas-handling facility. Daily production from the Oak property net to Avery currently amounts to approximately 100 boe/d.

Production from Avery's four gas wells at Kaybob, Alberta was virtually unchanged as a decline in working interest for the 13-16 well from 50% to 37.5% on payout was offset by increased volumes at the 13-16 well due to commingling of gas from multiple geological zones.

***Oil production - Toparoa-1 Australia***

The decrease in oil production in the year and quarter ended March 31, 2008 from the prior comparable periods is due to natural declines in oil production from Avery's Toparoa-1 well in Australia, which came online in October 2006. Production from the well remained relatively flat over the two most recent quarters.

### Pricing

Avery's natural gas prices are influenced by overall North American supply and demand, seasonal changes, storage levels and transportation capacity. Avery markets its natural gas under one-year contracts with pricing based on the AECO Daily Index (5A) less transport and fuel costs (approximately $0.10/mcf) and therefore Avery expects its future realized gas prices to coincide with the AECO Daily Index price. Oak, British Columbia gas sales are marketed by the operator and the price received is based on the reference price at British Columbia's Station 2 plus $0.03 per mcf. Station 2 gas deliveries can come from natural gas produced in British Columbia, Alberta, or the Territories north of British Columbia. Since natural gas can be sourced from several producing regions, the liquidity at Station 2 can often be greater than at the Sumas hub, located on the British Columbia / Washington border.

Avery expects prices for natural gas to remain stable or increase due to strong demand from the U.S. for Canadian gas and declining LNG imports into the U.S., which in the past have depressed natural gas prices. The demand for natural gas will continue to climb from the U.S. for electric power generation as coal-fired capacity – the backbone of the current U.S. power grid – is less environmentally acceptable. The additional demand for natural gas is expected to rise by over one percent per year for the next five years.

Meanwhile, the Office of Fossil Energy, which tracks import and export data, has reported significant declines in LNG imports since September 2007. Imports of LNG into the U.S. will reach 788 bcf this year, a 1.8% increase over 2007, but this reflects a downward revision from the January outlook due to the expectation of continued demand strength in Asia and Western Europe, which compete with the U.S. for marginal LNG supplies.

Avery's realized price for its Australian oil production is based on the Tapis Crude benchmark price. Tapis is the main regional reference price for light sweet crude oils in South East Asia and is used as the reference price for Australian oil producers. Avery's oil price is calculated using the Tapis reference price with the addition of approximately US $2.00/bbl premium for the quality of its oil. Tapis has been trading at a premium to West Texas Intermediate ("WTI") of between US $3.50 and US $10.00 /bbl over the past year; combined, Avery's oil sees a premium over WTI of between $5.00 to $10.00 /bbl.

The outlook for crude oil remains positive as the crude fundamentals are unchanged. The world crude supply is declining whereas the physical demand remains firm largely from Asian economies, in particular India and China.

NGL's include condensate, pentane, butane and propane. While prices for condensate and pentane have a relatively strong correlation to oil prices, prices for butane and propane trade at varying discounts due to the market conditions of local supply and demand.

The following table outlines benchmark prices compared to Avery's realized prices:

| **Prices and Marketing** | **Three Months Ended** | | | **Twelve Months Ended** | |
|---|---|---|---|---|---|
| | **03/31/08** | **03/31/07** | **12/31/07** | **03/31/08** | **03/31/07** |
| **Average Benchmark Prices** | | | | | |
| AECO 30 day firm ($/mcf) | **$ 7.12** | $ 7.46 | $ 6.00 | **$ 6.52** | $ 6.53 |
| TAPIS oil ($US/bbl) | **101.97** | 63.19 | 94.35 | **87.54** | 69.52 |
| Cdn/Aus exchange rate | **0.91** | 0.92 | 0.87 | **0.89** | 0.87 |
| WTI oil ($US/bbl) | **$ 97.92** | $ 58.12 | $ 90.68 | **$ 82.23** | $ 64.92 |
| **Avery's Realized Price ($ CAD)** | | | | | |
| Natural gas ($/mcf) | **$ 7.99** | $ 7.70 | $ 6.42 | **$ 6.95** | $ 6.53 |
| Oil ($/bbl) | **106.22** | 75.24 | 97.09 | **94.47** | 70.48 |
| NGLs ($/bbl) | **75.49** | 50.39 | 82.68 | **66.98** | 55.01 |
| Total ($/boe) | **$ 75.35** | $ 64.59 | $ 77.80 | **$ 68.01** | $ 58.64 |

**Petroleum and Natural Gas Sales**

The following table outlines Avery's production sales by category for the periods indicated below:

| **Petroleum and Natural Gas Sales ($000's)** | **Three Months Ended** | | | **Twelve Months Ended** | |
|---|---|---|---|---|---|
| | **03/31/08** | **03/31/07** | **12/31/07** | **03/31/08** | **03/31/07** |
| Natural Gas | **$ 394** | $ 194 | $ 144 | **$ 978** | $ 744 |
| Oil | **776** | 662 | 708 | **2,223** | 2,280 |
| NGLs | **89** | 58 | 104 | **373** | 214 |
| Total | **$ 1,259** | $ 914 | $ 956 | **$ 3,574** | $ 3,238 |

Petroleum and natural gas revenues increased for the year ended March 31, 2008 due mainly to higher oil prices partially offset by lower production volumes over the prior year.

Crude oil revenues for Q4-2008 increased from Q4-2007 due to higher oil prices.

Revenues in Q4-2008 increased over the previous quarter and prior year comparable quarter due to higher gas prices and the acquisition of two gas wells in Oak, British Columbia which added $198,000 to Q4-2008 revenue. Revenue per boe declined from Q3-2008 to Q4-2008 due to a larger proportion of natural gas in the corporate product mix.

**Royalties**

Royalty payments are made by oil and natural gas producers to the owners of the mineral rights on the leases. These owners include governments (Crown) and freehold landowners as well as other third parties that may receive contractual overriding royalties.

In Alberta, royalties on natural gas and NGL's are charged by the government based on an established monthly reference price. The reference price is meant to reflect the average price for natural gas and NGL's in Alberta. Gas cost allowance and custom processing credits reduce the effective royalty rate. Avery's effective Crown royalty rate on Alberta production is 18.0% for the year ended March 31, 2008 Avery also pays a 7.5% Gross Overriding Royalty ("GORR") to the landholder for two of its four Kaybob gas wells.

In British Columbia, royalties are calculated based on average daily production from a well multiplied by a reference price. The reference price is the greater of the Producer Price and the Posted Minimum Price. The Producer Price is determined monthly for each producer at each gas processing plant at which the producer has production for the month. The Ministry of Energy, Mines and Petroleum Resources calculates and publishes a Posted Minimum Price (PMP) each month for each processing plant. The royalty rate is reduced by a Producer Cost of Service (PCOS) allowance for the producers' field costs for gathering, dehydration and compression of the royalty share. Avery's effective Crown royalty rate on British Columbia production is 18.3% for the period from February 13, 2008 to March 31, 2008. Avery also pays a 15% GORR to the landholder for its two Oak gas wells.

In Australia, oil royalties are based on a government-established rate of 11% of gross revenues after deducting an allowance for transportation and operating costs.

The increase in Avery's royalties for the year ended March 31, 2008 to $491,000 compared with $402,000 in the previous year is due to higher product prices and the addition of the 15% GORR on Oak gas production.

In Q4-2008 royalties also increased over the previous quarter and the same quarter of the prior year due to higher product prices, higher volumes and the addition of the 15% GORR on Oak gas production.

| **Royalties by Type ($000's)** | **Three Months Ended** | | | **Twelve Months Ended** | |
|---|---|---|---|---|---|
| | **03/31/08** | **03/31/07** | **12/31/07** | **03/31/08** | **03/31/07** |
| Canada Crown | **$ 93** | $ 67 | $ 46 | $ 244 | $ 210 |
| Canada Gross overriding | **41** | 7 | 12 | 72 | 41 |
| Australian Government | **58** | 80 | 53 | 175 | 151 |
| Total | **$ 192** | $ 154 | $ 111 | $ 491 | $ 402 |
| $/boe | **11.50** | 10.89 | 9.05 | 9.35 | 7.28 |
| % of revenue | **15.3** | 16.9 | 11.6 | 13.7 | 12.4 |

| Royalties by Commodity | Three Months Ended | | | Twelve Months Ended | |
|---|---|---|---|---|---|
| | **03/31/08** | **03/31/07** | **12/31/07** | **03/31/08** | **03/31/07** |
| Natural Gas | | | | | |
| $000's | **$ 99** | $ 54 | $ 16 | **$ 181** | $ 183 |
| $/mcf | **2.01** | 1.98 | 0.70 | **1.28** | 1.41 |
| % of revenue | **25.1** | 27.6 | 10.9 | **18.5** | 24.7 |
| Oil | | | | | |
| $000's | **$ 58** | $ 80 | $ 53 | **$ 175** | $ 151 |
| $/bbl | **8.00** | 9.12 | 7.34 | **7.45** | 4.66 |
| % of revenue | **7.5** | 12.1 | 7.6 | **7.9** | 6.6 |
| NGLs | | | | | |
| $000's | **$ 35** | $ 20 | $ 42 | **$ 135** | $ 68 |
| $/bbl | **29.32** | 16.77 | 33.31 | **24.33** | 15.76 |
| % of revenue | **38.8** | 35.2 | 40.3 | **36.3** | 31.7 |

On October 25, 2007, the Alberta Government announced increases in the royalty rates effective January 1, 2009, that are expected to result in an increase in Avery's royalty rates of less than three percentage points from Avery's current corporate royalty rates of approximately 13.7 percent of revenue (the "New Alberta Royalty Framework" or NRF). The impact of the royalty increase is estimated to have minimal impact on Avery's future earnings and cash flow.

