

Mediterranean Resources Ltd.
Consolidated Financial Statements
Years Ended December 31, 2010 and 2009
(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Mediterranean Resources Ltd.

We have audited the accompanying consolidated financial statements of Mediterranean Resources Ltd. and its subsidiary, which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations and comprehensive loss, cash flows, and shareholders' equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Mediterranean Resources Ltd. and its subsidiary as at December 31, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of matter – going concern

In forming our opinion, which is not qualified, we have considered the adequacy of disclosures made in note 1 to the consolidated financial statements concerning the Company's ability to continue as a going concern. The Company's operations are at an early stage and current cash resources will not be sufficient to develop its exploration projects and bring them into production. The directors have reviewed the Company's cash flow forecast and believe that further equity is now required and additional fund raising will be required in the next 12 months. The directors are taking steps to meet the current funding requirement and they believe that both these funds and additional funds that will be required in the next 12 months will be forthcoming. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. These financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Vancouver, Canada

"Morgan & Company"

March 15, 2011

Chartered Accountants

Mediterranean Resources Ltd.
Consolidated Balance Sheets
As at December 31, 2010 and 2009
(Expressed in Canadian Dollars)

	2010	2009
Assets		
Current assets		
Cash	\$ 117,947	\$ 516,222
Short-term investments (Note 3)	–	1,019,624
HST and VAT receivable (Note 4)	27,070	27,576
Prepaid expenses and deposits	48,338	164,321
	193,355	1,727,743
Mineral properties (Note 5 and Schedule A)	17,529,304	16,033,854
Leasehold improvements and equipment (Note 6)	65,907	88,821
Loans receivable from related parties (Note 7)	–	107,205
	\$ 17,788,566	\$ 17,957,623
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 211,969	\$ 297,156
Due to related parties (Note 10)	54,436	44,354
	266,405	341,510
Shareholders' Equity		
Share capital (Note 8)	19,058,571	18,079,353
Contributed surplus (Note 8)	6,375,292	6,298,514
Deficit	(7,911,702)	(6,761,754)
	17,522,161	17,616,113
	\$ 17,788,566	\$ 17,957,623
Continuing operations (Note 1)		
Commitments (Note 14)		
Subsequent events (Note 15)		

Approved on behalf of the Board of Directors

“John Clarke” Director

“Christopher Ecclestone” Director

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

Mediterranean Resources Ltd.
Consolidated Statements of Operations and Comprehensive Loss
For the years ended December 31, 2010 and 2009
(Expressed in Canadian Dollars)

	<u>2010</u>	<u>2009</u>
Expenses		
Corporate general and administrative (Notes 9 and 10)	\$ 1,092,135	\$ 1,251,016
Other expenses (income)		
Interest income	(3,489)	(37,519)
Foreign exchange loss	16,964	49,231
Licences written off	39,120	-
Loss on disposal of leasehold improvements	5,218	-
	<u>57,813</u>	<u>11,712</u>
Net loss and comprehensive loss for the year	\$ 1,149,948	\$ 1,262,728
Basic and diluted loss per share	\$ 0.01	\$ 0.01
Weighted-average number of shares outstanding	96,042,536	87,219,248

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

Mediterranean Resources Ltd.

Consolidated Statements of Shareholders' Equity

As at December 31, 2010 and for the years ended December 31, 2010 and 2009

(Expressed in Canadian Dollars)

	Number of shares	Share capital	Contributed surplus	Deficit	Total Shareholders' equity
Balance, December 31, 2008	87,219,248	\$ 18,079,353	\$ 6,235,808	\$ (5,499,026)	\$ 18,816,135
Stock-based compensation	–	–	62,706	–	62,706
Net loss	–	–	–	(1,262,728)	(1,262,728)
Balance, December 31, 2009	87,219,248	18,079,353	6,298,514	(6,761,754)	17,616,113
Private placement for cash	14,125,000	1,130,000	–	–	1,130,000
Share issue costs	–	(150,782)	45,399	–	(105,383)
Stock-based compensation	–	–	31,379	–	31,379
Net loss	–	–	–	(1,149,948)	(1,149,948)
Balance, December 31, 2010	101,344,248	\$ 19,058,571	\$ 6,375,292	\$ (7,911,702)	\$ 17,522,161

