This quarterly report, including this Management's Discussion and Analysis ("MD&A") contains certain "Forward-Looking Statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, which are prospective and reflect management's expectations regarding Admiral Bay Resources Inc.'s ("Admiral Bay" or the "Company") future growth, results of operations, performance and business prospects and opportunities. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. All statements, other than statements of historical fact, included herein, including without limitation, statements regarding potential resources and reserves, estimates of future production, projection of future revenue, operating costs, costs of development and the timing of commencement of operations, exploration results and future plans and objectives of Admiral Bay are forward-looking statements that involve various risks and uncertainties. There can be no assurance that such statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from Admiral Bay's expectations are disclosed in its documents filed from time to time with the TSX Venture Exchange and other regulatory authorities and include, but are not limited to, failure to establish estimated resources and reserves, the recovery of oil and gas at rates varying from estimates, capital and operating costs varying significantly from estimates, uncertainties relating to the availability and costs of financing needed in the future, delays in obtaining or failures to obtain required governmental, environmental or other project approvals, inflation, changes in exchange rates, fluctuations in commodity prices, delays in the development of projects and other factors.

Potential shareholders and prospective investors should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Shareholders are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. Admiral Bay undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by law.

Managementsq discussion and analysis of the consolidated operating results and financial condition of Admiral Bay for the nine months ended April 30, 2011 should be read in conjunction with the interim consolidated financial statements and related notes, as well as the audited consolidated Annual Financial Statements for the fiscal year ended July 31, 2010, and is intended to provide the reader with a review of the factors that affected the Companycs performance during the nine months ended April 30, 2010 and the factors reasonably expected to impact future operations and results.

Description of Business

Admiral Bay was originally incorporated under the name Riviera Explorations Ltd. under the laws of British Columbia on September 3, 1987. In 1993 the Company changed its name to Kentucky Oil & Gas Inc., in 1994 to Integrated Card Technologies Inc., in 1997 to Arizona Ventures Ltd., and on August 31, 1998 to Admiral Bay Resources Inc.

Admiral Bay Resources Inc. is an emerging unconventional gas production company focused on development of projects in the Cherokee Basin in southeastern Kansas and the Appalachian Basin in Pennsylvania. The Companycs shares are listed on the TSX Venture Exchange under the symbol %**ADB**+.

The consolidated financial statements and related notes of Admiral Bay have been prepared in accordance with accounting principles generally accepted in Canada and are expressed in U.S. dollars, except where otherwise indicated.

On July 20, 2010, the Company announced the completion of the foreclosure proceedings previously disclosed. As a result, Admiral Bay and its former lenders agreed to settle its debt obligations by ceding certain corporate assets in exchange for forgiveness of approximately $42.5 million in debt and a fund established by lenders to satisfy outstanding trade obligations.

Upon completion of the foreclosure, Admiral Bay was debt free, had positive working capital and retained its Ft. Scott Property in Bourbon County, Kansas. As of July 31, 2010, Ft. Scott had proved reserves of approximately 4.2 Bcf and is presently producing approximately 50 Mcfgpd. The Company has also retained a 25% working interest in the Revloc Project located in Cambria County, Pennsylvania.

While the foreclosure process eliminated all of Admiral Baycs outstanding debt, it also significantly reduced cash flow limiting the Companycs current ability to develop and expand production. As a result of the foreclosure, Admiral Baycs field personnel were transferred to the lendercs entity operating the foreclosed assets. In addition, the Company eliminated key financial personnel upon conclusion of the annual meeting in September.

With the transfer of assets in the foreclosure, the Company also mitigated its future plugging and abandonment liability. The Company also provided the lenders with a

warrant to purchase up to 17.5% of the common equity of Admiral Bay at a fixed price of approximately $0.039 (CDN) per share over the next five years. This price is pre-rollback and the price of the warrant significantly increased proforma the rollback.

