

Mediterranean Resources Ltd.
Consolidated Financial Statements
December 31, 2008 and 2007
(Expressed in Canadian Dollars)



AUDITORS' REPORT

To the Shareholders of
Mediterranean Resources Ltd.

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

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

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

Vancouver, Canada

March 10, 2009

“Morgan & Company”

Chartered Accountants

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Mediterranean Resources Ltd.
Consolidated Statements of Operations and Comprehensive Loss
For the years ended December 31, 2008 and 2007
(Expressed in Canadian Dollars)

| | <u>2008</u> | <u>2007</u> |
|--|---------------------|---------------------|
| Expenses | | |
| Corporate general and administrative (Note 8) | <u>\$ 1,759,363</u> | <u>\$ 2,880,812</u> |
| Other expenses (income) | | |
| Interest income | (230,580) | (350,069) |
| Foreign exchange (gain) loss | (47,730) | 108,150 |
| Write-off of accounts payable (Note 10) | (344,981) | - |
| Other income | (5,534) | - |
| Loss on disposal of equipment | 2,944 | - |
| | <u>(625,881)</u> | <u>(241,919)</u> |
| Net loss and comprehensive loss for the year | <u>\$ 1,133,482</u> | <u>\$ 2,638,893</u> |
| Basic and diluted loss per share | <u>\$ 0.01</u> | <u>\$ 0.04</u> |
| Weighted-average number of shares outstanding | <u>87,219,191</u> | <u>72,518,656</u> |

The accompanying notes are an integral part of these consolidated financial statements.

Mediterranean Resources Ltd.
Consolidated Statements of Shareholders' Equity
For the years ended December 31, 2008 and 2007
(Expressed in Canadian Dollars)

| | Number of shares | Share capital | Contributed surplus | Cumulative translation adjustment | Deficit | Total Shareholders' equity |
|--|---------------------|----------------|------------------------|---|------------------|----------------------------------|
| Balance, December 31, 2006 | 42,113,783 | \$ 163,813,463 | \$ 3,724,426 | \$ (249,588) | \$ (161,383,063) | \$ 5,905,238 |
| Private placements, for cash | 44,408,030 | 16,059,250 | – | – | – | 16,059,250 |
| Share issue costs | – | (2,157,306) | 752,304 | – | – | (1,405,002) |
| Exercise of agents' options and warrants | 696,935 | 269,746 | (79,512) | – | – | 190,234 |
| Stock-based compensation | – | – | 1,378,090 | – | – | 1,378,090 |
| Reduction in share capital and Deficit (Note 1) | – | (159,906,000) | – | 249,588 | 159,656,412 | – |
| Net loss | – | – | – | – | (2,638,893) | (2,638,893) |
| Balance, December 31, 2007 | 87,218,748 | 18,079,153 | 5,775,308 | – | (4,365,544) | 19,488,917 |
| Exercise of agents' options and warrants | 500 | 200 | (75) | – | – | 125 |
| Stock-based compensation | – | – | 460,575 | – | – | 460,575 |
| Net loss | – | – | – | – | (1,133,482) | (1,133,482) |
| Balance, December 31, 2008 | 87,219,248 | \$ 18,079,353 | \$ 6,235,808 | \$ – | \$ (5,499,026) | \$ 18,816,135 |

The accompanying notes are an integral part of these consolidated financial statements.

Mediterranean Resources Ltd.
Consolidated Statements of Cash Flows
For the years ended December 31, 2008 and 2007
(Expressed in Canadian Dollars)

| | 2008 | 2007 |
|--|--------------------|---------------------|
| Cash provided by (used for): | | |
| Operating activities | | |
| Net loss for the year | \$ (1,133,482) | \$ (2,638,893) |
| Non-cash items: | | |
| Amortization of leasehold improvements and equipment | 13,699 | 23,331 |
| Accrued interest income | (12,920) | (34,695) |
| Stock-based compensation | 460,575 | 1,378,090 |
| Write-off of accounts payable | (344,981) | – |
| Foreign exchange (gain) loss | (47,730) | 109,025 |
| Loss on disposal of equipment | 2,944 | – |
| Net changes in non-cash operating working capital (Note 12) | (396,150) | (257,083) |
| | (1,458,045) | (1,420,225) |
| Financing activities | | |
| Proceeds from issuance of shares | 125 | 16,249,484 |
| Share issue costs | – | (1,355,002) |
| | 125 | 14,894,482 |
| Investing activities | | |
| Purchase of short-term investments | (1,509,873) | (29,574,088) |
| Proceeds from redemptions of short-term investments | 6,308,746 | 21,754,773 |
| Investment in mineral properties | (3,838,250) | (4,691,511) |
| Acquisition of equipment | (22,471) | (76,242) |
| | 938,152 | (12,587,068) |
| Foreign exchange gain (loss) on cash held in foreign currency | 47,774 | (875) |
| (Decrease) increase in cash | (471,994) | 886,314 |
| Cash – Beginning of year | 932,688 | 46,374 |
| Cash – End of year | \$ 460,694 | \$ 932,688 |
| Supplemental cash flow information (Note 12) | | |

The accompanying notes are an integral part of these consolidated financial statements.

Mediterranean Resources Ltd.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(All tabular amounts, except number of shares, are expressed in Canadian Dollars unless otherwise stated)

1 Nature of operations and continuing operations

Mediterranean Resources Ltd., a public company incorporated under the laws of the Province of British Columbia, Canada, is listed on the Toronto Stock Exchange (“TSX”) under the trading symbol “MNR”, having graduated from the TSX Venture Exchange (“TSX.V”) in December 2007. In April 2007, the Company’s shares commenced being quoted on the Frankfurt Stock Exchange under the trading symbol “MHM1”. The Company is in the business of exploring mineral properties, including the Yusufeli mineral properties in Turkey.

In May 2007, the Company, having obtained shareholders’ approval, completed the reduction of its share capital and deficit by offsetting balances in the amount of \$159,906,000 which was the deficit as of September 30, 2005. The deficit was also increased by \$249,588 representing the elimination of the cumulative translation adjustment which had represented a foreign currency exchange loss, as of December 31, 2002, recorded on the change in reporting currency to the Canadian Dollar. The reductions and elimination relate to historical mineral exploration activities in Peru, Mexico and the United States that have been abandoned and have no bearing or reference to the Company’s new business of exploring for gold in Turkey. The current deficit on the consolidated financial statements therefore reflects the cumulative operations from the Company’s focus in Turkey.

The Company’s ability to continue as a going concern is dependent upon the ability of the Company to obtain the necessary financing to develop properties, including sustaining capital for its Yusufeli properties, and to establish future profitable production. The Company may not have sufficient cash to fund the exploration and development of its mineral properties to commercial production and therefore may require additional funding, which if not raised, may result in the delay, postponement or curtailment of some of its activities. Management continues to evaluate the need for additional financing and is of the opinion that additional financing will be available to continue its planned activities in the normal course. Nonetheless, there is no assurance that the Company will be able to raise sufficient funds in the future to complete its planned activities.

2 Significant accounting policies

The consolidated financial statements are stated in Canadian dollars unless otherwise noted. They have been prepared by management in accordance with Canadian generally accepting accounting principles (“GAAP”) and reflect consideration of the following significant policies:

Basis of consolidation

The consolidated financial statements include the accounts of the Company and the following wholly owned foreign subsidiaries:

- Turkey – Akdeniz Resources Madencilik A.S. (Akdeniz Resources Madencilik Ltd. to January 14, 2008)
- Bermuda – Mediterranean Minerals (Holding) Ltd. and Mediterranean Minerals (Bermuda) Ltd.

Variable interest entities

The Canadian Institute of Chartered Accountants (“CICA”) issued Accounting Guideline 15, “Consolidation of Variable Interest Entities”, to provide accounting guidance related to variable interest entities (“VIE”). A VIE exists when the entity’s equity investment is at risk. When a VIE is determined to exist, the guidance requires the VIE to be consolidated by the primary beneficiary. The Company has determined that it does not have primary beneficiary interests in VIEs.

Mediterranean Resources Ltd.

Notes to Consolidated Financial Statements

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(All tabular amounts, except number of shares, are expressed in Canadian Dollars unless otherwise stated)

2 Significant accounting policies (continued)

Use of estimates and assumptions

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses for the periods reported. Actual results could differ from these estimates. Significant estimates and assumptions include those related to the determination as to whether costs are expensed or capitalized; the establishment of accounts payable and accrued liabilities estimates to account for the abandonment of long-lived assets and dispute resolutions; variables in the use of the Black-Scholes option pricing valuation model to record the fair value ascribed to equity instruments; the valuation allowance for future income tax assets, and the determination of whether contingent liabilities exist..

