

**Mediterranean Resources Ltd.**  
**Consolidated Financial Statements**  
**September 30, 2010 (Unaudited) and December 31, 2009**  
**(Expressed in Canadian Dollars)**

## NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**Mediterranean Resources Ltd.**  
**Consolidated Balance Sheets**  
**As at September 30, 2010 and December 31, 2009**  
**(Expressed in Canadian Dollars)**

	September 30, 2010	December 31, 2009
	(Unaudited)	
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 89,893	\$ 516,222
Short-term investments (Note 3)	222,514	1,019,624
HST and VAT receivable (Note 4)	77,413	27,576
Prepaid expenses and deposits	240,611	164,321
	<b>630,431</b>	1,727,743
<b>Mineral properties</b> (Note 5 and Schedule A)	<b>17,256,967</b>	16,033,854
<b>Leasehold improvements and equipment</b> (Note 6)	<b>82,745</b>	88,821
<b>Loans receivable from related parties</b> (Note 7)	<b>27,610</b>	107,205
	<b>\$ 17,997,753</b>	\$ 17,957,623
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 118,048	\$ 297,156
Due to related parties (Note 10)	37,303	44,354
	<b>155,351</b>	341,510
<b>Shareholders' Equity</b>		
<b>Share capital</b> (Note 8)	<b>19,058,571</b>	18,079,353
<b>Contributed surplus</b> (Note 8)	<b>6,368,937</b>	6,298,514
<b>Deficit</b>	<b>(7,585,106)</b>	(6,761,754)
	<b>17,842,402</b>	17,616,113
	<b>\$ 17,997,753</b>	\$ 17,957,623
<b>Continuing operations</b> (Note 1)		
<b>Commitments</b> (Note 13)		

Approved on behalf of the Board of Directors

“Peter Guest” Director

“Bryan Morris” 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 three months and nine months ended September 30, 2010 and 2009**  
**(Expressed in Canadian Dollars)**

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	Three months ended September 30		Nine months ended September 30	
	<b>2010</b>	2009	<b>2010</b>	2009
	<b>(Unaudited)</b>	(Unaudited)	<b>(Unaudited)</b>	(Unaudited)
<b>Expenses</b>				
Corporate general and administrative (Notes 9 and 10)	<b>\$ 248,477</b>	\$ 308,872	<b>\$ 805,568</b>	\$ 933,197
<b>Other expenses (income)</b>				
Interest income	<b>(929)</b>	(7,667)	<b>(3,210)</b>	(32,896)
Foreign exchange loss (income)	<b>(10,237)</b>	17,179	<b>(1,468)</b>	41,431
Loss on disposal of equipment	-	-	<b>5,218</b>	-
Write-off of license	-	-	<b>17,244</b>	-
	<b>(11,166)</b>	9,512	<b>17,784</b>	8,535
<b>Net loss and comprehensive loss for the period</b>	<b>\$ 237,311</b>	\$ 318,384	<b>\$ 823,352</b>	\$ 941,732
<b>Basic and diluted loss per share</b>	<b>\$0.00</b>	\$0.00	<b>\$ 0.01</b>	\$ 0.01
<b>Weighted-average number of shares outstanding</b>	<b>101,344,248</b>	87,219,248	<b>94,255,878</b>	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 September 30, 2010 and year ended December 31, 2009**  
**(Expressed in Canadian Dollars)**

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	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	–	–	25,024	–	25,024
Net loss	–	–	–	(823,352)	(823,352)
Balance, September 30, 2010 (Unaudited)	<b>101,344,248</b>	<b>\$ 19,058,571</b>	<b>\$ 6,368,937</b>	<b>\$ (7,585,106)</b>	<b>\$ 17,842,402</b>

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

**Mediterranean Resources Ltd.**  
**Consolidated Statements of Cash Flows**  
**For the three months and nine months ended September 30, 2010 and 2009**  
**(Expressed in Canadian Dollars)**

