Avery
RESOURCES INC

international hydrocarbon exploration & production

First Quarter Interim Report
Three Months Ended June 30, 2007

Management's Discussion & Analysis

Avery

RESOURCES INC

Q1 Interim Report

Three months ended June 30, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS – August 24, 2007

The following Management's Discussion and Analysis (MD&A) should be read in conjunction with the unaudited consolidated interim financial statements and notes thereto for the three months ended June 30, 2007 and the audited consolidated financial statements and notes thereto and management's discussion and analysis as at and for the year ended March 31, 2007 for Avery Resources Inc. ("Avery" or the "Corporation"). The reader should be aware that historical results are not necessarily indicative of future performance. The quarterly financial statements have been approved by Avery's board of directors but have not been reviewed by the Corporation's auditors.

BASIS OF PRESENTATION

The quarterly financial statements and financial data presented herein were prepared in accordance with Canadian generally accepted accounting principles ("GAAP") following the same accounting policies and methods that were used in the March 31, 2007 audited consolidated financial statements except for the adoption of three new accounting policies outlined in Note 2 to the unaudited consolidated interim financial statements. The reporting and the measuring currency is the Canadian dollar.

NON-GAAP MEASURES

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 recognized measures under Canadian GAAP and therefore may not be comparable to performance measures presented by others. The term funds flow from operations represents 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. Management believes that in addition to net income (loss), funds flow 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 income determined in accordance with GAAP as an indication of Avery's performance.

BOE PRESENTATION

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

FORWARD-LOOKING STATEMENTS

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

All such forward-looking information is based on certain assumptions and analyses made by Avery in light of the Corporation's experience and perception of historical trends, current conditions and expected future developments, as well as other factors Avery believes are appropriate in the circumstances. The risks, uncertainties, and assumptions are difficult to predict and may affect operations, including, without limitation: the risks of foreign operations; foreign exchange fluctuations; commodity prices; equipment and labour shortages; inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of oil and natural gas companies to raise capital; the effect of weather *conditions on operations and facilities; the existence of operating risks; volatility of oil and natural gas prices; oil and natural gas product supply and demand; uncertainties associated with estimating reserves; incorrect assessments of the value of acquisitions; geological, technical, drilling and processing problems; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by Avery and other factors, many of which are beyond the Corporation's control. The foregoing factors are not exhaustive and are further discussed herein under the heading "Business Risks" and under the heading "Risk Factors" in the Annual Information Form of Avery dated July 24, 2007 and filed on SEDAR at www.sedar.com. Additional information about the Corporation can also be found on our website at www.averyresources.com.*

DESCRIPTION OF BUSINESS

Created through reorganization in November 2002, Avery is an international hydrocarbon exploration and production company based in Calgary, Alberta. The Company is currently focusing its exploration activities on a number of prospects in Australia. The Company is a reporting issuer in Alberta, British Columbia, Saskatchewan, Manitoba and Ontario and trades on the TSX Venture Exchange under the symbol ARY.

HIGHLIGHTS

$000's except per share, volumes and netback amounts	Three Months Ended		
	06/30/07	06/30/06	03/31/07
Revenue:			
Natural gas	$ 251	$ 213	$ 194
Natural gas liquids	84	58	58
Oil	292	–	662
Total	627	271	914
Royalties:	83	60	154
% of revenue	13.3%	22.2%	17.0%
Operating & transportation	104	64	223
Netback	$ 440	$ 147	$ 537
Funds flow from operations	(211)	(270)	(371)
Per share ($) (basic and diluted)	$ –	$ –	$ –
Net (loss)	(757)	(819)	(3,666)
Per share ($) (basic and diluted)	(0.01)	(0.02)	(0.05)
Capital expenditures	$ 350	$ 150	$ 3,247
Volumes:			
Natural gas (Mcf/d)	372	368	281
Natural gas liquids (boe/d)	17	11	13
Oil (bbl/d)	40	–	98
Total (boe/d @6:1)	119	72	157
Netback ($/boe)			
Revenue	$ 58.05	$ 39.64	$ 64.59
Royalties	7.70	8.80	10.59
Operating & transportation	9.62	9.66	15.79
Netback	$ 40.73	$ 21.18	$ 37.92

RESULTS OF OPERATIONS

Production

For the three months ended June 30, 2007, total oil, natural gas and natural gas liquids production averaged 119 boe/d compared to 72 boe/d in the comparable prior period.