Measurement uncertainty

Management's capitalization of exploration and development costs and assumptions regarding the future recoverability of such costs are subject to significant measurement uncertainty. Management's assessment of recoverability is based on, among other things, the Company's estimate of current mineral reserves and resources which are supported by geological estimates, estimated gold and commodity prices, and the procurement of all necessary regulatory permits and approvals. These assumptions and estimates could change in the future and this could materially affect the carrying value and the ultimate recoverability of the amounts recorded for mineral properties.

Translation of foreign currencies

The Company's subsidiaries are integrated foreign operations. Foreign functional currency transactions and balances are translated into the Canadian dollar reporting currency using the temporal method as follows:

- a) Monetary items are translated at the rates prevailing at the balance sheet date;
- b) Non-monetary items are translated at historical rates;
- c) Revenues and expenses are translated at the average rates in effect during applicable accounting periods, except amortization, which is translated at historical rates;
- d) Gains and losses on foreign currency translation are reflected in the consolidated statements of operations.

Cash and cash equivalents

Cash and cash equivalents consist of balances with banks and investments in financial instruments with maturities within 90 days held for the purpose of meeting short-term cash commitments rather than for investing or other purposes. As at December 31, 2008 and 2007, the Company did not have any cash equivalents.

Short-term investments

Short-term investments are carried at cost which approximates fair value. The carrying value of short-term investments includes accrued interest receivable.

Leasehold improvements and equipment

Leasehold improvements and equipment are recorded at cost less accumulated amortization. For leasehold improvements, amortization is provided on a straight-line basis at a rate of 20% per year; for equipment, on a declining-balance basis at a rate of 20% per year

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December 31, 2008 and 2007

(All tabular amounts, except number of shares, are expressed in Canadian Dollars unless otherwise stated)

2 Significant accounting policies (continued)

Mineral properties

The Company records its interest in mineral properties at cost, less option payments received, or at fair value if the consideration is common shares. Exploration expenditures are capitalized until the properties are sold, abandoned or brought into production. Costs related to abandoned properties are written off in the period of abandonment. Costs related to producing properties are amortized on the unit-of-production method over the useful life of the ore body following commencement of commercial production.

Exploration costs comprise expenditures directly attributable to the ownership and exploration in mineral properties on a property-by-property basis. Acquisition costs include initial option and land title payments at the date of acquisition, and subsequent option and royalty payments required to maintain ownership title. Options and royalties are exercisable at the discretion of the optionee, and accordingly, the related amounts are recorded only upon payment or receipt. Capitalized exploration and development costs include overhead directly related to the properties. The amounts shown for exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values.

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

Long-lived assets

The Company follows the recommendations in CICA Handbook Section 3063 – “Impairment of Long-Lived Assets” and the CICA's Emerging Issues Committee (“EIC”) emerging extract EIC-126 – “Accounting by Mining Enterprises for Exploration Costs”. Section 3063 requires that the Company review long-lived assets, including mineral properties for impairment. Long-lived assets are assessed for impairment when events and circumstances warrant an assessment. EIC-126 consensus is that a mining enterprise in the development stage is not obliged to conclude that capitalized costs have been impaired due to the absence of a projected estimated future net cash flow from the mining enterprise. Mineral properties in the exploration stage do not have established mineral reserves and a basis for the preparation of a projection of the estimated future net cash flow from the properties does not exist. However, a mining enterprise is required to consider the conditions in Section 3063 for impairment write-down. The conditions include significant unfavourable economic, legal, regulatory, environmental, political and other factors. In addition, management's development activities towards its planned principal operations are a key factor considered as part of the ongoing assessment of the recoverability of the carrying amount of mineral properties. Whenever events or changes in circumstances indicate that the carrying amount of a mineral property in the exploration stage may be impaired, capitalized costs are written down to the estimated recoverable amount.

The recent economic downturn warranted an assessment of the estimated recoverable amount for the Company's mineral properties. Management applied a market approach in its review using data from third party reports on the Company's gold reserves and “resource-in-the-ground” prices for property transactions in the geographical area. The approach resulted in a range of estimated recoverable amounts that were all in excess of the carrying amount of the Company's properties. Based on this information, management concluded that its properties were not impaired.

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2 Significant accounting policies (continued)

Asset retirement obligations

The Company is required to recognize a liability for an asset retirement obligation on long-lived assets when a legal liability exists and the amount of the liability is reasonably determinable. Asset retirement obligations are calculated on discounted future payment estimates and the liability is accreted over the expected term of the obligation. Subsequent adjustments are made when there are changes to the underlying assumptions. Corresponding amounts and adjustments are added to the carrying value of the related long-lived asset and charged to operations in accordance with accounting policy. As at December 31, 2008 and 2007, the Company had no legal obligation for reclamation and remediation costs.

Equity instruments

Non-monetary consideration - Agent's warrants, share and unit options, and other equity instruments issued as purchase consideration in non-monetary transactions are recorded at fair value determined by management using the Black-Scholes option pricing model. The fair value of the shares issued is based on the trading price of those shares on the TSX on the date of the agreement to issue shares as determined by the Board of Directors and the issue of the shares are publicly announced. Proceeds from unit placements are allocated between shares and warrants issued according to their relative fair value using the residual method.

Share issue costs

Costs directly identifiable with the raising of share capital financing are charged against share capital. Share issue costs incurred in advance of share subscriptions are recorded as non-current deferred charges. Share issue costs related to uncompleted share subscriptions are charged to operations.

Stock-based compensation

Compensatory stock based transactions with directors, officers, employees and outside consultants are recorded at estimated fair value. The Company uses the Black-Scholes option pricing model to estimate the fair value of each stock option at the date of grant. Transactions are charged to operations or capitalized to mineral properties as appropriate, with an offsetting credit to contributed surplus. The fair value of stock options, which vest immediately, is recorded at the date of grant; the fair value of options, which vest in future, is recognized over the vesting period. Stock options that vest over time are recorded over the vesting period using the straight line method. Stock options issued to outside consultants that vest over time are valued at the grant date and subsequently valued on each vesting date. Stock-based compensation is recognized as an expense or, if applicable, capitalized to mineral property costs with a corresponding increase in contributed surplus.

Consideration received on the exercise of stock options together with the related portion previously recorded in contributed surplus is credited to share capital.

Comprehensive income

Comprehensive income is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. The Company had no other comprehensive income or loss transactions during the years ended December 31, 2008 and 2007, and no opening or closing balances for "accumulated other comprehensive income or loss". During the years ended December 31, 2008 and 2007, comprehensive loss was equal to net loss.

Income taxes

The Company uses the liability method of accounting for future income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax basis of assets and liabilities, and are measured using the substantively enacted tax rates and laws that are expected to be in effect in

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2 Significant accounting policies (continued)

the periods in which the future income tax assets or liabilities are expected to be settled or realized. A valuation allowance is provided to the extent that it is more likely than not that future income tax benefits will not be realized.

Comparative figures

Certain comparative figures have been reclassified in order to conform to the current year's financial statement presentation.

Changes in accounting policies

On January 1, 2008, the Company adopted the following provisions of the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections. There was no material impact on the Company's financial condition or operating results as a result of the adoption of these new standards:

- (a) Section 3862 – Financial Instruments – Disclosures, which replaces Section 3861 and provides expanded disclosure requirements that provide additional detail by financial asset and liability categories (see Note 15). The additional disclosure is intended to enable users to evaluate:
 - the significance of financial instruments for the Company's financial position and performance,
 - the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and
 - how the Company manages those risks.
- (b) Section 3863 – Financial Instruments – Presentation, to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows (see Note 15).
- (c) Section 1535 – Capital Disclosures, which establishes standards for disclosing information about an entity's capital and how it is managed (see Note 16) requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Company's objectives, policies and processes for managing capital. Under this standard, the Company will be required to disclose the following:
 - qualitative information about its objectives, policies and processes for managing capital;
 - summary quantitative data about what it manages as capital;
 - whether during the period it complied with any externally imposed capital requirement to which it is subject; and
 - when the Company has not complied with such externally imposed capital requirements, the consequences of such non-compliance.
- (d) Section 1400 – General Standards of Financial Statement Presentation, to include requirements for management to assess and disclose an entity's ability to continue as a going concern (see Note 1).
- (e) On June 1, 2007, the Emerging Issues Committee of the CICA issued Abstract No. 166, "Accounting Policy Choice for Transaction Costs" ("EIC-166"). This EIC addresses the accounting policy choice of expensing or adding transaction costs related to the acquisition of financial assets and financial liabilities that are classified as other than held-for-trading. Specifically, it requires that the same accounting policy choice be applied to all similar financial instruments classified as other than held-for-trading, but permits a different policy choice for financial instruments that are not similar. EIC-166 requires retroactive application to all transaction costs accounted for in accordance with CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement. The Company has evaluated the impact of EIC-166 and determined that no adjustments were required.

