Avery

RESOURCES INC

International exploration & production

Third Quarter Interim Report

Ended December 31, 2007

Management's Discussion & Analysis

# Avery Resources Inc

International exploration & production

Third Quarter Interim Report

Three and nine months ended December 31, 2007

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

The following Management's Discussion and Analysis ('MD&A') as provided by the management of Avery Resources Inc. ("Avery" or the "Corporation" or the "Company") should be read in conjunction with the unaudited consolidated interim financial statements and notes thereto for the three and nine months ended December 31, 2007 and 2006 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 and 2006. 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"). 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 nine months ended December 31, 2007 ("YTD-2007") to the nine months ended December 31, 2006 ("YTD-2006") and the results of the three months ended December 31, 2007 ("Q3-2007") to the three months ended December 31, 2006 ("Q3-2006") and the results of the three months ended September 30, 2007 ("Q2-2007")*

*Non-GAAP Measurements - Included in this report are references to terms commonly used in the oil and gas industry, such as funds 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 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. 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 from operations, which is used in the MD&A:*

| | Three Months Ended | | | Nine Months Ended | |
|---|---|---|---|---|---|
| $000's | **12/31/07** | 12/31/06 | 9/30/07 | **12/31/07** | 12/31/06 |
| Cash provided by (used in) operations | **(20)** | 348 | 139 | **41** | 781 |
| Changes in non-cash working capital | **185** | 966 | (60) | **(8)** | 1,233 |
| Funds flow from operations | **165** | 1,314 | 79 | **33** | 2,014 |

*This MD&A contains forward-looking statements, which may include statements relating to management's approach to the number of wells, amount and timing of capital projects, interest rates, worldwide and industry production, prices of oil and natural gas, Company production, cash flow and debt levels. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements The foregoing factors are not exhaustive and are further discussed herein under the heading "Business Conditions and Risks" and under the heading "Risk Factors" in Avery's Annual Information Form dated July 24, 2007 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.*

**HIGHLIGHTS**

| $000's except per share, volumes and netback amounts | Three Months Ended | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | **12/31/07** | 12/31/06 | 9/30/07 | **12/31/07** | 12/31/06 |
| Revenue | | | | | |
| Natural gas | **$ 144** | $ 164 | $ 190 | **$ 585** | $ 549 |
| Natural gas liquids | **104** | 39 | 95 | **283** | 156 |
| Oil | **708** | 1,618 | 447 | **1,447** | 1,618 |
| Total | **956** | 1,821 | 732 | **2,315** | 2,323 |
| Royalties | **111** | 107 | 105 | **299** | 248 |
| % of revenue | **11.6** | 5.9 | 14.3 | **12.9** | 10.7 |
| Operating & transportation | **142** | 394 | 147 | **393** | 510 |
| Netback | **703** | 1,319 | 480 | **1,623** | 1,580 |
| Funds flow from operations: | **165** | 1,314 | 79 | **33** | 2,014 |
| Per share ($) (basic & diluted) | **(0.00)** | 0.02 | (0.00) | **(0.00)** | 0.03 |
| Net Earnings (loss): | **(1,702)** | (1,069) | (553) | **(3,013)** | (1,233) |
| Per share ($) (basic & diluted) | **(0.02)** | (0.02) | (0.01) | **(0.04)** | (0.02) |
| Capital expenditures | **$ (77)** | $ 1,790 | $ 735 | **$ 1,008** | $ 3,288 |
| Volumes | | | | | |
| Natural gas (mcf/d) | **244** | 250 | 382 | **332** | 322 |
| Natural gas liquids (boe/d) | **14** | 9 | 17 | **16** | 10 |
| Oil (bbl/d) | **79** | 256 | 58 | **59** | 86 |
| Total (boe/d @ 6:1) | **134** | 307 | 138 | **130** | 150 |
| Netback ($/boe) | | | | | |
| Revenue | **$ 77.80** | $ 64.56 | $ 57.59 | **$ 64.59** | $ 56.58 |
| Royalties | **9.05** | 3.81 | 8.24 | **8.34** | 6.04 |
| Operating & transportation | **11.51** | 14.02 | 11.56 | **10.96** | 12.44 |
| Total | **$ 57.24** | $ 46.73 | $ 37.79 | **$ 45.29** | $ 38.10 |

**RESULTS OF OPERATIONS**

**Production**

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

| **Production** | Three Months Ended | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | **12/31/07** | 12/31/06 | 9/30/07 | **12/31/07** | 12/31/06 |
| Natural Gas (mcf/d) | **244** | 250 | 382 | **332** | 322 |
| Oil (bbls/d) | **79** | 256 | 58 | **59** | 86 |
| NGLs (bbls/d) | **14** | 9 | 17 | **16** | 10 |
| Total (boe/d) | **134** | 307 | 138 | **130** | 150 |

YTD-2007 production decreased 13% or 20 boe/d compared to the same period to the prior year. For the three months ended December 31, 2007 (Q3-2007), total oil, natural gas and natural gas liquids (NGL's) production averaged 134 boe/d, a decrease of 56% from the 307 boe/d produced in the comparable prior period of 2006.

Toparoa-1 - Australia

The decrease in oil production in Q3-2007 and YTD-2007 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. Q3-2007 production volumes are up to 79 b/d from 58 b/d from Q2-2007 when Toparoa was temporarily constrained due to expansion of third-party processing and transportation facilities.