Toparoa oil well – Australia

Oil production increased to 40 bbl/d for the three months ended June 30, 2007 compared to no production in the same period of the prior year. All the oil production comes from the Toparoa well located in the Cooper Basin of Australia.

Toparoa oil production declined from 98 bbl/d in the quarter ended March 31, 2007 to 40 bbl/d for the three months ended June 30, 2007.

Production from the Toparoa well was intermittent during the quarter due to third party processing and transportation curtailments and only produced for 31 days in the period. Expansion of the Santos operated Limestone Creek facility and a wax problem in one of the sales pipelines caused production restrictions. As of July 19, 2007 the well was back on production at 88 bbl/d net.

Kaybob gas wells - Alberta

The Kaybob wells increased natural gas and natural gas liquids production for the three months ended June 30, 2007 to 79 boe/d from 72 boe/d in the comparable prior period

Dual completion activity took place on the 9-16 well during the quarter as the Nordegg formation was commingled with the overlying Gething with positive results. Production at Kaybob was curtailed during May while this work was being completed and the well was back on production during June. Net production rates as a result of this activity increased from a low of 46 boe/d in May to 115 boe/d in June. Capital costs for this activity were accrued at March 31, 2007 as the work began prior to that date.

Revenue and pricing

Petroleum and natural gas revenues increased to $627,000 in the quarter ended June 30, 2007 from $271,000 in the comparable prior period.

Crude oil sales contributed $292,000 to revenue and received an average price of CAD $80.20 per bbl in the June 2007 quarter end. There was no revenue from this well in the comparable quarter of the previous year. Australian crude prices are based on the Tapis benchmark which in the three months ended June 30, 2007 averaged US $74.89, a US $9.87 premium over the average WTI price of $65.02.

Natural gas and natural gas liquids (NGL's) revenue increased to $335,000 in the three months ended June 30, 2007 compared to $271,000 in the comparable prior period. Gas prices received for the quarter ended June 30, 2007 were $7.41 per mcf compared to $6.31 per mcf for the comparable period of the prior year.

Royalties, operating costs and transportation costs

Royalties increased to $83,000 or $7.70 per boe in the 3 months ended June 30, 2007 compared to $60,000 or $8.80 per boe in the comparable prior period. The increase is due to higher revenue from increased volumes from start-up of production in Australia and higher gas prices. Royalties were 13% of revenue for the three months ended June 30, 2007 compared to 22% of revenue in the comparable period. The decline in royalties as a percentage of revenue is due to a non-recurring $42,000 processing fee credit received from the Alberta government and addition of lower royalty revenue from Australia.

Operating and transportation costs increased to $104,000 in the three months ended June 30, 2007 from $64,000 in the comparable prior period. The increase is due to start-up of production in Australia.

Operating & transportation costs

3 Months Ended June 30, 2007		Amount		Amount per boe
Australia				
Transportation **	$	46,000	$	12.67
Operating costs		10,000		2.75
Total Australia		56,000		15.42
Canada – operating costs		48,000		6.72
Total operating & transportation	$	104,000	$	9.62

3 Months Ended June 30, 2006		Amount		Amount per boe
Canada – operating costs	$	64,000	$	9.66

** Processing, transportation, wharfage and marketing charge.

General and administrative (G&A)

For the three months ended June 30, 2007, general and administrative expenses were $558,000 compared to $426,000 for the comparable prior period. The increase is due to additional compensation expense for a senior explorationist hired in October, 2006 by Avery's Australian office and general salary increases resulting from annual performance reviews.

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Depletion, depreciation and accretion (DD&A)

DD&A expense increased to $390,000 for the three months ended June 30, 2007 compared to $152,000 for the prior comparable period. The depletion rate per boe is $35.30 in the current period compared to $21.88 in the prior period. DD&A expense increased due to a 47 boe/d increase in production volumes and an increase in the average depletion rate per boe. The higher depletion rate is due to higher finding and development costs in Australia.