Mediterranean Resources Ltd.

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2 Significant accounting policies (continued)

Future Accounting Pronouncements

- (a) The CICA issued Section 3064 - Goodwill and Intangible Assets replacing Section 3450, Research and Development Costs. The new standard, which the Company will adopt in fiscal 2009, establishes guidelines for the recognition, measurement, presentation and disclosure of research and development costs. Management is in the process of assessing the impact of this new standard and the impact on the Company's consolidated financial statements has not yet been determined.
- (b) The CICA issued Section 1601 Consolidated Financial Statements. This new Section will be applicable to financial statements relating to the Company's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for the preparation of consolidated financial statements. The Company has not yet determined the impact of the adoption of this new section on the consolidated financial statements.
- (c) Canada's Accounting Standards Board ratified a plan that will result in Canadian GAAP being converged with International Financial Reporting Standards ("IFRS") by 2011. Management has performed a preliminary analysis and highlighted areas where its current Canadian accounting practices differ from IFRS. The impact on the Company's consolidated financial statements has not yet been determined.

Loss per share

Loss per share is calculated using the weighted average number of shares issued and outstanding during each period. Diluted loss per share is calculated using the treasury stock method, which assumes that stock options and warrants are only exercised when the exercise price is below the average market price during the period, and that the Company will use any proceeds to purchase its shares at their average market price during the period. Diluted loss per share equals loss per share as outstanding options and warrants are anti-dilutive.

3 Short-term investments

At December 31, 2008, short-term investments comprised Bankers' Acceptances in the amount of \$3,946,409 (2007 - \$7,734,935) and Guaranteed Investment Certificates in the amount of \$5,648 (2007 - \$1,003,075), all issued by Canadian chartered banks and with initial maturity dates of less than one year.

These investments had a weighted average yield of approximately 3.66% for the year ended December 31, 2008 (2007 - 4.37%). The market value of short-term investments held as at December 31, 2008 and 2007 approximated their carrying value. The Company did not have and has never had any short-term investments in asset-backed commercial paper.

4 GST and VAT receivable

As at December 31, 2008 and 2007, the Company had the following receivables:

| | <u>2008</u> | <u>2007</u> |
|---|-------------------|-------------------|
| GST receivable (Canada) | \$ 12,896 | \$ 19,053 |
| VAT (value added tax) receivable (Turkey) | 275,928 | 420,022 |
| | <u>\$ 288,824</u> | <u>\$ 439,075</u> |

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(All tabular amounts, except number of shares, are expressed in Canadian Dollars unless otherwise stated)

5 Mineral properties

As at December 31, 2008 and 2007, the Company had accumulated the following acquisition costs and exploration expenditures:

| | <u>2008</u> | <u>2007</u> |
|--|----------------------|----------------------|
| Turkey – Yusufeli properties (Schedule A) | | |
| Acquisition costs | \$ 1,378,515 | \$ 1,378,515 |
| Exploration expenditures | <u>13,115,313</u> | <u>8,660,999</u> |
| Total acquisition costs and exploration expenditures | <u>\$ 14,493,828</u> | <u>\$ 10,039,514</u> |

The Company's Yusufeli properties are located in the province of Artvin, Turkey. These properties include the Tac, Corak, Celtik and Cevreli properties, which are situated along a 12-kilometre mineralized trend. In 2006, the Company acquired 100% interest in certain Yusufeli mineral properties from Teck Cominco Limited's Turkish subsidiary, Teck Cominco Arama ve Madencilik Sanayi Ticaret A.S. ("TCAM").

Upon the commencement of commercial production, in each calendar quarter, the Company will be obligated to pay TCAM a net smelter returns royalty as follows:

- (a) 1.5% if the average price of gold for the calendar quarter for which the royalty being paid is less than US \$425 per ounce; or
- (b) 2% if the average price of gold is equal to or greater than US \$425 per ounce; and
- (c) for all other minerals produced from the properties, 1.75% ; and
- (d) on the six-month anniversary of the commencement of commercial production on the properties, the Company must pay TCAM US \$2,000,000 in cash or in shares, at the election of TCAM.

On March 27, 2006, the Company entered into a one-year services agreement with TCAM to conduct exploration on the properties. Under the TCAM services agreement, the manager provided certain contract services, including implementing and managing the exploration programs, keeping the properties in good standing, providing applicable liability insurances, maintaining books and records and reporting to the Company on a monthly basis. The services agreement expired on March 31, 2007.

In May 2007, the Company entered into a services agreement with a Turkish engineering firm, Dama Muhendislik A.S. ("Dama"), under which the Company continued with its 2007 exploration program on its Yusufeli gold properties. The Company is the operator and manager of the exploration programs, while Dama provides certain contract services whereby its technical team is utilized to implement the exploration programs and assist in community relations. An officer of the Company's Turkish subsidiary is a partner of Dama. .

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6 Leasehold improvements and equipment

| | <u>2008</u> | <u>2007</u> |
|---|------------------|-------------|
| Leasehold improvements and equipment, at cost | \$ 158,937 | \$ 236,543 |
| Accumulated amortization | (62,918) | (133,624) |
| | \$ 96,019 | \$ 102,919 |

For the year ended December 31, 2008, amortization in the amount of \$13,699 (2007 – \$23,331) was included in corporate general and administrative expenses under office, insurance and sundry.

7 Share capital

a) Authorized – an unlimited number of common shares without par value

b) Issued

- i) In January 2007, the Company closed a brokered private placement of 10,197,500 units at \$0.30 per unit for gross proceeds of \$3,059,250. Each unit consists of one share and one-half of one share purchase warrant. Each whole warrant is exercisable for two years at \$0.38 per share. A total of 140,000 units from the placement were subscribed to by a director and officer of the Company and by a private company controlled by a director of the Company.

The Company paid total cash commissions of \$247,896; administration fees and reimbursed expenses of \$103,275 and issued 826,320 agents' options. Each agents' option entitles the holder to acquire one unit at \$0.30 for two years; each unit consists of one share and one-half of one share purchase warrant having the same terms as the warrants in the private placement. The options were ascribed a fair value of \$270,928 based on a risk free interest rate of 3.75%, an expected life of two years, an expected volatility of 132% and a dividend yield rate of nil.

- ii) In May 2007, the Company closed a brokered private placement of 34,210,530 units at \$0.38 per unit for gross proceeds of \$13,000,000. Each unit consists of one share and one-half of one share purchase warrant. Each whole warrant is exercisable for two years at \$0.50 per share. A total of 100,000 units from the placement were subscribed to by a director and officer of the Company.

The Company paid total cash commissions of \$911,090; administration fees and reimbursed expenses of \$142,741 and issued 2,364,711 agents' options. Each agents' option entitles the holder to acquire one unit at \$0.38 for two years; each unit consists of one share and one-half of one share purchase warrant having the same terms as the warrants in the private placement. The options were ascribed a fair value of \$481,376 based on a risk free interest rate of 3.75%, an expected life of two years, an expected volatility of 140% and a dividend yield rate of nil.