As a result of the foreclosure action, Admiral Bay has significantly increased its financial flexibility with a host of options available to attempt to increase shareholder value. The Company is considering a number of strategic options including the sale of additional assets, the purchase of or combination with other oil and gas assets to create a company with additional scale and growing the Company through intrinsic drilling and development of existing assets. Some options may require the Company to seek additional capital. While all of these alternatives are available and being reviewed by the Company, there are no guarantees the Company will be successful in executing on new strategic initiatives.

Results of Operations

Actual results for fiscal year 2010 do not reflect the impact of the foreclosure described above in %Description of Business+. Sales volumes, revenues and expenses are substantially reduced proforma for the foreclosure described above in %Description of Business+.

PRODUCTION REVENUE

The total revenue is comprised of 85% NRI in production from the Ft. Scott wells as well as a 3% ORRI in production in the Devon-Vogel wells both located in Bourbon County.

Due to the foreclosure described in %Description of Business+ above, current period volumes are not comparable to prior period volumes.

Sales Volumes (before royalties)

	Nine Months Ended April 30		Three Months Ended April 30	
	2011	2010	2011	2010
Natural Gas (mcf)	9,147	968,063	3,001	275,610
Crude Oil (Bbl)	--	--	--	--
Natural Gas Equivalents (mcfe)	9,147	968,063	3,001	275,610
Net after Royalties Natural Gas Equivalents (mcfe)	7,746	757,439	2,543	216,212

Daily Volumes (before royalties)

	Nine Months Ended April 30		Three Months Ended April 30	
	2011	2010	2011	2010
Natural Gas (mcfpd)	34	3,546	34	3,097
Crude Oil (Bblpd)	--	--	--	--
Natural Gas Equivalents (mcfepd)	34	3,546	34	3,097
Net after Royalties Natural Gas Equivalents (mcfepd)	28	2,775	29	2,429

Production Revenue (before royalties)

Natural gas accounts for substantially all of corporate revenue with all revenue attributable to the properties located in Kansas. The decrease in revenue for the first quarter was primarily due to the foreclosure described in %Description of Business+ above.

Due to the foreclosure described in %Description of Business+ above, current period revenues are not comparable to prior period revenues.

	Nine Months Ended April 30		Three Months Ended April 30	
	2011	2010	2011	2010
Oil and Gas Overrides	$26,783	--	$8,277	--
Natural Gas	$27,445	$3,390,203	$6,820	$1,109,462
Crude Oil	--	--	--	--
Total Production Revenue	$54,228	$3,390,203	$15,097	$1,109,462

Realized Commodity Prices

The Company receives a market price based on the Southern Star Index plus $0.10 for substantially all of its natural gas.

	Nine Months Ended April 30		Three Months Ended April 30	
	2011	2010	2011	2010
Natural Gas (mcf)	$3.00	$3.50	$2.27	$4.03
Crude Oil (Bbl)	--	--	--	--
Natural Gas Equivalents (mcfe)	$3.00	$3.50	$2.27	$4.03

Royalties

	Nine Months Ended April 30		Three Months Ended April 30	
	2011	2010	2011	2010
Total Royalties	$4,207	$737,829	$1,043	$238,503
Percentage of Production Revenue	15.3%	21.8%	15.3%	21.5%

Depletion, Depreciation and Amortization (DD&A)

Costs capitalized, including well equipment, together with estimated future capital costs associated with proven reserves, are depreciated and depleted using the unit-of-production method, which is based on gross production and estimated proven oil and gas reserves as determined by independent engineers. The cost of unproven properties is excluded from the depreciation and depletion base.

Due to the foreclosure described in %Description of Business+ above, current period DD&A is not comparable to prior period DD&A.

	Nine Months Ended April 30		Three Months Ended April 30	
	2011	2010	2011	2010
Depletion and depreciation	$20,271	$1,055,513	$5,518	$299,997
Original issue discount accretion	--	$367,253	--	$127,114
ARO accretion expense	$5,482	$64,104	$1,827	$21,368

Oil and Gas Operating Expenses

Operating expenses increased from $2.47 to $3.57 per mcfe due to lower production volumes. These operating expenses do not include expenses relating to the Neodesha and Bourbon County pipelines for 2009. Operating expenses include production taxes which totaled $1,941 compared to $141,129 in the nine months ended April 2010.