**Operating & Transportation Expenses**

| Operating Expenses ($000's) | Three Months Ended | | | Twelve Months Ended | |
|---|---|---|---|---|---|
| | **03/31/08** | **03/31/07** | **12/31/07** | **03/31/08** | **03/31/07** |
| Australia | | | | | |
| Operating | **$ 23** | $ 14 | $ 13 | **$ 61** | $ 38 |
| Transportation | **94** | 88 | 89 | **292** | 371 |
| | **117** | 102 | 102 | **353** | 409 |
| Canada – operating costs | **77** | 121 | 40 | **234** | 325 |
| Total | **$ 194** | $ 223 | $ 142 | **$ 587** | $ 734 |
| Australia | | | | | |
| Operating - $/boe | **3.18** | 1.59 | 1.78 | **2.59** | 1.17 |
| Transportation - $/boe | **12.92** | 10.00 | 12.18 | **12.40** | 11.47 |
| Canada - $/boe | **8.11** | 22.62 | 7.93 | **8.06** | 14.24 |
| Total ($boe) | **$ 11.60** | $ 15.79 | $ 11.51 | **$ 11.16** | $ 13.30 |

Operating and transportation costs decreased in the year ended March 31, 2008 from the prior year due to lower production volumes in Australia. Canadian operating costs for the year ended March 31, 2007 include costs to install a gas compressor to connect wells 10-4 and 13-4 to a sour gas pipeline.

Transportation costs in Australia are incurred to get Avery's oil production from the wellhead, to the Limestone Creek processing facility. From there the oil is pipelined to the Moomba facility which accepts production from 115 gas fields and 28 oil fields through approximately 5,600 kilometers of pipelines. The oil is then sent through a pipeline to Port Bonython, South Australia where it is held in storage tanks until being loaded on tankers.

In Q4-2008 overall costs are down from Q4-2007 due to installation of a gas compressor at Kaybob to connect wells 10-4 and 13-4 to a sour gas pipeline in Q4-2007.

Canadian operating costs increased in Q4-2008 compared to Q3-2008 due to the acquisition of two gas wells in Oak, British Columbia

**General and Administration (G&A) Expenses**

Gross G&A costs declined in the year ended March 31, 2008 and in Q4-2008 from the comparative prior periods due to decreased travel. Travel costs were higher in the prior comparative periods due to increased levels of operational activity in Australia and subsequent involvement of Australian management personnel in corporate strategy development.

In conjunction with the closing of the acquisition of Bengal Energy Inc. $839,000 of acquisition costs were recorded in G&A, as severance obligations were paid to certain former officers who stepped down to make way for the new management team.

In the quarter Q4-2008, G&A increased on a per boe basis due to costs incurred in relation to the acquisition of Bengal.

Overhead recoveries in the year ended March 31, 2008 relate to work done by Avery's professional staff in its Australia office to prepare and submit bids for several blocks of land in Australia's Cooper Basin. Preparation and bid submission costs of $170,000 were charged to Joint Venture partners. Avery collected $85,000 from its partners and allocated $85,000 of its own costs to the project.

The amount shown as recovery in Q4-2007 is a reversal of amounts previously capitalized in Q3-2007 and does not impact on the total G&A for the year ended March 31, 2007.

| **General and Administrative Expenses ($000's)** | **Three Months Ended** | | | **Twelve Months Ended** | |
|---|---|---|---|---|---|
| | **03/31/08** | **03/31/07** | **12/31/07** | **03/31/08** | **03/31/07** |
| Gross G&A | **$ 565** | $ 667 | $ 580 | **$ 2,253** | $ 2,352 |
| Acquisition-related G&A | **839** | – | – | **839** | – |
| Recoveries | **–** | 360 | – | **(170)** | – |
| **Net G&A** | **$ 1,404** | $ 1,027 | $ 580 | **$ 2,922** | $ 2,352 |
| **Net G&A ($/boe)** | **$ 84.02** | $ 72.53 | $ 47.20 | **$ 55.60** | $ 42.59 |

**Stock based compensation**

The Company applies the fair value method for valuing stock option grants. Under this method, compensation costs attributable to all share options granted are measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus.

Avery recognized stock-based compensation expense of $533,000 for the year ended March 31, 2008 compared to $977,000 in the comparable prior-year period. The decline in expense is attributable to early option grants having been fully expensed.

In November 2007, 520,000 stock options were granted to employees and directors. The options expire in five years; they vest one-third immediately and one-third on each of the following two annual anniversaries, and have an exercise price of $0.32 per option. The fair value of the options is $92,000 using the Black-Scholes option pricing model.

For the three month period ended March 31, 2008, stock-based compensation expense was $124,000 compared with $103,000 in the comparable prior-year period.

**Depletion, Depreciation and Accretion (DD&A)**

| DD&A Expenses ($000's) | Three Months Ended | | | Twelve Months Ended | |
|---|---|---|---|---|---|
| | **03/31/08** | 03/31/07 | 12/31/07 | **03/31/08** | 03/31/07 |
| DD&A – Australia | **$ 22** | $ 1,142 | $ 1,052 | **$ 1,795** | $ 3,115 |
| DD&A – Canada | **234** | 38 | 74 | **536** | 442 |
| Sub-total | **256** | 1,180 | 1,126 | **2,331** | 3,557 |
| Australia – Ceiling test write down | **–** | 2,036 | 600 | **600** | 2,036 |
| Total | **$ 256** | $ 3,216 | $ 1,726 | **$ 2,931** | $ 5,592 |
| $/boe – Australia | **3.01** | 129.70 | 143.43 | **76.27** | 96.26 |
| $/boe – Canada | **24.87** | 7.10 | 14.92 | **18.45** | 19.35 |
| $/boe – Sub-total | **15.32** | 83.38 | 91.70 | **44.34** | 64.41 |
| $/boe – Australia (Ceiling test) | **–** | 143.82 | 48.77 | **11.42** | 36.87 |
| $/boe – Total | **$ 15.32** | $ 227.20 | $ 140.47 | **$ 55.76** | $ 101.28 |

DD&A (before the ceiling test impairment charge) decreased for the year ended March 31, 2008 by $1,226,000, or $20.07 per boe, compared to the comparable prior year due to upward reserve revisions.

Similarly, an upward revision in reserves resulted in a decline in DD&A expense in Q4-2008 compared to Q4-2007 and Q3-2008.

**Ceiling Test**

In ceiling tests performed at March 31, 2008, future net revenues exceeded capitalized costs for both Canadian and Australian cost centres.

At December 31, 2007 a ceiling test on the Australian cost centre resulted in a $600,000 write down of capitalized costs which are included in depletion, depreciation and amortization.

At March 31, 2007 a ceiling test on the Australian cost centre resulted in a write down of $2,036,000, included in depletion, depreciation and amortization.

**Mitigation Payment**

In recognition of the Toparoa-1 production delays, the prior period includes a one-time payment in September 2006 of $1,390,000.

**Tax Pools**

Avery has the following tax pools available to deduct against future earnings:

| Years ended March 31 ($000's) | 2008 | 2007 |
|---|---|---|
| Canada | | |
| Canadian exploration expense | **$ 76** | $ 57 |
| Canadian development expense | **852** | 415 |
| Canadian oil and gas property expense | **1,994** | 1,997 |
| Undepreciated capital cost | **1,484** | 834 |
| Canadian foreign exploration & development | **2,222** | 1,930 |
| Non-capital losses carry forward | **4,455** | 3,690 |
| Net capital losses | **5,878** | 5,878 |
| Share issue costs | **781** | 1,052 |
| Total Canada | **17,742** | 15,853 |
| Australia | | |
| Non-capital losses carry forward | **9,555** | 8,804 |
| Undepreciated capital cost | **107** | 60 |
| Share issue costs | **78** | 105 |
| Total Australia | **9,740** | 8,969 |
| Total | **$ 27,482** | $ 24,822 |

No tax benefit has been reflected in the financial statements as it is not more likely than not there will be sufficient earnings in the future to utilize the pools and realize the benefit.

At March 31, 2008, the Company had approximately $4.5 million and $9.6 million of non-capital losses in Canada and Australia respectively (2007 - $3.7 million and $8.8 million), available to reduce future taxable income. The Canadian losses expire as follows: 2008 – $0.3 million, 2009 - $0.3 million, 2010 - $0.2 million, 2011 - $0.4 million, 2012 – $0.7 million and $2.6 million thereafter. The Australian non-capital losses have no expiry provided the shares of the Australian subsidiary are 50% owned by the same persons or corporation throughout the ownership test period or the company carries on the same business in the claim year as it did immediately before the test time. In the year ended March 31, 2008, $0.3 million of Canadian non-capital losses expired (2007 - $0.8 million).

**Funds from Operations and Net Earnings**

The following table summarizes the net earnings on a barrel of oil equivalent basis for the periods indicated.

| **($/boe)** | **Three Months Ended** | | | **Twelve Months Ended** | |
|---|---|---|---|---|---|
| | **03/31/08** | **03/31/07** | **12/31/07** | **03/31/08** | **03/31/07** |
| **Sales Price** | **$ 75.35** | $ 64.59 | $ 77.80 | **$ 68.01** | $ 58.64 |
| Royalties | **(11.50)** | (10.89) | (9.05) | **(9.35)** | (7.28) |
| Operating & transportation | **(11.60)** | (15.79) | (11.51) | **(11.16)** | (13.30) |
| **Operating netback** | **$ 52.25** | $ 37.91 | $ 57.24 | **$ 47.50** | $ 38.06 |
| General and administration | **(84.02)** | (72.53) | (47.20) | **(55.60)** | (42.59) |
| Interest income | **3.77** | 8.26 | 6.61 | **5.82** | 4.58 |
| Mitigation payment | **–** | – | – | **–** | 25.19 |
| Non-controlling interest | **0.30** | 0.42 | 0.48 | **0.72** | 0.55 |
| Realized foreign exchange | **14.12** | (0.27) | (3.66) | **(2.11)** | 3.96 |
| **Funds flow netback** | **$ (13.58)** | $ (26.21) | $ 13.47 | **$ (3.67)** | 29.75 |
| Depletion, depreciation and accretion | **(15.32)** | (227.20) | (140.47) | **(55.76)** | (101.28) |
| Stock-based compensation | **(9.27)** | (7.28) | (12.05) | **(10.75)** | (17.69) |
| Unrealized foreign exchange | **0.30** | 1.72 | 0.57 | **0.82** | 0.50 |
| **Net earnings (loss)** | **$ (37.87)** | $ (258.97) | $ (138.48) | **$ (69.36)** | $ (88.72) |

**CAPITAL EXPENDITURES**

Capital expenditures for the year ended March 31, 2008 relate mainly to seismic activity on the Wompi Block in the Cooper Basin and on Avery's offshore Timor Sea prospect. Completion costs were incurred to re-perforate and commingle zones for two gas wells in Western Canada. Capital expenditures in Australia for the year ended March 31, 2008 include $85,000 of capitalized G&A (2007 – Nil).

| **Capital Expenditures ($000's)** | **Three months ended** | | | **Twelve Months Ended** | |
|---|---|---|---|---|---|
| | **03/31/08** | **03/31/07** | **9/30/07** | **03/31/08** | **03/31/07** |
| Land | **$ –** | $ 17 | $ – | **$ 107** | $ 49 |
| Geological and geophysical | **19** | 699 | (77) | **735** | 1,882 |
| Drilling | **–** | 2,489 | 5 | **130** | 3,920 |
| Completions | **542** | 42 | (15) | **538** | 619 |
| Total oil and gas additions | **561** | 3,247 | (87) | **1,510** | 6,470 |
| Office | **14** | – | 10 | **73** | 65 |
| Total expenditures | **$ 575** | $ 3,247 | $ (77) | **$ 1,583** | $ 6,535 |

## SHARE CAPITAL

The Company has an unlimited number of common shares authorized for issuance. On June 11, 2008 there are 91,063,936 common shares issued and outstanding.