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7 Share capital (continued)

- iii) During the year ended December 31, 2008, the Company issued 500 shares (2007 – 536,935 shares) from the exercise of agents' options at \$0.25 per share for total proceeds of \$125 (2007 – \$134,234). A fair value of \$75 (2007 – \$79,512) was recognized on these exercised agents' options.
- iv) During the year ended December 31, 2008, the Company did not issue any shares (2007 – 160,000) pursuant to the exercise of share purchase warrants. Total proceeds from the exercise of share purchase warrants during the year ended December 31, 2007 were \$56,000.

c) Warrants

At December 31, 2008, 22,204,016 warrants (2007 – 35,637,700) were outstanding for the purchase of shares at prices ranging from \$0.38 to \$0.50. Warrants granted, exercised and expired during the years ended December 31, 2008 and 2007, and outstanding as at December 31, 2008 and 2007 were as follows:

| | Number of Warrants | Exercise Price | Weighted Average Exercise Price | Expiry Date |
|-------------------------------------|--------------------------|-----------------------|--|----------------|
| Balance, December 31, 2006 | 13,887,600 | \$ 0.35 – 0.60 | \$ 0.36 | 2007 – 2008 |
| Granted (private placements) | 22,204,016 | \$ 0.38 – 0.50 | \$ 0.47 | 2009 |
| Granted (agents' options exercised) | 268,468 | \$ 0.35 | \$ 0.35 | 2008 |
| Expired | (562,384) | \$ 0.60 | \$ 0.60 | 2007 |
| Exercised | (160,000) | \$ 0.35 | \$ 0.35 | 2008 |
| Balance, December 31, 2007 | 35,637,700 | \$ 0.35 – 0.50 | \$ 0.43 | 2008 – 2009 |
| Granted (agents' options exercised) | 250 | \$ 0.35 | \$ 0.35 | 2008 |
| Expired | (13,433,934) | \$ 0.35 | \$ 0.35 | 2008 |
| Balance, December 31, 2008 | 22,204,016 | \$ 0.38 – 0.50 | \$ 0.47 | 2009 |

Warrants outstanding as at December 31, 2008 were as follows:

| As at December 31, 2008 | | |
|-------------------------|----------------|------------------|
| Number of Warrants | Exercise Price | Expiry Date |
| *** 5,098,750 | \$ 0.38 | January 26, 2009 |
| 17,105,266 | \$ 0.50 | May 24, 2009 |
| 22,204,016 | | |

*** Expired in January 2009 without being exercised.

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7 Share capital (continued)

d) Options

At December 31, 2008, 11,531,031 options including 3,191,031 agents' options (2007 – 12,690,710 including 5,120,710 agents' options) were outstanding for the purchase of shares at prices ranging from \$0.20 to \$0.65 per share (2007 – \$0.25 to \$0.65). Options entitled the holder to acquire one share for each option. Agents' options entitle the holder to acquire one share and one-half of one share purchase warrant when exercised. Options granted, exercised and expired during the years ended December 31, 2008 and 2007 and outstanding as at December 31, 2008 and 2007 were as follows:

| | Number of Options | Exercise Price | Weighted average exercise price | Expiry Date |
|--|----------------------|-----------------------|--|--------------------|
| Balance – December 31, 2006 | 6,386,614 | \$ 0.25 – 10.00 | \$ 0.32 | 2007 – 2011 |
| Granted (directors, officers, employees and consultants) | 3,660,000 | \$ 0.30 – 0.65 | \$ 0.38 | 2009 – 2012 |
| Agents' options granted | 3,191,031 | \$ 0.30 – 0.38 | \$ 0.36 | 2009 |
| Agents' options exercised | (536,935) | \$ 0.25 | \$ 0.25 | 2008 |
| Expired | (10,000) | \$ 10.00 | \$ 10.00 | 2007 |
| Balance – December 31, 2007 | 12,690,710 | \$ 0.25 – 0.65 | \$ 0.34 | 2008 – 2012 |
| Granted (directors, officers, employees and consultants) | 1,260,000 | \$ 0.20 | \$ 0.20 | 2013 |
| Agents' options exercised | (500) | \$ 0.25 | \$ 0.25 | 2008 |
| Cancelled | (490,000) | \$ 0.30 – 0.47 | \$ 0.34 | 2011 - 2012 |
| Agents' options expired | (1,929,179) | \$ 0.25 | \$ 0.25 | 2008 |
| Balance – December 31, 2008 | 11,531,031 | \$ 0.20 – 0.65 | \$ 0.34 | 2009 – 2013 |

Mediterranean Resources Ltd.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(All tabular amounts, except number of shares, are expressed in Canadian Dollars unless otherwise stated)

7 Share capital (continued)

d) Options (continued)

Options outstanding as at December 31, 2008 and 2007 were as follows:

| Number of Options | Exercise Price | Number of options exercisable | Expiry Date |
|-------------------|----------------|-------------------------------|-------------------|
| *** 826,320 | \$ 0.30 | 826,320 | January 26, 2009 |
| 2,364,711 | \$ 0.38 | 2,364,711 | May 24, 2009 |
| 150,000 | \$ 0.65 | 150,000 | July 10, 2009 |
| 460,000 | \$ 0.30 | 460,000 | February 27, 2011 |
| 30,000 | \$ 0.38 | 30,000 | May 9, 2011 |
| 810,000 | \$ 0.47 | 810,000 | June 6, 2011 |
| 2,550,000 | \$ 0.30 | 2,550,000 | December 14, 2011 |
| 200,000 | \$ 0.30 | 200,000 | January 24, 2012 |
| 200,000 | \$ 0.30 | 200,000 | February 1, 2012 |
| 2,680,000 | \$ 0.38 | 2,680,000 | July 6, 2012 |
| 1,060,000 | \$ 0.20 | 530,000 | June 20, 2013 |
| 200,000 | \$ 0.20 | 100,000 | July 4, 2013 |
| 11,531,031 | | 10,901,031 | |

*** Expired in January 2009 without being exercised.

As at December 31, 2008 the weighted average contractual life of the options was 3.2 years (2007 – 3.3 years) and the average exercise price was \$0.35 (2007 - \$0.33).

e) Stock-based compensation

The Company established a stock option plan whereby the board of directors may from time to time grant options up to 10% of the issued and outstanding stock at the date of the grant to individual eligible directors, officers, employees or consultants. The maximum term of any option is five years. The exercise price of an option is not less than the closing price on the last trading day preceding the grant date. Vesting periods are determined by the board of directors and in accordance to the stock option plan and any regulatory requirements.

Mediterranean Resources Ltd.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(All tabular amounts, except number of shares, are expressed in Canadian Dollars unless otherwise stated)

7 Share capital (continued)

e) Stock-based compensation (continued)

| Date of Grant | Stock Options Granted during Year | Stock Options Vested to date | Fair Value of Options | Stock-based Compensation recorded for the year ended December 31, 2008 | Stock-based Compensation recorded for the year ended December 31, 2007 |
|---------------|---|---------------------------------|--------------------------|---|---|
| 2006 | 3,910,000 | 3,910,000 | \$ 1,003,107 | \$ 8,188 | \$ 658,261 |
| 2007 | 3,660,000 | 3,660,000 | \$ 1,057,617 | 337,788 | 719,829 |
| 2008 | 1,260,000 | 630,000 | \$ 177,303 | 114,599 | - |
| | | | | \$ 460,575 | \$ 1,378,090 |

During the year ended December 31, 2008, 1,260,000 (2007 – 3,660,000) options were granted to directors, officers, employees and consultants. These options were ascribed a total fair value of \$177,303 (2007 – \$1,057,617) based on a risk-free interest rate of 3.75%, (2007 – 3.75%) an expected life of five (2007 – five years), an expected volatility of 169% (2007 – 132 to 144%) and a dividend yield rate of nil (2007 – nil). Included in these amounts were 1,060,000 (2007 – 3,250,000) options granted to related parties with a fair value of \$149,160 (2007 – \$663,365). Regarding the options granted in 2006 and 2007, another \$8,188 and \$337,788 were recorded respectively during the year ended December 31, 2008 (2007 – \$658,261 and \$719,829) relating to those 2006 and 2007 options respectively which vested during the current year (2007 – July 2008). These options vested 25% at date of grant and 25% every four months thereafter until June 2009.

Mediterranean Resources Ltd.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(All tabular amounts, except number of shares, are expressed in Canadian Dollars unless otherwise stated)

8 Corporate general and administrative expenses

Corporate general and administrative expenses for the years ended December 31, 2008 and 2007 were as follows:

| | <u>2008</u> | <u>2007</u> |
|------------------------------------|---------------------|---------------------|
| Compensation** | \$ 1,027,317 | \$ 1,897,255 |
| Communications | 97,080 | 238,517 |
| Consulting | 53,077 | 37,500 |
| Office, insurance and sundry | 227,359 | 211,483 |
| Professional fees | 158,958 | 186,667 |
| Rent | 64,292 | 69,514 |
| Regulatory and transfer agent fees | 35,082 | 108,693 |
| Travel | 99,498 | 131,183 |
| less: recovery of expenses | (3,300) | - |
| | <u>\$ 1,759,363</u> | <u>\$ 2,880,812</u> |

** Included in compensation expense was stock-based compensation in the amount of \$460,575 for the year ended December 31, 2008 (2007 – \$1,378,090).

9 Related party transactions

The following related party transactions were in the normal course of operations and measured at the exchange amount, which was the amount established and agreed to by the related parties. The amounts due to related parties were unsecured, non-interest bearing and had no specific terms of repayment.

During the year ended December 31, 2008, the Company incurred accounting and management fees (included in professional fees) of \$46,500 (2007 – \$42,000) from a private company controlled by a director; directors' fees (included in compensation) of \$25,250 (2007 – \$18,000); and capitalized professional and administrative services in the amount of \$104,716 (2007 – \$66,892) from a firm of which an officer of a subsidiary was a partner.

