Avery
RESOURCES INC

international exploration & production

SECOND QUARTER REPORT 2006

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LETTER TO SHAREHOLDERS

In the second quarter Avery Resources continued to focus its oil exploration and production efforts in Australia, and we plan to drill up to 13 wells in the area over the next 18 months. Avery's diverse portfolio of Cooper Basin projects in central Australia feature large acreage spreads adjacent to production and exploitation drilling. We partner with local operators who have proven track records. Avery is also working with a partner to commercialize its offshore Timor Sea - Katandra discovery adjacent to the prolific Jabiru oilfield.

Avery had a very productive second quarter, ending September 30, 2006. We received the necessary approvals to proceed with exploration of two large land blocks that are highly prospective for light oil in the heart of central Australia's Cooper Basin. We also drilled the Light Fingers-1 well, completing our earning requirements for the balance of Petroleum Exploration License-113 (PEL-113) Murteree Block. Shortly after the quarter end we passed a major milestone with the commencement of our first Australian production, approximately 400 to 500 barrels of oil per day (bopd) net to Avery, from the Toparoa-1 well in PEL-113.

More recently we completed a private placement, raising gross proceeds of $10 million that will be used to fund and expand our drilling program.

Two large high-profile land blocks have been granted to Avery and its Australian partners, Bow Energy Ltd. and Victoria Petroleum NL in the Queensland sector of the Cooper Basin. The partners negotiated a Native Title Agreement and the Queensland government has issued an Authority to Prospect, ATP 752P, beginning August 1, 2006 for an initial 12 year term. The grant covers the Wompi Block, which is 236,700 acres along the basin's southeastern oil rim, and the Barta Block, which consists of 631,100 acres located on the basin's northwestern oil rim. We intend to fund the drilling of three wells in the Wompi Block as well as two wells plus 100 kilometers of 2D seismic acquisition in the Barta Block, earning a total of 50 percent for each area. These highly prospective blocks are located along the oil-prone rim of Australia's most prolific onshore basin. The joint venture group has been busy developing drilling prospects and Avery is ready to progress drilling programs in areas that are surrounded by or offset by productive oil fields.

In July 2006 Avery began drilling the Light Fingers-1 exploration well located 2.8 kilometres from our oil discovery at Toparoa-1 in the Cooper Basin in central Australia. Light Fingers is part of a multi-well exploration program in partnership with operator Stuart Petroleum Ltd. on the Petroleum Exploration License 113. By drilling the well, Avery completed its earning requirements for the balance of PEL-113, giving the Company a 35 percent working interest in 12,850 highly prospective acres. In early August we completed testing and a decision was made to abandon the well.

In early October, following the end of our second quarter, Avery passed a major milestone with the commencement of our first Australian production. The PEL-113 Toparoa-1 well, after well clean-up, began producing 1,980 bopd plus a 10 percent water cut. The well produces from the Hutton sandstone formation similar to the adjacent Derrilyn oilfield, 1.3 kilometers to the northeast. With almost the same net pay interval, Derrilyn-1 produced approximately 1,400 bopd, totaling about 700,000 barrels of oil, from the formation in its first 12 months of production. The $1.4 million payment that we received from Stuart Petroleum substantially offsets the delay in production that resulted from the decision to produce the well into the recently completed pipeline, rather than trucking the oil. With a 32.67 percent interest in the well, Avery expects to receive approximately 400 bopd at current flow rates, dramatically improving our cash flow beginning in the third quarter. These rates are expected to decline over time, as water cuts increase.

In mid-October 2006 we announced our engagement of Paradigm Capital Inc. to act as agent in connection with a private placement of Avery common shares on a reasonable best efforts basis. After marketing the financing in several cities in Canada and the US, on October 31 we priced the financing at $0.50 per share, and on November 15 the financing was completed, raising gross proceeds of $10 million. Proceeds from the offering will be used to fund our existing 13-well 18-month Australian exploration and development program and to expand the program to take advantage of ample exploration opportunities for light sweet oil in Australia.