Kaybob Natural Gas Wells - Alberta

Overall production of natural gas and NGL's at our non-operated Kaybob property YTD-2007 and Q3-2007 is lower as a result of the 13-16 well reaching payout in January 2007. On payout Avery's working interest should have decreased from 50% to 37.5% but was not reduced until December 2007. The retroactive adjustment caused reported natural gas production in the quarter to be lower by 175 mcf/d and 8 bbl/d of NGL's (a total of 37 boe/d). For YTD-2007 the effect of this adjustment is 12 boe/d. Before the effect of this adjustment natural gas and liquids production is up in the year and quarter over prior periods as a result of commingling of multiple geological zones in the 9-16 well. `

**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 we expect our future realized gas prices to coincide with the AECO Daily Index price.

With respect to the short-term outlook for natural gas, there has been a major shift in the supply/demand dynamics in recent months. The severe cutback in Western Canadian gas drilling activity has led to a large reduction in Canadian gas production. Western Canada experienced the only drilling downturn in the world earlier this year, well before Alberta's royalty announcement at the same time as U.S. gas drilling continues at record levels. Canada exports 60% of its natural gas output to the U.S. and the weakening American currency has meant that exporting producers and provinces receive far fewer Canadian dollars for their natural gas production. On January 1, 2007 Alberta terminated its Alberta Royalty Tax Credit program which had benefited many small producers. Further pressure on prices resulted from U.S. liquefied natural gas ("LNG") imports from overseas through the summer although with a recovery of European gas prices imports to the U.S. have declined. However natural gas is clearly is becoming a world commodity much like crude and pricing will be affected to a certain degree by worldwide supply and demand.

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 a US $1.94/bbl premium for the quality of our oil. Tapis has been trading at a premium to WTI of between US $3.50 and US $10.00 over the past year; combined, Avery's oil sees a premium over WTI of between $7.00 to $12.00/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 | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | **12/31/07** | 12/31/06 | 9/30/07 | **12/31/07** | 12/31/06 |
| **Average Benchmark Prices** | | | | | |
| AECO 30 day firm ($/mcf) | **$ 6.00** | $ 6.36 | $ 5.61 | **$ 6.33** | $ 6.22 |
| TAPIS oil ($US/bbl) | **94.35** | 64.48 | 79.01 | **82.76** | 69.52 |
| Cdn/Aus exchange rate | **0.87** | 0.88 | 0.88 | **0.89** | 0.85 |
| WTI oil ($US/bbl) | **$ 90.68** | $ 60.21 | $ 75.33 | **$ 77.36** | $ 67.13 |

| Avery's Realized Price ($ CAD) | | | | | |
|---|---|---|---|---|---|
| Natural gas ($/mcf) | **$ 6.42** | $ 7.11 | $ 5.40 | **$ 6.39** | $ 6.20 |
| Oil ($/bbl) | **97.09** | 68.71 | 84.39 | **89.18** | 68.71 |
| NGLs ($/bbl) | **82.68** | 47.83 | 61.00 | **64.68** | 56.95 |
| Total ($/boe) | **$ 77.80** | $ 64.56 | $ 57.59 | **$ 64.59** | $ 56.58 |

**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 ($000's) | Three Months Ended | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | **12/31/07** | 12/31/06 | 9/30/07 | **12/31/07** | 12/31/06 |
| Natural Gas | **$ 144** | $ 164 | $ 251 | **$ 585** | $ 549 |
| Oil | **708** | 1,618 | 292 | **1,447** | 1,618 |
| NGLs | **104** | 39 | 84 | **283** | 156 |
| Total | **$ 956** | $ 1,821 | $ 627 | **$ 2,315** | $ 2,323 |

Petroleum and natural gas revenues for YTD-2007 are relatively unchanged from YTD-2006. Natural decline of Australian oil production from the Toparoa-1 well have been somewhat offset by higher product prices and increased gas and NGL production from the commingling of a new gas zone in the 9-16 Kaybob well.

Crude oil revenues for Q3-2007 decreased from Q3-2006 due to natural decline of Australian oil production. Natural gas sales for the same period decreased slightly due to an operator adjustment to Avery's working interest which reduced Q3-2007 natural gas revenue by $109,000. Liquids revenues increased as a result of slightly higher volumes and higher prices.

Revenues in Q3-2007 increased by 52% over the prior quarter as in Q2 facility repairs were completed, temporarily affecting total output. As well, the reporting period saw improved pricing over Q2-2007 for oil, natural gas and NGL's.

**Royalties**

Royalty payments are made by oil and natural gas producers to the owners of the mineral rights on our 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, custom processing credits and other incentive programs reduce the effective royalty rate. Effective January 1, 2007 the Alberta Royalty Tax Credit has been eliminated.

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 YTD-2007 to $299,000 compared with $248,000 in YTD-2006 is mainly due to higher product prices. Gas royalties during this period declined as of a portion of the royalties paid from January to November 2007 on the 13-16 well were recovered as a result of a working interest reduction.

In Q3-2007 royalties remained virtually unchanged from Q3-2006, although gas and liquids royalties increased in 2007 due to higher prices, these costs were offset by lower oil royalties due to lower production. Royalties as a percentage of revenue and on a boe basis increased due to higher prices.