Stock based compensation

For the three month period ended June 30, 2007, stock-based compensation expense was $144,000 compared with $398,000 in the comparable prior period. In June, 2006, 1,760,000 employee stock options were granted and an associated fair value expense of $778,000 was calculated. One-third of the fair value expense was charged to the quarter ended June 30, 2006 as one-third of the options vested immediately. There were no options granted in the three months ended June 30, 2007.

CAPITAL EXPENDITURES

Capital expenditures were $350,000 for the three months ended June 30, 2007, compared with $150,000 in the comparable prior period. The expenditures in the current year relate to completion of seismic and geological work carried out as part of the Corporation's earning commitment on the Sunshine Block and completion of the seismic acquisition program over the Katandra discovery in the Timor Sea.

SHARE CAPITAL

The Company has an unlimited number of common shares authorized for issuance. At August 22, 2007 there are 76,688,934 common shares and 8,400,000 warrants to purchase common shares issued and outstanding. The warrants have an exercise price of $0.50 and expire on November 24, 2007.

At August 24, 2007 there are 5,191,867 employee stock options outstanding with an average exercise price of $0.60 of which 3,146,841 are vested. These options expire between 2008 and 2011 with an average remaining life of 3.8 years.

LIQUIDITY AND CAPITAL RESOURCES

The Company had working capital of $8.6 million at June 30, 2007 compared to working capital of $4.2 million in the prior comparable period. The Corporation's future capital expenditure plans are discussed below in the "Outlook" section.

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, convertible debt, and shareholder loans. It is expected that further equity financings will be used to fund ongoing operations and the Corporation's projected capital program, supplemented by cash flow from operations, working capital and debt when the level of operations provide borrowing capacity.

OUTLOOK

Exploration Activity

The Corporation continues to build its inventory of drilling projects in both the onshore Cooper Basin and offshore in the Timor Sea regions of Australia. The Corporation expects to have ongoing quarterly drilling activity commencing in the quarter ending March 31, 2008. Current plans show a total of 10 drilling locations in inventory with a net capital cost including seismic to Avery of approximately $9.4 million. The Corporation expects to finance these expenditures through a combination of existing cash, incremental cash flow and third party participation.

Recent Activity

- In the last quarter no new drilling activity took place.
- In order to facilitate location selection and future drilling in the Wompi block, three dimensional (3D) seismic is being acquired with completion of acquisition and processing expected by September of 2007.
- The previously announced Schwarzer 3D seismic acquisition program over the Katandra discovery was completed in late April and processing and interpretation are underway with an expected completion date late in the next quarter.
- Interpretation of the Sunshine Block 2D seismic data was initiated and is expected to be completed early in the next quarter.
- Final interpretation of both new 2 dimensional seismic and the Cook extension 3D seismic were completed during the quarter. Location selection for the first well on the Barta block has been completed with drilling planned for early 2008.
- Evaluation of 3D seismic acquired over the Innamincka block is ongoing.
- Gazettal of Native Land Claims resolution was initiated in late April of 2007 for the Magellan block and barring intervention the process will conclude in late August of 2007.
- In Canada, recompletion and commingling of the natural gas production from the Nordegg and Gething formations at the Kaybob project were completed during the quarter ended June 30, 2007 in the 9-16 well. Production rates increased from 46 boe/d in May to 115 boe/d in June.
- A joint study group was formed to review the Queensland Gazettal of Mineral Rights bid round.
- On August 27th announced a Letter of Intent with Santos Ltd., Bow Energy Limited and Victoria Petroleum Limited to jointly explore ATP 752P Barta and Wompi Blocks.

CONTRACTUAL ARRANGEMENTS

The Corporation is committed to minimum annual operating lease payments on its premises in Canada and Australia in the amount of $169,000 over each of the next three years.

The Corporation also has asset retirement obligations with respect to the abandonment and reclamation of wells and facilities owned by the Corporation. 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 June 30, 2007 was $154,000.

The Corporation does not have any off balance sheet financing arrangements.

QUARTERLY FINANCIAL INFORMATION

The following tables set forth selected financial information of the Corporation for the periods noted.