On October 20, 2006 we announced that Mr. Bradley Johnson has resigned from Avery's board of directors. Bradley made many significant contributions to Avery over the past year, and we are very thankful for his past guidance. At a meeting held on November 24, 2006, Ms. Judy Stripling was elected to the Board. Please see our website for a biography of Ms. Stripling.

With plans and funding in place to continue to grow our Australian exploration activities, Avery is well placed for a successful and rewarding future. Our proven team of deal makers and geologists, access to large Australian land positions, near-term drilling of highly prospective oil targets, and access to capital make Avery a very exciting company in which to invest.

On behalf of the Board of Directors,

David A. Little
Chairman and CEO

Management’s Discussion and Analysis

Management’s Discussion and Analysis (MD&A) is dated November 24, 2006. The MD&A should be read in conjunction with Avery Resources Inc.’s (“Avery” or the “Company”) unaudited interim consolidated financial statements as at and for the three months and six months ended September 30, 2006 and Avery’s audited consolidated financial statements and MD&A for the year ended March 31, 2006.

BASIS OF PRESENTATION

The financial data presented below has been prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”). The quarterly financial statements were prepared following the same accounting policies and methods that were used in the 2006 audited consolidated financial statements. The quarterly financial statements have been reviewed by the Company’s audit committee and approved by the Board of directors but have not been reviewed by the Company’s auditors. The reporting and the measuring currency are Canadian dollar.

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 labor shortages; inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of oil and natural gas companies to raise capital; the effect of weather conditions on operations and facilities; the existence of operating risks; volatility of oil and natural gas prices; oil and natural gas product supply and demand; uncertainties associated with estimating reserves; incorrect assessments of the value of acquisitions; geological, technical, drilling and processing problems; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by Avery and other factors, many of which are beyond the Corporation’s control. The foregoing factors are not exhaustive and are further discussed herein under the heading “Business Risks” and under the heading “Risk Factors” in the Annual Information Form of Avery dated July 24, 2006 and filed on SEDAR at www.sedar.com.

NON-GAAP MEASURES

Included in this report are references to terms commonly used in the oil and gas industry, such as funds flow from operations, operating netback, which are not recognized measures under Canadian GAAP and therefore may not be comparable to performance measures presented by others. Operating netbacks represent revenue less royalties and operating costs. Management believes that operating netback is a useful supplemental measure as it provides an indication of the operating performance, leverage and liquidity. The term funds flow from operations is also used. The statement of cash flows in the financial statements presents the reconciliation between net earnings and funds flow from operations.

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

DESCRIPTION OF BUSINESS

Created through reorganization in November 2002, Avery Resources 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 percentage information	Three Months Ended				Six Months Ended	
	09/30/06	09/30/05	06/30/06	%Δ	09/30/06	09/30/05
Revenue						
Natural Gas	$ 172,998	$ -	$ 212,566	-19%	$ 385,509	$ -
Natural Gas Liquids	59,224	-	57,963	2%	117,242	-
Total	$ 232,222	-	$ 270,529	-14%	$ 502,751	-
Royalties	$ 80,388	$ -	$ 60,070	34%	$ 140,458	$ -
% of revenue	34.6%	n/a	22.2%	56%	27.9%	n/a
Operating Expense	$ 51,786	$ -	$ 63,748	-19%	$ 115,534	$ -
Netback ($/boe)				-6%		
Revenue	$ 37.08	n/a	$ 39.64		$ 39.10	n/a
Royalties	12.84	n/a	8.80	46%	10.92	n/a
Operating	8.27	n/a	9.34	-11%	8.98	n/a
Operating Netback	$ 15.97	n/a	$ 21.50	-26%	$ 19.20	n/a
General & Admin. Expense	$ 601,917	$ 255,333	$ 426,670	41%	$ 1,028,587	$ 516,873
Net Earnings (Loss)	$ 655,762	$ (313,148)	$ (819,162)	n/a	$ (163,400)	$ (635,371)
Funds flow from operations	$ 969,258	$ (250,584)	$ (269,192)	n/a	$ 700,066	$ (510,006)
Net Earning (Loss) per share	$ 0.01	$ (0.02)	$ (0.02)	n/a	$ –	$ (0.04)
Funds Flow per share	$ 0.02	$ (0.01)	$ –	n/a	$ 0.01	$ (0.04)
Volumes						
Gas (mcf/d)	347	n/a	368	-6%	358	n/a
Natural gas liquids (boe/d)	10	n/a	11	-9%	10	n/a
Total (boe/d @ 6:1)	68	n/a	72	-6%	70	n/a