Oil royalties increased in Q3-2007 compared to Q2-2007 due to higher production volumes and higher prices. Gas royalties in this period declined due to the working interest-adjustment on the 13-16 gas well at Kaybob, which resulted in a royalty recovery.

| **Royalties by Type ($000's)** | Three Months Ended | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | **12/31/07** | 12/31/06 | 9/30/07 | **12/31/07** | 12/31/06 |
| Alberta Crown | **$ 46** | $ 33 | $ 77 | $ 151 | $ 143 |
| Alberta Gross overriding | **12** | 4 | 9 | 31 | 34 |
| Australian Government | **53** | 70 | 19 | 117 | 71 |
| Total | **$ 111** | $ 107 | $ 105 | $ 299 | $ 248 |
| $/boe | **9.05** | 3.81 | 8.24 | 8.34 | 6.04 |
| % of revenue | **11.6** | 5.9 | 14.3 | 12.9 | 10.7 |

| **Royalties by Commodity** | Three Months Ended | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | **12/31/07** | 12/31/06 | 9/30/07 | **12/31/07** | 12/31/06 |
| Natural Gas | | | | | |
| $000's | **$ 16** | $ 27 | $ 54 | **$ 84** | $ 130 |
| $/mcf | **0.70** | 1.15 | 1.54 | **0.92** | 1.46 |
| % of revenue | **10.9** | 16.2 | 28.4 | **14.3** | 23.6 |
| Oil | | | | | |
| $000's | **$ 53** | $ 71 | $ 19 | **$ 117** | $ 71 |
| $/bbl | **7.34** | 3.00 | 3.46 | **7.20** | 3.00 |
| % of revenue | **7.6** | 4.4 | 4.1 | **8.1** | 4.4 |
| NGLs | | | | | |
| $000's | **$ 42** | $ 10 | $ 32 | **$ 98** | $ 47 |
| $/bbl | **33.31** | 12.49 | 20.77 | **22.48** | 17.29 |
| % of revenue | **40.3** | 26.0 | 34.0 | **34.8** | 30.4 |

The Alberta Government's new Royalty Framework is set to take effect in January, 2009. The changes to the current royalty framework will either have no impact on the corporation or a slightly positive impact due to lower royalties on Avery's gas production.

**Operating & Transportation Expenses**

| **Operating Expenses ($000's)** | Three Months Ended | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | **12/31/07** | 12/31/06 | 9/30/07 | **12/31/07** | 12/31/06 |
| Australia | | | | | |
| Operating | **$ 13** | $ 44 | $ 15 | **$ 38** | $ 44 |
| Transportation | **89** | 262 | 62 | **197** | 262 |
| | **102** | 306 | 77 | **235** | 306 |
| Canada – operating costs | **40** | 88 | 70 | **158** | 204 |
| Total | **$ 142** | $ 394 | $ 147 | **$ 393** | $ 510 |
| Australia | | | | | |
| Operating - $/boe | **1.78** | 1.87 | 2.83 | **2.33** | 1.87 |
| Transportation - $/boe | **12.18** | 11.15 | 11.70 | **12.16** | 11.15 |
| Canada - $/boe | **7.93** | 19.11 | 9.41 | **8.05** | 11.67 |
| Total ($boe) | **$ 11.51** | $ 14.02 | $ 11.56 | **$ 10.96** | $ 12.44 |

Operating and transportation costs decreased in YTD-2007 from YTD-2006 by $126,000 due to lower production volumes in Australia. 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 kilometres of pipelines. The oil is then sent through a 659 kilometre pipeline to Port Bonython near Whyalla, South Australia where it is held in storage tanks until being loaded on tankers.

Canadian operating costs are mostly unchanged from YTD-2006 to YTD-2007 and are lower on a boe basis due to higher production in YTD-2007.

In Q3-2007 overall costs are down from Q2-2007 due to lower production levels in Australia. Canadian boe costs are high in Q3-2006 as the result of prior period adjustments of the non-operated gas facility.

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

Gross G&A costs were substantially unchanged from YTD-2006 to YTD-2007; however, increased on a boe basis due to declining production levels. Overhead recoveries YTD-2007 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 agreed to by the group. Avery collected $85,000 from its partners and allocated $85,000 of its own costs (mainly salaries) to the project. Prior period recoveries relate to new projects and exploration in Australia.

Gross G&A costs declined from Q3-2006 to Q3-2007 as no bonuses were paid in Q3-2007.

| **General and Administrative Expenses ($000's)** | Three Months Ended | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | **12/31/07** | 12/31/06 | 9/30/07 | **12/31/07** | 12/31/06 |
| Gross G&A | **$ 580** | $ 657 | $ 551 | **$ 1,689** | $ 1,685 |
| Recoveries | **–** | (360) | (170) | **(170)** | (360) |
| **Net G&A** | **$ 580** | $ 297 | $ 381 | **$ 1,519** | $ 1,325 |
| **Net G&A ($/boe)** | **$ 47.20** | $ 10.52 | $ 29.96 | **$ 42.37** | $ 32.27 |

**Stock based compensation**

The Corporation 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 $409,000 YTD-2007 compared to $874,000 in the comparable prior-year period. The decline in expense is attributable to many 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, one-third on each of the following two anniversaries, and have an exercise price of $0.32 per option

For the three month period ended December 31, 2007, stock-based compensation expense was $148,000 compared with $316,000 in the comparable prior-year period. During Q3-2006 1,625,000 options were granted compared to 520,000 in the current quarter. The larger number of options granted in Q3-2006 resulted in a higher stock based compensation expense for that period.