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, 2010 and 2009
(Expressed in Canadian Dollars)

	<u>2010</u>	<u>2009</u>
Cash provided by (used for):		
Operating activities		
Net loss for the year	\$ (1,149,948)	\$ (1,262,728)
Non-cash items:		
Amortization of leasehold improvements and equipment	11,834	12,909
Accrued interest income	–	(13,399)
Stock-based compensation	31,379	62,706
Licences written off	39,120	–
Foreign exchange loss	16,964	49,231
Loss on disposal of leasehold improvements	5,218	–
Net changes in non-cash operating working capital (Note 12)	<u>147,131</u>	<u>(42,321)</u>
	<u>(898,302)</u>	<u>(1,193,602)</u>
Financing activities		
Proceeds from issuance of shares	1,130,000	–
Share issuance costs	<u>(105,383)</u>	<u>–</u>
	<u>1,024,617</u>	<u>–</u>
Investing activities		
Purchase of short-term investments	(1,514,000)	(3,001,015)
Proceeds from redemptions of short-term investments	2,533,624	5,946,847
Investment in mineral properties	(1,626,249)	(1,520,630)
Acquisition of equipment	(8,342)	(20,350)
Loans receivable from related parties	<u>107,205</u>	<u>(107,205)</u>
	<u>(507,762)</u>	<u>1,297,647</u>
Foreign exchange loss on cash held in foreign currency	<u>(16,828)</u>	<u>(48,517)</u>
(Decrease) increase in cash	<u>(398,275)</u>	<u>55,528</u>
Cash – Beginning of year	<u>516,222</u>	<u>460,694</u>
Cash – End of year	<u>\$ 117,947</u>	<u>\$ 516,222</u>
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

Years Ended December 31, 2010 and 2009

(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” and 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.

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. To date, the Company has not earned significant revenues and is considered to be in the exploration stage. As at December 31, 2010, the Company has an accumulated deficit of \$7,911,702. The Company’s operations are funded from equity financing, which are dependent upon many external factors and may be difficult or impossible to secure or to raise when required. 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.

Subsequent to December 31, 2011, the Company closed a private placement of 15,000,000 units at \$0.10 per unit for gross proceeds of \$1,500,000 as disclosed in Note 15.

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 its wholly owned foreign subsidiary: Akdeniz Resources Madencilik A.S. (Turkey).

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 determination of impairment of long-lived assets ; 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; valuation allowance for future income tax assets; and determining whether contingent assets or 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.

Mediterranean Resources Ltd.

Notes to Consolidated Financial Statements

Years Ended December 31, 2010 and 2009

(Expressed in Canadian Dollars unless otherwise stated)

2 Significant accounting policies (continued)

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 initial maturities within three months held for the purpose of meeting short-term cash commitments rather than for investing or other purposes. As at December 31, 2010 and 2009, 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.

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. Capitalized costs are subject to measurement uncertainty and it is reasonably possible, based on changes in conditions and assumptions that a material change in the recorded amounts could be required.

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.

Mediterranean Resources Ltd.

Notes to Consolidated Financial Statements

Years Ended December 31, 2010 and 2009

(Expressed in Canadian Dollars unless otherwise stated)

2 Significant accounting policies (continued)

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.

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.

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, 2010 and 2009, the Company had no legal obligation for reclamation and remediation costs.

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 as services are received. 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.

Mediterranean Resources Ltd.

Notes to Consolidated Financial Statements

Years Ended December 31, 2010 and 2009

(Expressed in Canadian Dollars unless otherwise stated)

2 Significant accounting policies (continued)

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, 2010 and 2009, and no opening or closing balances for "accumulated other comprehensive income or loss". During the years ended December 31, 2010 and 2009, comprehensive loss was equal to net loss.

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.