OIL & GAS REVENUE AND RELATED EXPENSES

The second quarter of fiscal 2007 has no comparative figures for the same period in the previous year, as the producing assets were acquired in November, 2005. Oil and gas and related expenses for the second quarter of fiscal 2007 are detailed in the table on the prior page. Royalties increased due to payout on two Kaybob wells and the start-up of a 7.5% over-riding royalty.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were $1,028,590 for the first half of fiscal 2007 compared to $516,873 for the same period in the prior year.

For the three months ended September 30, 2006, general and administrative expenses were $601,917 compared to $255,333 for the second quarter of the prior year. General and administrative expenses increased in fiscal 2007 reflecting the Company's increased exploration activity.

	Three months ended		Six months ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Consultants	$ 19,322	$ 108,552	$ 35,803	$ 217,357
Salaries and employee benefits	264,868	59,048	504,141	138,798
Travel	51,214	21,931	79,892	46,053
Professional Fees	92,291	3,911	128,797	22,289
Shareholder Communication	56,417	22,404	93,620	32,643
Office Expenses	39,144	6,364	56,894	14,540
Insurance and other	29,037	14,911	41,949	21,475
Rent	49,624	18,212	87,494	23,718
	$ 601,917	**$ 255,333**	**$ 1,028,590**	**$ 516,873**

- Salaries and benefits increased due to additional staffing requirements in Canada and opening an office in Australia in November 2005. Production commenced in Australia on October 6, 2006. In April 2006 a new salaried CFO was hired and the leaving CFO was paid as a consultant.
- International travel has increased over the prior year due to business requirements to travel to Australia more often.
- Professional fees include the cost of an engineering evaluation report as well as audit and legal costs.
- Consulting fees have decreased as the company's requirements for more full time expertise has expanded and consulting positions have been filled by full-time staff.

DEPLETION, DEPRECIATION AND ACCRETION

Concurrent with the acquisition of Canadian oil and gas properties on November 24, 2005 and the commencement of production from these properties, the Company began providing depletion on its Canadian properties, which, along with depreciation of office equipment, was $297,579 for the six months ended September 30, 2006 compared to $4,190 for the prior period. For the three months ended September 30, 2006 depletion and depreciation was $145,782 versus $1,976 for the same period in the prior year. Depletion on Australian properties will commence in October 2006 concurrent with the commencement of production.

ACCRETION OF CONVERTIBLE TERM NOTE

On March 6, 2006 the Term Note was converted to 987,667 common shares. During the three months ended September 30, 2005 $8,431 of accretion on the Term Note of $592,600 face value was expensed. For the six months ended September 30, 2005 accretion of $16,861 was expensed.

STOCK BASED COMPENSATION

In the first half of fiscal 2007 the Company recorded a stock-based compensation expense of $558,639 compared with $104,314 for the same period in fiscal 2006.

For the three month period ended September 30, 2006, stock-based compensation expense was $160,466 compared with $52,157 for the same period in 2005. The increase over the prior year periods is a result of an increase in the number of options outstanding, the immediate vesting of a portion of the options granted in the current period, and increased volatility in the Company's share price.