	Three months ended September 30		Nine months ended September 30	
	<b>2010</b> <b>(Unaudited)</b>	2009 (Unaudited)	<b>2010</b> <b>(Unaudited)</b>	2009 (Unaudited)
<b>Cash provided by (used for):</b>				
<b>Operating activities</b>				
Net loss for the period	\$ (237,311)	\$ (318,384)	\$ (823,352)	\$ (941,732)
Non-cash items:				
Amortization of leasehold improvements and equipment	2,564	3,139	9,267	9,116
Accrued interest income	(929)	(3,851)	(2,552)	(19,364)
Stock-based compensation	7,455	–	25,024	62,706
Foreign exchange loss	(10,237)	17,179	(1,468)	41,431
Loss on disposal of equipment	–	–	5,218	–
Mineral property written off	–	–	17,244	–
Net changes in non-cash operating working capital (Note 11)	(28,142)	(108,838)	(156,014)	(433,725)
	<b>(266,600)</b>	<b>(410,755)</b>	<b>(926,633)</b>	<b>(1,281,568)</b>
<b>Financing activities</b>				
Proceeds from issuance of shares	–	–	1,130,000	–
Share issuance costs	–	–	(105,383)	–
	<b>–</b>	<b>–</b>	<b>1,024,617</b>	<b>–</b>
<b>Investing activities</b>				
Purchase of short-term investments	–	–	(1,514,000)	(3,001,015)
Proceeds from redemptions of short-term investments	500,120	500,000	2,313,662	4,946,772
Investment in mineral properties	(349,716)	(222,160)	(1,396,608)	(864,872)
Acquisition of equipment	(200)	(4,181)	(8,409)	(4,502)
Loan receivable from related parties	27,625	–	79,595	–
	<b>177,829</b>	<b>273,659</b>	<b>(525,760)</b>	<b>1,076,383</b>
<b>Foreign exchange (loss) on cash held in foreign currency</b>	<b>10,246</b>	<b>(17,176)</b>	<b>1,447</b>	<b>(40,686)</b>
<b>Increase/Decrease in cash</b>	<b>(78,525)</b>	<b>(154,272)</b>	<b>(426,329)</b>	<b>(245,871)</b>
<b>Cash – Beginning of period</b>	<b>168,418</b>	<b>369,095</b>	<b>516,222</b>	<b>460,694</b>
<b>Cash – End of period</b>	<b>\$ 89,893</b>	<b>\$ 214,823</b>	<b>\$ 89,893</b>	<b>\$ 214,823</b>

Supplemental cash flow information (Note 11)

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

# **Mediterranean Resources Ltd.**

## **Notes to Consolidated Financial Statements**

**September 30, 2010 (unaudited) and December 31, 2009**  
**(Expressed in Canadian Dollars unless otherwise stated)**

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### **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 September 30, 2010, the Company has an accumulated deficit of \$7,585,106. 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.

### **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:

#### **Interim Financial Statements**

The Company’s standards of financial disclosure in these interim consolidated financial statements are in accordance with the recommendations in the Canadian Institute of Chartered Accountants (“CICA”) standard on Interim Financial Statements. Certain note disclosures do not fully conform to Canadian GAAP disclosure requirements for annual financial statements, and these interim financial statements should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2009.

#### **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.
- Bermuda – Mediterranean Minerals (Holding) Ltd. and Mediterranean Minerals (Bermuda) Ltd. (to December 31, 2008). Both of the Company’s Bermuda subsidiaries were inactive in the years ended December 31, 2009 and 2008 and were dissolved in April 2009.

# **Mediterranean Resources Ltd.**

## **Notes to Consolidated Financial Statements**

**September 30, 2010 (unaudited) and December 31, 2009**  
**(Expressed in Canadian Dollars unless otherwise stated)**

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### **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; 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.

#### **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 September 30, 2010 and December 31, 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.

# **Mediterranean Resources Ltd.**

## **Notes to Consolidated Financial Statements**

**September 30, 2010 (unaudited) and December 31, 2009**  
**(Expressed in Canadian Dollars unless otherwise stated)**

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### **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. 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.

#### **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.

# **Mediterranean Resources Ltd.**

## **Notes to Consolidated Financial Statements**

**September 30, 2010 (unaudited) and December 31, 2009**  
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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 September 30, 2010 and December 31, 2009, the Company had no legal obligation for reclamation and remediation costs.

#### **Equity instruments**

Non-monetary consideration - Agent's warrants, stock 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 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.

#### **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 nine months ended September 30, 2010 and 2009, and no opening or closing balances for "accumulated other comprehensive income or loss". During the nine months ended September 30, 2010 and 2009, comprehensive loss was equal to net loss.

# **Mediterranean Resources Ltd.**

## **Notes to Consolidated Financial Statements**

### **September 30, 2010 (unaudited) and December 31, 2009**

**(Expressed in Canadian Dollars unless otherwise stated)**

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## **2 Significant accounting policies (continued)**

### **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 US GAAP and 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 acquire, 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.

#### **(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 an 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 is relatively immaterial.

