

MEDITERRANEAN RESOURCES LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

CONTAINING INFORMATION UP TO AND INCLUDING November 5, 2010

Management's Discussion and Analysis ("MD&A") is intended to help the reader understand Mediterranean Resources Ltd.'s (the "Company's") unaudited consolidated financial statements. The following discussion of the financial position and operating results of the Company should be read in conjunction with the unaudited consolidated financial statements for the nine months ended September 30, 2010 and 2009 which have been prepared in accordance with generally accepted accounting principles in Canada. All monetary amounts are in Canadian dollars unless otherwise stated.

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

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

The date of this MD&A is November 5, 2010.

Forward looking statements

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

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

Forward-looking statements included or incorporated by reference in this document include statements with respect to the assumptions and estimates used in the Company's NI 43-101 compliant resource estimate updated in April 2009; "fatal flaw" analysis which concluded that there are no known impediments to the Environmental Impact Assessment permitting process; and preliminary economic assessment.

Overall Performance

The Company is in the business of exploring mineral properties and is currently focused on the 100 square kilometre Yusufeli Properties in north-eastern Turkey. Within the properties, two deposits: Corak and Tac, host a NI 43-101 compliant resource estimate which was upgraded in April 2009 which established an indicated resource of 49.5 million tonnes grading 1.32 g/t (Au equivalent) containing 2.09 million ounces of Au equivalent and an inferred

MEDITERRANEAN RESOURCES LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

CONTAINING INFORMATION UP TO AND INCLUDING November 5, 2010

resource of 11.0 million tonnes grading 1.16 g/t (Au equivalent) containing 409,000 ounces of Au equivalent using April 2009 metals prices.

Expressed as a combined estimate, there are 1.58 million oz of indicated and 290,000 oz of inferred gold resources. At Corak, approximately 75% of the resource was upgraded to the indicated category following the successful infill drilling during 2008. Both Corak and Tac remain open to resource upgrades and expansion. Pit shell modelling was applied to the known resources in order to demonstrate conservative economic potential and to aid in the direction of further drilling programs. There are also substantial base metal credits in the Corak and Tac deposits which are not included in these resource estimates. Metallurgical tests to determine the optimal method of metal extraction are on-going.

Dr. Peter Guest is the qualified person who has reviewed the estimated resource data given above.

Celtik project. A drill program was started in December 2009 on the Celtik area of the Yusufeli Properties and approximately 1,500 metres had been drilled by the end of February 2010, the results from which confirm the continuity of mineralization along the main strike length, northeast to southwest. Close-to-surface multiple gold grade and intervals from all five holes are encouraging and will be used to plan a drill program expected to resume in 2011.

The Company is in the process of converting the Celtik exploration license to an operating license which will be concluded in December 2010.

Cevreli project. Detailed geological mapping and geochemical sampling over the project area during 2008 and 2009 resulted in target areas being identified for exploration drilling. The Cevreli exploration license is in the progress of being converted to an operating license which will be concluded in December 2010.

The Company received confirmation from MIGEM, the Turkish mining bureau, that the Tac project operating license, IR5249, has been extended three years to July 16, 2013. The official approval has been signed by the Mining Bureau.

The Company received official written confirmation of temporary suspension of production being approved for all four operating licenses comprising the Tac and Corak projects.

A "fatal flaw" analysis was prepared by our consultants which concluded that there are no known impediments to the Environmental Impact Assessment (EIA) permitting process. A Preliminary Economic Assessment (also known as a scoping study) on the Tac and Corak projects is in progress and its completion is subject to the timing of formalizing a transaction with a Turkish company concerning the development of Yusefili.

The Company has sufficient funds to carry out the work described above. The Company is pursuing a joint venture with a major Turkish mining company and other possibilities to finance its activities. The Company is confident that, due to current high prices of gold and other base metals, it will be successful in finding a partner and/or financing. The Company completed a non-brokered private placement for 14,125,000 shares at \$0.08 per common share and raised total gross proceeds of \$1,130,000 in May 2010. The Company also announced updates on June 25, 2010 and September 29, 2010 concerning negotiations on developing the Yusefili property with a Turkish mining company.