MITIGATION PAYMENT

Production from Toparoa-1, located in the Murteree Block of PEL 113 (Avery 32.67%) in the South Australian sector of the Cooper Basin commenced on October 6, 2006. In recognition of the Toparoa-1 production delays and in accordance with the production arrangement, Avery negotiated and received a payment of $1,391,730.

INCOME TAXES

At September 30, 2006, the Company had approximately $3.2 million of non-capital losses available to reduce future taxable income (September 30, 2005 - $2.55 million). The losses expire at various dates to March 31, 2013. The Company also has approximately $5.0 million in resource income tax pools (September 30, 2005 - $0.85 million). The Company's wholly-owned Australian subsidiary has approximately $5.0 million in tax losses to use against future income of the subsidiary. The Company has not recognized a future income tax recovery on the pretax loss due to the uncertainty as to whether or not there will be sufficient future income to utilize its tax pools

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

CAPITAL EXPENDITURES

In the first half of fiscal 2007 capital expenditures totaled $1,498,084 compared to $958,153 in the prior year. Capital expenditures totaled $1,347,635 in the second quarter ended September 30, 2006, compared with $843,936 for the same period in 2005. The expenditures relate to drilling the Lightfingers exploration well in the Cooper Basin of Australia and tying in the Toparoa-1 well.

Costs of unproved properties excluded from costs subject to depletion and depreciation at September 30, 2006 were $5.8 million.

SHARE CAPITAL

The Company has authorized an unlimited number of common shares. At November 24, 2006 there are 76,213,034 common shares, 8,400,000 warrants and 391,900 broker options issued and outstanding. The warrants and broker options have an exercise price of $0.50 and $0.40 respectively and expire on November 24 and February 24, 2007. See subsequent event note regarding a common share financing that closed after the quarter ended September 30, 2006.

	Number of shares	Amount
Balance, March 31, 2006	53,194,741	$ 27,230,203
Exercise of options	33,300	14,985
Exercise of warrants	2,965,593	1,595,021
Share issuance costs		(59,862)
Balance, September 30, 2006	56,193,634	$ 28,780,347
Exercise of warrants	19,400	7,760
Issued for cash on private placements	20,000,000	10,000,000
Share issuance costs		(700,000)
Balance, November 24, 2006	76,213,034	$ 38,088,107

Refer to note 3(b) for details regarding options and warrants exercised during the quarter.

During the six months ended September 30, 2006, the Company granted 1,910,000 options to purchase common shares of the Company an average exercise price of $0.72. These options were granted to employees and directors of the Company and have a five year term.

LIQUIDITY AND CAPITAL RESOURCES

The Company had working capital of $3,831,914 at September 30, 2006 compared to working capital of $3,079,788 at March 31, 2006.

As the Corporation is in the early stages of exploration and development without significant operating revenue to date, all activities have been funded through the issuance of share capital, convertible debt, and shareholder loans. It is expected that further equity financings will be used to fund ongoing operations and the Company's projected capital program, supplemented by cash flow from future operations, working capital` and debt when the level of operations provide borrowing capacity. Subsequent to September 30, 2006, the Corporation closed a brokered private placement at $0.50 per share for proceeds of $10 million (net $9.3 million).

RELATED PARTY TRANSACTIONS

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

OFF BALANCE SHEET TRANSACTIONS

The Company does not have any off balance sheet transactions.

OPERATING LEASE COMMITMENTS

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

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

SUBSEQUENT EVENTS

Equity Financing
On November 15, 2006 the Company announced it closed a $10 million common share financing at $0.50 per share. Proceeds from the offering will be used to fund Avery's Australian exploration and development program.

OUTLOOK
Toparoa Production
On October 11, 2006 the Company announced it has been advised by the operator that production has commenced at its Toparoa-1 oil discovery in the South Australian sector of the Cooper Basin.Toparoa-1 initially flowed at 1,570 barrels per day of light (42 degree API) sweet oil and, after well clean-up, it was producing 1,980 barrels of oil per day ("bopd") plus a 10 percent water cut. Avery has a 32.67 percent interest in the well, providing approximately 650 barrels of oil per day net to Avery at current flow rates.