**Mediterranean Resources Ltd.**  
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**(Expressed in Canadian Dollars unless otherwise stated)**

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**3 Short-term investments**

At September 30, 2010, short-term investments comprised Guaranteed Investment Certificates (“GIC”) in the amount of \$222,514 (December 31, 2009 – \$1,019,624), 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 0.75% for the nine months ended September 30, 2010 (year ended December 31, 2009 – 1.49%). The market value of short-term investments held as at September 30, 2010 and December 31, 2009 approximated 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:

	<b>September 30, 2010</b>	December 31, 2009
	<b>(Unaudited)</b>	
HST receivable (Canada)	\$ 28,842	\$ 10,650
VAT (value added tax) receivable (Turkey)	48,571	16,926
	<b>\$ 77,413</b>	<b>\$ 27,576</b>

**5 Mineral properties**

The Company had accumulated the following acquisition and exploration expenditures:

	<b>September 30, 2010</b>	December 31, 2009
	<b>(Unaudited)</b>	
Turkey – Yusufeli properties (Schedule A)		
Acquisition costs	\$ 1,378,515	\$ 1,378,515
Exploration expenditures	15,878,452	14,655,339
Total acquisition costs and exploration expenditures	<b>\$ 17,256,967</b>	<b>\$ 16,033,854</b>

The Company’s Yusufeli properties are located in the province of Artvin, Turkey. These properties, which include the Taç, Çorak, Çeltik 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 Madençilik 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

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**5 Mineral properties (continued)**

- (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 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. This services agreement terminated on December 31, 2009.

On September 29, 2010, the Company announced that it signed a Memorandum of Understanding (“MOU”) with a major Turkish mining company for the advancement and sale of its Yusufeli properties, including obtaining the necessary governmental approvals through environmental impact assessments and beginning the implementation of mining infrastructure, for a combination of cash to be paid over time, and a retained royalty interest. The MOU is subject to approval by the Turkish company’s board of directors. Following formal execution of the MOU, the parties will move forward to negotiate a definitive agreement, which will be subject to both TSX and shareholder approval.

**6 Leasehold improvements and equipment**

	<b>September 30, 2010</b>	December 31, 2009
	<b>(Unaudited)</b>	
Leasehold improvements and equipment, at cost	<b>\$ 168,467</b>	\$ 179,287
Accumulated amortization	<b>(85,722)</b>	(90,466)
	<b>\$ 82,745</b>	\$ 88,821

For the nine months ended September 30, 2010, amortization in the amount of \$9,267 (Nine months ended September 30, 2009 – \$9,116) 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 two directors, one of whom is also an officer of the Company, to purchase shares of the Company. During the nine months ended September 30, 2010, the two directors of the Company repaid \$79,595 of the loan. As of September 30, 2010, the balance on the loan owing from the two directors was \$27,610. The loans are non-interest bearing and repayable within two years. The Company has security interest over the right, title and interest in the shares and any sale proceeds realized from the sale thereof.

**8 Share capital**

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

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**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. Clarus Securities Inc. and Loeb Aron & Company Ltd. received 112,500 and 352,080 finders' warrants respectively. Each finder's warrant is convertible into one common share for a period of two years at \$0.10 per warrant. The finders' warrants were ascribed a fair value of \$45,399 based on risk free interest rate of 1.26% an expected life of two years, an expected volatility of 254.47% and a dividend yield rate of nil. The Company also paid cash commission of \$91,166 and administration fees of \$14,217.

A total of 382,000 common shares from the private placement were subscribed by a private company controlled by a director and officer of the Company.

c) Warrants

At September 30, 2010, 464,580 finders' warrants were outstanding for the purchase of shares at a price of \$0.10 per warrant. (December 31, 2009, there were no warrants outstanding for the purchase of shares.) Warrants outstanding as at September 30, 2010 and December 31, 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	-	\$ 0.00	\$ 0.00	
Granted (private placements)	464,580	\$ 0.10	\$ 0.10	2012
<b>Balance September 30, 2010 (Unaudited)</b>	<b>464,580</b>	<b>\$ 0.10</b>	<b>\$ 0.10</b>	

d) Options

At September 30, 2010, 6,300,000 options (December 31, 2009 – 6,080,000) were outstanding for the purchase of shares at prices ranging from \$0.13 to \$0.47 per share (December 31, 2009 – \$0.20 to \$0.47). Options entitled the holder to acquire one share for each option. Options granted, exercised, expired and cancelled during the nine months ended September 30, 2010 and year ended December 31, 2009, and outstanding as at September 30, 2010 were as follows:

**Mediterranean Resources Ltd.**  
**Notes to Consolidated Financial Statements**  
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**(Expressed in Canadian Dollars unless otherwise stated)**

**8 Share capital (continued)**

d) Options (continued)

	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
Agents' 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 options granted	300,000	\$ 0.13	\$ 0.13	2015
Employee options cancelled	(80,000)	\$ 0.20	\$ 0.20	2013
<b>Balance – September 30, 2010 (Unaudited)</b>	<b>6,300,000</b>	<b>\$ 0.13 – 0.47</b>	<b>\$ 0.32</b>	<b>2011 – 2015</b>

Options outstanding as at September 30, 2010 (Unaudited) 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
<b>6,300,000</b>		<b>6,225,000</b>	

As at September 30, 2010, the weighted average remaining contractual life of the options was 1.54 years (December 31, 2009 – 2.25 years) and the weighted average exercise price was \$0.32 (December 31, 2009 – \$0.33).

**8 Share capital (continued)**

**Mediterranean Resources Ltd.**  
**Notes to Consolidated Financial Statements**  
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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 nine months ended September 30, 2010 (Unaudited)	Stock-based Compensation for the year ended December 31, 2009
2009	0	0	\$ 62,706	\$ –	\$ 62,706
2010	300,000	225,000	\$ 32,479	<b>25,024</b>	–
				<b>\$ 25,024</b>	\$ 62,706

During the nine months ended September 30, 2010, 300,000 options (year ended December 31, 2009 – Nil options) 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%, an expected life of five years, expected volatility of 263% and a dividend yield of nil, of which \$25,024 was recognized as stock-based compensation for the current period.

The 1,260,000 options granted during the year ended December 31, 2008 were ascribed a total fair value of \$177,305 based on a risk-free interest rate of 3.75%, an expected life of five years, an expected volatility of 169% and a dividend yield rate of nil, of which \$62,706 was recognized as stock-based compensation for the year ended December 31, 2009.

**9 Corporate general and administrative expenses**

Corporate general and administrative expenses for the nine months ended September 30, 2010 and 2009 were as follows:

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
			(Unaudited)	(Unaudited)
Compensation**	\$ 134,507	\$ 147,725	\$ 430,141	\$515,781
Communications	20,389	8,969	79,787	34,642
Consulting	10,102	39,956	25,852	55,024
Office, insurance and sundry	27,038	41,948	98,837	116,124
Professional fees	28,627	25,888	44,636	94,114
Rent	20,639	16,890	55,828	50,680
Regulatory and transfer agent fees	7,141	1,803	32,887	29,793
Travel	934	26,593	40,300	39,739
less: recovery of expenses	(900)	(900)	(2,700)	(2,700)
	<b>\$ 248,477</b>	<b>\$ 308,872</b>	<b>\$ 805,568</b>	<b>\$ 933,197</b>

**9 Corporate general and administrative expenses (continued)**

**Mediterranean Resources Ltd.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2010 (unaudited) and December 31, 2009**  
**(Expressed in Canadian Dollars unless otherwise stated)**

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\*\* Included in compensation expense was stock-based compensation in the amount of \$25,024 for the nine months ended September 30, 2010 (2009 – \$62,706).

**10 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 nine months ended September 30, 2010, the Company incurred accounting and management fees (included in professional fees) of \$36,000 (2009 – \$36,000) from a private company related by an officer in common; directors' fees (included in compensation) of \$12,750 (2009 – \$22,500); rental income (included as recovery of expenses) of \$2,700 (2009 – \$2,700) from a party related to the President and CEO of the Company.

As of September 30, 2010, \$4,480 was owed to a private company related by an officer in common and \$32,823 owed to an officer of the Company.

Other related party transactions have been disclosed in Notes 7, 8(e) and 9.

**11 Supplemental cash flow information**

a) Net changes in non-cash operating working capital during the nine months ended September 30, 2010 and 2009

	Three Months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010 (Unaudited)	September 30, 2009 (Unaudited)
HST receivable	\$ (14,138)	\$ 1,739	\$ (18,192)	\$ 392
Prepaid expenses and deposits	(30,513)	(16,911)	(76,290)	27,920
Accounts payable and accrued liabilities	(15,873)	(90,878)	(54,481)	(220,118)
Due to related parties	32,382	(2,788)	(7,051)	(241,919)
	<u>\$ (28,142)</u>	<u>\$ (108,838)</u>	<u>\$ (156,014)</u>	<u>\$ (433,725)</u>

b) Other cash flow disclosure during the nine months ended September 30, 2010 and 2009