As at December 31, 2008, amounts owing to related parties were due to directors and officers, a corporation controlled by a director of the Company, and a firm which an officer of a subsidiary was a partner of \$317,944 (2007 – \$331,379).

Other related party transactions are disclosed in Notes 5, 7(b)(i), 7(b)(ii) and 7(e).

10 Write-off of accounts payable

During the year ended December 31, 2008, the Company reversed amounts accrued in previous years that were no longer owing.

Mediterranean Resources Ltd.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(All tabular amounts, except number of shares, are expressed in Canadian Dollars unless otherwise stated)

11 Income taxes

- a) The Company's provision for income taxes differs from the amounts computed by applying Canadian statutory income taxes to the loss for the year as a result of the following:

| | <u>2008</u> | <u>2007</u> |
|-------------------------------|--------------------|-------------|
| Statutory tax rate | 31% | 34% |
| Computed tax recovery | \$ 351,000 | \$ 900,000 |
| Non-deductible items | | (505,000) |
| | (236,000) | |
| Impact of change in tax rates | (1,195,000) | - |
| Change in valuation allowance | 1,080,000 | (395,000) |
| | <u>\$ -</u> | <u>\$ -</u> |

- b) The Company has capital losses of approximately \$54,435,000 (2007 – \$43,795,000) with no expiry and non-capital losses of approximately \$12,778,000 (2007 – \$14,780,000) in Canada which will expire as follows:

| <u>Expiry date</u> | <u>Amount</u> |
|--------------------|----------------------|
| 2009 | \$ 3,196,000 |
| 2010 | 2,600,000 |
| 2014 | 1,962,000 |
| 2015 | 1,204,000 |
| 2026 | 872,000 |
| 2027 | 1,525,000 |
| 2028 | 1,419,000 |
| | <u>\$ 12,778,000</u> |

- c) Significant components of the Company's future income tax assets at December 31, 2008 and 2007 were as follows:

| | <u>2008</u> | <u>2007</u> |
|--|---------------------|---------------------|
| Non-capital losses | \$ 3,120,000 | \$ 5,300,000 |
| Capital losses | 7,076,000 | 7,467,000 |
| Tax value of capital assets in excess of accounting values | 681,000 | 3,481,000 |
| Other differences | 53,000 | 392,000 |
| | <u>10,930,000</u> | 16,640,000 |
| Valuation allowance | (10,930,000) | (16,640,000) |
| | <u>\$ -</u> | <u>\$ -</u> |

Mediterranean Resources Ltd.
Notes to Consolidated Financial Statements
December 31, 2008 and 2007

(All tabular amounts, except number of shares, are expressed in Canadian Dollars unless otherwise stated)

12 Supplemental cash flow information

- a) Net changes in non-cash operating working capital during the years ended December 31, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|--|---------------------|---------------------|
| GST receivable | \$ 6,157 | \$ (13,218) |
| Prepaid expenses and deposits | 7,530 | (103,662) |
| Accounts payable and accrued liabilities | (396,402) | (467,124) |
| Due to related parties | (13,435) | 326,921 |
| | <u>\$ (396,150)</u> | <u>\$ (257,083)</u> |

- b) Other cash flow disclosure during the years ended December 31, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|---------------------------|-------------|-------------|
| Interest received in cash | \$ 217,660 | \$ 310,959 |
| Interest paid in cash | \$ - | \$ - |
| Income tax paid in cash | \$ - | \$ - |

- c) Non-cash financing and investing activities during the years ended December 31, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|------------------|-------------|-------------|
| VAT receivable | \$ 144,094 | \$ 183,766 |
| Accounts payable | \$ 459,242 | \$ 388,122 |

Mediterranean Resources Ltd.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(All tabular amounts, except number of shares, are expressed in Canadian Dollars unless otherwise stated)

13 Segmented financial information

As at December 31, 2008 and 2007, the Company operated in one reportable operating segment, being the exploration of base and precious metals. The net loss for the year was attributed to Canada. Geographical information was as follows:

| | Canada | Turkey | Bermuda | December 31, 2008 Consolidated |
|--------------------------------------|---------------------|----------------------|------------------|--------------------------------------|
| Current assets | \$ 4,164,074 | \$ 676,050 | \$ 19,473 | \$ 4,859,597 |
| Mineral properties | – | 14,493,828 | – | 14,493,828 |
| Leasehold improvements and equipment | 49,138 | 46,881 | – | 96,019 |
| | \$ 4,213,212 | \$ 15,216,759 | \$ 19,473 | \$ 19,449,444 |

| | Canada | Turkey | Bermuda | December 31, 2007 Consolidated |
|--------------------------------------|---------------------|----------------------|-----------------|-----------------------------------|
| Current assets | \$ 9,214,357 | \$ 1,056,094 | \$ 4,874 | \$ 10,275,325 |
| Mineral properties | – | 10,039,514 | – | 10,039,514 |
| Leasehold improvements and equipment | 45,686 | 57,233 | – | 102,919 |
| | \$ 9,260,043 | \$ 11,152,841 | \$ 4,874 | \$ 20,417,758 |

14 Commitments

As at December 31, 2008, the Company was committed to future minimum operating lease payments as follows:

| | |
|------|------------------|
| 2009 | \$ 36,601 |
| 2010 | 36,601 |
| 2011 | 9,150 |
| 2012 | – |
| 2013 | – |
| | \$ 82,352 |

15 Financial instruments and Risk Management

Under CICA Handbook Section 3855, *Financial Instruments - Recognition and Measurement* and Section 3861, *Financial Instruments - Disclosure and Presentation*, financial instruments are designated into one of the six categories: held-for-trading investments, held-to-maturity investments, loans and receivables, available-for-sale assets, held-for-trading liabilities, or other financial liabilities. Financial instruments, included on the balance sheet are measured at fair market value upon inception with the exception of certain related party transactions. Subsequent measurement and recognition of change in the fair value of financial instruments depends on their initial classification. Held-for-trading financial investments and liabilities are measured at fair value and all gains and losses are included in operations in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses upon inception, de-recognition, impairment write-downs and foreign exchange translation adjustments are recognized immediately. Transaction costs related to financing are expensed in the period incurred.

Mediterranean Resources Ltd.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(All tabular amounts, except number of shares, are expressed in Canadian Dollars unless otherwise stated)

15 Financial instruments and Risk Management (continued)

Financial instruments are exposed to credit, liquidity and market risks. Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Liquidity risks is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Market risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

The fair values of the Company's cash, short-term investments and interest receivable, and accounts payables and accrued liabilities approximate their carrying values.

The Company has classified its financial instruments as follows:

| | |
|--|-----------------------------|
| Cash | Held-for-trading |
| Short-term investments | Held-for-trading |
| Accounts payable and accrued liabilities | Other financial liabilities |

(a) Currency risk

The Company's property interests in Turkey make it subject to foreign currency fluctuations and inflationary pressures which may adversely affect the Company's financial position, results of operations and cash flows. The Company is affected by changes in exchange rates between the Canadian Dollar and foreign functional currencies. The Company does not invest in foreign currency contracts to mitigate the risks.

(b) Credit risk

The Company's cash and short-term investments are held in large Canadian financial institutions. Short-term investments are composed of financial instruments issued by Canadian banks. These investments mature at various dates over the current operation period. The Company does not have and has never had any asset-backed commercial paper in its short-term investments. The Company's GST and VAT receivable consists primarily of goods and services tax due from the federal government of Canada and value-added tax due from the government of Turkey.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure.

Accounts payable and accrued liabilities are due within the current operating period.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the short-term investments is limited because these investments, although available for sale, are generally held to maturity.