($000's except per share amounts)	Three Months Ended			
	06/30/07	03/31/07	12/31/06	09/30/06
Statement of earnings (loss)				
Revenue	$ 705	$ 1,032	$ 1,883	$ 277
Net earnings (loss)	(758)	(3,666)	(1,069)	656
Net earnings (loss) per share	(0.01)	(0.05)	(0.02)	0.01
Funds flow from operations (1)	$ (211)	$ (371)	$ 1,314	$ 969
Per share ($) – basic and diluted	–	–	0.02	0.02
	06/30/06.	03/31/06	12/31/05	09/30/05
Statement of earnings (loss)				
Revenue	$ 299	$ 393	$ 121	$ 5
Net earnings (loss)	(819)	(918)	(2,042)	(313)
Net earnings (loss) per share	(0.02)	(0.04)	(0.07)	(0.01)
Funds flow from operations (1)	$ (269)	$ (298)	$ (309)	$ (251)
Per share ($) – basic and diluted	(0.01)	(0.01)	(0.01)	(0.01)

(1) See "Non-GAAP Measures" on first page of MD&A

Avery's revenue began to increase in the quarter ended December 31, 2005 due to the acquisition of four gas wells in the Kaybob area of Alberta. The acquisition closed in November of 2005 and provided the Corporation's first revenue from natural gas and natural gas liquids sales of approximately 70 boe/d. Revenue remained relatively stable until the quarter ended September 30, 2006 and then increased during the following quarter when 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) bbl/d and declined to about 350 gross (net 114) bbl/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 flow from operations declined during the last two quarters. Production from Toparoa is expected to decline less rapidly.

Net earnings are reduced or losses increased due to expansion of the Corporation's operations into Australia where an office was opened in November 2005.

Losses for the quarters ended December 31, 2005 and 2006 and the quarter ended March 31, 2007 are higher due to write-downs of oil and gas property costs.

CHANGES IN ACCOUNTING POLICIES

The Accounting Standards Board of the Canadian Institute of Chartered Accountants ("CICA") continually amends and improves certain standards or guidelines contained in the CICA Handbook. Avery monitors these changes as they are proposed and will make changes to our accounting policies and disclosures as necessary.

Several new CICA Handbook sections came into effect January 1, 2007 and were adopted by the Corporation. Please refer to note 2, “Change in Accounting Policies” in the notes to the unaudited interim financial statements for the three months ended June 30, 2007.

In December 2006, the CICA issued a new accounting standard: Handbook Section 1535, “Capital Disclosures”, requiring disclosure of information about an entity’s capital and the objectives, policies, and processes for managing capital. The standard is effective for fiscal years beginning on or after October 1, 2007 and we will be assessing the impact on the consolidated financial statements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and the Chief Financial Officer of Avery are responsible for designing a system of internal controls over financial reporting, or causing them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with Canadian GAAP.

Management of Avery has assessed the design of internal controls over financial reporting as of June 30, 2007, and certifies that 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 reasonably likely to materially affect, the issuer’s internal control over financial reporting. During the review of the design of the Corporation’s control system over financial reporting it was noted that, due to the limited number of staff at Avery, it is not feasible to achieve complete segregation of incompatible duties. The limited number of staff may also result in identifying weaknesses in accounting for complex and / or non-routine transactions due to a lack of technical resources within the Corporation. While management of Avery has put in place certain procedures to mitigate the risk of material misstatement in the Corporation’s financial reporting, a system of internal controls can provide only reasonable, not absolute, assurance that the objectives of the control system are met, no matter how well conceived or operated.

DISCLOSURE CONTROLS AND PROCEDURES

Avery has implemented a disclosure policy, and has designed controls and procedures, so that information required to be disclosed by the Corporation is accumulated and communicated to the Corporation’s management to allow timely decisions regarding required disclosure. The disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed or submitted under applicable securities regulation is accumulated and communicated to our management, including our Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. All internal control systems, no matter how well designed, have inherent limitations. Therefore, these systems provide reasonable, but not absolute assurance, that financial information is accurate and complete.