Due to the foreclosure described in "Description of Business" above, current period operating expenses are not comparable to prior period operating expenses.

	Nine Months Ended April 30		Three Months Ended April 30	
	2011	2010	2011	2010
Operating Expense	$32,652	$1,842,433	$3,173	$643,366
$/Mcfe (Before Royalty)	$3.57	$2.47	$1.06	$2.71

Pipeline and other

The Bourbon County Pipeline and the Neodesha Pipeline were both surrendered in the foreclosure therefore there are no longer any income or expenses related to these properties.

	Nine Months Ended April 30		Three Months Ended April 30	
	2011	2010	2011	2010
Pipeline Income	--	$200,079	--	$59,829
Pipeline Expenses	--	$259,643	--	$80,457

General and Administrative (G&A)

Overall G&A increased on a per unit basis from $1.09 per mcfe to $26.34 per mcfe as a result of decreased volumes. The Company expects G&A per unit to continue to stay high until production volumes increase.

Due to the foreclosure described in %Description of Business+ above, current period G&A is not comparable to prior period G&A.

	Nine Months Ended April 30		Three Months Ended April 30	
	2011	2010	2011	2010
G&A Expense	$240,906	$1,055,591	$51,978	$334,500
$/Mcfe (Before Royalty)	$26.34	$1.09	$17.32	$1.21

INTEREST AND BANK CHARGES

Interest expense decreased during the quarter relative to 2010 due the disposition of debt in the fourth quarter of 2010.

Due to the foreclosure described in %Description of Business+ above, current period volumes are not comparable to prior period volumes.

	Nine Months Ended April 30		Three Months Ended April 30	
	2011	2010	2011	2010
Interest Expense	$ 1,984	$4,753,071	$ 40	$1,682,083
$/Mcfe (Before Royalty)	$ 0	$4.91	$ 0	$6.10

STOCK-BASED COMPENSATION

A fair value based method of accounting is applied to all stock-based compensation arrangements. The fair value of the options is estimated using the Black-Scholes option pricing model. Because officers and directors were laid off as a result of the foreclosure, there is a recapture of prior period compensation expenses on unvested options that nets against the current vesting expense. There were 450,000 options issued in the third quarter that vested immediately.

	Nine Months Ended April 30		Three Months Ended April 30	
	2011	2010	2011	2010
Stock-Based Compensation Expense	$85,279	$103,267	$110,650	$30,877

CASHFLOW AND RETAINED EARNINGS

The principal source of cash for use in operations has been the issue of common shares and ORRI revenue with the generation of operating revenue expected to increase as prices and production increases. The Company has is not generating positive cash flow from operations at this time.

Cashflow from operations calculation

	Nine Months Ended April 30		Three Months Ended April 30	
	2011	2010	2011	2010
Net loss	$(163,798)	$(11,384,109)	$(65,222)	$(6,505,600)
Adjustments for:				
Accrued interest and financing fees	--	4,320,672	--	1,144,602
Amort., Deprec., Depl., and Accretion	25,753	1,486,870	7,345	448,478
Changes in derivative instruments	--	(182,308)	--	(452,440)
Impairment	--	4,700,530		4,700,530
Stock-based compensation	85,279	103,267	110,650	30,877
Gain (loss) on sales	(109,265)	(24,077)	(127,446)	--
Loss in Bourbon County Pipeline	--	155,319	--	75,734
Relief of debt	(12,510)	--	--	--
Other non-cash	53.890	241,511	(42,338)	747,900
Cash flow provided by (used in) Operations	$ (120,651)	$(582,325)	$(117,011)	$190,081

Summary of Quarterly Results

During the quarter ended April 30, 2011 the Company had a net loss of $65,222 or $0.01 per share compared to a net loss of $2,204,855 or $1.27 per share during the quarter ended April 30, 2010. There is no longer a debt facility and the interest and financing fees that accompanied it so the losses are much smaller. The net revenue includes fees and refunds that are not expected to recur in the future

Summary of Quarterly Results (continued)