Future accounting pronouncements

(a) Consolidated financial statements and non-controlling interests

In January 2009, the CICA issued the new handbook Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests", effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of these recommendations is permitted. These pronouncements further align Canadian GAAP with US GAAP and IFRS. Sections 1601 and 1602 change the accounting and reporting for ownership interest in subsidiaries held by parties other than the parent. Non-controlling interests are to be presented in the consolidated statement of financial position within equity but separate from the parent's equity. The amount of consolidated net income attributable to the parent and to the non-controlling interest is to be clearly identified and presented on the face of the consolidated statement of income. In addition, these pronouncements establish standards for a change in a parent's ownership interest in a subsidiary and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. They also establish reporting requirements for providing sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. The Company is currently considering the impact of adopting these pronouncements on its consolidated financial statements in fiscal 2011 in connection with the conversion to IFRS.

(b) Business combinations

In January 2009, the CICA issued the new handbook Section 1582, "Business Combinations" effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of Section 1582 is permitted. This pronouncement further aligns Canadian GAAP with IFRS and changes the accounting for business combinations in a number of areas. It establishes principles and requirements governing how an acquiring company recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, any non-controlling interest in the acquired company, and goodwill acquired. The section also establishes disclosure requirements that will enable users of the acquiring company's financial statements to evaluate the nature and financial effects of its business combinations. Although the Company is considering the impact of adopting this pronouncement on the consolidated financial statements, it will be limited to any future acquisitions beginning in fiscal 2011.

Mediterranean Resources Ltd.
Notes to Consolidated Financial Statements
Years Ended December 31, 2010 and 2009
(Expressed in Canadian Dollars unless otherwise stated)

2 Significant accounting policies (continued)

Future accounting pronouncements (continued)

(c) Convergence of Canadian GAAP with IFRS

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 and has concluded that the impact on the Company's consolidated financial statements will be relatively immaterial.

3 Short-term investments

At December 31, 2010, the Company had no short-term investments. At December 31, 2009, the Company had short-term investments totalling \$1,019,624 in Guaranteed Investment Certificates ("GIC"), 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 1.49% for the year ended December 31, 2009 and had market value approximating their carrying value. The Company did not have and has never had any short-term investments in asset-backed commercial paper.

4 HST and VAT receivable

The Company had the following receivables as at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
HST receivable (Canada)	\$ 22,761	\$ 10,650
VAT (value added tax) receivable (Turkey)	4,309	16,926
	<u>\$ 27,070</u>	<u>\$ 27,576</u>

5 Mineral properties

The Company had accumulated the following acquisition and exploration expenditures as at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Turkey – Yusufeli properties (Schedule A)		
Acquisition costs	\$ 1,378,515	\$ 1,378,515
Exploration expenditures	16,150,789	14,655,339
Total acquisition costs and exploration expenditures	<u>\$ 17,529,304</u>	<u>\$ 16,033,854</u>

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

Mediterranean Resources Ltd.
Notes to Consolidated Financial Statements
Years Ended December 31, 2010 and 2009
(Expressed in Canadian Dollars unless otherwise stated)

5 Mineral properties (continued)

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.

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 exploration program on its Yusufeli gold properties. The Company was the operator and manager of the exploration programs, while Dama provided certain contract services whereby its technical team was utilized to implement the exploration programs and assist in community relations. An officer of the Company's Turkish subsidiary was a partner of Dama (Note 10). This services agreement was terminated on December 31, 2009.

6 Leasehold improvements and equipment

	<u>2010</u>	<u>2009</u>
Leasehold improvements and equipment, at cost	\$ 168,467	\$ 179,287
Accumulated amortization	<u>(102,560)</u>	<u>(90,466)</u>
	<u>\$ 65,907</u>	<u>\$ 88,821</u>

For the year ended December 31, 2010, amortization in the amount of \$11,834 (2009 – \$12,909) was included in corporate general and administrative expenses under office, insurance and sundry.

7 Loans receivable from related parties

In October 2009, the Company loaned \$107,205 to directors and an officer of the Company to purchase, in October 2009, shares of the Company. The loans were non-interest bearing and repayable within two years. The Company had security interest over the right, title and interest in the shares and any sale proceeds realized from the sale thereof. These loans were paid in full in 2010.