On February 13, 2008, the Company acquired all of the issued and outstanding common shares and common share purchase warrants of Bengal Energy Inc., a private oil and gas company, in exchange for 14,300,002 Avery shares and 4,700,000 common share purchase warrants. Each Avery warrant vests and is exercisable upon the 20-day weighted average trading price of the Avery shares being $0.80 per share and upon vesting, shall entitle the holder to acquire one Avery share at an exercise price of $0.40 until August 11, 2011.

On November 24, 2007, 8,400,000 share purchase warrants, with an exercise price of $0.50 expired.

At June 11, 2008, there are 5,636,867 employee stock options outstanding with an average exercise price of $0.58 of which 4,203,539 are vested. These options expire between 2008 and 2011 with an average remaining life of 3.2 years.

| **Share Information (000's)** | **Three months ended** | | | **Twelve Months Ended** | |
|---|---|---|---|---|---|
| | **03/31/08** | **03/31/07** | **12/31/07** | **03/31/08** | **03/31/07** |
| Shares Outstanding | | | | | |
| Basic | **90,989** | 76,689 | 76,689 | **90,989** | 76,689 |
| Diluted | **90,989** | 76,689 | 76,689 | **90,989** | 78,312 |
| Weighted average shares outstanding | | | | | |
| Basic | **84,232** | 76,312 | 76,689 | **78,569** | 63,337 |
| Diluted | **84,232** | 76,312 | 76,689 | **78,569** | 64,960 |

## LIQUIDITY AND CAPITAL RESOURCES

The Company had working capital of $8.0 million at March 31, 2008 compared to working capital of $9.1 million in the prior comparable period. The Company's future capital expenditure plans are discussed below in the "Outlook" section. The Company invests surplus cash only in guaranteed investment certificates.

As the Company is in the early stages of exploration and development and although it is generating operating revenue, funding of most activities to date has been supplemented through the issuance of share capital and convertible debt. 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 operations, working capital and debt when the level of operations provide borrowing capacity.

| **Trading history** | **Three months ended** | | | **Twelve Months Ended** | |
|---|---|---|---|---|---|
| | **03/31/08** | 03/31/07 | 12/31/07 | **03/31/08** | 03/31/07 |
| High | **0.44** | 0.73 | 0.40 | **0.44** | 0.95 |
| Low | **0.26** | 0.33 | 0.26 | **0.26** | 0.32 |
| Close | **0.41** | 0.39 | 0.31 | **0.41** | 0.39 |
| Volume (000's) | **6,978** | 5,061 | 3,169 | **16,733** | 18,071 |

On November 1, 2007, trading moved from the TSX Venture Exchange to the TSX – trading symbol ARY.

## RELATED PARTY TRANSACTIONS

The Company paid $81,000 in acquisition-related fees to an organization of which one of the Company's directors is a partner. The fees were paid in the ordinary course of business based on market rates.

A director of the Company received 1,154,400 Avery shares in exchange for shares owned in Bengal Energy Inc. at the same exchange ratio as all other Bengal shareholders as part of the acquisition of Bengal Energy Inc.

In the year ended March 31, 2008, the Company paid $128,923 in fees to the law firm of which the Corporate Secretary is a partner. Of these fees, $38,905 is charged to earnings and $90,018 is included in the fair value of assets and liabilities acquired in the Bengal Acquisition (see Note 4) . In the year ended March 31, 2007, the Company paid $130,725 in fees to the law firm of which the Corporate Secretary is a partner. Of these fees, $84,373 was charged to earnings and $46,352 was charged to share capital as share issue costs.

## OFF BALANCE SHEET TRANSACTIONS

The Company does not have any off balance sheet transactions

## CONTRACTUAL ARRANGEMENTS

The Company is committed to minimum annual operating lease payments on its premises in Canada and Australia in the amount of $194,000 and $191,000 for the next two years ending March 31, 2010 and $40,000 from April to July, 2010.

The Company also has asset retirement obligations with respect to the abandonment and reclamation of wells and facilities owned by the Company. Avery includes the present value of the estimated liabilities for such costs on its balance sheet. The total estimated undiscounted cost of these liabilities at March 31, 2008 was $302,000.

The Company has a flow-through share obligation to spend $201,000 on qualifying exploration and development expenditures by December 31, 2008.

| **Contractual Obligations ($000's)** | **Total** | **Less than 1 year** | **1-3 Years** | **4-5 Years** | **After 5 Years** |
|---|---|---|---|---|---|
| Office lease | $ 425 | $ 194 | $ 231 | $ – | $ – |
| Flow-through share expenditures | 201 | 201 | – | – | – |
| Asset retirement obligations | 302 | 51 | – | – | 251 |
| Total Contractual Obligations | $ 928 | $ 446 | $ 231 | $ – | $ 251 |

## OUTLOOK

Avery has signed a Joint Bidding Agreement with multiple exploration and production partners, including a large and well-established Indian-based Public Sector energy company, for the upcoming Seventh New Exploration Licensing Policy (NELP-VII) Round of oil and gas exploration in India. Under NELP-VII, the Indian government is offering a total of 57 blocks for exploration of oil and gas constituting 19 deepwater blocks, 9 shallow water blocks and 29 onshore blocks.

On October 17, 2007, Avery announced that it had signed a formal agreement with Santos Ltd. (Santos), a major Australian oil and gas explorer and producer, whereby Avery and Santos would jointly explore and develop, subject to certain terms and conditions, two of Avery's large land blocks – ATP 752P Barta and Wompi – in the Cooper Basin of Queensland, Australia, containing a total of 868,000 gross acres of exploration lands.

In the Barta Block, the first of the two wells planned for the first quarter of fiscal 2009, and the first well of the JV with Santos – Cuisinier-1 – was drilled and cased in May 2008. The well was suspended as a potential oil producer, with good oil shows and open hole logs indicating 6 meters of potential pay sands within a new zone for the area (Murta sandstone). The discovery of a new potential target zone for the area improves the overall exploration potential of Avery's acreage. It is anticipated that Cuisinier-1 could be brought into production in early third quarter of calendar 2008 with oil being transported through existing infrastructure operated by Santos. The Cuisinier-1 oil discovery is 6 kilometers west of the Santos-operated Cook Oil Field.

In the Barta Block, the second well – Hudson-1 – is planned to commence drilling during June 2008. Hudson-1 will be located 20 kilometers SW of Cuisinier-1 and will test a seismically defined structure. The costs to Avery for drilling these two wells (Cuisinier-1 and Hudson-1) are anticipated to total approximately $2.0 million.

The Company continues to high-grade its existing inventory of drilling opportunities in the onshore Cooper Basin. Avery (35% working interest) and its partner in the PEL 113 Murteree Block in the Cooper Basin, Stuart Petroleum (65% working interest), plan to commence drilling Subzero-1 well in late June 2008. Subzero-1 will be located approximately 4 kilometers northwest of Avery's Toparoa-1 discovery well and will target potential oil horizons in the Cretaceous-Jurassic and a deeper secondary gas objective in the Permian. The cost to Avery to case and suspend this well is anticipated to be approximately $0.9 million.

In the ATP 752P Wompi Block, under the JV agreement with Santos, Santos will shoot 200 square kilometers 3D seismic and drill up to four wells, where the Company is carried by Santos for the 3D seismic and 3.45 wells (Avery 30% working interest). Santos will be the operator in this block.

The Company holds a 10% interest in the offshore Timor Sea Permit AC/P 24, which the Company earned through the drilling of the oil discovery well Katandra-1 in December 2004. During the month of April 2007, Avery and its partners completed a 3D seismic program over Katandra; the seismic data has been processed and interpreted. The Joint Venture has decided that an additional processing stage in required prior to making a decision regarding the proposal of follow-up appraisal drilling.

The Company was the winning bidder for the Cooper Basin ATP 934P exploration block in Queensland, Australia, in the recent land release bidding round. Avery (50% working interest) is the Operator of this block – the other partners are Seoul City Gas (30%) and Mosaic Oil (20%). Avery will have to clear/resolve Native Title issues on this land, and to that end, the Company will need to begin negotiations with the Wongkamurra people with a view to being awarded the ATP around the end of calendar year 2008. ATP 934P has an area of 361,260 acres (gross), is in the heart of the central Cooper Basin gas province and is surrounded by Permian gas fields, with more recent activities nearby having resulted in Jurassic and Cretaceous oil discoveries.

## SELECTED ANNUAL FINANCIAL INFORMATION

The following table sets forth certain annual information of the Company and has been prepared in accordance with Canadian GAAP.