	2011 3rd Quarter	**2011 2nd Quarter**	**2011 1st Quarter**	**2010 4th Quarter**	**2010 3rd Quarter**	**2010 2nd Quarter**	**2010 1st Quarter**	**2009 4th Quarter**
	April 30, 2011	**January 31, 2011**	**October 31, 2010**	**July 31, 2010**	**April 30, 2010**	**January 31, 2010**	**October 31, 2009**	**July 31, 2009**
Net Revenue	(19,869)	65,800	55,393	955,032	955,032	1,191,743	799,436	940,777
Net loss for the period	65,222	91,024	7,552	6,505,600	2,204,855	1,657,663	3,220,844	2,950,022
Loss per share	$0.01	$0.02	--	$1.27	$1.27	$.02	$.03	$.03

During the quarter ended April 30, 2011 the Ft. Scott property produced gross mcfe of 3001 compared to 275,610 for the same period in 2010. Total gross revenues were $15,097 for the third quarter 2011 while they were $1,109,462 for the same quarter in 2010. Operating, general and administrative and interest expenses were $3,173, $51,978 and $40 respectively for the quarter ended April 30, 2011 and $723,823, $334,500 and $1,682,083 respectively for the quarter ended April 30, 2010.

Critical Accounting Estimates

The preparation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of any contingent assets and liabilities as at the date of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. The most significant estimates are related to oil and gas reserves, the recoverability of expenditures and valuation of oil and gas property (ceiling test) and equipment, asset retirement obligations, valuation of stock-based compensation, valuation of income tax accounts, and valuation of contingencies. Actual results could differ from those reported. Management believes that the estimates are reasonable.

Project Overview

Four of the Companyqs projects (Shiloh, Devon, Thayer and Mound Valley as well as the Companyqs interest in BCPL were transferred to its lenders pursuant to the foreclosure announced July 20, 2010 (See %Description of Business+).

One of the Companyqs two projects remaining after the foreclosure lie in the Cherokee Basin located in southeastern Kansas and northeastern Oklahoma. Historically, the basin has been a prolific oil and gas producing area. Admiral Bay holds a 100% working interest and has operations in all of its project in Kansas. Admiral Bayqs producing project has its own tap into the main inter-state system with significant unused take-away capacity.

In May, 2010, the Companyqs Lenders advised the Company they were in default of their loan covenants and initiated foreclosure proceedings on the Shiloh, Mound Valley, Thayer, Devon, Santa Rita and Swordfish Projects. The foreclosure was completed in July of 2010 with the Company retaining the Ft. Scott Project which was purchased in 2008 and 25% of the Revloc Project in Pennsylvania. GasRock and Mid-Town Capital will retain a five percent override under existing leases only in the Ft. Scott Project.

The Company also retained a 3% ORRI on producing properties in the Devon Vogel prospect in Bourbon County.

The Company is debt free with approximately 50 MCFGPD production but with little ability to expand drilling or recomplete wells and improve production. Therefore the Companyqs future may be uncertain until it can assess it assets and determine the marketability of those assets. During the third quarter, the Company sold 134 acres of land unrelated to its remaining projects for approximately $93,000.

FT. SCOTT PROJECT - Cherokee Basin

The Ft. Scott Project is located in Bourbon County, west of the town of Ft. Scott, Kansas. The project targets both the shallow unconventional Pennsylvanian coals and the conventional sandstone reservoirs of the Cherokee Group at depths of 350 to 550 feet (100 to 170 meters). The project has approximately 39,000 acres with limited term, 28 producing or SI wellbores. As reported by Benevides Petroleum Engineering, Inc. in their reserve report as at July 31, 2009, based on forecast prices and costs, the project has Proven Developed (PD) plus Proven Undeveloped (PUD) reserves of 4.2 BCF, Probable Reserves of 2.5 Bcf and Possible Reserves of 6.4 BCF for a 3P total of 13.1 BCF, net of royalties. The Company sold its interest in a SWD well located in the project to a related party for approximately $34,000.