MEDITERRANEAN RESOURCES LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

CONTAINING INFORMATION UP TO AND INCLUDING November 5, 2010

Selected Annual Financial Information

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

	As at or for the year ended December 31,		
	2009	2008	2007
Revenues	\$ –	\$ –	\$ –
Corporate general and administrative expenses	1,251,016	1,759,363	2,880,812
Restructuring costs	–	–	–
Net loss for the year	1,262,728	1,133,482	2,638,893
Loss per share – basic and diluted	0.01	0.01	0.04
Total assets	17,957,623	19,449,444	20,417,758
Long-term liabilities	–	–	–
Shareholders' equity	17,616,113	18,816,135	19,488,917
Cash dividends declared per-share	–	–	–

Summary of Quarterly Results

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

	Sept 30, 2010	Jun 30, 2010	Mar 31, 2010	Dec 31, 2009
Revenues	\$ –	\$ –	\$ –	\$ –
Loss	(237,311)	(289,344)	(296,697)	(320,996)
Loss per share – basic	(0.00)	(0.00)	(0.00)	(0.00)
Loss per share – diluted *	(0.00)	(0.00)	(0.00)	(0.00)

	Sept 30, 2009	Jun 30, 2009	Mar 31, 2009	Dec 31, 2008
Revenues	\$ –	\$ –	\$ –	\$ –
Loss	(318,384)	(284,872)	(338,476)	(286,030)
Loss per share – basic	(0.00)	(0.00)	(0.00)	(0.00)
Loss per share – diluted *	(0.00)	(0.00)	(0.00)	(0.00)

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

Results of operations

Nine months ended September 30, 2010 compared to nine months ended September 30, 2009

For the nine months ended September 30, 2010, the Company recorded a loss of \$823,352 compared to a loss of \$941,732 in 2009, a decrease of \$118,380. This decrease in loss was mainly the result of a decrease in corporate general and administrative (“corporate G&A”) expenses of \$127,629. The corporate G&A expenses decreased due mainly to (a) a reduction of compensation expense excluding stock-based compensation by \$47,958 over the resignation of an employee, (b) a decrease of stock base compensation by \$37,682 as stock options were vested more in 2009, (c) a decrease of professional fees by \$49,478 as a result of over-accrual of audit and legal fees in 2009 and (d) a decrease of \$29,172 consulting fees due to a research report conducted for a prospect of a merger with an investment company in 2009. The decreases in corporate G&A expenses were reduced by an increase in communication expense by \$45,145 during the current period due to hiring a consultant for investor relations.

MEDITERRANEAN RESOURCES LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

CONTAINING INFORMATION UP TO AND INCLUDING November 5, 2010

While the Company's foreign exchange loss decreased by \$42,899 due to the strengthening of the Canadian dollar against the US dollar, the Company also wrote off a license of \$17,244 and incurred less interest income (decreased by \$29,686) due to a reduced cash balance in 2010.

Three months ended September 30, 2010 compared to three months ended September 30, 2009

For the three months ended September 30, 2010, the Company recorded a loss of \$237,311 compared to a loss of \$318,384, in 2009, a decrease of \$81,073.

The Company's corporate G&A expenses decreased from \$308,872 to \$248,477 due mainly to the i) a decrease of compensation due to the resignation of an employee (2010 - \$127,052; 2009 - \$147,725) . Excluding the stock-based compensation, the Company's corporate G&A expenses decreased from 2009's \$308,872 to 2010's \$241,022, a decrease of \$67,850. Some variations of the corporate G&A are: (a) an increase of \$11,420 in communications due to hiring a consultant for investor relations; (b) a decrease of \$14,910 in office, insurance and sundry because of expenses paid in 2009 related to closing a subsidiary in Peru in 2008; (c) an decrease of \$25,659 in travel expenses as a result of less travelling by the officers; and (d) an decrease in consulting fees of \$29,854 in 2009 due to a research report for prospective merger.

The Company's incurred less interest income (decreased by \$6,738) due to a reduced cash balance in 2010.

Mineral Properties

To September 30, 2010, the Company had invested in mineral properties a total of \$17,256,967 (December 31, 2009 – \$16,033,854) of which \$1,378,515 was paid in the form of shares of the Company issued pursuant to the option agreement relating to the Yusufeli properties. These properties are held by our sole subsidiary, Akdeniz Resources Madencilik A.S., a Turkish company.