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

| **DD&A Expenses ($000's)** | Three Months Ended | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | **12/31/07** | 12/31/06 | 9/30/07 | **12/31/07** | 12/31/06 |
| DD&A – Australia | **$ 1,052** | $ 1,978 | $ 436 | **$ 1,773** | $ 1,981 |
| DD&A – Canada | **74** | 109 | 116 | **302** | 404 |
| Sub-total | **1,126** | 2,087 | 552 | **2,075** | 2,385 |
| Australia – Ceiling test write down | **600** | – | – | **600** | – |
| Total | **$ 1,726** | $ 2,087 | 552 | **$ 2,675** | $ 2,385 |
| $/boe – Australia | **143.43** | 84.00 | 82.30 | **109.23** | 84.12 |
| $/boe – Canada | **14.92** | 23.45 | 15.65 | **15.41** | 23.06 |
| $/boe – Sub-total | **91.70** | 74.02 | 43.43 | **57.89** | 58.08 |
| $/boe – Australia (Ceiling test) | **82.29** | – | – | **36.97** | – |
| $/boe – Total | **$ 140.47** | $ 74.02 | $ 43.43 | **$ 74.63** | $ 58.08 |

DD&A (before the ceiling test impairment charge) decreased YTD-2007 compared to YTD-2006 due to lower production from Australia. The DD&A rate per boe increased in Australia as $997,000 in seismic costs were added to the depletable cost pool. After interpretation of the seismic no drilling locations were identified and therefore the Sunshine permit was relinquished. In Canada the DD&A rate per boe declined due to upward reserve revisions for the Corporation's Kaybob gas wells at March 31, 2007.

Similarly, lower production rates from Australia resulted in a decline in DD&A expense Q3-2007 compared to Q3-2006. Australian DD&A expense per boe increased due to the addition of Sunshine seismic costs to the depletable cost pool which had previously been excluded.

**Ceiling Test**

The Corporation performed a ceiling test calculation at December 31, 2007 resulting in undiscounted cash flows from proved reserves and the cost of unproved properties not exceeding the carrying value of oil and gas assets. Consequently, Avery performed stage two of the ceiling test assessing whether discounted future cash flows from the production of proved plus probable reserves plus the carrying cost of unproved properties, net of any impairment allowance, exceeds the carrying value of its petroleum and natural gas properties. As a result of performing this test, a ceiling test impairment loss of $600,000 has been included in DD&A expense in the consolidated statement of earnings and included in accumulated depletion. The impairment charge increased the total YTD-2007 and Q3-2007 DD&A rate per boe by $16.74 and $48.83 respectively.

**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.

**Taxes**

Avery does not expect to become taxable in the fiscal year ending March 31, 2008 and has approximately $26 million in tax pools to shelter taxable income in future years. 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.

### Funds from Operations and Net Earnings

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

| ($/boe) | Three Months Ended | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | **12/31/07** | 12/31/06 | 9/30/07 | **12/31/07** | 12/31/06 |
| **Sales Price** | **$ 77.80** | $ 64.56 | $ 57.59 | **$ 64.59** | $ 56.58 |
| Royalties | **(9.05)** | (3.81) | (8.24) | **(8.34)** | (6.04) |
| Operating & transportation | **(11.51)** | (14.02) | (11.56) | **(10.96)** | (12.44) |
| **Operating netback** | **$ 57.24** | $ 46.73 | $ 37.79 | **$ 45.29** | $ 38.10 |
| General and administration | **(47.20)** | (10.52) | (29.96) | **(42.37)** | (32.27) |
| Interest income | **6.61** | 2.21 | 6.61 | **6.78** | 3.31 |
| Mitigation payment | **–** | – | – | **–** | 33.90 |
| Non-controlling interest | **0.48** | 0.23 | 0.94 | **0.92** | 0.56 |
| Realized foreign exchange | **(3.66)** | 7.90 | (9.13) | **(9.68)** | 5.43 |
| **Funds flow netback** | **$ 13.47** | $ 46.55 | $ 6.25 | **$ 0.94** | 49.03 |
| Depletion, depreciation and accretion | **(140.47)** | (74.02) | (43.43) | **(74.63)** | (58.08) |
| Stock-based compensation | **(12.05)** | (11.20) | (9.20) | **(11.41)** | (21.28) |
| Unrealized foreign exchange | **0.57** | 0.71 | 2.91 | **1.06** | 2.91 |
| **Net earnings (loss)** | **$ (138.48)** | $ (37.96) | $ (43.47) | **$ (84.04)** | $ (30.04) |

### CAPITAL EXPENDITURES

Capital expenditures for the nine months ended December 2007 relate mainly to seismic activity on the Wompi Block in the Cooper Basin and offshore on Avery's Timor Sea prospect. Drilling costs are for lease preparation for the Nora (Wompi Block) and Hudson (Barta Block) locations. These wells have been postponed pending the results of drilling planned in the first quarter of 2008 on the same blocks in conjunction with Avery's new joint venture partner, a major Australian oil and gas producer.

| Capital Expenditures ($000's) | Three months ended | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | **12/31/07** | 12/31/06 | 9/30/07 | **12/31/07** | 12/31/06 |
| Land | **$ –** | $ – | $ 107 | **$ 107** | $ – |
| Geological and geophysical | **(77)** | 1,329 | 469 | **716** | 1,633 |
| Drilling | **5** | – | 50 | **130** | 1,132 |
| Completions | **(15)** | 426 | 60 | **(4)** | 448 |
| Total oil and gas additions | **(87)** | 1,755 | 686 | **949** | 3,213 |
| Office | **10** | 35 | 49 | **59** | 75 |
| Total expenditures | **$ (77)** | $ 1,790 | $ 735 | **$ 1,008** | $ 3,288 |

### SHARE CAPITAL

The Company has an unlimited number of common shares authorized for issuance. On February 11, 2008 there are 76,688,934 common shares issued and outstanding. On November 24, 2007 warrants, with an exercise price of $0.50, to purchase 8,400,000 common shares expired.