**($000's except per share data and prices)**

| Year end March 31 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| Total production volumes (boe/d) | 144 | 151 | 25 | |
| Natural gas prices ($/mcf) | 6.95 | 6.53 | 8.82 | – |
| Oil and liquids prices ($/boe) | 89.21 | 69.02 | 57.53 | – |
| Total production revenue | 3,574 | 3,238 | 488 | – |
| Net loss | (3,645) | (4,899) | (3,596) | (774) |
| Per share – basic and diluted | (0.05) | (0.08) | (0.13) | (0.07) |
| Funds from operations (1) | (193) | 1,643 | (1,118) | (575) |
| Per share – basic and diluted | (0.00) | 0.03 | (0.04) | (0.04) |
| Total Assets | 20,410 | 18,086 | 11,537 | 2,120 |
| Working capital | 8,043 | 9,117 | 3,080 | 722 |

(1) See "Non-GAAP Measurements" on the first page of this MD&A

## SELECTED QUARTERLY INFORMATION

Set out below is selected quarterly information for Avery for the last eight quarters.

| (000's, except per share amounts) | Quarter Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **3/31/08** | **12/31/07** | **9/30/07** | **6/30/07** | **3/31/07** | **12/31/06** | **9/30/06** | **6/30/06** |
| Petroleum and Natural Gas Sales | **$ 1,259** | $ 956 | $ 732 | $ 627 | $ 914 | $ 1,821 | $ 232 | $ 271 |
| Funds from Operations | **(226)** | 165 | 79 | (211) | (371) | 1,314 | 969 | (269) |
| Per Share- Basic and Diluted | **(0.00)** | (0.00) | (0.00) | (0.00) | (0.00) | 0.02 | 0.02 | (0.01) |
| Net Earnings (loss) | **$ (632)** | $(1,702) | $ (553) | $ (758) | $(3,666) | $(1,069) | $ 656 | $ (819) |
| Per Share- Basic and Diluted | **(0.01)** | (0.02) | (0.01) | (0.01) | (0.05) | (0.02) | 0.01 | (0.02) |
| Additions to capital assets | **$ 575** | $ (77) | $ 735 | $ 350 | $ 3,247 | $ 1,790 | $ 1,348 | $ 150 |
| Working capital | **8,043** | 8,142 | 7,900 | 8,556 | 9,117 | 12,546 | 3,832 | 4,205 |
| Total Assets | **20,410** | 15,327 | 16,967 | 16,839 | 18,086 | 21,167 | 12,393 | 18,086 |
| Shares Outstanding | | | | | | | | |
| Basic | **90,989** | 76,689 | 76,689 | 76,689 | 76,689 | 76,226 | 56,194 | 56,033 |
| Diluted | **90,989** | 76,689 | 76,689 | 76,689 | 76,689 | 76,689 | 58,643 | 58,286 |
| **Operations** | | | | | | | | |
| Average daily production | | | | | | | | |
| Natural gas (Mcf/d) | **542** | 244 | 382 | 372 | 281 | 250 | 347 | 368 |
| Oil and NGLs (bbls/d) | **93** | 93 | 75 | 57 | 111 | 265 | 10 | 11 |
| Combined (boe/d) | **184** | 134 | 138 | 119 | 157 | 307 | 68 | 72 |
| Netback ($/boe) | **$ 52.25** | $ 57.24 | $ 37.79 | $ 40.73 | $ 37.92 | $ 46.70 | $ 15.97 | $ 21.18 |

Prior to the quarter ended December 31, 2006, all of Avery's production came from four gas wells in the Kaybob area of Alberta. In October, 2006 oil production from the discovery well Toparoa-1 in Australia commenced. The well began production on October 6, 2006 at approximately 1,600 gross (net 523) bbls/d and declined to about 350 gross (net 114) bbls/d by December 31, 2006. This is typical of the Hutton sandstone where a well will generally demonstrate high flush production rates initially and then decline aggressively until it starts to gradually flatten out around 300 gross (net 98) bbl/d. As a result of declining initial oil production from the Toparoa well, revenue and funds from operations declined during the next two quarters and has leveled off thereafter. Revenue increased in the quarter ended March 31, 2008 due to acquisition of two producing gas wells in Oak, British Columbia.

Net earnings are reduced due to expansion of the Company's operations into Australia where an office was opened in November 2005. Earnings for the quarter ended September 30, 2006 were higher due to a one-time production delay payment of $1.3 million related to the Toparoa-1 well.

Overall, earnings have been negatively impacted by high depletion.

Losses for the quarters ended December 31, 2006 and 2007 and the quarter ended March 31, 2007 were higher due to write-downs of oil and gas properties.

## FINANCIAL INSTRUMENTS

Financial instruments comprise cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying amounts due to their short-term maturities. Avery has not identified any embedded derivatives in any of its contracts.

## DISCLOSURE AND INTERNAL CONTROLS PROCEDURES

Disclosure control procedures have been designed to ensure that information required to be disclosed by Avery is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. Avery's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the annual filings, that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the issuer is made known to them by others within the Company. Avery's Chief Executive Officer and Chief Financial Officer certify there were no significant changes to the controls over financial reporting that occurred over the issuer's most recent interim period that has materially affected, or is reasonable likely to materially affect, the issuer's internal control over financial reporting.

Effective procedures have been designed and implemented over financial reporting as of March 31, 2008; however, management is aware that there is a lack of segregation of duties due to the limited number of employees dealing with financial matters. The limited number of staff may also result in identifying weaknesses in accounting for complex and / or non-routine transactions due to lack of technical resources within the Company. Avery's Chief Executive Officer, Chief Financial Officer, President and Vice President have extensive industry experience. They are aware of and actively involved in the Company's on-going operating activities. While there is an inherent weakness in internal controls over financial reporting due to the limited number of staff and the resultant lack of segregation of incompatible duties and technical resources, the capabilities and involvement of the Chief Executive Officer, Chief Financial Officer, President and Vice President serve to mitigate this structural weakness. Their efforts, together with the active involvement of the board of directors, are directed to minimize the risk of a material misstatement in financial reporting. It should be noted that while Avery's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure and internal control procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure and internal control procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

## APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The significant accounting policies used by Avery are disclosed in Note 1 to the audited Consolidated Financial Statements for the years ended March 31, 2008 and 2007. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstance may result in actual results or changes to estimated amounts that differ materially from current estimates. The following discussion identifies the critical accounting policies and practices of the Company and helps assess the likelihood of materially different results being reported.

### Reserves

Under the National Instrument 51-101 ("NI 51-101") "Proved" reserves are defined as those reserves that can be estimated with a high degree of certainty to be recoverable. The level of certainty should result in at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated Proved reserves. It does not mean that there is a 90% probability that the Proved reserves will be recovered; it means there must be at least a 90% probability that the given amount or more will be recovered.

"Proved plus Probable" reserves are the most likely case and are based on a 50 percent certainty that they will equal or exceed the reserves estimated.

These oil and gas reserve estimates are made using all available geological and reservoir data, as well as historical production data. All of the Company's reserves were evaluated and reported on by an independent qualified reserves evaluator. However, revisions can occur as a result of various factors including: actual reservoir performance, changes in price and cost forecasts or a change in the Company's plans. Reserve changes will impact the financial results as reserves are used in the calculation of depletion and are used to assess whether asset impairment occurs. Reserve changes also affect other non-GAAP measurements such as finding and development costs; recycle ratios and net asset value calculations.

### Depletion and depreciation

The Company follows the full cost method of accounting for oil and natural gas properties. Under this method, all costs related to the acquisition of, exploration for and development of oil and natural gas reserves are capitalized whether successful or not. Depletion of the capitalized oil and natural gas properties and depreciation of production equipment which includes estimated future development costs less estimated salvage values are calculated using the unit-of-production method, based on production volumes in relation to estimated proven reserves.

An increase in estimated proved reserves would result in a reduction in depletion expense.

### Unproved properties

The cost of acquisition and evaluation of unproved properties are initially excluded from the depletion calculation. An impairment test is performed on these assets to determine whether the carrying value exceeds the fair value. Any excess in carrying value over fair value is an impairment. When proved reserves are assigned or a property is considered to be impaired, the cost of the property or the amount of the impairment will be added to the capitalized costs for the calculation of depletion.

### Ceiling test

The ceiling test is a cost recovery test intended to identify and measure potential impairment of assets. An impairment loss is recorded if the sum of the undiscounted cash flows expected from the production of the proved reserves and the lower of cost and market of unproved properties does not exceed the carrying values of the petroleum and natural gas assets. An impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using the future product prices and costs and are discounted using the risk free rate. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material. Any impairment as a result of this ceiling test will be charged to operations as additional depletion and depreciation expense.

**Asset retirement obligations**

The Company records a liability for the fair value of legal obligations associated with the retirement of petroleum and natural gas assets. The liability is equal to the discounted fair value of the obligation in the period in which the asset is recorded with an equal offset to the carrying amount of the asset. The liability then accretes to its fair value with the passage of time and the accretion is recognized as an expense in the financial statements. The total amount of the asset retirement obligation is an estimate based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total amount of the estimated cash flows required to settle the asset retirement obligation, the timing of those cash flows and the discount rate used to calculate the present value of those cash flows are all estimates subject to measurement uncertainty. Any change in these estimates would impact the asset retirement liability and the accretion expense.

**Income taxes**

The determination of income and other tax liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. In addition, the Company estimates when its temporary differences are expected to reverse and recognizes its tax assets and liabilities based on the legislated tax rate in those periods. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

**Stock-based compensation**

The Company applies the fair value method for valuing stock option grants and warrants. This method requires the Company to make estimates of expected stock volatility, the expected hold period prior to exercising options, expected forfeitures of options and expected dividends to be declared by the Company. The calculation of the fair value of stock based compensation is not adjusted for the value actually received by the optionees and warrant holders. The stock-based compensation expense will not represent the actual fair value received by the optionees warrant holders as the fair value is estimated at the time of grant and is not adjusted. Due to the time period and the number of estimates involved, it is likely that the actual value of the options and warrants will differ materially from what has been recorded in the financial statements.

**Other estimates**

The accrual method of accounting requires management to incorporate certain estimates including estimates of revenues, royalties and operating costs as at a specific reporting date, but for which actual revenues and costs have not yet been received. In addition, estimates are made on capital projects which are in progress or recently completed where actual costs have not been received by the reporting date. The Company obtains the estimates from the individuals with the most knowledge of the activity and from all project documentation received. The estimates are reviewed for reasonableness and compared to past performance to assess the reliability of the estimates. Past estimates are compared to actual results in order to make informed decisions on future estimates.

## FINANCIAL REPORTING UPDATE

### Accounting standards adopted

On April 1, 2007, the Company adopted the new Canadian accounting standards for Financial Instruments — Recognition and Measurement, Financial Instruments — Presentations and Disclosures, Hedging and Comprehensive Income. Adopting these standards had no impact on the measurement of existing financial assets and liabilities.

### Recent pronouncements

Effective April 1, 2008, the Company will be required to adopt three new accounting standards: Section 1535, Capital Disclosures, Section 3862, Financial Instruments — Disclosures and Section 3863, Financial Instruments — Presentation. Section 1535 requires disclosure of an entity's objectives, policies and processes for managing capital, including: quantitative data about what the entity considers capital, whether the entity has complied with any capital requirements and the consequences of non-compliance if the entity has not complied. Sections 3862 and 3863 specify standards of presentation and enhanced disclosures on financial instruments. Although the Company is currently assessing the impact of these standards on its financial statements, it is not anticipated that the adoption of these new standards will impact the amounts reported in the Company's financial statements as they primarily related to disclosures.