Mediterranean Resources Ltd.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(All tabular amounts, except number of shares, are expressed in Canadian Dollars unless otherwise stated)

16 Management of capital risk

The Company manages its cash and short-term investments, common shares, stock options and warrants as capital (see Note 7). The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and short-term investments.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

Mediterranean Resources Ltd.
Schedule of Mineral Properties – Capitalized Costs
December 31, 2008 and 2007
(Expressed in Canadian Dollars)

Schedule A

Yusufeli properties, Turkey

| | Balance, December 31, 2006 | Costs for the year | Balance, December 31, 2007 | Costs for the year | Balance, December 31, 2008 |
|------------------------------|----------------------------------|-----------------------|----------------------------------|-----------------------|----------------------------------|
| Acquisition costs | \$ 1,378,515 | \$ – | \$ 1,378,515 | \$ – | \$ 1,378,515 |
| Exploration costs | | | | | |
| Assaying and sampling | 492,634 | 787,955 | 1,280,589 | 457,468 | 1,738,057 |
| Drilling | 1,421,444 | 2,319,435 | 3,740,879 | 1,413,110 | 5,153,989 |
| Environmental baseline study | 59,882 | 28,332 | 88,214 | 149,748 | 237,962 |
| Field costs | 473,813 | 380,982 | 854,795 | 270,446 | 1,125,241 |
| Geological consulting | 447,824 | 787,858 | 1,235,682 | 1,117,607 | 2,353,289 |
| Geophysics | 20,814 | 32,137 | 52,951 | 31,115 | 84,066 |
| Licences, permits and fees | 84,164 | 110,835 | 194,999 | 157,679 | 352,678 |
| Metallurgy | – | 84,700 | 84,700 | 55,624 | 140,324 |
| Office and administrative | 142,365 | 491,544 | 633,909 | 620,975 | 1,254,884 |
| Project supervision | 46,875 | 69,188 | 116,063 | 75,963 | 192,026 |
| Road construction | 85,688 | 85,073 | 170,761 | 18,132 | 188,893 |
| Transportation and travel | 122,097 | 85,360 | 207,457 | 86,447 | 293,904 |
| | 3,397,600 | 5,263,399 | 8,660,999 | 4,454,314 | 13,115,313 |
| Total Expenditures | \$ 4,776,115 | \$ 5,263,399 | \$ 10,039,514 | \$ 4,454,314 | \$ 14,493,828 |

MEDITERRANEAN RESOURCES LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF
OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2008

CONTAINING INFORMATION UP TO AND INCLUDING MARCH 10, 2009

Management's Discussion and Analysis ("MD&A") is intended to help the reader understand Mediterranean Resources Ltd.'s (the "Company's") audited consolidated financial statements. The following discussion of the financial position and operating results of the Company should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2008 and 2007 which have been prepared in accordance with generally accepted accounting principles in Canada. All monetary amounts are in Canadian dollars unless otherwise stated.

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls and to ensure that information used internally or disclosed externally, including the financial statements and MD&A, is complete and reliable. The Company's board of directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. The board's audit committee meets with management quarterly to review the financial statements including the MD&A and to discuss other financial, operating and internal control matters.

Readers should use the information contained in this report in conjunction with all other disclosure documents including those filed on SEDAR (www.SEDAR.com).

The date of this MD&A is March 10, 2009.

Overall Performance

The Company is in the business of exploring precious and base metal properties and is currently focused on its twelve-kilometre long Yusufeli Properties in north-eastern Turkey. Within the property, two areas, Tac and Corak, host NI 43-101 compliant resources estimated in March 2008 as follows:

- Tac – an indicated resource of 1,055,954 oz Au equivalent (average grade 1.61 g/t) and an inferred resource of 123,965 oz Au equivalent (average grade 1.71 g/t).
- Corak – an indicated resource of 542,163 oz Au equivalent (average grade 1.74 g/t) and an inferred resource of 606,925 oz Au equivalent (average grade 1.60 g/t).

Expressed as capped gold (gold only) resources, there are currently a combined 1,335,248 oz Au indicated and 484,276 oz Au inferred at Tac and Corak. Expressed as gold equivalent (Au equivalent), these figures rise to 1,598,117 oz Au equivalent indicated and 730,890 oz Au equivalent inferred. This indicates that the mineralization present at Tac and Corak is primarily gold with a copper (Tac) and a silver-lead-zinc component (Corak).

During the summer and fall of 2008, the Company completed 7,300 metres of infill and extension diamond drilling at Corak and West Corak, and approximately 1,900 metres of exploratory diamond drilling at Celtik, a newly defined area at the eastern end of the property. Targets were identified by ground exploration programs including soil geochemistry and IP geophysical surveys. Ground exploration was also undertaken to develop drilling targets at the Cevreli area, which lies between Tac and Corak. To date, only about 35% of the property has received initial exploration and/or drilling.

In July 2008, the Company engaged SRK Consulting to conduct a further resource estimate which will incorporate results from the newly completed drilling at Corak, which resulted in the confirmation of gold and base metal mineralization extending approximately 300 metres north and 200 metres east of the established Village and South Zones, as well as confirming the continuity of very high grade near surface gold/base metal mineralization along the 700-metre Village and South Zone corridor.

In December 2008, the Company announced initial results from the Celtik drilling program which indicated Celtik to be a new discovery. Assays from three holes returned values up to 6.51 g/t Au and 0.9% Cu over 18.4 metres and a surface intercept (0 to 20.6 metres) of 1.62 g/t Au.

MEDITERRANEAN RESOURCES LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF
OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2008

CONTAINING INFORMATION UP TO AND INCLUDING MARCH 10, 2009

The new resource estimates will likely be enhanced by the recent successful drilling at Corak and by the new discovery at Celtik. A program for 2009 exploration of the Company's Yusufeli Properties will be developed based on the information acquired from the new estimates.

In December 2008, the Company signed a letter of intent ("LOI") with a Turkish company to joint venture future development of the Company's Yusufeli properties. The LOI contemplated the Turkish company's acquiring up to a 60% interest in the Company's properties, upon which time future operations would be conducted on a joint venture basis. In February 2009, the LOI lapsed without a formal agreement being finalized.

The Company has a strong cash position which will enable it to continue its proposed exploration program for 2009 in Turkey. Nonetheless, the world-wide economic downturn does affect the Company in terms of seeking additional financing. Therefore, the Company, while being optimistic because of the relatively strong prices for gold and the quality of its properties, is proceeding with prudence and caution to conserve working capital while at the same time proceeding in developing its more advanced areas of exploration. The Company is also actively pursuing joint venture possibilities and is presently in negotiations with three Turkish companies.

Selected Annual Financial Information

The following table sets out selected consolidated financial information for the last three completed fiscal years:

| | As at or for the year ended December 31, | | |
|---|---|------------|-----------|
| | 2008 | 2007 | 2006 |
| Revenues | \$ - | \$ - | \$ - |
| Corporate general and administrative expenses | 1,759,363 | 2,880,812 | 1,182,701 |
| Restructuring costs | - | - | (18,413) |
| Net loss for the year | 1,133,482 | 2,638,893 | 870,812 |
| Loss per share – basic and diluted | 0.01 | 0.04 | 0.02 |
| Total assets | 19,449,444 | 20,417,758 | 6,478,010 |
| Long-term liabilities | - | - | - |
| Shareholders' equity (deficiency) | 18,816,135 | 19,488,917 | 5,905,238 |
| Cash dividends declared per-share | - | - | - |

Results of Operations

Year ended December 31, 2008 compared to year ended December 31, 2007

The Company recorded a loss in 2008 of \$1,133,482 (\$0.01 per share), a decrease of \$1,505,411 from a loss of \$2,638,893 (\$0.04 per share) in 2007. The decrease is primarily due to (a) a decrease of \$917,515 in stock-based compensation from \$1,378,090 in 2007 to \$460,575 in 2008 (due to smaller number of options being vested to employees, directors and consultants in 2008 relative to 2007); (b) gains from the write-off of accounts payable in 2008 of \$344,981 relating to amounts accrued in previous years that were no longer owing; and (c) a total decrease of \$203,934 in corporate general and administrative ("G&A") expenses before non-cash stock-based compensation, from \$1,502,722 in 2007 to \$1,298,788 in 2008.

The decrease in corporate G&A expenses was mainly due to (a) a decrease of \$141,437 in communications expenses due to decreased investor relations activities in 2008 relative to 2007; and (b) a decrease of \$73,611 in regulatory and transfer agent fees expenses mainly due to a one-time listing fee to the TSX board in 2007 but not in 2008.

MEDITERRANEAN RESOURCES LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF
OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2008

CONTAINING INFORMATION UP TO AND INCLUDING MARCH 10, 2009

Summary of Quarterly Results

The following tables set out selected results of operations for each of the eight most recently completed quarters:

| | Dec 31, 2008 | Sep 30, 2008 | Jun 30, 2008 | Mar 31, 2008 |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|
| Revenues | \$ - | \$ - | \$ - | \$ - |
| Loss | (286,030) | (403,162) | (11,802) | (432,488) |
| Loss per share – basic* | (0.00) | (0.00) | (0.00) | (0.00) |
| Loss per share – diluted ** | (0.00) | (0.00) | (0.00) | (0.00) |

| | Dec 31, 2007 | Sep 30, 2007 | Jun 30, 2007 | Mar 31, 2007 |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|
| Revenues | \$ - | \$ - | \$ - | \$ - |
| Loss | (969,641) | (640,166) | (547,730) | (481,356) |
| Loss per share – basic* | (0.01) | (0.01) | (0.01) | (0.01) |
| Loss per share – diluted ** | (0.01) | (0.01) | (0.01) | (0.01) |

* The per share amounts have been restated to reflect the share consolidation.