At February, 2008 there are 5,711,867 employee stock options outstanding with an average exercise price of $0.58 of which 4,228,514 are vested. These options expire between 2008 and 2011 with an average remaining life of 3.4 years.

| Share Information (000's) | Three months ended | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | **12/31/07** | 12/31/06 | 9/30/07 | **12/31/07** | 12/31/06 |
| Shares Outstanding | | | | | |
| Basic | **76,689** | 76,225 | 76,689 | **76,689** | 76,225 |
| Diluted | **76,689** | 76,794 | 76,689 | **76,689** | 78,903 |
| Weighted average shares outstanding | | | | | |
| Basic | **76,689** | 65,989 | 76,689 | **76,689** | 59,091 |
| Diluted | **76,689** | 68,074 | 76,689 | **76,689** | 61,850 |

**LIQUIDITY AND CAPITAL RESOURCES**

The Company had working capital of $8.1 million at December, 2007 compared to working capital of $12.5 million in the prior comparable period. The Corporation'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, 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.

| Trading history | Three months ended | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | **12/31/07** | 12/31/06 | 9/30/07 | **12/31/07** | 12/31/06 |
| High | **0.40** | 0.65 | 0.41 | **0.45** | 0.95 |
| Low | **0.26** | 0.465 | 0.26 | **0.26** | 0.43 |
| Close | **0.31** | 0.61 | 0.27 | **0.31** | 0.61 |
| Volume (000's) | **3,090** | 3,914 | 1,683 | **9,675** | 13,009 |

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

**CONTRACTUAL ARRANGEMENTS**

The Corporation is committed to minimum annual operating lease payments on its premises in Canada and Australia in the amount of $42,000 for the balance of the year ended March 31, 2008 and $169,000 over each of the following two years with $56,000 committed in the year thereafter.

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 December 31, 2007 was $145,000.

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

| **Contractual Obligations ($000's)** | **Total** | **Less than 1 year** | **1-3 Years** | **4-5 Years** | **After 5 Years** |
|---|---|---|---|---|---|
| Office lease | $ 436 | $ 42 | $ 394 | $ – | $ – |
| Asset retirement obligations | 145 | – | – | 22 | 123 |
| Total Contractual Obligations | $ 581 | $ 42 | $ 394 | $ 22 | $ 123 |

## 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 Corporation'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 interim filings that the Corporation'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 Corporation. 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 December 31, 2007; 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 with the Corporation. Avery's Chief Executive Officer, Chief Financial Officer, President and Executive Vice President have extensive industry experience. They are aware of and actively involved in the Corporation'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 Executive 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 Corporation'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 ending March 31, 2007 and 2006 and note 1 to the interim Consolidated Financial Statements for the nine months ended December 31, 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 circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. A detailed discussion of the critical accounting policies and practices of the Corporation which helps to assess the likelihood of materially different results being reported is disclosed in the March 31, 2007 Annual Management and Discussion Analysis.

## NEW ACCOUNTING STANDARDS

On April 1, 2007, the Corporation adopted the new Canadian accounting standards for financial instruments – recognition and measurement, financial instruments – presentations and disclosures, hedging and comprehensive income as disclosed in note 2 to the interim Consolidated Financial Statements for the nine months ended December 31, 2007. Adopting these standards did not impact the financial statements.

## BUSINESS CONDITIONS AND RISK

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 provided in the Risk Factors Section of our Annual Information Form dated July 24, 2007 and filed on SEDAR at www.sedar.com.

## *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 Corporation at Avery Resources Inc., 1140, 715 – 5th Ave S.W., Calgary, Alberta T2P 2X6 or by e-mail to info@averyresources.com or by accessing our website at www.averyresources.com.

## OUTLOOK

- On October 17, 2007 Avery announced it had signed a formal agreement with Santos Ltd (Santos), a major Australian oil & gas producer, whereby Avery and Santos will jointly explore and develop, subject to certain terms and conditions, two of Avery's large land blocks – Barta and Wompi - in the Cooper Basin of Queensland, Australia.
- Avery has been advised by Santos, the operator of the Barta Block, that the first well will be drilled in early in March 2008, with a second well to be drilled in April 2008. Costs to Avery for these two wells are anticipated to total approximately $2.0 million.
- At Wompi, up to four wells are planned on Avery lands between April and June 2008, with the first three fully funded by Santos. The fourth well will be paid for by Avery, resulting in a 30% interest to Avery in all four wells. Total costs to Avery for this program, including an additional 200 $km^2$ of 3D seismic data, are expected to amount to approximately $2.4 million.
- The previously announced Schwarzer 3D seismic acquisition program over the Katandra discovery was completed in late April of 2007; Avery is in receipt of final process data and has initiated interpretation of this data. The final report is expected late in the first half of 2008.
- Avery expects to complete a farm-in into PEL 103 and earn a 35% interest in the Turban Block by funding 46 $km^2$ of a 3D seismic survey in April / May of 2008. The Turban Block is adjacent to the recently announced Innamincka oil discovery at Flax/Juniper.
- Native title clearance negotiations continue on the 650,000-acre Magellan ATP 732 Block, with resolution expected early in 2008. Recent seismic interpretation has high-graded the northeast portion of this block, which is adjacent to a number of producing oilfields operated by Santos.
- In Alberta, Avery expects to re-complete the Bluesky zone in one of our Kaybob wells during the first quarter of calendar 2008.