Exploration Activity
The Company is building a strong presence in Australia through farm-ins and drilling and continues to pursue strategic acquisitions. Avery expects to drill up to 13 wells through to March 2008 in the Cooper Basin, with much of this drilling scheduled for the first quarter of 2007, and possibly one well in the Timor Sea to begin commercializing the Katandra discovery. The net cost of the drilling program is expected to be approximately $19 million and will be funded with existing cash (including the proceeds of the recently closed financing) and future cash flow. Near-term details are as follows:

- A 3D seismic survey of the Innamincka area was acquired in 2006 and one additional well is planned for the first quarter of 2007.
- Avery expects to participate in five exploration wells to earn up to 50 percent interest in each of the Wompi and Barta blocks. Drilling is planned for December of 2006 and the first quarter of 2007.
- For the Katandra prospect in the Timor Sea, data has been reworked to reveal four new drilling prospects. The joint venture operated by OMV Timor Sea Pty Ltd., is evaluating pool reserves, production capability, permit prospectivity and defining a 3D work program for the area. The partners intend to shoot a new 3D seismic program over the area during the fourth quarter of 2006 and the first quarter of 2007 leading to a drill decision in 2007.

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

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

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

SELECTED QUARTERLY FINANCIAL INFORMATION

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

$000'S, except per share information	Three Months Ended			
	09/30/06	06/30/06	03/31/06	12/31/05
Statement of Earnings (Loss)				
Revenue	$ 277	$ 299	$ 393	$ 121
Net earnings (loss)	656	(819)	(918)	(2,042)
Net earnings (loss) per share *	0.01	(0.02)	(0.04)	(0.07)
Funds Flows				
Operations	$ 969	$ (250)	$ (298)	$ (309)
Funds flow per share *	0.02	(0.01)	(0.01)	(0.01)
	09/30/05	**06/30/05**	**03/31/05**	**12/31/04**
Statement of Loss				
Revenue	$ 5	$ 2	$ 23	$ 5
Net loss	(313)	(322)	(262)	(224)
Net earnings (loss) per share *	(0.01)	(0.01)	(0.04)	(0.01)
Funds Flows				
Operations	$ (251)	$ (259)	$ (186)	$ (165)
Funds flow per share *	(0.01)	(0.02)	(0.01)	(0.01)

* Basic and diluted

AVERY RESOURCES INC.
Consolidated Balance Sheets
(Unaudited)

	September 30, 2006		March 31, 2006	
		(Unaudited)		(Audited)
ASSETS				
Current assets:				
Cash and short term deposits	$	3,852,585	$	3,636,247
Accounts receivable and prepaid expenses		345,563		907,708
		4,198,148		4,543,955
Property, plant and equipment (note 2)		8,195,188		6,992,791
	$	**12,393,336**	**$**	**11,536,746**
LIABILITIES AND SHAREHOLDERS EQUITY				
Current Liabilities:				
Accounts payable and accrued liabilities	$	366,234	$	1,464,137
Asset retirement obligations		70,175		67,615
Non-controlling interest		82,089		75,539
Shareholders' equity:				
Share capital (note 3)		28,780,347		27,230,203
Warrants		1,230,028		1,230,028
Contributed surplus		1,506,430		947,791
Deficit		(19,641,967)		(19,478,567)
		11,874,838		9,929,455
Subsequent event note 5				
	$	**12,393,336**	**$**	**11,536,746**

See accompanying notes to consolidated financial statements.