The Company also has been receiving royalty income from its previously reported Farm-outs of acreage to a third party for development of the Bartlesville Sandstone at approximately 300 to 450 feet in the Ft. Scott Project. The overriding royalty is a 3% royalty that will generate approximately $40,000 to $60,000 a year in income. The third party developing the Bartlesville sandstone is actively drilling and completing wells. Revenue growth will be based on continued success of the third party and the price of oil.

REVLOC PROJECT - Appalachian Basin

The Revloc Project is located in the southern central part of Cambria County, Pennsylvania. The approximately 13,100 net acre project lies on the eastern most edge of the Appalachian Basin and targets coals of the Pennsylvania Alleghany and Pottsville groups. There are approximately five to seven coals of two to seven feet (0.6 to 2 meters) thick. The state of Pennsylvania has reported gas content of the coals to be in excess of 450 scf/ton (standard cubic feet per ton). There are several pipelines that either pass through or are adjacent to the present acreage, with current gas prices being at a premium to NYMEX spot price. The coals are found from 250 to 1,400 feet (75 to 425 meters).

In July 2007, the Company farmed out a 25% working interest in its Revloc Project to a private company (the "Farmee"). The Farmee earned a 25% working interest and an 82.5% net revenue interest by paying $1,000,000 (approximately $250/acre). The Farmee paid 100% of the cost to drill and case seven test wells along with 100% of the cost to core and analyze all the coals in four of the seven wells. Upon running casing on the seventh well, the Farmee had 60 days in which to exercise an option to purchase an additional 25% to 50% of the working interest for an additional $1,000,000 to $2,000,000, respectively. Farmee elected to purchase an additional 25% working interest and now had 50% working interest in the Revloc Project. Admiral Bay remains the operator. The Company retained a 25% working interest and operations after the foreclosure discussed above in "Description of Business".

Related Party Transactions

Transactions with related parties have occurred in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. Amounts owed to related parties are unsecured, non-interest bearing with no fixed terms of repayment.

a) The president of the Company and his wife, own and/or control the following companies that perform related party transactions with Admiral Bay: Atoka Geochemical Services Corp (%Atoka+), Promap Corporation (%Promap+), Atoka Coal Bed Methane Laboratories (%ACBML+), Desperado Trucking (%Desperado+), CST Oil (%CST+) and Running Foxes Petroleum (%Running Fox+). The president of the Company is also a paid contract worker for Osceola Royalties, LLC with whom the Company participates in the Revloc project. Desperado is owned 50% by Running Fox. ACBML and CST are owned 50% and Running Fox and Promap are owned 100% by the president of the Company. ACBML and CST are owned 50% and Atoka is owned 100% by the wife of the Company¢s president. Running Fox, Atoka, Promap, Desperado, CST and ABCML are providing critical services to the Company on as needed basis and by doing so reduce the overall administrative expense. These entities were paid approximately $35,194 for operating costs and services provided during the period ended April 30, 2011 (2010: $263,307). Running Fox also purchased a SWD well from the Company for approximately $34,000 based on a third party valuation. At April 30, 2011, an amount of $46,696 (2010: $290,934) was due to these companies for services and reimbursement of operating costs.

b) The president of the Company owns overriding royalty interests in the Ft. Scott wells. The royalties paid in the first three quarters 2011 were $629 (2010 - $16,586).

Liquidity and Capital Resources

In the nine and three months ended April 30, 2011 Admiral Bay had operated oil and gas revenues, net of royalty expense of $23,238 and $5,777 respectively. Operating expenses for the same periods amounted to $32,652 and $3,173. Historically, the Company has raised the funds it requires to advance its projects, and for corporate overheads, through equity financings, draws on its bank line of credit and the exercise of options and warrants.

On July 20, 2010, the Company announced the completion of the foreclosure proceedings previously disclosed. As a result, Admiral Bay and its former lenders agreed to settle its debt obligations by ceding certain corporate assets in exchange for forgiveness of approximately $42.5 million in debt and a fund established by lenders to satisfy outstanding trade obligations.