**SELECTED QUARTERLY INFORMATION**

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

| **Financial** (000's, except per share amounts) | **Quarter Ended** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **12/31/07** | **9/30/07** | **6/30/07** | **3/31/07** | **12/31/06** | **9/30/06** | **6/30/06** | **3/31/06** |
| Petroleum and Natural Gas Sales | **$ 956** | $ 732 | $ 627 | $ 914 | $ 1,821 | $ 232 | $ 271 | $ 376 |
| Funds from Operations | **165** | 79 | (211) | (371) | 1,314 | 969 | (269) | (298) |
| Per Share- Basic and Diluted | **(0.00)** | (0.00) | (0.00) | (0.00) | 0.02 | 0.02 | (0.01) | (0.01) |
| Net Earnings (loss) | **(1,702)** | (553) | (758) | (3,666) | (1,069) | 656 | (819) | (918) |
| Per Share- Basic and Diluted | **(0.02)** | (0.01) | (0.01) | (0.05) | (0.02) | 0.01 | (0.02) | (0.04) |
| Additions to capital assets | **(77)** | 735 | 350 | 3,247 | 1,790 | 1,348 | 150 | 2,262 |
| Net debt (1) | **(8,142)** | (7,900) | (8,556) | (9,117) | (12,546) | (3,832) | (4,205) | (3,080) |
| Total Assets | **15,327** | 16,967 | 16,839 | 18,086 | 21,167 | 12,393 | 18,086 | 11,537 |
| Shares Outstanding | | | | | | | | |
| Basic | **76,689** | 76,689 | 76,689 | 76,689 | 76,226 | 56,194 | 56,033 | 53,195 |
| Diluted | **76,689** | 76,689 | 76,689 | 76,689 | 76,689 | 58,643 | 58,286 | 53,347 |
| **Operations** | | | | | | | | |
| Average daily production | | | | | | | | |
| Natural gas (Mcf/d) | **244** | 382 | 372 | 281 | 250 | 347 | 368 | 423 |
| Oil and NGLs (bbls/d) | **93** | 75 | 57 | 111 | 265 | 10 | 11 | 15 |
| Combined (boe/d) | **134** | 138 | 119 | 157 | 307 | 68 | 72 | 85 |
| Netback ($/boe) | **$ 57.24** | $ 37.79 | $ 40.73 | $ 37.92 | $ 46.70 | $ 15.97 | $ 21.18 | $ 25.28 |

(1) Bracketed amounts represent positive working capital equal to current assets minus current liabilities.

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) 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 for the quarter ended September 30, 2007. Revenue increased in the quarter ended December 31, 2007 as removal of facility constraints at Toparoa allowed production to increase.

Net earnings are reduced due to expansion of the Corporation'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.

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

Consolidated Financial Statements of

Avery

RESOURCES INC

International exploration & production

Third Quarter Interim Report

Three & Nine months ended December 31, 2007

# AVERY RESOURCES INC.

## MANAGEMENT'S COMMENTS ON UNAUDITED FINANCIAL STATEMENTS

The accompanying unaudited interim consolidated financial statements of Avery Resources Inc. for the three and nine months ended December 31, 2007 and 2006 have been prepared by Management and approved by the Board of Directors. These statements have not been reviewed by the Corporation's external auditors.

Signed "David A. Little"
Chief Executive Officer

Signed "Bryan C. Goudie"
Chief Financial Officer

# AVERY RESOURCES INC.

## CONSOLIDATED BALANCE SHEETS
(thousands of dollars) (unaudited)

| | December 31 2007 | March 31 2007 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and short term deposits | $ 7,934 | $ 8,339 |
| Accounts receivable and prepaid expenses | 1,101 | 1,795 |
| | 9,035 | 10,134 |
| Petroleum and natural gas properties (note 3) | 6,292 | 7,952 |
| | $ 15,327 | $ 18,086 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 893 | $ 1,017 |
| Asset retirement obligations (note 4) | 87 | 85 |
| Non-controlling interest | 14 | 47 |
| Shareholders' equity: | | |
| Share capital (note 5) | 38,507 | 38,507 |
| Warrants (note 5) | – | 927 |
| Contributed surplus (note 5) | 3,217 | 1,881 |
| Deficit | (27,391) | (24,378) |
| | 14,333 | 16,937 |
| Commitment (note 7) | | |
| | $ 15,327 | $ 18,086 |

See accompanying notes to consolidated financial statements.