** Diluted loss per share equals basic loss per share as options and warrants are anti-dilutive.

Results of operations

Three months ended December 31, 2008 compared to three months ended December 31, 2007

For the three months ended December 31, 2008, the Company recorded a loss of \$286,030 compared to a loss of \$969,641 for the same period in 2007, a decrease of \$683,611. This decrease was mainly the result of (i) a decrease in stock-based compensation of \$469,138 due to a smaller number of options being vested in 2008 versus 2007; and (ii) a decrease in corporate general and administrative expenses (“corporate G&A expenses”) (net of stock-based compensation) of \$188,611. This decrease in corporate G&A expenses was mainly as a result of savings of \$124,990 in shareholder communications, consulting and travel expenses due to less investor relations activities in 2008 relative to 2007, and \$66,360 from in regulatory and transfer agent fees expenses mainly due to a one-time listing fee to the TSX board in 2007 but not in 2008.

Mineral Properties

To December 31, 2008, the Company had invested in mineral properties a total of \$ 14,493,828 (2007 – \$10,039,514) of which \$1,378,515 was paid in the form of shares of the Company issued pursuant to the option agreement relating to the Yusufeli properties.

During the year ended December 31, 2008, the Company incurred \$4,454,314 (budget - \$4,778,000) in exploration expenditures on the Turkish properties, comprising \$3,513,250 (budget - \$4,010,000) on assaying, drilling, geological consulting, environmental baseline studies, geophysics, metallurgy and related costs; \$157,679 (budget - \$46,000) on licensing, permits and legal fees and \$783,385 (budget - \$722,000) in project supervision, transportation and travel, and office and administrative costs. The Company was relatively close to budget – the result was a net savings of \$324,000 resulting mainly from work that had been overestimated of \$497,000, offset mainly by \$112,000 underestimated licensing and permitting costs.

Liquidity

The Company had working capital of \$4,226,288 as at December 31, 2008 compared to \$9,346,484 as at December 31, 2007, a decrease of \$5,120,196 mainly due to cash used in (i) operating activities of \$1,458,045 and (ii) the

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exploration of mineral properties of \$3,838,250.

During the year ended December 31, 2008, total assets decreased by \$968,314, from \$20,417,758 at December 31, 2007 to \$19,449,444 at December 31, 2008 due to regular operating activities of the Company during the year. Exploration expenditures increased by \$4,454,314, from \$10,039,514 as at December 31, 2007 to \$14,493,828 as at December 31, 2008 (see "Mineral Properties" section). Short-term investments and interest receivable decreased by \$4,785,953, from \$8,738,010 as at December 31, 2007 to \$3,952,057 as at December 31, 2008 to finance regular operating and investing activities. The Company invested its funds in bankers' acceptances and guaranteed investment certificates issued by Canadian chartered banks with a weighted average yield of approximately 3.66%. The Company did not have and has never had any short-term investments in asset-backed commercial paper. Receivables, prepaid expenses and deposits decreased by \$157,781, from \$604,627 as at December 31, 2007 to \$446,846 as at December 31, 2008, due mainly to the receipt of refunds of value added tax ("VAT") during the year ended December 31, 2008.

Contractual Obligations

As at December 31, 2008, the Company was committed to future minimum operating lease payments totalling \$82,352 as follows: 2009 to 2010 – \$36,601 per year and 2011 – \$9,150.

Capital Resources

The Company's authorized capital consists of an unlimited number of common shares without par value. As at December 31, 2008, the Company had 87,219,248 issued and outstanding common shares (2007 – 87,218,748); an increase of 500 shares from an exercise of 500 agents' options.

As at December 31, 2008, the Company had 11,531,031 options including 3,191,031 agents' options (2007 – 12,690,710 including 5,120,710 agents' options) outstanding with exercise prices ranging from \$0.20 to \$0.65 and expiring between 2009 and 2013; and 22,204,016 warrants (2007 – 35,637,700) outstanding for the purchase of shares at \$0.38 to \$0.50 expiring in 2009.

In February 2008, 500 agents' options were exercised for which the Company issued 500 shares at \$0.25 per share and 250 warrants at \$0.35 per share for total proceeds of \$125. These 250 warrants, along with another 13,433,684 warrants and 1,929,179 agents' options, all expired in February 2008 without being exercised. In July and September 2008, a total of 490,000 options held by former consultants of the Company were cancelled without being exercised.

In January 2009, 5,098,750 warrants at \$0.38 and 826,320 options at \$0.30 expired without being exercised.

As at March 10, 2009, the Company had 87,219,248 shares outstanding and 116,211,581 shares outstanding on a fully diluted basis.

Critical Accounting Estimates

The Company capitalized all costs relating to the acquisition, exploration and development of its mineral properties. All income from mineral property options is credited against the cost of the property. Should commercial production commence, these costs will be amortized. When a property is abandoned or when there is indication of impairment, all related costs are charged to operations.

The recent economic downturn warranted an assessment of the estimated recoverable amount for the Company's mineral properties. Management applied a market approach in its review using data from third party reports on the Company's gold reserves and "resource-in-the-ground" prices for property transactions in the geographical area. The approach resulted in a range of estimated recoverable amounts that were all in excess of the carrying amount of the Company's properties. Based on this information, management concluded that its properties were not impaired.

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The Company compares the carrying value of its leasehold improvements and equipment to estimated net recoverable amounts. Should the assets' carrying value exceed its estimated recoverable amount, all amounts related to the impairment are charged to operations.

The Company's financial assets and liabilities are cash and cash equivalents, short-term investments and interest receivable, GST and VAT receivable, prepaid expenses and deposits, and accounts payable and accrued liabilities. The fair values of the financial instruments are estimated to be their carrying values due to their short-term nature.

CICA Handbook section 3870 Stock-Based Compensation and Other Stock-Based Payments establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. Compensation expense is determined using the Black-Scholes Option Pricing Model based on estimated fair values of all stock-based awards at the date of grant and is expensed to operations over each award's vesting period. The Black-Scholes Option Pricing Model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

Changes in accounting policies

On January 1, 2008, the Company adopted the following provisions of the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections. There was no material impact on the Company's financial condition or operating results as a result of the adoption of these new standards:

(a) Section 3862 – Financial Instruments – Disclosures

Replaces Section 3861 and provides expanded disclosure requirements that provide additional detail by financial asset and liability categories. The additional disclosure is intended to enable users to evaluate:

- the significance of financial instruments for the Company's financial position and performance,
- the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and
- how the Company manages those risks.

(b) Section 3863 – Financial Instruments – Presentation

To enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows.

(c) Section 1535 – Capital Disclosures

Establishes standards for disclosing information about an entity's capital and how it is managed requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Company's objectives, policies and processes for managing capital. Under this standard, the Company will be required to disclose the following, based on the information internally, to the Company's key management personnel:

- qualitative information about its objectives, policies and processes for managing capital;
- summary quantitative data about what it manages as capital;
- whether during the period it complied with any externally imposed capital requirement to which it is subject; and
- when the Company has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

(d) Section 1400 – General Standards of Financial Statement Presentation

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Includes requirements for management to assess and disclose an entity's ability to continue as a going concern.

- (e) Emerging Issues Committee of the CICA issued Abstract No. 166, "Accounting Policy Choice for Transaction Costs"

On June 1, 2007, the Emerging Issues Committee of the CICA issued Abstract No. 166, "Accounting Policy Choice for Transaction Costs" ("EIC-166"). This EIC addresses the accounting policy choice of expensing or adding transaction costs related to the acquisition of financial assets and financial liabilities that are classified as other than held-for-trading. Specifically, it requires that the same accounting policy choice be applied to all similar financial instruments classified as other than held-for-trading, but permits a different policy choice for financial instruments that are not similar. EIC-166 requires retroactive application to all transaction costs accounted for in accordance with CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement. The Company has evaluated the impact of EIC-166 and determined that no adjustments were required.

Risk Factors

The Company is engaged in the exploration for mineral deposits. These activities involve significant risks which even with careful evaluation, experience and knowledge may not, in some cases, be eliminated. The Company's success depends on a number of factors, many of which are beyond its control. The primary risk factors affecting the Company include inherent risks in the mining industry, metal price fluctuations and operating in foreign countries and currencies.