BUSINESS RISKS

The Corporation is engaged in the exploration, development, production and acquisition of crude oil and natural gas. Avery’s business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced. A summary of certain risk factors relating to our business are discussed below and a more exhaustive list is provided in the Risk Factors Section of our Annual Information Form dated July 24, 2007 and filed on SEDAR at www.sedar.com.

Operational risks include exploration and development of economic crude oil and natural gas reserves, unsuccessful exploration and development drilling activity, reservoir performance, safety and environmental concerns, access to cost effective contract services, escalating industry costs for contracted services and equipment, product marketing and hiring and retaining qualified employees. Avery employs a team of highly motivated and experienced staff skilled in managing these risks and uncertainties, Management is familiar with operations and has extensive industry experience to put together a defined plan to find, acquire and develop reserves in areas with access to markets. The Corporation also maintains an insurance program commensurate with its levels and scope of operations to protect against loss from destruction of assets, pollution, blowouts or other industry standard losses.

Financial risks include fluctuations in commodity prices, exchange rates and interest rates, all of which are beyond the control of the Corporation. Avery actively manages its working capital to ensure the Corporation conducts its activities in accordance with its plan. The Corporation may be required to use future equity issues or take on debt if appropriate to maintain its financial position or raise funds necessary to carry out significant capital expenditure programs.

Avery is subject to a variety of regulatory risks that it does not control. Government and Securities regulations are monitored on an ongoing basis to ensure the Corporation continues to be in compliance.

Consolidated Financial Statements of

Avery

RESOURCES INC

Q1 Interim Report

Three months ended June 30, 2007 and 2006

AVERY RESOURCES INC.

CONSOLIDATED BALANCE SHEETS
(thousands of dollars) (unaudited)

As at		June 30 2007		March 31 2007
ASSETS				
Current assets				
Cash and short term deposits	$	7,769	$	8,339
Accounts receivable and prepaid expenses		1,155		1,795
		8,924		10,134
Petroleum and natural gas properties (note 3)		7,915		7,952
	$	16,839	$	18,086
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	$	368	$	1,017
Asset retirement obligations (note 4)		86		85
Non-controlling interest		62		47
Shareholders' equity:				
Share capital (note 5)		38,507		38,507
Warrants (note 5)		927		927
Contributed surplus (note 5)		2,025		1,881
Deficit		(25,136)		(24,378)
		16,323		16,937
	$	16,839	$	18,086

Commitment (note 7)

See accompanying notes to consolidated financial statements.

On behalf of the Board:

David Little

______________________________Director

______________________________Director

AVERY RESOURCES INC.

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS)
(thousands of dollars, except per share amounts) (unaudited)

Three months ended June 30 ',		2007		2006
Revenues				
Petroleum and natural gas sales	$	627	$	271
Royalties		(83)		(60)
Interest income		78		29
		622		240
Expenses				
General and administrative		558		426
Operating and transportation		104		64
Stock based compensation		144		398
Depletion, depreciation and accretion		390		152
Foreign exchange loss		199		21
		1,395		1,061
Non-controlling interest		15		3
Earnings (loss) and other comprehensive income (loss) for the period		(758)		(819)
Deficit, beginning of year		(24,378)		(19,479)
Deficit, end of year	$	(25,136)	$	(20,298)
Basic and diluted loss per share (note 5)	$	(0.01)	$	(0.02)

See accompanying notes to consolidated financial statements.

AVERY RESOURCES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(thousands of dollars, except per share amounts) (unaudited)

Three months ended June 30,	2007	2006
Cash provided by (used in)		
Operations		
Loss for the year	$ (758)	$ (819)
Items not affecting cash		
Depletion, depreciation and accretion	390	151
Stock based compensation	144	398
Unrealized foreign exchange loss	13	–
	(211)	(270)
Changes in non-cash working capital (note 6)	132	(498)
	(79)	(768)
Financing		
Issue of common shares for cash, net of share issue costs	–	1,545
Changes in non-cash working capital (note 6)	(77)	(33)
	(77)	1,512
Investments		
Additions to petroleum and natural gas properties and facilities	(350)	(150)
Changes in non-cash working capital (note 6)	(64)	(353)
	(414)	(503)
Increase (decrease) in cash	(570)	241
Cash and short term deposits, beginning of period	8,339	3,636
Cash and short term deposits, end of period	$ 7,769	$ 3,877

Three months ended June 30,	2007	2006
Interest paid	$ –	$ –
Interest received	25	3
Cash income taxes paid	–	–

See accompanying notes to consolidated financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements of Avery Resources Inc. (the "Corporation") have been prepared by management in accordance with accounting principles generally accepted in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates. These financial statements have been approved by Avery's board of directors but have not been reviewed by the Corporation's auditors.