8 Share capital

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

Mediterranean Resources Ltd.
Notes to Consolidated Financial Statements
Years Ended December 31, 2010 and 2009
(Expressed in Canadian Dollars unless otherwise stated)

8 Share capital (continued)

b) Issued

In May 2010, the Company closed a non-brokered private placement of 14,125,000 common shares at \$0.08 per share for gross proceeds of \$1,130,000. Agents received 464,580 warrants, each warrant of which is convertible into one common share at \$0.10 per warrant, expiring in two years. These warrants were ascribed a fair value of \$45,399 based on a risk-free interest rate of 1.26%, expected life of two years, expected volatility of 254% and dividend yield rate of nil. In addition to the warrants, cash commissions of \$58,166 and administration and other fees of \$47,217 were paid. A total of 382,000 common shares from the private placement were purchased by a private company controlled by a former director of the Company.

c) Warrants

At December 31, 2010, 464,580 warrants (2009 – Nil) were outstanding for the purchase of shares at \$0.10 per warrant, expiring in May 2012. Warrants granted and expired during the years ended December 31, 2010 and 2009, and outstanding as at December 31, 2010 and 2009 were as follows:

	Number of Warrants	Exercise Price	Weighted Average Exercise Price	Expiry Date
Balance, December 31, 2008	22,204,016	\$ 0.38 – 0.50	\$ 0.47	2009
Expired	(22,204,016)	\$ 0.38 – 0.50	\$ 0.47	2009
Balance, December 31, 2009	–	\$ Nil	\$ Nil	
Granted (private placement)	464,580	\$ 0.10	\$ 0.10	2012
Balance, December 31, 2010	464,580	\$ 0.10	\$ 0.10	2012

352,080 warrants outstanding at December 31, 2010 were exercised in March 2011 for proceeds of \$35,208.

Mediterranean Resources Ltd.
Notes to Consolidated Financial Statements
Years Ended December 31, 2010 and 2009
(Expressed in Canadian Dollars unless otherwise stated)

8 Share capital (continued)

d) Options

At December 31, 2010, 6,300,000 options (2009 – 6,080,000) were outstanding for the purchase of shares at prices ranging from \$0.13 to \$0.47 per share (2009 – \$0.20 to \$0.47). Options entitled the holder to acquire one share for each option. Options granted, expired and cancelled during the years ended December 31, 2010 and 2009, and outstanding as at December 31, 2010 and 2009 were as follows:

	Number of Options	Exercise Price	Weighted average exercise price	Expiry Date
Balance – December 31, 2008	11,531,031	\$ 0.20 – 0.65	\$ 0.34	2009 – 2013
Agents' options expired	(3,191,031)	\$ 0.30 – 0.38	\$ 0.36	2009
Consultant's options expired	(150,000)	\$ 0.65	\$ 0.65	2009
Employees' options cancelled	(2,110,000)	\$ 0.20 – 0.47	\$ 0.34	2011–2013
Balance – December 31, 2009	6,080,000	\$ 0.20 – 0.47	\$ 0.33	2011 – 2013
Consultant's options granted	300,000	\$ 0.13	\$ 0.13	2015
Employee's options cancelled	(80,000)	\$ 0.20	\$ 0.20	2013
Balance – December 31, 2010	6,300,000	\$ 0.13 – 0.47	\$ 0.32	2011 – 2015

Options outstanding as at December 31, 2010 were as follows:

Number of Options	Exercise Price	Number of options exercisable	Expiry Date
***400,000	\$ 0.30	400,000	February 27, 2011
30,000	\$ 0.38	30,000	May 9, 2011
610,000	\$ 0.47	610,000	June 6, 2011
1,950,000	\$ 0.30	1,950,000	December 14, 2011
200,000	\$ 0.30	200,000	January 24, 2012
1,930,000	\$ 0.38	1,930,000	July 6, 2012
*680,000	\$ 0.20	680,000	June 20, 2013
200,000	\$ 0.20	200,000	July 4, 2013
**300,000	\$ 0.13	225,000	January 18, 2015
6,300,000		6,225,000	

* 200,000 of these 680,000 options were subsequently cancelled in January 2011.