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010 (Unaudited)	September 30, 2009 (Unaudited)
Interest received in cash	<u>\$ 929</u>	<u>\$ 3,851</u>	<u>\$ 2,552</u>	<u>\$ 19,364</u>

**11 Supplemental cash flow information (continued)**

**Mediterranean Resources Ltd.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2010 (unaudited) and December 31, 2009**  
**(Expressed in Canadian Dollars unless otherwise stated)**

c) Non-cash financing and investing activities during the nine months ended September 30, 2010 and 2009

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010 (Unaudited)	September 30, 2009 (Unaudited)
Prepaid expenses and deposits				\$ 40,326
VAT receivable	\$ (4,871)	\$ 1,379	\$ (31,645)	\$ 110,180
Accounts payable	\$ (14,949)	\$ 98,930	\$ 124,606	\$ 98,930

**12 Segmented financial information**

As at September 30, 2010 and December 31, 2009, the Company operated in one reportable operating segment, being the exploration of base and precious metals. The net losses for the periods were attributed to Canada. Geographical information was as follows:

	Canada	Turkey	September 30, 2010 Consolidated (Unaudited)
Current assets	\$ 469,221	\$ 161,210	\$ 630,431
Mineral properties	–	17,256,967	17,256,967
Leasehold improvements and equipment	43,980	38,765	82,745
Loans receivable from related parties	27,610	–	27,610
	<b>\$ 540,811</b>	<b>\$ 17,456,942</b>	<b>\$ 17,997,753</b>

	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
	<b>\$ 1,836,235</b>	<b>\$ 16,121,388</b>	<b>\$ 17,957,623</b>

**13 Commitments**

As at September 30, 2010, the Company was committed to future consulting expenses of \$70,000 in 2010 and future minimum office rental payments as follows:

2010	\$ 11,356
2011	47,205
2012	48,096
2013	16,032
	<u>\$ 122,689</u>

**14 Financial instruments and risk management**

# **Mediterranean Resources Ltd.**

## **Notes to Consolidated Financial Statements**

**September 30, 2010 (unaudited) and December 31, 2009**  
**(Expressed in Canadian Dollars unless otherwise stated)**

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

(a) 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 HST 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.

(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

### **14 Financial instruments and risk management (continued)**

# **Mediterranean Resources Ltd.**

## **Notes to Consolidated Financial Statements**

### **September 30, 2010 (unaudited) and December 31, 2009**

**(Expressed in Canadian Dollars unless otherwise stated)**

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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 has the majority of its exploration expenditures in US dollars or Turkish lira. 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.

(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.

The Company's funds are held primarily in GIC's, the rates for which are fixed for a period not exceeding twelve months. A one-percent change in the interest rate for these instruments would affect the Company by an annualized amount of interest equal to approximately \$30,000.

(d) Interest rate risk (continued)

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 1 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, short-term investments, 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 and short-term investments 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.

## **15 Management of capital risk**

**Mediterranean Resources Ltd.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2010 (unaudited) and December 31, 2009**  
**(Expressed in Canadian Dollars unless otherwise stated)**

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The Company manages its cash and short-term investments, 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 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**  
**September 30, 2010 (Unaudited) and December 31, 2009**  
**(Expressed in Canadian Dollars)**

Schedule A

Yusufeli properties, Turkey

	Balance, December 31, 2008	Costs for the year	Balance, December 31, 2009	Costs for nine month period ended September 30, 2010  (Unaudited)	Balance, September 30, 2010  (Unaudited)
Acquisition costs	\$ 1,378,515	\$ –	\$ 1,378,515	\$ –	\$ 1,378,515
Exploration costs					
Assaying and sampling	1,738,057	86,643	1,824,700	24,489	1,849,189
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	51,896	1,219,822
Geological consulting	2,353,289	680,739	3,034,028	396,100	3,430,128
Geophysics	84,066	–	84,066	–	84,066
Licences, permits and fees	352,678	143,134	495,812	45,830	541,642
Metallurgy	140,324	66,288	206,612	163,920	370,532
Office and administrative	1,254,884	190,133	1,445,017	174,149	1,619,166
Project supervision	192,026	78,180	270,206	58,635	328,841
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	1,240,357	15,895,696
Write off of license	–	–	–	(17,244)	(17,244)
<b>Total Expenditures</b>	<b>\$ 14,493,828</b>	<b>\$ 1,540,026</b>	<b>\$ 16,033,854</b>	<b>\$ 1,223,113</b>	<b>\$ 17,256,967</b>