Upon completion of the foreclosure, Admiral Bay is debt free, has positive working capital and retains its Ft. Scott Property in Bourbon County, Kansas. As of July 31, 2009, Ft. Scott had proved reserves of approximately 4.2 Bcf and is presently producing approximately 50 Mcfgpd. The Company has also retained a 25% working interest in the Revloc Project located in Cambria County, Pennsylvania.

While the foreclosure process eliminated all of Admiral Bay’s outstanding debt, it also significantly reduced cash flow limiting the Company’s current ability to develop and expand production. As a result of the foreclosure, Admiral Bay’s field personnel were transferred to the lender’s entity operating the foreclosed assets. In addition, the Company will eliminated key financial personnel upon conclusion of the annual meeting in September.

The foreclosure exchanged Company proved reserves of approximately 45 Bcf (as of July 31, 2009) of natural gas for the forgiveness of approximately $42.5 million in debt as well as a fund to satisfy the Company’s other credit obligations. The foreclosed assets had net, after royalty, production in the quarter ended April 30, 2010 of approximately 2,400 Mcfgpd and is over 50% undeveloped. With the transfer of assets in the foreclosure, the Company also mitigated its future plugging and abandonment liability. The Company also provided the lenders with a warrant to purchase up to 17.5% of the common equity of Admiral Bay at a fixed price of approximately $0.039 (CDN) per share over the next five years. This price is pre-rollback and the price of the warrant significantly increased after the rollback.

As a result of the foreclosure action, Admiral Bay has significantly increased its financial flexibility with a host of options available to attempt to increase shareholder value. The Company is considering a number of strategic options including the sale of additional assets, the purchase of or combination with other oil and gas assets to create a company with additional scale and growing the Company through intrinsic drilling and development of existing assets. Some options may require the Company to seek additional capital. While all of these alternatives are available and being reviewed by the Company, there are no guarantees the Company will be successful in executing on new strategic initiatives

The table below summarizes activity for the Company’s common stock during the period in CAD$. Prices shown are proforma for the 1:20 consolidation of the Company’s common stock that occurred effective November 22, 2010.

	2011	2010
High	$0.33	$1.20
Low	$0.10	$0.20
Close	$0.20	$0.20
Volume	2.95 mil	2.44 mil

Derivative Instruments

The fair value of the derivative instruments is estimated by comparing the period ending NYMEX Natural Gas ("NYMEX NG") futures prices less the applicable basis differential between NYMEX NG and the Southern Star trading hub from dates ranging from December 2009 through April 2012 to the corresponding prices in the derivative instruments for the same dates. The derivative instrument liability is the only Level 1 fair value measurements for assets and liabilities respectively. There are no Level 2 or Level 3 fair value measurements.

As of April 10, 2010 the Company paid $30,000 to cash out all derivative instruments.

Uncertainties and Risk Factors

Admiral Bay's primary objective is the advancement of petroleum and coal bed methane projects located in areas of strong gas markets. The market price of commodities is highly speculative and volatile. Instability in commodity prices may affect interest in resource properties and the development of and production from such properties.

The Company's operations are subject to all the hazards and risks normally incident to the exploration and development of, and production from oil and gas deposits, any of which could result in damage to life or property, environmental damage and possible legal liability for any or all damage. Whether a resource deposit will ultimately be commercially viable depends on a number of factors, including the particular attributes of the deposit such as the deposit's size; its proximity to existing infrastructure; financing costs and the prevailing prices for the oil and gas produced. Also of key importance are government regulations, including those relating to prices, taxes, royalties, land tenure, land use, the importing and exporting of resource and production plant and equipment, and environmental protection. The effects of these factors cannot be accurately predicted, but any combination of them may impede the development of a deposit or render it uneconomic.

<u>Availability of Finance</u>
In the absence of significant cash flow from operations, Admiral Bay relies on the capital markets to fund its operations. The ongoing exploration and eventual successful development of these properties will require significant additional financing. There can be no assurance that adequate funding will be available, or available under terms favorable to the Company, for these purposes when ultimately required. The exploration and development of mineral deposits involves significant financial risks over an extended period of time. Even a combination of careful evaluation, experience and knowledge may not eliminate these risks.