** These 300,000 options were subsequently cancelled in January 2011.

*** These 400,000 options subsequently expired in February 2011 without being exercised.

As at December 31, 2010, the weighted average remaining contractual life of the options was 1.29 years (2009 – 2.25 years) and the weighted average exercise price was \$0.32 (2009 – \$0.33).

Mediterranean Resources Ltd.
Notes to Consolidated Financial Statements
Years Ended December 31, 2010 and 2009
(Expressed in Canadian Dollars unless otherwise stated)

8 Share capital (continued)

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 with the stock option plan and any regulatory requirements.

Date of Grant	Stock Options Granted during Year	Stock Options Vested to date	Fair Value of Options	Stock-based Compensation for the year ended December 31, 2010	Stock-based Compensation for the year ended December 31, 2009
2008	1,260,000	1,260,000	\$ 177,305	\$ –	\$ 62,706
2010	300,000	225,000	\$ 32,479	31,379	–
				\$ 31,379	\$ 62,706

During the year ended December 31, 2010, 300,000 options (2009 – Nil) were granted to a consultant. These options were ascribed a total fair value of \$32,479 based on a risk-free interest rate of 1.31%, expected life of five years, expected volatility of 263% and a dividend yield rate of nil, of which \$31,379 was recognized as stock-based compensation for the year ended December 31, 2010 (2009 – \$62,706). These options vested 25% at date of grant and 25% every four months thereafter until January 2011.

9 Corporate general and administrative expenses

Corporate general and administrative expenses for the years ended December 31, 2010 and 2009 were as follows:

	2010	2009
Compensation**	\$ 584,583	\$ 666,504
Communications	97,663	42,975
Consulting	33,352	63,944
Office, insurance and sundry	119,203	152,870
Professional fees	99,146	164,113
Rent	76,466	67,569
Regulatory and transfer agent fees	34,527	33,252
Travel	50,795	63,389
less: recovery of expenses	(3,600)	(3,600)
	\$ 1,092,135	\$ 1,251,016

** Included in compensation expense was stock-based compensation in the amount of \$31,379 for the year ended December 31, 2010 (2009 – \$62,706).

Mediterranean Resources Ltd.
Notes to Consolidated Financial Statements
Years Ended December 31, 2010 and 2009
(Expressed in Canadian Dollars unless otherwise stated)

10 Due to related parties and 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, 2010, the Company incurred accounting and management fees (included in professional fees) of \$48,000 (2009 – \$48,000) from a private company related by an officer in common; directors' fees (included in compensation) of \$17,250 (2009 – \$27,000); rental income (included as recovery of expenses) of \$3,600 (2009 – \$3,600) from a party related to the President and CEO of the Company; and capitalized to mineral properties professional fees of \$16,682 and rental fees of \$1,798 from a Turkish firm related by a common director, and professional and administrative services of \$14,419 (2009 – \$64,624) from a firm of which a former officer of a subsidiary was a partner. In 2010, the former director of the subsidiary of the Company earned \$6,000 (2009 – Nil) in consulting fees (capitalized and included in exploration expenditures) relating to arranging and participating in business negotiations in Turkey.

As at December 31, 2010, amounts owing to directors and officers, a private company related by an officer in common, and a firm of which a former officer of a subsidiary was a partner of \$54,436 (2009 – \$44,354).

Other related party transactions have been disclosed in Notes 5, 7 and 8.