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

	Three months ended		Six months ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Revenue:				
Petroleum and natural gas sales	$ 232,222	$ -	$ 502,751	$ -
Royalties	(80,388)	-	(140,458)	-
Interest income	44,984	4,749	73,571	6,867
	196,818	4,749	435,864	6,867
Expenses:				
General and administrative	601,917	255,333	1,028,587	516,873
Production	51,786	-	115,534	-
Stock-based compensation (note 3)	160,466	52,157	558,639	104,314
Foreign exchange loss (gain)	(13,531)	-	7,248	-
Depletion, depreciation and accretion	145,782	1,976	297,579	4,190
Accretion on convertible term note	-	8,431	-	16,861
	946,420	317,897	2,007,587	642,238
Mitigation payment (note 4)	1,391,730	-	1,391,730	-
Non-controlling interest	13,634	-	16,593	-
Earnings (Loss) for the period	655,762	(313,148)	(163,400)	(635,371)
Deficit, beginning of period	(20,297,729)	(16,205,389)	(19,478,567)	(15,883,166)
Deficit, end of period	$ (19,641,967)	$ (16,518,537)	$ (19,641,967)	$ (16,518,537)
Basic and diluted earnings (loss) per share	$ 0.01	$ (0.02)	$ -	$ (0.04)

See accompanying notes to consolidated financial statements.

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

	Three months ended		Six months ended	
	September 30, 2006	**September 30, 2005**	**September 30, 2006**	**September 30, 2005**
Cash provided by (used in):				
Operations:				
Earnings (Loss) for the period	$ 655,762	$ (313,148)	$ (163,400)	$ (635,371)
Items not involving in cash:				
Depletion and depreciation	145,782	1,976	297,579	4,190
Stock-based compensation	160,466	52,157	558,639	104,314
Unrealized foreign exchange loss (gain)	7,248		7,248	
Accretion on convertible term note	-	8,431		16,861
Operational cash flow:	969,258	(250,584)	700,066	(510,006)
Changes in non-cash working capital:				
Accounts receivable and prepaids	340,199	13,477	562,145	46,076
Accounts payable	7,828	42,355	(1,097,933)	79,822
	1,317,285	(194,752)	164,278	(384,108)
Financing:				
Share capital, net of share issue expenses	4,995	985,525	1,550,144	981,618
Loan proceeds	-	498,646		498,646
	4,995	1,484,171	1,550,144	1,480,264
Investments:				
Purchase of property, plant and equipment	(1,347,635)	(843,936)	(1,498,084)	(958,153)
Accounts payable	-	40,400		153,477
	(1,347,635)	(803,536)	(1,498,084)	(804,676)
Increase (decrease) in cash	(25,355)	485,883	216,338	291,480
Cash and short term deposits, beginning of period	3,877,940	486,721	3,636,247	681,124
Cash and short term deposits, end of period	$ 3,852,585	$ 972,604	$ 3,852,585	$ 972,604

See accompanying notes to consolidated financial statements.

1. Significant accounting policies:

The consolidated financial statements of Avery Resources Inc. (the "Company") have been prepared by management in accordance with accounting principles generally accepted in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. During the period the Company increased its ownership in its non-wholly owned Australian subsidiary from 54.3% to 76.6%.

These Interim unaudited consolidated financial statements have been prepared by management following the same accounting policies and methods that were used and disclosed in the audited financial statements for the year ended March 31, 2006. 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 Company's annual report for the year ended March 31, 2006.

2. Property, plant and equipment:

September 30, 2006	Cost	Accumulated depletion and depreciation	Net book value
Canada:			
Office furniture and equipment	$ 232,751	$ 170,267	$ 62,484
Petroleum and natural gas properties	2,771,894	476,521	2,295,373
Ireland:			
Petroleum and natural gas properties	287,685	–	287,685
Australia:			
Office furniture and equipment	62,188	4,585	57,603
Petroleum and natural gas properties	7,155,144	1,663,101	5,492,043
	$ 10,509,662	$ 2,314,474	$ 8,195,188

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

Costs of unproved properties excluded from costs subject to depletion and depreciation at September 30, 2006 were $5.8 million. (March 31, 2006 - $4.3 million)

During the period the Company drilled an exploration well in the Cooper Basin in Australia for which no commercial reserves were discovered and the well has been plugged and abandoned.