<u>Nature of Oil and Gas Projects</u>

The Company's operations, and exploration and development projects, are subject to conditions beyond its control that can affect the cost of operations for varying lengths of time. Such conditions include environmental hazards, explosions, unusual or unexpected geological formations or pressures, and periodic interruptions in both production and transportation due to inclement or hazardous weather conditions. Such risks could result in damage to, or destruction of producing facilities, personal injury, environmental damage, delays in development or production, monetary losses and possible legal liability. Through high operational standards and continuous improvement, Admiral Bay works to reduce these risks.

Oil and Gas Prices

The principal business of the Company is the production of oil and gas. Admiral Bay's future profitability is largely dependent on movements in the prices of oil and gas, which are affected by numerous factors beyond the Company's control including producer hedging activities, the relative exchange rate of the United States dollar with other major currencies, global and regional demand, political and economic conditions and production costs and levels in major oil and gas producing regions. In addition, the price of oil and gas has on occasion been subject to rapid short-term changes due to speculative activities.

Mineral Resource and Mineral Reserve Estimates

The figures for proven, probable and possible reserves are determined in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook. There are numerous uncertainties inherent in estimating reserves, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any reserve estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions, including economic assumptions such as prices for oil and gas and market conditions, could have a material effect in the future on the Company's financial position and results of operation.

Available Resources

The resource industry in which the Company operates is in general, highly competitive. Competitors include well-capitalized senior companies, independent resource companies and others having financial and other resources far greater than those of Admiral Bay. The Company competes with these companies in connection with the acquisition of the most valuable resource properties and human resources.

Currency Fluctuations

The Company holds cash reserves in both Canadian and United States dollars. The exchange rates covering such currencies have varied substantially and accordingly, could significantly impact the results of operations.

Accounting Standards

Admiral Bay follows Canadian generally accepted accounting policies. In line with accepted industry practice, the Company has adopted the policy of deferring property specific acquisition, exploration and development costs. Deferred costs relating to properties that are relinquished, or where continued exploration is deemed inappropriate are written off in the year such assessment is made. If Admiral Bay adopted a policy of expensing all exploration and development costs, the Company's asset base, shareholders' equity, and loss from operations would be materially different.

Previously, the Company was classified as an enterprise in the development stage on the basis that it had not commenced production. The Company commenced commercial production in the quarter ended April 30, 2005. Accordingly, for the three months ended October 31, 2005, the Company adopted the full cost method of accounting for oil and gas properties and equipment. Specifically, all costs associated with the exploration for and development of oil and gas reserves are capitalized. Such costs include land acquisitions, drilling of both productive and non-productive wells, well equipment and geological and geophysical activities. Gains or losses are not recognized upon disposition of oil and natural gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion by 20% or more. Costs capitalized in the cost centers, including well equipment, together with estimated future capital costs associated with proven reserves, are depreciated and depleted using the unit-of-production method, which is based on gross production and estimated proven oil and natural gas reserves as determined by independent engineers. The cost of unproven properties is excluded from the depreciation and depletion base. For purposes of the depreciation and depletion calculations, oil and natural gas reserves are converted to a common unit of measure on the basis of their relative energy content, being six thousand cubic feet of natural gas for one barrel of oil. Oil and natural gas properties and equipment are evaluated in each reporting period to determine whether the carrying amount is recoverable and does not exceed the fair value of the properties. The carrying amounts are assessed to be recoverable when the sum of the undiscounted cash flows expected from the production of proven reserves, the lower of cost and market value of unproved properties and the cost of major development projects exceeds the carrying amount of the cost centre. When the carrying amount is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying amount of the cost centre exceeds the sum of the discounted cash flows expected from the production of proven and probable reserves, the lower of cost and market value of unproved properties and the cost of major development projects of the cost centre. The cash flows are estimated using expected future product prices and costs, and are discounted using a risk-free interest rate.

The Company records a liability for the fair value of legal obligations associated with the retirement of long-lived tangible assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability there is a

corresponding increase in the carrying amount of the related asset known as the asset retirement cost, which is depleted on a unit-of-production basis over the life of the reserves. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings, and for revisions to the estimated future cash flows. Actual costs incurred upon settlement of the obligations are charged against the liability.