- (a) Inherent risks within the mining industry

The commercial viability of any mineral deposit depends on many factors, not all of which are within the control of management. Some of the factors that will affect the financial viability of a given mineral deposit include its size, grade and proximity to infrastructure. Government regulation, taxes, royalties, land tenure and use, environmental protection and reclamation and closure obligations could also have a profound impact on the economic viability of a mineral deposit.

Mining activities also involve risks such as unexpected or unusual geological operating conditions, floods, fires, earthquakes, other natural or environmental occurrences and political and social instability. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks as a result of high premiums or for other reasons. The Company does not currently maintain insurance against political or environmental risks. Should any uninsured liabilities arise, they could result in increased costs, reductions in profitability, and a decline in the value of the Company's securities.

There is no assurance at this time that the Company's current mineral properties will be economically viable for development and production.

- (b) Prices for gold and base metals

Metals prices are subject to volatile price fluctuations and may have a direct impact on the future commercial viability of the Company's exploration properties. Price volatility results from a variety of factors, including global consumption and demand for metals, international economic and political trends, fluctuations in the US dollar and other currencies, interest rates, and inflation. The Company has not hedged any of its potential future gold sales.

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(c) Foreign currency risks

The Company uses the Canadian dollar as its measurement and reporting currency, and therefore fluctuations in exchange rates between the Canadian dollar and other currencies may affect the results of operations and financial position of the Company. The Company does not currently have any foreign currency or commercial risk hedges in place.

The Company raises the majority of its equity financings in Canadian dollars while expenditures related to foreign operations are predominately incurred in US dollars, except local salaries and expenses which are paid in local currency (Turkish New Lira). Fluctuations in the exchange rates between the Canadian dollar, US dollar and Turkish New Lira may impact the Company's financial condition.

(d) Risks Associated with Foreign Operations

The Company's investments in foreign countries such as Turkey carry certain risks associated with different political, business, social and economic environments. The Company is currently evaluating gold and base metal properties in Turkey and elsewhere in the Mediterranean region, but will undertake new investments only when it is satisfied that the risks and uncertainties of operating in different cultural, economic and political environments are manageable and reasonable relative to the expected benefits.

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance and regulatory characteristics of property rights in certain foreign countries.

Future government, political, legal or regulatory changes in the foreign jurisdictions in which the Company currently operates or plans to operate could affect many aspects of the Company's business, including title to properties and assets, environmental protection requirements, labor relations, taxation, currency convertibility, repatriation of profits or capital, the ability to import necessary materials or services, or the ability to export produced materials.

Related Party Transactions

During the year ended December 31, 2008, the Company incurred accounting and management fees (included in professional fees) of \$46,500 (2007 – \$42,000) from a private company controlled by a director; directors' fees (included in compensation) of \$25,250 (2007 – \$18,000); and capitalized professional and administrative services in the amount of \$104,716 (2007 – \$66,892) from a firm of which an officer of a subsidiary was a partner.

As at December 31, 2008, amounts owing to directors and officers, a corporation controlled by a director and a firm of which an officer of a subsidiary was a partner total \$317,944 (2007 – \$331,379).

Financial instruments

The fair values of the Company's cash and cash equivalents, short-term investments and interest receivable, GST and VAT receivable, prepaid expenses and deposits and accounts payables and accrued liabilities approximate their carrying values.

The Company's financial instruments are exposed to credit, liquidity and market risks. Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Liquidity risks is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Market risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

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(a) Currency risk

The Company's property interests in Turkey make it subject to foreign currency fluctuations and inflationary pressures which may adversely affect the Company's financial position, results of operations and cash flows. The Company is affected by changes in exchange rates between the Canadian Dollar and foreign functional currencies. The Company does not invest in foreign currency contracts to mitigate the risks.

(b) Credit risk

The Company's cash and short-term investments are held in large Canadian financial institutions. Short-term investments are composed of financial instruments issued by Canadian banks. These investments mature at various dates over the current operation period. The Company does not have and has never had any asset-backed commercial paper in its short-term investments. The Company's GST and VAT receivables consist primarily of goods and services tax refunds due from the federal government of Canada and value-added tax refunds due from the government of Turkey.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure.

Accounts payable and accrued liabilities are due within the current operating period.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the short-term investments is limited because these investments, although available for sale, are generally held to maturity.

Forward looking statements

Except for statements of historical fact, certain information contained herein constitutes forward-looking statements. Forward looking statements are usually identified by the use of certain terminology, including "will", "believes", "may", "expects", "should", "seeks", "anticipates" or "intends" or by discussions of strategy or intentions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results or achievements to be materially different from any future results or achievements expressed or implied by such forward-looking statements. Forward-looking statements are statements that are not historical facts, and include but are not limited to, estimates and their underlying assumptions; statements regarding plans, objectives and expectations with respect to the effectiveness of the Company's business model; future operations, products and services; the impact of regulatory initiatives on the Company's operations; the size of and opportunities related to the markets for the Company's products; general industry and macroeconomic growth rates; expectations related to possible joint and/or strategic ventures and statements regarding future performance.

Forward-looking statements used in this discussion are subject to various risks and uncertainties, most of which are difficult to predict and generally beyond the control of the Company. If risks or uncertainties materialize, or if underlying assumptions prove incorrect, the Company's actual results may vary materially from those expected, estimated or projected. Forward looking statements in this document are not a prediction of future events or circumstances, and those future events or circumstances may not occur. Given these uncertainties, users of the information included herein, including investors and prospective investors are cautioned not to place undue reliance on such forward-looking statements.

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Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. Management of the Company, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as at December 31, 2008, as required by Canadian securities law. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of December 31, 2008, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws were recorded, processed, summarized and reported within the time period specified by those laws and that material information was accumulated and communicated to management of the Company, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow for accurate disclosure to be made on a timely basis.

Changes in Internal Control over Financial Reporting

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The Chief Executive Officer and Chief Financial Officer have concluded that there has been no change in the Company's internal control over financial reporting during the year ended December 31, 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the mandatory changeover date to International Financial Reporting Standards ("IFRS") for Canadian profit-oriented publicly accountable entities ("PAE's") such as the Company. The AcSB requires that IFRS compliant financial statements be prepared for annual and interim financial statements commencing on or after January 1, 2011. For PAE's with a December 31 year-end, the first unaudited interim financial statements under IFRS will be the quarter ending March 31, 2011, with comparative financial information for the quarter ended March 31, 2010. The first audited annual financial statements will be for the year ending December 31, 2011, with comparative financial information for the year ended December 31, 2010. This also means that all the opening balance sheet adjustments relating to the adoption of IFRS must be reflected in the January 1, 2010 opening balance sheet which will be issued as part of the comparative financial information in the March 31, 2011 unaudited interim financial statements.

The Company intends to adopt these requirements as set out by the AcSB and other regulatory bodies. At this time, the impact of adopting IFRS cannot be reasonably quantified. Nonetheless, the Company has identified several areas relating to IFRS that could materially affect the Company:

(a) Impairment

Upon conversion to IFRS, an assessment of whether there is any impairment to mineral properties will have to be made.

(b) Mineral resources

At present, the issue of capitalizing exploration expenditures under GAAP appears to be acceptable under IFRS.

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(c) Business combinations

The effect of IFRS on the Company's present business combination is minimal because the present business combination involved the creation of a new entity rather than the acquisition of an existing one and therefore there are no fair value differences in net assets.

(d) Joint ventures

The Company is pursuing possible joint ventures and as such, IFRS will be applicable using the equity method of accounting.

(e) Foreign currency

The adoption of IFRS will involve the identification of a functional currency. At present, it appears that the US dollar is the Company's functional currency because any sales prices and costs will be most influenced by the US dollar. If so, the Company must then record all transactions retrospectively in US dollars. An exemption is allowed whereby any cumulative translation differences prior to transition date will be deemed to be zero.

(f) Income taxes

Although there are many areas where GAAP is similar to IFRS, there are differences as well, such as the differentiation between deferred tax assets and deferred tax liabilities; and whether deferred tax is to be charged to the income statement, equity or goodwill.

The majority of the Company's audit committee are accounting professionals and have taken professional development courses relevant to IFRS conversion, and as such, do not need to be convinced or re-educated as to the specifics of IFRS conversion. The Company's staff, in conjunction with its CFO, have adequate resources with which to carry out the conversion, as well as to carry on the day-to-day operations of the Company. The Company's staff is taking professional development courses relating to IFRS conversion.

At present, the Company has no contracts, debt covenants, capital requirements or compensation contracts that may be affected by changes to financial reporting because of IFRS.

The actual conversion work will occur in 2009 and 2010, in anticipation of the preparation of the January 1, 2010 balance sheet that will be required for comparative purposes for all periods ending in 2011.