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:

	2010	2009
Statutory tax rate	29%	30%
Computed tax recovery	\$ 328,000	\$ 379,000
Non-deductible items	(13,000)	(23,000)
Impact of change in tax rates	(1,289,000)	(712,000)
Current year valuation allowance	974,000	356,000
	\$ –	\$ –

- b) Significant components of the Company's future income tax assets at December 31, 2010 and 2009 were as follows:

	2010	2009
Non-capital losses	\$ 3,162,000	\$ 2,818,000
Capital losses	17,736,000	17,815,000
Tax value of capital assets in excess of accounting values	373,000	573,000
Other differences	51,000	53,000
	21,322,000	21,259,000
Valuation allowance	(21,322,000)	(21,259,000)
	\$ –	\$ –

Mediterranean Resources Ltd.
Notes to Consolidated Financial Statements
Years Ended December 31, 2010 and 2009
(Expressed in Canadian Dollars unless otherwise stated)

11 Income taxes (continued)

- c) The Company has Canadian capital losses of approximately \$141,892,000 (2009 – \$137,035,000) with no expiry and non-capital losses of approximately \$12,739,000 (2009 – \$14,265,000) with expiry dates as follows:

CANADA		TURKEY	
<u>Expiry date</u>	<u>Amount</u>	<u>Expiry date</u>	<u>Amount</u>
2011	\$2,599,000	2011	\$ 28,000
2014	1,962,000	2014	17,000
2015	1,204,000	2015	175,000
2026	872,000	2016	232,000
2027	1,525,000		
2028	1,090,000		\$ 452,000
2029	1,544,000		
2030	1,491,000		
	<u>\$ 12,287,000</u>		

12 Supplemental cash flow information

- a) Net changes in non-cash operating working capital during the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
HST receivable	\$ (12,111)	\$ 2,246
Prepaid expenses and deposits	115,983	(40,610)
Accounts payable and accrued liabilities	33,177	269,633
Due to related parties	10,082	(273,590)
	<u>\$ 147,131</u>	<u>\$ (42,321)</u>

- b) Other cash flow disclosure during the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Interest received in cash	\$ 16,888	\$ 24,120
Income taxes paid in cash	-	-

- c) Non-cash financing and investing activities during the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
VAT receivable	\$ 12,617	\$ 259,002
Prepaid expenses and deposits	\$ -	\$ 34,311
Accounts payable	\$ 118,500	\$ (270,686)

Mediterranean Resources Ltd.
Notes to Consolidated Financial Statements
Years Ended December 31, 2010 and 2009
(Expressed in Canadian Dollars unless otherwise stated)

13 Segmented financial information

As at December 31, 2010 and 2009, the Company operated in one reportable operating segment, being the exploration of base and precious metals. The net losses for the years were attributed to Canada. Geographical information was as follows:

	Canada	Turkey	December 31, 2010 Consolidated
Current assets	\$ 157,756	\$ 35,599	\$ 193,355
Mineral properties	–	17,529,304	17,529,304
Leasehold improvements and equipment	41,413	24,494	65,907
	\$ 199,169	\$ 17,589,397	\$ 17,788,566

	Canada	Turkey	December 31, 2009 Consolidated
Current assets	\$ 1,677,410	\$ 50,333	\$ 1,727,743
Mineral properties	–	16,033,854	16,033,854
Leasehold improvements and equipment	51,620	37,201	88,821
Loans receivable from related parties	107,205	–	107,205
	\$ 1,836,235	\$ 16,121,388	\$ 17,957,623

14 Commitments

As at December 31, 2010, the Company was committed to future minimum office rental payments totalling \$212,869 (2011 – \$47,205; 2012 – \$48,096; 2013 – \$49,877; 2014 – \$50,768; and 2015 – \$16,923).

15 Subsequent events

- (a) Effective March 15, 2011, the President of the Company was terminated. The financial effect of this event is not determinable at this time.
- (b) At the request of a shareholder group, a special meeting of the shareholders has been scheduled for May 20, 2011.
- (c) In January 2011, the Company granted a total of 400,000 options to a new director. These options are exercisable at \$0.11 for a period of five years with 25% of the options vested on the grant date, with the remaining options vesting at 25% for every 4-month period thereafter.
- (d) In February 2011, the Company granted a total of 200,000 options to a new director. These options are exercisable at \$0.16 for a period of five years with 25% of the options vested on the grant date, with the remaining options vesting at 25% for every 4-month period thereafter.
- (e) In February 2011, the Company closed a private placement of 15,000,000 units at \$0.10 per unit for gross proceeds of \$1,500,000. Each unit consisted of one common share and one-half of one warrant, each whole warrant of which is exercisable at \$0.14 per share for a period of twelve months. \$105,000 in cash was paid and 1,050,000 finder's warrants were issued as commissions for this placement. These finder's warrants are exercisable at \$0.14 per share for a period of twelve months.