The consolidated financial statements include the accounts of the Corporation and its wholly-owned and majority owned subsidiaries.

These Interim unaudited consolidated financial statements have been prepared by management following the same accounting policies and methods that were used and disclosed in the audited financial statements for the year ended March 31, 2007, supplemented as disclosed below. The disclosures provided below are incremental to those included with the annual audited consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in the Corporation's annual report for the year ended March 31, 2007.

2. CHANGE IN ACCOUNTING POLICIES:

On April 1, 2007, the Corporation adopted the new Canadian accounting standards for financial instruments – recognition and measurement, financial instruments – presentation and disclosure, hedging and other comprehensive income. These standards have been applied prospectively.

Comprehensive Income

The Corporation adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, Comprehensive Income, on April 1, 2007. The new standard introduces comprehensive income, which consists of net income and other comprehensive income. The Corporation does not currently have any other comprehensive income items.

Financial Instruments

On April 1, 2007, the Corporation adopted CICA Section 3855, Financial Instruments – Recognition and Measurement. This standard establishes the recognition and measurement criteria for financial assets, liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading," "available for sale," "held-to-maturity," "loans and receivables" or "other financial liabilities" as defined by the standard.

Cash and cash equivalents are designated as "held-for-trading" and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivable are designated as "loans and receivables" and are carried at cost. Accounts payable are designated as "other financial liabilities" and are carried at cost

Derivatives embedded in other financial instruments must be separated and fair valued as separate derivatives under the new standard. The Corporation has not identified embedded derivatives in any of its instruments.

3. PETROLEUM AND NATURAL GAS PROPERTIES

	Cost	Accumulated depletion & depreciation	Net book value
June 30, 2007			
Australia			
Petroleum and natural gas properties	$ 12,375	$ 7,062	$ 5,313
Other assets	94	28	66
Canada			
Petroleum and natural gas properties	2,911	717	2,194
Other assets	233	185	48
Ireland	294	–	294
Petroleum and natural gas properties			
	$ 15,907	$ 7,992	$ 7,915
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

Costs of unproved properties excluded from costs subject to depletion at June 30, 2007 were $3.6 million (2006 - $4.3 million). There are no future development costs to add to costs subject to depletion.

4. ASSET RETIREMENT OBLIGATIONS

The Corporation's asset retirement obligations result from net ownership interests in petroleum and natural gas assets. The Corporation has estimated the total undiscounted amount of cash flows required to settle its asset retirement obligations to be $154,000 at June 30, 2007 (2006 - $133,000) which will be incurred between 2007 and 2024 with a significant majority of the costs being incurred after 2010. A credit adjusted risk free rate of 7.0% and inflation rate of 2.0% were used to calculate the fair value of the asset retirement obligation.

	Three months ended June 30, 2007	Year ended March 31, 2007
Balance, beginning of year	$ 85	$ 65
Liabilities incurred	–	12
Accretion expense	1	5
Balance, end of period	$ 86	$ 85

5. SHARE CAPITAL

(a) Authorized:

Unlimited number of common shares

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

(b) Issued:

	Number of shares	Amount
Balance March 31, 2006	53,194,741	$ 27,230
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 and June 30, 2007	76,688,934	$ 38,507

There was no activity in the Corporations shares during the quarter ended June 30, 2007.

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

	Number of warrant	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 and June 30, 2007	8,400,000	$ 927

These warrants have an exercise price of $0.50 per common share and expire November 24, 2007.