Revenues from the sale of oil and natural gas are recorded when title passes to an external party.

Change in Accounting Policy

(a) Financial Instruments - Fair Value Hierarchy and Liquidity Risk Disclosure

In June 2009, the Canadian Accounting Standards Board issued an amendment to CICA Section 3862, "Financial Instruments Disclosures" in an effort to make Section 3862 consistent with IFRS Section 7 - Disclosures ("IFRS 7"). The purpose was to establish a framework for measuring fair value in Canadian GAAP and expand disclosures about fair value measurements. To make the disclosures an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). The adoption of the new standard resulted in additional disclosures in the notes to the consolidated financial statements.

(b) Future accounting changes

(i) International Financial Reporting Standards ("IFRS")

In January 2006, the Canadian Accounting Standards Board ("AcSB") announced its decision to replace Canadian GAAP with IFRS. On February 13, 2008 the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that the Company will be required to prepare IFRS financial statements for the interim periods and fiscal year ends beginning August 1, 2011. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations. The Company is creating an implementation team, which will consist of internal resources and external consultants. A changeover plan is being established to

convert to the new standards within the allotted timeline. Management is currently assessing the impact of adopting IFRS and has not yet determined its effect on the Company's financial statements.

(ii) Section 1582 – Business Combinations

CICA Handbook Section 1582 "Business Combinations", replaces Section 1581 – "Business Combinations" and provides the Canadian equivalent to International Financial Reporting Standards ("IFRS") 3 – Business Combinations. This applies to a transaction in which the acquirer obtains control of one or more businesses. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. Additionally, a bargain purchase will result in recognition of a gain and acquisition costs must be expensed. The Company plans to adopt this standard on August 1, 2011. The Company is currently in the process of evaluating the impact of these standards.

(iii) Section 1601 – Consolidations and Section 1602 – Non-Controlling Interests

CICA Handbook Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests" replace Section 1600 "Consolidated Financial Statements". Section 1602 provides the Canadian equivalent to International Accounting Standard 27 – "Consolidated and Separate Financial Statements", for non-controlling interests. The Company plans to adopt this standard on August 1, 2011. The Company is currently in the process of evaluating the impact of these standards.

Subsequent Events

The Company issued 35,000 stock options to a contractor.

Multilateral Instrument 52-109 Disclosure
Evaluation of disclosure controls and procedures

We have evaluated the effectiveness of our disclosure controls and procedures and have concluded, based on our evaluation that they are sufficiently effective to provide reasonable assurance that material information relating to the Company is made known to management and disclosed in accordance with applicable securities regulations.

Internal Controls Over Financial Reporting

The Chief Executive Officer and Chief Financial Officer, together with other members of management, after having designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with the issuer's GAAP as of July 31, 2007, have not identified any changes to the Company's internal control over financial reporting which would materially affect, or is reasonably likely to materially affect the Company's internal control over financial reporting.

FINANCIAL INSTRUMENTS

Fair Value

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying amounts for amounts receivable and accounts payable and accrued liabilities on the balance sheet approximate fair value because of the limited terms of these instruments. The fair value of long-term debt, which bears interest at current market rates, approximates its carrying value based on discounted cash flows using current market rates.

Foreign Exchange Risk

Certain of the Company's expenses are incurred in Canadian currencies and are therefore subject to gains or losses due to fluctuations in this currency relative to the United States dollar.

Commodity Price Risk

The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of certain commodities.

Interest Rate Risk

The Company has no interest-bearing borrowings for which general rate fluctuations apply.

Supplement to the Consolidated Financial Statements

As of June 29, 2011, the following common shares, common share purchase options and share purchase warrants, were issued and outstanding:

- 5,142,226 common shares
- 1,635,224 warrants at an average price of $1.38 expiring at various dates through July 20, 2015.
- 561,700 common share purchase options at an average price of $2.02, expiring at various dates until March 11, 2015

June 29, 2011