The options granted in January and February 2011 as noted in clauses (c) and (d) above, are subject to shareholder approval of the related stock option plan at the Company's 2011 annual general meeting.

Mediterranean Resources Ltd.

Notes to Consolidated Financial Statements

Years Ended December 31, 2010 and 2009

(Expressed in Canadian Dollars unless otherwise stated)

16 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.

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 risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Market risk is the risk 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 accounts payables and accrued liabilities approximate their carrying values.

The Company has classified its financial instruments as follows:

Cash	Held-for-trading
Liabilities	Other financial liabilities

(a) Credit risk

The Company's cash is held in large Canadian financial institutions. The Company does not have and has never had any asset-backed commercial paper in its short-term investments.

(b) 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.

(c) 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.

The Company holds most of its funds in Canadian dollars and funds the majority of its Turkish lira exploration expenditures in US dollars. A one-cent change in the Canadian dollar would affect the Company's exploration expenditures equal to \$10,000 based on a \$1 million program.

Mediterranean Resources Ltd.
Notes to Consolidated Financial Statements
Years Ended December 31, 2010 and 2009
(Expressed in Canadian Dollars unless otherwise stated)

16 Financial instruments and risk management (continued)

(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.

Under CICA Handbook Section 3862 – “Financial Instruments – Disclosure”, the Company is required to classify fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The accounting standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. CICA Handbook Section 3862 prioritizes the inputs into three levels that may be used to measure fair value:

- (i) Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- (ii) Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included in Level I that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.
- (iii) Level 3 – Applies to assets or liabilities for which there are unobservable market data.

The Company’s financial instruments consist principally of cash, accounts payable and accrued liabilities and due to related parties. Pursuant to CICA Handbook 3862, fair value of assets and liabilities measured on a recurring basis include cash determined based on Level 1 inputs, which consist of quoted prices in active markets for identical assets. The Company believes that the recorded values of all of the other financial instruments approximate their current fair values because of their nature and respective maturity dates or durations.

17 Management of capital risk

The Company manages its cash, common shares, stock options and warrants as capital (see Note 8). 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.

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.

Schedule of Mineral Properties – Capitalized Costs

Years Ended December 31, 2010 and 2009

(Expressed in Canadian Dollars)

Yusufeli properties, Turkey

	Balance, December 31, 2008	Costs for the year	Balance, December 31, 2009	Costs for the year	Balance, December 31, 2010
Acquisition costs	\$ 1,378,515	\$ –	\$ 1,378,515	\$ –	\$ 1,378,515
Exploration costs					
Assaying and sampling	1,738,057	86,643	1,824,700	24,498	1,849,198
Drilling	5,153,989	11,418	5,165,407	153,296	5,318,703
Environmental baseline studies	237,962	74,674	312,636	28,091	340,727
Field costs	1,125,241	42,685	1,167,926	59,670	1,227,596
Geological consulting	2,353,289	680,739	3,034,028	483,165	3,517,193
Geophysics	84,066	–	84,066	–	84,066
Licences, permits and fees	352,678	143,134	495,812	138,304	634,116
Metallurgy	140,324	66,288	206,612	185,768	392,380
Office and administrative	1,254,884	190,133	1,445,017	239,647	1,684,664
Project supervision	192,026	78,180	270,206	78,180	348,386
Road construction	188,893	26,287	215,180	22,611	237,791
Transportation and travel	293,904	139,845	433,749	121,340	555,089
	13,115,313	1,540,026	14,655,339	1,534,570	16,189,909
	14,493,828	1,540,026	16,033,854	1,534,570	17,568,424
Licences written off	–	–	–	(39,120)	(39,120)
Total Expenditures	\$ 14,493,828	\$ 1,540,026	\$ 16,033,854	\$ 1,495,450	\$ 17,529,304