In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011 as the effective date for the requirement to report under International Financial Reporting Standards ("IFRS") with the comparative 2010 periods converted as well. The Canadian generally accepted accounting principles (Canadian GAAP) as we currently know them, will cease to exist for all publicly reporting entities. Currently, the application of IFRS to the oil and gas industry in Canada requires considerable clarification. The concept of full cost accounting will not be retained in IFRS. The Canadian Securities Administrators are in the process of examining changes to securities rules as a result of this initiative. Avery has not yet determined the effect of IFRS on the Company's accounting policies and reporting standards.

### Internal control reporting

The Canadian Securities Administrators decided not to proceed with the proposed multilateral instrument 52-111 Reporting on Internal Control over Financial Reporting and instead proposed to expand proposed multilateral instrument 52-109 Certificate of Disclosure in Issuers' Annual and Interim Filings. The major changes resulting from this is the CEO and CFO will be required to certify in the annual certificates that they have evaluated the effectiveness of internal controls over financial reporting ("ICOFR") as of the end of the financial year and disclose in the annual MD&A their conclusion about the effectiveness of ICOFR. There will be no requirement to obtain an internal control audit opinion from the issuer's auditors concerning management's assessment of the effectiveness of ICOFR. There is also no requirement to design and evaluate internal controls against a suitable control framework. This proposed amendment is expected to apply for the year ended March 31, 2009. Avery is continuing with its evaluation of ICOFR to ensure it meets the criteria for the proposed certification deadline.

## RISK FACTORS

Companies engaged in the oil and gas industry are exposed to a number of business risks, which can be described as operational, financial and political risks, many of which are outside of the Company’s control. More specifically, these include risks of economically finding reserves and producing oil and gas in commercial quantities, marketing the production, commodity prices, environmental and safety risks, and risks associated with the foreign jurisdiction in which the Company operates. In order to mitigate these risks, the Company has an experienced base of qualified technical and financial personnel in both Canada and Australia. Further, the Company has focused its foreign operations, and plans to target future foreign operations, in known and prospective hydrocarbon basins in jurisdictions that have previously established long-term oil and gas ventures with foreign oil and gas companies.

An investment in the shares of the Company should be considered speculative due to the nature of the Company's involvement in the exploration for, and the acquisition, development and production of, oil and natural gas in foreign countries, and its current stage of development. An investor should consider carefully the risk factors set out below and consider all other information contained herein and in the Company's other public filings before making an investment decision. Additional risks and uncertainties not currently known to the management of the Company may also have an adverse effect on Avery's business and the information set out below does not purport to be an exhaustive summary of the risks affecting Avery.

**Exploration, Development and Production Risks**

Oil and natural gas exploration involves a high degree of risk, for which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that expenditures made on future exploration by Avery will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over-pressured zones, tools lost in the hole and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The long-term commercial success of Avery will depend on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that Avery will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, Avery may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, cratering, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

Avery attempts to minimize exploration, development and production risks by utilizing a high-end technical team with extensive experience and multidisciplinary skill sets to assure the highest probability of success in its drilling efforts. Avery's collaboration of a team of seasoned veterans in the oil and gas business, each with a unique expertise in the various upstream to downstream technical disciplines of prospect generation to operations, provides the best assurance of competency, risk management and drilling success. A full cycle economic model is utilized to evaluate all hydrocarbon prospects. Detailed geological and geophysical techniques are regularly employed including 3D seismic, petrography, sedimentology, petrophysical log analysis and regional geological evaluation.

**Risks Associated with Foreign Operations**

International operations are subject to political, economic and other uncertainties, including, among others, risk of war, risk of terrorist activities, border disputes, expropriation, renegotiations or modification of existing contracts, restrictions on repatriation of funds, import, export and transportation regulations and tariffs, taxation policies, including royalty and tax increases and retroactive tax claims, exchange controls, limits on allowable levels of production, currency fluctuations, labour disputes, sudden changes in laws, government control over domestic oil and gas pricing and other uncertainties arising out of foreign government sovereignty over the Company's international operations. With respect to taxation matters, the governments and other regulatory agencies in the foreign jurisdictions in which Avery operates and intends to operate in future may make sudden changes in laws relating to taxation or impose higher tax rates, which may affect Avery's operations in a significant manner. These governments and agencies may not allow certain deductions in calculating tax payable that Avery believes should be deductible under applicable laws or may have differing views as to values of transferred properties. This can result in significantly higher tax payable than initially anticipated by Avery. In many circumstances, readjustments to tax payable imposed by these governments and agencies may occur years after the initial tax amounts were paid by Avery, which can result in the Company having to pay significant penalties and fines. Furthermore, in the event of a dispute arising from international operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada.

**Prices, Markets and Marketing of Crude Oil and Natural Gas**

Oil and natural gas are commodities have prices determined based on world demand, supply and other factors, all of which are beyond the control of Avery. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices could result in a reduction of net production revenue. Certain wells or other projects may become uneconomic as a result of a decline in world oil prices and natural gas prices, leading to a reduction in the volume of Avery's oil and gas reserves. Avery might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in Avery's future net production revenue, causing a reduction in its oil and gas acquisition and development activities. In addition to establishing markets for its oil and natural gas, Avery must also successfully market its oil and natural gas to prospective buyers. The marketability and price of oil and natural gas which may be acquired or discovered by Avery will be affected by numerous factors beyond its control. The ability of Avery to market its natural gas may depend upon its ability to acquire space on pipelines which deliver natural gas to commercial markets. Avery will also likely be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities and related to operational problems with such pipelines and facilities and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

**Substantial Capital Requirements; Liquidity**

Avery's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, Avery may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause Avery to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If Avery's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect Avery's ability to expend the necessary capital to replace its reserves or to maintain its production. If Avery’s funds from operations are not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on terms acceptable to Avery.

Avery monitors and updates its cash projection models on a regular basis which assists in the timing decision of capital expenditures. Farmouts of projects may be arranged if capital constraints are an issue or if the risk profile dictates that Avery wishes to hold a lesser working interest position. Equity, if available and if on favorable terms, may be utilized to help fund Avery’s capital program.

**Health, Safety and Environment**

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material.

Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Company to incur costs to remedy such discharge.

**Insurance**

Avery’s involvement in the exploration for and development of oil and gas properties may result in Avery becoming subject to liability for pollution, blow-outs, property damage, personal injury or other hazards. Although Avery has insurance in accordance with industry standards to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances be insurable or, in certain circumstances, Avery may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to Avery. The occurrence of a significant event that Avery is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on Avery’s financial position, results of operations or prospects.

**Competition**

Avery actively competes for reserve acquisitions, exploration leases, licenses and concessions and skilled industry personnel with a substantial number of other oil and gas companies, many of which have significantly greater financial and personnel resources than Avery. Avery's competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators.

Avery’s ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with its future industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

## ADDITIONAL INFORMATION

Additional information relating to Avery is filed on SEDAR and can be viewed at www.sedar.com. Information can also be obtained by contacting the Company at Avery Resources Inc., 1100, 715 5th Ave S.W., Calgary, Alberta T2P 2X6 or by email to info@averyresources.com or by accessing Avery's website at www.averyresources.ca.

Avery RESOURCES INC

International exploration & production

# Consolidated Financial Statements

# Years Ended March 31, 2008 and 2007

# AVERY RESOURCES INC.

**MANAGEMENT'S RESPONSIBILITY STATEMENT**

The consolidated financial statements of Avery Resources Inc. and all information in this report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include amounts that are based on estimates which have been objectively developed by management using all relevant information. All financial and operating data in this report is consistent with the information in the consolidated financial statements.

Avery Resources Inc. maintains appropriate systems of internal controls to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or misuse and financial records are properly maintained to provide reliable information for the preparation of financial statements. Avery Resources Inc. has effective disclosure controls and procedures to ensure timely and accurate disclosure of material information relating to the Company which complies with the current requirements of Canadian securities legislation.

KPMG LLP, an independent firm of chartered accountants, has been engaged to examine the financial statements and provide their auditor's report. Their report is presented with the consolidated financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors carries out its responsibility principally through its Audit Committee. The Audit Committee is comprised entirely of independent directors and meets regularly with management and with the Company's external auditors to discuss the results of their audit examination and to review issues related thereto. The external auditors have full access to the Audit Committee with and without the presence of management. The Audit Committee reviews the consolidated financial statements and Management's Discussion and Analysis and recommends their approval to the Board of Directors.

Bradley Johnson
Chief Executive Officer

Bryan Goudie
Chief Financial Officer

Calgary, Alberta
June 11, 2008

# AVERY RESOURCES INC.

**AUDITORS' REPORT TO THE SHAREHOLDERS**

We have audited the consolidated balance sheets of Avery Resources Inc. as at March 31, 2008 and 2007 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
June 11, 2008

# AVERY RESOURCES INC.

## CONSOLIDATED BALANCE SHEETS
(thousands of dollars)

| As at March 31, | 2008 | 2007 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and short term deposits | $ 7,852 | $ 8,339 |
| Accounts receivable and prepaid expenses | 1,625 | 1,795 |
| | 9,477 | 10,134 |
| Petroleum and natural gas properties (Note 5) | 9,294 | 7,952 |
| Goodwill (Note 4) | 1,639 | – |
| | $ 20,410 | $ 18,086 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 1,434 | $ 1,017 |
| Asset retirement obligations (Note 6) | 180 | 85 |
| Non-controlling interest | 9 | 47 |
| Shareholders' equity: | | |
| Share capital (Note 7) | 43,438 | 38,507 |
| Warrants (Note 7) | 31 | 927 |
| Contributed surplus (Note 7) | 3,341 | 1,881 |
| Deficit | (28,023) | (24,378) |
| | 18,787 | 16,937 |
| Commitment (Note 11) | | |
| | $ 20,410 | $ 18,086 |

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Bradley Johnson

_______________________________Director
Bradley G. Johnson

JBHowe

_______________________________Director
James B. Howe

# AVERY RESOURCES INC.

## CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

(thousands of dollars, except per share amounts)

| Years ended March 31, | 2008 | 2007 |
|---|---|---|
| Revenues | | |
| Petroleum and natural gas sales | $ 3,574 | $ 3,238 |
| Royalties | (491) | (402) |
| Interest income | 306 | 253 |
| | 3,389 | 3,089 |
| Expenses | | |
| General and administrative (Note 4) | 2,922 | 2,352 |
| Operating and transportation | 587 | 734 |
| Depletion, depreciation and accretion | 2,931 | 5,593 |
| Stock and warrant based compensation | 564 | 977 |
| Foreign exchange (gain) loss | 68 | (248) |
| | 7,072 | 9,408 |
| Mitigation payment (Note 10) | – | 1,391 |
| Loss before non-controlling interest | (3,683) | (4,928) |
| Non-controlling interest | 38 | 29 |
| Loss and comprehensive loss | (3,645) | (4,899) |
| Deficit, beginning of year | (24,378) | (19,479) |
| Deficit, end of year | $ (28,023) | $ (24,378) |
| Basic and diluted loss per share (Note 7) | $ (0.05) | $ (0.08) |

See accompanying notes to consolidated financial statements.