3. Share capital:

(a) Authorized:

Unlimited number of common shares

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

(b) Issued:

	Number of shares	Amount
Balance, March 31, 2006	53,194,741	$27,230,203
Exercise of options	33,300	14,985
Exercise of warrants	2,965,593	1,595,021
Share issuance cost	–	(59,863)
Balance, September 30, 2006	56,193,634	$28,780,347

(c) Warrants and Broker options:

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

At September 30, 2006 there were 411,300 broker options outstanding with an average exercise price of $0.40. These options expire February 27, 2007.

(d) Stock options:

The Company has a stock option plan for directors, officers, employees and consultants of the Company whereby up to 10% of the issued and outstanding common shares can be granted by the Board of Directors.

A summary of the status of the Company's stock option plan as of September 30, 2006 is presented below:

	Options	Weighted average exercise price ($)
Outstanding at March 31, 2006	1,940,167	0.44
Granted	1,910,000	0.73
Exercised	(33,300)	0.45
Outstanding at September 30, 2006	3,816,867	0.59
Exercisable at end of September 30, 2006	1,704,539	$ 0.56

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

Exercise price	Remaining life (years)	Number outstanding
$ 0.25	2.3	13,333
$ 0.30	1.5	75,000
$ 0.44	4.1	1,175,000
$ 0.45	2.0	66,700
$ 0.45	3.8	50,000
$ 0.48	3.5	66,834
$ 0.49	3.0	460,000
$ 0.72	4.7	1,760,000
$ 0.88	4.5	150,000
		3,816,867

(e) Stock based compensation:

During the six month period ended September 30, 2006, the Company granted 1,910,000 stock options with an average exercise price of $0.73 (2005 — none). Options granted under the plan have a five year term and vest one-third immediately and one-third over each of the next two anniversaries of the grant date. Option exercise prices approximate the market price for the common shares on the date the options were issued. The Company recorded stock based compensation expense of $558,639 (2005 — $104,314) for the six month period ended September 30, 2006.

4. Mitigation payment:

Production from Toparoa-1, located in the Murteree Block of PEL 113 (Avery 32.67%) in the South Australian sector of the Cooper Basin commenced on October 6, 2006. In recognition of the Toparoa-1 production delays and in accordance with the production arrangement, Avery negotiated and received a payment of $1,391,730.

5. Subsequent Events

Equity Financing

On November 15, 2006 the Company announced it closed a $10 million common share financing at $0.50 per share (net proceeds $9.3 million). Proceeds from the offering will be used to fund Avery's Australian exploration and development program.

AUDITORS
KPMG LLP • Calgary, Canada

LEGAL COUNSEL
Borden Ladner Gervais • Calgary, Canada

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

REGISTRAR AND TRANSFER AGENT
Valiant Trust Corporation • Calgary, Canada

INVESTOR RELATIONS
Iradesso Communications • Calgary, Canada

DIRECTORS
David A. Little (Chairman)
Richard N. Edgar
John H. Carruthers
Stephan Peacock
Ian Towers
James Howe
Judith Stripling

GOVERNANCE AND DISCLOSURE COMMITTEE
All Directors are members of the Committee

AUDIT COMMITTEE
James Howe
Ian Towers
Judith Stripling

RESERVES COMMITTEE
Ian Towers
Stephen Peacock
Richard Edgar

COMPENSATION COMMITTEE
Stephen Peacock
Ian Towers

OFFICERS
David A. Little, Chief Executive Officer
Richard N. Edgar, President
John H. Carruthers, Executive Vice President
Paul Lipski, Managing Director, Australia
Bryan Goudie, Chief Financial Officer
Melinda Park, Secretary

STOCK EXCHANGE LISTING
TSX Venture Exchange : ARY

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