On behalf of the Board:

_____________________________Director
David A. Little

_____________________________Director
Richard N. Edgar

# AVERY RESOURCES INC.

## CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS)

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

| | Three months ended December 31 2007 | Three months ended December 31 2006 | Nine months ended December 31 2007 | Nine months ended December 31 2006 |
|---|---|---|---|---|
| Revenues | | | | |
| Petroleum and natural gas sales | $ 956 | $ 1,821 | $ 2,315 | $ 2,323 |
| Royalties | (111) | (107) | (299) | (248) |
| Interest income | 81 | 62 | 243 | 136 |
| | 926 | 1,776 | 2,259 | 2,211 |
| Expenses | | | | |
| General and administrative | 580 | 297 | 1,519 | 1,325 |
| Operating and transportation | 142 | 394 | 393 | 510 |
| Stock based compensation | 148 | 316 | 409 | 874 |
| Depletion, depreciation and accretion | 1,726 | 2,087 | 2,675 | 2,385 |
| Foreign exchange loss (gain) | 38 | (243) | 309 | (235) |
| | 2,634 | 2,851 | 5,305 | 4,859 |
| Mitigation payment (note 6) | – | – | – | 1,392 |
| Non-controlling interest | 6 | 6 | 33 | 23 |
| Net earnings (loss) and comprehensive income (loss) for the period | (1,702) | (1,069) | (3,013) | (1,233) |
| Deficit, beginning of period | (25,689) | (19,642) | (24,378) | (19,478) |
| Deficit, end of period | $ (27,391) | $ (20,711) | $ (27,391) | $ (20,711) |
| Basic and diluted earnings (loss) per share (note 5) | $ (0.02) | $ (0.02) | $ (0.04) | $ (0.02) |

See accompanying notes to consolidated financial statements.

# AVERY RESOURCES INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(thousands of dollars) (unaudited)

| | Three months ended December 31 2007 | Three months ended December 31 2006 | Nine months ended December 31 2007 | Nine months ended December 31 2006 |
|---|---|---|---|---|
| Cash provided by (used in) | | | | |
| Operations | | | | |
| Earnings (loss) for the period | $ (1,702) | $ (1,069) | $ (3,013) | $ (1,233) |
| Items not affecting cash | | | | |
| Depletion, depreciation and accretion | 1,726 | 2,087 | 2,675 | 2,385 |
| Stock based compensation | 148 | 316 | 409 | 874 |
| Unrealized foreign exchange loss (gain) | (7) | (20) | (38) | (12) |
| | 165 | 1,314 | 33 | 2,014 |
| Changes in non-cash working capital | (185) | (966) | 8 | (1,233) |
| | (20) | 348 | 41 | 781 |
| Financing | | | | |
| Issue of common shares for cash, net of share issue costs | – | 9,190 | – | 10,741 |
| Changes in non-cash working capital | 120 | – | 206 | – |
| | 120 | 9,190 | 206 | 10,741 |
| Investments | | | | |
| Additions to petroleum and natural gas properties and facilities | 77 | (1,790) | (1,008) | (3,288) |
| Changes in non-cash working capital | (59) | 66 | 356 | (203) |
| | 18 | (1,724) | (652) | (3,491) |
| Increase (decrease) in cash | 118 | 7,814 | (405) | 8,031 |
| Cash and short term deposits, beginning of period | 7,816 | 3,853 | 8,339 | 3,636 |
| Cash and short term deposits, end of period | $ 7,934 | $ 11,667 | $ 7,934 | $ 11,667 |

| Supplementary cash flow information | | | | |
|---|---|---|---|---|
| Interest paid | $ – | $ – | $ – | $ – |
| Interest received | 211 | 62 | 315 | 136 |
| 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 and certain disclosures which are normally required to be included in the notes to the annual consolidated financial statements have been condensed or omitted. 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.

The adoption of the new standards did not result in any adjustments to the recognition and measurement of the Corporation's financial instruments at April 1, 2007 or subsequently. The statement of comprehensive income and accumulated other comprehensive income has not been presented as the Corporation does not have any elements of other comprehensive income. At December 31, 2007, the carrying amount of the Corporation's financial instruments approximated their fair value due to their short-term maturities.

*Comprehensive Income*

The new standards establish a new statement of comprehensive income, which is comprised of net income and other comprehensive income.

*Financial Instruments*

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.

(Tabular amounts in thousands of dollars unless otherwise indicated)

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 |
|---|---|---|---|
| **December 31, 2007** | | | |
| Australia | | | |
| Petroleum and natural gas properties | $ 12,914 | $ 9,141 | $ 3,773 |
| Other assets | 99 | 43 | 56 |
| Canada | | | |
| Petroleum and natural gas properties | 2,964 | 891 | 2,073 |
| Other assets | 292 | 200 | 92 |
| Ireland | | | |
| Petroleum and natural gas properties | 298 | – | 298 |
| | $ 16,567 | $ 10,275 | $ 6,292 |
| **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 |

Undeveloped property costs at December 31, 2007 of $3.1 million (2006 - $2.9 million) have been excluded from the depletion calculation. There are no future development costs to add to costs subject to depletion.

(Tabular amounts in thousands of dollars unless otherwise indicated)

**CEILING TEST**

Avery calculates a ceiling test quarterly and annually whereby the carrying value of petroleum and natural gas properties is compared to estimated future cash flow from the production of proved reserves. The ceiling test is performed in accordance with the requirements of the Canadian Institute of Chartered Accountants AcG-16 “Oil and Gas Accounting – Full Cost, a two step process.”