# AVERY RESOURCES INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS
(thousands of dollars)

| Years ended March 31, | 2008 | 2007 |
|---|---|---|
| Cash provided by (used in) | | |
| Operations | | |
| Loss for the year | $ (3,645) | $ (4,899) |
| Items not affecting cash | | |
| Depletion, depreciation and accretion | 2,931 | 5,593 |
| Unrealized foreign exchange loss (gain) | (43) | (28) |
| Stock and warrant based compensation | 564 | 977 |
| | (193) | 1,643 |
| Changes in non-cash working capital (Note 8) | (293) | (909) |
| | (486) | 734 |
| Financing | | |
| Issue of common shares for cash, net of share issue costs | – | 10,878 |
| Exercise of stock options | – | 52 |
| Changes in non-cash working capital (Note 8) | 224 | (79) |
| | 224 | 10,851 |
| Investments | | |
| Additions to petroleum and natural gas properties and facilities | (1,583) | (6,535) |
| Cash acquired on acquisition (Note 4) | 973 | – |
| Changes in non-cash working capital (Note 8) | 385 | (347) |
| | (225) | (6,882) |
| Increase (decrease) in cash | (487) | 4,703 |
| Cash and short term deposits, beginning of year | 8,339 | 3,636 |
| Cash and short term deposits, end of year | $ 7,852 | $ 8,339 |

| | 2008 | 2007 |
|---|---|---|
| Interest received | $ 353 | $ 253 |

See accompanying notes to consolidated financial statements.

## 1. INCORPORATION:

Avery Resources Inc ("the Company") is incorporated under the laws of the Province of Alberta and is involved in the exploration for and development of oil and gas reserves in Canada, Australia, India and Ireland.

## 2. SIGNIFICANT ACCOUNTING POLICES:

The consolidated financial statements of Avery Resources Inc. have been prepared by management in accordance with accounting principles generally accepted in Canada. The reporting currency is the Canadian dollar. 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 amount of revenues and expenses during the reporting period. Actual results could differ from estimates.

Specifically, the amounts recorded for depletion and depreciation of petroleum and natural gas assets, asset retirement obligations, stock based compensation, and future income taxes are based on estimates. The ceiling test is based on estimates of reserves, production rates, oil and gas prices, future costs and other relevant assumptions. The asset retirement obligation is based on estimates of future costs to abandon and reclaim wells and inflation rates. The amounts for stock-based compensation are based on estimates of risk-free rates, expected option life and volatility. Future income taxes are based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

### (a) Principles of consolidation:

These consolidated financial statements include the accounts of the Company and it's wholly and majority owned subsidiaries, Avery Resources Australia (Pty) Ltd, Bengal Energy International Inc., Avery Resources (Northern Ireland) Ltd. and Northstar Energy Pty Ltd respectively. All inter-entity transactions and balances have been eliminated.

### (b) Cash and cash equivalents:

Cash and cash equivalents are comprised of cash and all investments with a maturity date of three months or less.

**(c) Petroleum and natural gas properties:**

(i) Capitalized costs:

The full cost method of accounting is followed for petroleum and natural gas properties whereby all costs relating to the acquisition of, exploration for and development of petroleum and natural gas reserves are capitalized into a cost centre for each respective country in which the Company has operations. Such costs include lease acquisitions, geological and geophysical activities, lease rentals on undeveloped properties, the drilling of productive and non-productive wells, and administration expenses directly related to the acquisition, exploration and development activities.

(ii) Depletion and depreciation:

Total capitalized costs in each cost centre are depleted and depreciated using the unit of production method based on the Company's share of estimated gross proved oil and gas reserves as determined by independent reservoir engineers. For purposes of the depletion and depreciation calculation, proved oil and gas reserves are converted to a common unit of measure on the basis of their approximate relative energy content.

The carrying value of unproved properties, including the cost of remote exploratory test wells, is initially excluded from the depletion calculation. A separate impairment test is performed on these assets to determine whether the carrying value exceeds the fair value. Any excess in carrying value over fair value is impairment. When proved reserves are assigned or a property is considered to be impaired, the cost of the property or the amount of the impairment will be added to the capitalized costs for the calculation of depletion.

Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized except where the sale results in a change in the rate of depletion and depreciation by 20% or more.

Other assets are depreciated on a declining basis at rates ranging from 20% to 33%.

(iii) Ceiling test:

Petroleum and natural gas assets in each cost centre are evaluated in each reporting period to determine that the carrying amount is recoverable and does not exceed the fair value of the properties.

The carrying amounts are assessed to be recoverable when the sum of the undiscounted cash flows expected from the production of proved reserves, the lower of cost and market of unproved properties and the cost of major development projects exceeds the carrying amount of the cost centre. When the carrying amount is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying amount of the cost centre exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves, the lower of cost and market of unproved properties and the cost of major development projects of the cost centre. The cash flows are estimated using expected future product prices and costs and are discounted using a risk-free interest rate.`

**(d) Asset retirement obligations:**

The Company uses the fair value method to provide for asset retirement obligations. The fair value of an asset retirement obligation is recognized in the period in which it is incurred when a reasonable estimate of fair value can be made. The fair value is based on estimated reserve life, inflation and discount rates. The provision is recorded as a long-term liability, with a corresponding increase in the carrying value of the associated asset. The capitalized amount is depleted on a unit-of-production basis. The liability amount is increased each reporting period due to the passage of time with this accretion charged to earnings in the period. Subsequent to the initial measurement of the asset retirement obligations the obligations are adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The liability amount is decreased for actual abandonment costs incurred.

**(e) Foreign currency translation:**

The Company translates the accounts of its Australian and Irish subsidiaries, which are considered integrated, using the temporal method whereby monetary assets and liabilities are translated at the rates of exchange at the balance sheet dates, non-monetary assets and liabilities are translated at the rates in effect at the dates the assets or liabilities were acquired and revenues and expenses are translated at the average rates of exchange during the month in which they are recognized. Resulting gains or losses are included in earnings.

**(f) Stock-based compensation plans:**

The Company uses the fair value method of accounting for stock option grants and warrants. At the date of the grant or issue, the fair value of the stock options and warrants is estimated. This fair value of the options is recorded as an expense over the vesting period of the option with a corresponding increase to contributed surplus. In determining the fair value of the stock options and warrants granted, the Black-Scholes option pricing model is used and assumptions regarding interest rates, underlying volatility of the Company's stock and expected life of the options and warrants are made. Upon the exercise of stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The fair value of the warrants issued is recorded as warrant capital, and upon exercise of the warrants consideration received together with the amount previously recorded in warrant capital is recorded as an increase to share capital.

**(g) Per share amounts:**

Basic per share amounts are computed by dividing earnings (losses) by the weighted average number of common shares outstanding for the period. Diluted per share amounts are calculated giving effect to the potential dilution that would occur if stock options or other dilutive instruments were exercised or converted to common shares. The treasury stock method assumes that any proceeds upon the exercise or conversion of dilutive instruments would be used to purchase common shares at the average market price of the common shares during the period

**(h) Income taxes:**

The Company uses the asset and liability method of tax allocation accounting. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

**(i) Flow-through shares:**

The resource expenditure deductions for income tax purposes related to exploratory activities funded by flow-through shares are renounced to investors in accordance with tax legislation. Future tax liabilities and share capital are adjusted by the estimated cost of the renounced tax deductions when the expenditures are renounced.

**(j) Revenue recognition:**

Revenues from the sale of natural gas, natural gas liquids and crude oil owned by the Company are recognized when title passes from the Company to its customers.

**(k) Joint operations:**

Significant portions of the Company’s oil and gas activities are conducted jointly with others and accordingly, these financial statements reflect only the Company’s proportionate interest in such activities.

## 3. CHANGES IN ACCOUNTING POLICY

On April 1, 2007, the Company adopted the new Canadian accounting standards for Financial Instruments – Recognition and Measurement, Financial Instruments – Presentations and Disclosures, Hedging, and Comprehensive Income. Adopting these standards had no impact on the measurement of existing financial assets and liabilities.

Effective April 1, 2008, the Company will be required to adopt three new accounting standards: Capital Disclosures, Financial Instruments – Disclosures, and Financial Instruments – Presentation. The accounting standard Capital Disclosures requires disclosure of an entity’s objectives, policies and processes for managing capital, including: quantitative data about what the entity considers capital, whether the entity has complied with any capital requirements and the consequences of non-compliance if the entity has not complied. Accounting standards for

Financial Instruments specify standards of presentation and enhanced disclosures on financial instruments. It is not anticipated that the adoption of these new standards will impact the amounts reported in the Company's financial statements, as they primarily relate to disclosures.

**Financial Instruments:**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Upon initial recognition all financial instruments, including all derivatives, are recognized on the balance sheet at fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: held for trading, held to maturity, loans and receivables, available for sale and other liabilities. The Company has designated its cash and cash equivalents as held for trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. This is determined using the effective interest method.

The Company is exposed to market risks resulting from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of operations. A variety of derivative instruments may be used by the Company to reduce its exposure to fluctuations in commodity prices, foreign exchange rates, and interest rates. The Company does not use these derivative instruments at this time.

The Company measures and recognizes embedded derivatives separately from the host contracts when the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, when it meets the definition of a derivative and when the entire contract is not measured at fair value. Embedded derivatives are recorded at fair value.

The Company immediately expenses all transaction costs incurred in relation to the acquisition of a financial asset or liability.

The Company applies trade date accounting for the recognition of a purchase or sale of cash equivalents and derivative contracts.