(c) Contributed surplus:

A reconciliation of contributed surplus is provided below:

	Three months ended June 30, 2007	Year ended March 31, 2007
Balance, beginning of period	$ 1,881	$ 948
Stock-based compensation expense	144	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	–	2
Balance, end of period	$ 2,025	$ 1,881

(d) Stock-based compensation plan:

The Corporation has a stock option plan for directors, officers, employees and consultants of the Corporation whereby up to 10% of the issued and outstanding common shares can be granted by the Board of Directors. The options vest one-third immediately and one-third on each of the next two years anniversary dates.

A summary of the status of the Corporation's stock option plan as of June 30, 2007 and changes during the three months ending on that date and during the year ending March 31, 2007 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
Forfeited	(166,000)	0.65
Outstanding at March 31, 2007 and June 30, 2007	5,191,867	$ 0.60
Exercisable at June 30 , 2007	3,146,841	$ 0.59

As at June 30, 2007 there are a total of 5,191,867 options granted and outstanding under the stock option plan with a weighted average exercise price of $0.60 per share. A total of 3,146,841 options with a weighted average exercise price of $0.59 are exercisable at June 30, 2007.

All options are granted at market prices.

The Corporation recorded stock based compensation expense of $144,000 for the three months ended June 30, 2007 (2006 - $398,000).

The Corporation accounts for its stock based compensation plan using the fair value method whereby compensation costs have been recognized in the financial statements for share options granted to employees and directors.

The following weighted average assumptions are used in this calculation:

	2007	2006
Assumptions:		
Risk free interest rate (%)	3.6%	3.8%
Expected life (years)	5 yr	5 yr
Expected volatility (%)	60 %	130 %
Vesting period (years)	2 yr	2 yr
Results:		
Weighted average fair value of options granted	$ 0.40	$ 0.38

(e) Per share amounts:

Per share amounts are calculated using losses and the weighted-average number of common shares outstanding. The Corporation has recorded a loss in each of the last two quarters ending June 30, 2007 and 2006 and therefore any addition to basic shares outstanding is anti-dilutive. The weighted average number of shares outstanding at June 30, 2007 is 76,688,934 (2006 – 55,205,864). The average trading price of the Corporation's common shares on the TSX Venture Exchange for the three months ended June 30, 2007 is $0.35 and the closing price was $0.42. At June 30, 2007, 5,103,533 employee stock options are anti-dilutive based on the closing price for Avery common shares.

6. CHANGES IN NON-CASH WORKING CAPITAL

June 30,		2007		2006
Accounts receivable and prepaid expenses	$	640	$	222
Accounts payable and accrued liabilities		(649)		(1,106)
Total	$	(9)	$	(884)
Relating to:				
Operating	$	132		(498)
Financing		(77)		(33)
Investing		(64)		(353)
Total	$	(9)	$	(884)

7. COMMITMENT

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

2008	$	127
2009		169
2010		169
	$	465

8. SEGMENTED INFORMATION:

Three months Ended June 30, 2007

	Canada	Ireland	Australia	Total
Revenue, net of royalties	$ 255	$ –	$ 247	$ 502
Loss for period	(225)	–	(691)	(91 6)
Petroleum and natural gas properties				
Cost	3,144	294	12,469	15,907
Accumulated depletion, depreciation and amortization	(902)	–	(7,249)	(8,151)
Net Book Value	2,242	294	5,220	7,756
Capital Expenditures	$ –	$ –	$ 350	$ 350

Three months Ended June 30, 2006

	Canada	Ireland	Australia	Total
Revenue, net of royalties	$ 210	$ –	$ –	$ 210
Loss for period	(702)	–	(117)	(819)
Petroleum and natural gas properties				
Cost	2,982	288	5,892	9,162
Accumulated depletion, depreciation and amortization	(503)	–	(1,666)	(2,169)
Net Book Value	2,479	288	4,226	6,993
Capital Expenditures	$ (62)	$ 15	$ 197	$ 150

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
David A. Little (Chairman)
John H. Carruthers
Richard N. Edgar
James B. Howe
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
David A. Little, Chief Executive Officer
Richard N. Edgar, President
John H. Carruthers, Executive Vice President
Paul S. Lipski, Managing Director, Australia
Bryan C. Goudie, Chief Financial Officer
Melinda Park, Secretary

STOCK EXCHANGE LISTING
TSX Venture Exchange: ARY