The Corporation performed a ceiling test calculation at December 31, 2007 resulting in undiscounted cash flows from proved reserves and the cost of unproved properties not exceeding the carrying value of oil and gas assets. Consequently, Avery performed stage two of the ceiling test assessing whether discounted future cash flows from the production of proved plus probable reserves plus the carrying cost of unproved properties, net of any impairment allowance, exceeds the carrying value of its petroleum and natural gas properties. As a result of performing this test, a ceiling test impairment loss of $600,000 on the Company’s Australian cost centre has been included in DD&A expense in the consolidated statement of earnings and included in accumulated 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 $145,000 at December 31, 2007 (2006 - $151,000) which will be incurred between 2008 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.

| | Nine months ended December 31, 2007 | Year ended March 31, 2007 |
|---|---|---|
| Balance, beginning of period | $ 85 | $ 68 |
| Liabilities incurred | – | 12 |
| Accretion expense | 2 | 5 |
| Balance, end of period | $ 87 | $ 85 |

## 5. SHARE CAPITAL

### (a) Authorized:

Unlimited number of common shares

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

(Tabular amounts in thousands of dollars unless otherwise indicated)

**(b) Issued:**

| Common Shares | 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 December 31, 2007 | 76,688,934 | $ 38,507 |

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

| Common share purchase warrants | 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) |
| Balance December 31, 2007 | – | $ – |

On November 24, 2007 8,400,000 common share purchase warrants expired. The warrants were exercisable at $0.50 and were issued in November 2005.

**(c) Contributed surplus:**

A reconciliation of contributed surplus is provided below:

| | Nine months ended December 31, 2007 | Year ended March 31, 2007 |
|---|---|---|
| Balance, beginning of period | $ 1,881 | $ 948 |
| Stock-based compensation expense | 409 | 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 period | $ 3,217 | $ 1,881 |

(Tabular amounts in thousands of dollars unless otherwise indicated)

**(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 and have a five year term.

A summary of the status of the Corporation's stock option plan as of December 31, 2007 and changes during the nine months ending on that date and during the year ending March 31, 2007 are 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 | 5,191,867 | $ 0.60 |
| Granted | 520,000 | 0.32 |
| Outstanding at December 31, 2007 | 5,711,867 | $ 0.58 |
| Exercisable at December 31 , 2007 | 4,228,514 | $ 0.57 |

The exercise price of each option equals the market price of the Corporation's common shares on the date of the grant.

The Corporation recorded stock based compensation expense of $409,000 for the nine months ended December 31, 2007 (2006 - $874,000).

The Corporation accounts for its stock-based compensation plan using the fair value method. Under this method, a compensation cost is charged over the vesting period for options granted to employees, directors and consultants.

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

The following weighted average assumptions are used in this calculation:

| | 2007 | 2006 |
|---|---|---|
| Assumptions: | | |
| Risk free interest rate (%) | 4.1% | 3.8% |
| 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 | $ 0.37 | $ 0.43 |

(Tabular amounts in thousands of dollars unless otherwise indicated)

**(e) Per share amounts:**

Per share amounts are calculated using losses and the weighted-average number of common shares outstanding. The weighted average number of shares outstanding at December 31, 2007 is 76,688,934 (2006 – 59,090,566). Shares of the Corporation started trading on the Toronto Stock Exchange (TSX) on November 1, 2007. The average trading price of the Corporation's common shares on the TSX and previously on the TSX Venture Exchange for the three months ended December 31, 2007 is $0.32 and the closing price was $0.31. At December 31, 2007, 5,636,841 employee stock options are anti-dilutive based on the closing price for Avery common shares.

## 6. MITIGATION PAYMENT

Production from the Toparoa -1 well, located in the Murteree Block of PEL 113 (Avery 32.67%) in the South Australia 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 one time payment in September 2006 of $1,392,000.

## 7. COMMITMENT

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

| | | |
|---|---|---|
| Fiscal 2008 | $ | 42 |
| Fiscal 2009 | | 169 |
| Fiscal 2010 | | 169 |
| Fiscal 2011 | | 56 |
| | $ | 436 |

## 8. SEGMENTED INFORMATION

| **Nine months Ended December 31, 2007** | Canada | Ireland | Australia | Total |
|---|---|---|---|---|
| Revenue, net of royalties | $ 686 | $ – | $ 1,330 | $ 2,016 |
| Loss for period | (816) | – | (2,197) | (3,013) |
| Petroleum and natural gas properties | 3,256 | 298 | 13,013 | 16,567 |
| Accumulated depletion, depreciation and amortization | (1,091) | – | (9,184) | (10,275) |
| Net Book Value | 2,165 | 298 | 3,829 | 6,292 |
| Capital Expenditures | $ 104 | $ 4 | $ 900 | $ 1,008 |

(Tabular amounts in thousands of dollars unless otherwise indicated)

**Nine months Ended December 31, 2006**

| | Canada | Ireland | Australia | Total |
|---|---|---|---|---|
| Revenue, net of royalties | $ 528 | $ – | $ 1,547 | $ 2,075 |
| Loss for period | (189) | – | (1,044) | (1,233) |
| Petroleum and natural gas properties | 3,005 | 288 | 9,008 | 12,301 |
| Accumulated depletion, depreciation and amortization | (756) | – | (3,637) | (4,393) |
| Net Book Value | 2,250 | 288 | 5,371 | 7,908 |
| Capital Expenditures | $ (39) | $ 15 | $ 3,312 | $ 3,288 |

# 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
Anne-Marie Buchmuller

**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: ARY