**Future Accounting Changes**

On February 13, 2008, Canada's Accounting Standard Board confirmed January 1, 2011 as the effective date for complete convergence of Canadian GAAP to International Financial Reporting Standards ("IFRS"). The Canadian Securities Administrators are in the process of examining changes to securities rules as a result of this initiative. Avery will continue to monitor and assess the impact of the planned convergence of Canadian GAAP with IFRS.

## 4. CORPORATE ACQUISITION

On February 13, 2008, Avery acquired all of the issued and outstanding common shares of Bengal Energy Inc., a company with assets in Oak, British Columbia. The results of operations include net revenue from this transaction effective February 13, 2008.

As a result of the transaction, the management team from Bengal Energy Inc. was appointed as the new management team of Avery Resources Inc. and arrangements were made for the retirement of the previous management team.

| **($000's)**<br>**Consideration** | | |
|---|---|---|
| Common shares issued | $ | 4,931 |
| | $ | 4,931 |

| **Net assets received, at estimated fair value** | | |
|---|---|---|
| Property and equipment | $ | 2,698 |
| Working capital (including cash of $ 973) | | 701 |
| Goodwill | | 1,639 |
| Asset retirement obligations | | (107) |
| | $ | 4,931 |

Consideration for the transaction of $4,931,000 consisted of 14,300,002 Avery shares at a price of $0.345 per share plus 4,700,000 common share purchase warrants as further described in Note 7(c). In conjunction with the closing of this transaction, $839,000 in acquisition-related general and administrative costs has been expensed in the year ended March 31, 2008.

## 5. PETROLEUM AND NATURAL GAS PROPERTIES

| ($000's) | | Cost | | Accumulated depletion & depreciation | | Net book value |
|---|---|---|---|---|---|---|
| **March 31, 2008** | | | | | | |
| Australia | | | | | | |
| Petroleum and natural gas properties | $ | 12,913 | $ | 9,164 | $ | 3,749 |
| Other assets | | 107 | | 45 | | 62 |
| Canada | | | | | | |
| Petroleum and natural gas properties | | 6,214 | | 1,122 | | 5,092 |
| Other assets | | 300 | | 207 | | 93 |
| Ireland | | | | | | |
| Petroleum and natural gas properties | | 298 | | – | | 298 |
| | $ | 19,832 | $ | 10,538 | $ | 9,294 |
| **March 31, 2007** | | | | | | |
| Australia | | | | | | |
| Petroleum and natural gas properties | $ | 12,041 | $ | 6,793 | $ | 5,248 |
| Other assets | | 72 | | 22 | | 50 |
| Canada | | | | | | |
| Petroleum and natural gas properties | | 2,919 | | 612 | | 2,307 |
| Other assets | | 233 | | 180 | | 53 |
| Ireland | | | | | | |
| Petroleum and natural gas properties | | 294 | | – | | 294 |
| | $ | 15,559 | $ | 7,607 | $ | 7,952 |

Avery calculates a ceiling test quarterly and annually whereby the carrying value of petroleum and natural gas properties in each country is compared to estimated future cash flow from the production of proved reserves.

In ceiling tests performed at March 31, 2008, future net revenues exceeded capitalized costs for both Canadian and Australian cost centres.

At December 31, 2007 a ceiling test on the Australian cost centre resulted on a $0.6 million write down of capitalized costs, included in depletion, depreciation and amortization.

At March 31, 2007 a ceiling test on the Australian cost centre resulted in a write down of $2,036,000, included in depletion, depreciation and amortization.

Undeveloped property costs of $3.2 million (2007 - $3.2 million) have been excluded from the depletion calculation. No future development costs of proven reserves are included in the depletion calculation.

Included in Australian capital additions for the year ended Mach 31, 2008 is $85,000 of capitalized General and Administrative costs (2007 – Nil).

The prices used in the ceiling test at March 31, 2008 were the forecast prices provided by external reserve advisors as follows:

| | 2008 | 2009 | 2010 | 2011 | 2012 | Percent increase per year to 2018 |
|---|---|---|---|---|---|---|
| WTI Cushing Oklahoma ($US/bbl) | $ 101.71 | $ 98.32 | $ 96.94 | $ 83.89 | $ 81.18 | ~ 2% |
| Edmonton Par Price 40° API ($Cdn/bbl) | $ 100.30 | $ 96.88 | $ 95.48 | $ 82.41 | $ 79.68 | ~ 2% |
| Alberta AECO-C Spot ($Cdn/bbl) | $ 8.85 | $ 8.38 | $ 7.91 | $ 7.69 | $ 7.61 | ~ 2% |
| Tapis ($Cdn/bbl) | $ 105.71 | $ 100.39 | $ 97.17 | $ 83.05 | $ 79.00 | ~ 0% |

The above prices have been adjusted to reflect Company-specific transportation and quality differentials.

## 6. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations result from ownership interests in petroleum and natural gas assets. The Company estimates the total undiscounted amount of cash flow required to settle its asset retirement obligations is approximately $302,000 (2007 - $154,000) which will be incurred between 2009 and 2027 with a significant majority of the costs being incurred after 2010. An inflation factor of 2% has been applied to the estimated asset retirement cost at March 31, 2008 and March 31, 2007. A credit-adjusted risk-free rate of 7.0% was used to calculate the fair value of the asset retirement obligation at March 31, 2008 and March 31, 2007.

A reconciliation of the asset retirement obligations is provided below:

| ($000's) | 2008 | 2007 |
|---|---|---|
| Balance, beginning of year | $ 85 | $ 68 |
| Revisions | (20) | – |
| Liabilities incurred | – | 12 |
| Liabilities acquired | 107 | – |
| Accretion expense | 8 | 5 |
| Balance, March 31 | $ 180 | $ 85 |

**7. SHARE CAPITAL**

**(a) Authorized:**

Unlimited number of common shares

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

**(b) Issued:**

| ($000's) | Number of shares | Amount |
|---|---|---|
| **Balance March 31, 2006** | **53,194,741** | **$ 27,230** |
| Issued for cash on private placements | 20,000,000 | 10,000 |
| Exercise of warrants and agents' options | 3,376,893 | 1,760 |
| Exercise of employee options | 117,300 | 52 |
| Transfer from contributed surplus to share capital on exercise of employee options | – | 46 |
| Transfer from warrants to share capital on exercise of warrants | – | 301 |
| Share issuance cost | – | (882) |
| **Balance March 31, 2007** | **76,688,934** | **$ 38,507** |
| Issued on acquisitions (Note 4) | 14,300,002 | 4,931 |
| **Balance March 31, 2008** | **90,988,936** | **$ 43,438** |

On February 13, 2008 Avery acquired all the issued and outstanding common shares and common share purchase warrants of Bengal Energy Inc. in exchange for 14,300,002 Avery shares and 4,700,000 common share purchase warrants – see Note 4.

Of the 14,300,002 Avery common shares issued to Bengal shareholders, 7,930,003 were issued to Bengal shareholders who became the new management at Avery Resources Inc. The shares received by the new Avery management team have been put in voluntary escrow whereby one-third of the shares will be released six months from the closing date, one-half of the remaining escrowed shares on the date that is twelve months from the closing date and all the remaining escrowed shares (that is one-third) on a date that is eighteen months from the closing date.

On November 15, 2006 the Company closed a private placement of 20,000,000 common shares at a price of $0.50 per share resulting in gross proceeds of $10.0 million (net $9.2 million after share issue costs).

**(c) Common shares purchase warrants and agent options:**

On February 13, 2008 Avery issued 4,700,000 common share purchase warrants in exchange for 1,807,692 Bengal common share purchase warrants as part of the acquisition of Bengal Energy Inc. Each Avery warrant vests and is exercisable upon the 20-day weighted average trading price of the Avery shares being $0.80 per share and upon vesting shall entitle the holder to acquire one Avery share at an exercise price of $0.40 until August 13, 2011.

The fair value of warrants issued on February 13, 2008 was estimated to be $0.7 million using the Black-Scholes option-pricing model and will be recorded in warrant capital and compensation expense over the 42 month life of the warrants.

On November 24, 2007, 8,400,000 share purchase warrants with an exercise price of $0.50 expired.

During the year ended March 31, 2007 a total of 2,765,356 common share purchase warrants were exercised at an average price of $0.55 for total proceeds of $1.5 million.

During the year ended March 31, 2007 all remaining agent's options were exercised for $0.2 million.

The table below provides details of common share purchase warrant activity:

| **($000's)** | **Number of warrants** | | **Amount** |
|---|---|---|---|
| **Balance March 31, 2006** | **11,215,356** | **$** | **1,230** |
| Transfer from warrants to share capital on exercise of warrants | (2,765,356) | | (301) |
| Expired | (50,000) | | (2) |
| **Balance March 31, 2007** | **8,400,000** | **$** | **927** |
| Expired | (8,400,000) | | (927) |
| Issued for Bengal Acquisition | 4,700,000 | | 31 |
| **Balance March 31, 2008** | **4,700,000** | **$** | **31** |

The table below provides details of agent option activity:

| | **Agent options** | | **Weighted average exercise price** |
|---|---|---|---|
| **Outstanding at March 31, 2006** | **611,537** | **$** | **0.30** |
| Exercised | (611,537) | | 0.30 |
| **Outstanding at March 31, 2007 and 2008** | **–** | **$** | **–** |

### (d) Contributed surplus

A reconciliation of contributed surplus is provided below:

| ($000's)<br>Years ended March 31 | 2008 | 2007 |
|---|---|---|
| **Balance, beginning of year** | **$ 1,881** | **$ 948** |
| Stock-based compensation expense | 533 | 994 |
| Reduce stock-based compensation due to forfeiture | – | (17) |
| Transfer to share capital on exercise of stock options | – | (46) |
| Transfer from warrants on expiry of warrants | 927 | 2 |
| **Balance, end of year** | **$ 3,341** | **$ 1,881** |

### (e) Stock options:

The Company has a stock option plan for directors, officers, employees and consultants of the Company whereby stock options representing up to 10% of the issued and outstanding common shares can be granted by the Board of Directors. Stock options are granted for a term of up to five years and vest one-third immediately and one-third on each of the next two anniversary dates. The exercise price of each option equals the market price of the Company's common shares on the date of the grant.

A summary of stock option activity is presented below:

| | Options | Weighted average exercise price |
|---|---|---|
| **Outstanding at March 31, 2006** | **1,940,167** | **$ 0.44** |
| Granted | 3,535,000 | 0.69 |
| Exercised | (117,300) | 0.44 |
| Expired | (166,000) | 0.65 |
| **Outstanding at March 31, 2007** | **5,191,867** | **$ 0.60** |
| Granted | 520,000 | 0.32 |
| **Outstanding at March 31, 2008** | **5,711,867** | **$ 0.58** |
| Exercisable at end of year | 4,228,538 | $ 0.57 |

| Options Outstanding | | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of exercise price | Number outstanding | Weighted average exercise price | Weighted average remaining contractual life (years) | Number exercisable | Weighted average exercise price |
| $ 0.25–0.45 | 1,775,038 | $ 0.40 | 3.0 | 1,428,374 | $ 0.42 |
| $ 0.46–0.65 | 2,151,831 | $ 0.60 | 3.2 | 1,610,166 | $ 0.58 |
| $ 0.66–0.90 | 1,784,998 | $ 0.73 | 3.3 | 1,189,998 | $ 0.73 |
| | 5,711,,867 | $ 0.58 | 3.2 | 4,228,538 | $ 0.57 |

During the year ended March 31, 2008, the Company granted 520,000 (2007–3,535,000) stock options to employees and directors excluding the new management team. The Company recorded stock based compensation expense of $0.5 million (2007 - $1.0 million) for the year ended March 31, 2008.

Avery has not incorporated an estimated forfeiture rate for stock options that will not vest, rather the Company accounts for actual forfeitures as they occur.

The fair value of options and warrants granted were estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and resulting values:

| | 2008 | 2007 |
|---|---|---|
| Assumptions: | | |
| Risk free interest rate (%) | 4.1% | 3.6% |
| Expected life (years) | 5 yr | 5 yr |
| Expected volatility (%) | 60 % | 60 % |
| Vesting period (years) | 2 yr | 2 yr |
| Results: | | |
| Weighted average fair value of options granted | $ 0.18 | $ 0.40 |

The fair value of stock options granted during the year ended March 31, 2008 was estimated to be $0.1 million (2007 - $1.4 million).

**(f) Per share amounts:**

Per share amounts are calculated using losses and the weighted-average number of common shares outstanding. The Company has recorded a loss in each of the last two years and therefore any addition to basic shares outstanding is anti-dilutive. The weighted average number of shares outstanding at March 31, 2008 is 78,569,482 (2007 – 63,337,029). The average trading price of the Company's common shares on the TSX for the year ended March 31, 2008 is $0.35 (2007 - $0.61) and the closing price was $0.41. At March 31, 2008, 5,103,533 employee stock options are anti-dilutive based on the closing price for Avery common shares.

## 8. CHANGES IN NON-CASH WORKING CAPITAL

| **Years ended March 31 ($000's)** | | **2008** | | **2007** |
|---|---|---|---|---|
| Accounts receivable and prepaid expenses | $ | 262 | $ | (888) |
| Accounts payable and accrued liabilities | | 54 | | (447) |
| Total | $ | 316 | $ | (1,335) |
| Relating to: | | | | |
| Operating | $ | (293) | $ | (909) |
| Financing | | 224 | | (79) |
| Investing | | 385 | | (347) |
| Total | $ | 316 | $ | (1,335) |

The change in working capital includes working capital acquired with the Bengal Energy Inc. acquisition.

## 9. INCOME TAXES

The provision for income taxes differs from the amount obtained in applying the combined Federal and Provincial income tax rates to the loss for the year. The difference relates to the following items:

| **Years ended March 31 ($000's)** | | **2008** | | **2007** |
|---|---|---|---|---|
| Loss before taxes | $ | 3,645 | $ | 4,899 |
| Corporate tax rate | | 31.45% | | 32.10% |
| Expected income tax recovery | $ | 1,146 | $ | 1,573 |
| Non-deductible crown royalties | | – | | (18) |
| Stock based compensation | | (171) | | (314) |
| Resource allowance | | – | | 3 |
| Effect of tax rate changes | | (1,033) | | (374) |
| | $ | (58) | $ | 870 |
| Change in valuation allowance | | 58 | | (870) |
| | $ | – | $ | – |

The components of the net future income tax assets (liabilities) are as follows:

| Years ended March 31 ($000's) | 2008 | 2007 |
|---|---|---|
| Future income tax assets: | | |
| Non-capital losses | $ 3,572 | $ 3,810 |
| Net capital losses | 1,499 | 1,793 |
| Petroleum and natural gas properties and equipment | (654) | (811) |
| Share issue costs | 219 | 353 |
| Asset retirement obligations | 46 | 26 |
| Future income tax assets | 4,682 | 5,171 |
| Valuation allowance | (4,682) | (5,171) |
| | $ – | $ – |

At March 31, 2008, the Company had approximately $4.5 million and $9.6 million of non-capital losses in Canada and Australia respectively (2007 - $3.7 million and $8.8 million), available to reduce future taxable income. The Canadian non-capital losses expire at various dates to March 31, 2028. The Australian non-capital losses have no expiry.

## 10. MITIGATION PAYMENT

In recognition of the production delays and in accordance with the production agreement between Avery and one of its Australian partners, the Company received a payment of $1.4 million in the year ended March 31, 2007.

## 11. COMMITMENT

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

| Years ended March 31 | |
|---|---|
| 2009 | $ 193,982 |
| 2010 | 190,575 |
| 2010 – April to July | 40,323 |
| | $ 424,880 |

The Company acquired a flow-through share spending commitment as part of the Bengal Energy Inc. acquisition (Note 4). The acquired company renounced $1.0 million of qualifying oil and natural gas expenditures effective December 31, 2007 pursuant to a flow-through share offering. At March 31, 2008 Avery is committed to spend a further $0.2 million to fulfill the qualifying expenditure requirement by December 31, 2008.

## 12. FINANCIAL INSTRUMENTS

The Company's financial instruments recognized in the balance sheet consist of cash, accounts receivable, and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying amounts due to the short-term maturity of these instruments and repayment terms.

## 13. RELATED PARTY TRANSACTIONS

The Company paid $81,000 in acquisition related fees to an organization of which one of the Company's directors is a partner. The fees were paid in the ordinary course of business based on market rates.

A director of the Company received 1,154,400 Avery shares in exchange for shares owned in Bengal Energy Inc. at the same exchange ratio as all other Bengal shareholders as part of the acquisition described in Note 4.

In the year ended March 31, 2008, the Company paid $128,923 in fees to the law firm of which the Corporate Secretary is a partner. Of these fees, $38,905 is charged to earnings and $90,018 is included in the fair value of assets and liabilities acquired in the Bengal Acquisition (see Note 4). In the year ended March 31, 2007, the Company paid $130,725 in fees to the law firm of which the Corporate Secretary is a partner. Of these fees, $84,373 was charged to earnings and $46,352 was charged to share capital as share issue costs.

## 14. SEGMENTED INFORMATION

| **Year ended March 31, 2008 ($000's)** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **Canada** | | **Ireland** | | **Australia** | | **Total** |
| Revenue, net of royalties | $ | 1,036 | $ | – | $ | 2,048 | $ | 3,084 |
| Loss for period | | (2,045) | | – | | (1,600) | | (3,645) |
| Petroleum and natural gas properties | | | | | | | | |
| Cost | $ | 6,514 | $ | 298 | $ | 13,020 | $ | 19,832 |
| Accumulated depletion, depreciation and amortization | | (1,329) | | – | | (9,209) | | (10,538) |
| Net Book Value | $ | 5,185 | $ | 298 | $ | 3,811 | $ | 9,294 |
| Petroleum and natural gas property expenditures | $ | 3,352 | $ | 4 | $ | 907 | $ | 4,263 |
| Goodwill | $ | 1,639 | $ | – | $ | – | $ | 1,639 |

| **Year ended March 31, 2007 ($000's)** | **Canada** | **Ireland** | **Australia** | **Total** |
|---|---|---|---|---|
| Revenue, net of royalties | $ 706 | $ – | $ 2,130 | $ 2,836 |
| Loss for period | $ (1,912) | $ – | $ (2,987) | $ (4,899) |
| Petroleum and natural gas properties | | | | |
| Cost | $ 3,152 | $ 294 | $ 12,113 | $ 15,559 |
| Accumulated depletion, depreciation and amortization | (792) | – | (6,815) | (7,607) |
| Net Book Value | $ 2,360 | $ 294 | $ 5,298 | $ 7,952 |
| Petroleum and natural gas property expenditures | $ 108 | $ 21 | $ 6,406 | $ 6,535 |
| Goodwill | $ – | $ – | $ – | $ – |

# CORPORATE INFORMATION

**AUDITORS**
KPMG LLP • Calgary, Canada

**LEGAL COUNSEL**
Borden Ladner Gervais • Calgary, Canada

**BANKERS**
Royal Bank of Canada • Calgary, Canada
West Pac Bank • Brisbane, Australia
Commonwealth Bank • Brisbane, Australia

**REGISTRAR AND TRANSFER AGENT**
Valiant Trust Corporation • Calgary, Canada

**INVESTOR RELATIONS**
Bryan Mills Iradesso • Calgary, Canada

**DIRECTORS**
Chayan Chakrabarty
Richard N. Edgar
James B. Howe
Bradley G. Johnson
R. Stephen Peacock
Judith A. Stripling
Ian J. Towers

**GOVERNANCE AND DISCLOSURE COMMITTEE**
*All Directors are members of the Committee*

**AUDIT COMMITTEE**
James B. Howe
Ian J. Towers
Judith A. Stripling

**RESERVES COMMITTEE**
Ian J. Towers
R. Stephen Peacock
Richard N. Edgar

**COMPENSATION COMMITTEE**
R. Stephen Peacock
Ian J. Towers
Judith A. Stripling

**OFFICERS**
Bradley Johnson, Chief Executive Officer
Chayan Chakrabarty, President
James Mott, Vice President, Exploration
Paul S. Lipski, Managing Director, Australia
Bryan C. Goudie, Chief Financial Officer
Melinda Park, Secretary

**STOCK EXCHANGE LISTING**

TSX: ARY

**ANNUAL GENERAL AND SPECIAL MEETING**

Avery’s annual meeting of shareholders will be held on Thursday, July 17, 2008 at the Sandman Hotel, Calgary City Centre, 888 7th Avenue SW, Calgary AB in “Great Room 1&2” at 10:00 a.m. All shareholders are invited to attend the meeting and are encouraged to complete ant return their form of proxy to ensure their vote is counted.

Avery
RESOURCES INC

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