During the nine months ended September 30, 2010, the Company incurred \$1,240,357 (budget – \$1,570,000) in exploration expenditures on the Turkish properties, comprising \$840,403 (budget - \$1,230,000) on assaying, drilling, geological consulting, environmental baseline studies and related costs; \$45,830 (budget - \$62,000) on licensing, permits and legal fees and \$354,124 (budget - \$278,000) in project supervision, transportation and travel, and office and administrative costs. The result for the period was a favorable variance of approximately \$330,000 consisting mainly of work that had been budgeted but not done due to a temporary suspension in granting drill permits throughout Turkey, and unsafe ground conditions resulting from an abnormally warm winter.

Liquidity

The Company had working capital of \$475,080 as at September 30, 2010 compared to \$1,386,233 as at December 31, 2009, a decrease of \$911,153 mainly due to cash used in operating activities of \$926,633 and investing in mineral properties of \$1,396,608. Such uses of funds were offset by the net private placement financing of \$1,024,617 and payment on partial loans in the amount of \$79,595 from related parties.

During the nine months ended September 30, 2010, total assets increased by \$40,130, from \$17,957,623 at December 31, 2009 to \$17,997,753 at September 30, 2010. Exploration expenditures increased by \$1,223,113 from \$16,033,854 as at December 31, 2009 to \$17,256,967 as at September 30, 2010 (see "Mineral Properties" section). Short-term investments and interest receivable decreased by \$797,110 from \$1,019,624 as at December 31, 2009 to \$222,514 as at September 30, 2010 to finance regular operating and investing activities. The Company invested its funds in guaranteed investment certificates issued by Canadian chartered banks with a weighted average yield of approximately 0.75%. The Company did not have and had never had any short-term investments in asset-backed commercial paper. Receivables, prepaid expenses and deposits increased by \$126,127, from \$191,897 as at December 31, 2009 to \$318,024 as at September 30, 2010, due mainly to the increase in HST and value added tax ("VAT") paid by the Company during the period and refundable in the near future.

MEDITERRANEAN RESOURCES LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF
OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

CONTAINING INFORMATION UP TO AND INCLUDING November 5, 2010

Contractual Obligations

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
	<hr/>
	\$ 122,689

Capital Resources

The Company's authorized capital consists of an unlimited number of common shares without par value. As at September 30, 2010 and December 31, 2009, the Company had 101,344,248 and 87,219,248 issued and outstanding common shares, respectively.

As at September 30, 2010, the Company had 6,300,000 options (December 31, 2009 – 6,080,000) outstanding with exercise prices ranging from \$0.13 to \$0.47 per share (December 31, 2009 – \$0.20 to \$0.47) and expiring between February 27, 2011 and January 18, 2015; and 464,580 finder's warrants (December 31, 2009 – Nil) outstanding with exercise price of \$0.10 per warrant expiring on May 11, 2012.

In May 2010, the Company completed a non-brokered private placement for 14,125,000 common shares at \$0.08 per share for total gross proceeds of \$1,130,000.

As at November 5, 2010, the Company had 101,344,248 shares outstanding and 108,108,828 shares outstanding on a fully diluted basis.

Critical Accounting Estimates

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

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

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

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

CICA Handbook section 3870 Stock-Based Compensation and Other Stock-Based Payments establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in

MEDITERRANEAN RESOURCES LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

CONTAINING INFORMATION UP TO AND INCLUDING November 5, 2010

exchange for goods and services. Compensation expense is determined using the Black-Scholes Option Pricing Model based on estimated fair values of all stock-based awards at the date of grant and is expensed to operations over each award's vesting period. The Black-Scholes Option Pricing Model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

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 a preliminary analysis and highlighted areas where its current Canadian accounting practices differ from IFRS. To date, the Company has identified several areas which might affect the Company and has concluded that any impact on the Company's consolidated financial statements would not be material. Please refer to the last section of this report for more details.

Risk Factors

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

MEDITERRANEAN RESOURCES LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

CONTAINING INFORMATION UP TO AND INCLUDING November 5, 2010

include inherent risks in the mining industry, metal price fluctuations and operating in foreign countries and currencies.

(a) Inherent risks within the mining industry

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

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

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

(b) Prices for gold and base metals

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

(c) Foreign currency risks

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

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

(d) Risks Associated with Foreign Operations

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

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

MEDITERRANEAN RESOURCES LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

CONTAINING INFORMATION UP TO AND INCLUDING November 5, 2010

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

Related Party Transactions

During the 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 – \$11,250); and 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 at 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. In addition, \$27,610 was owing from two directors, one of whom is also an officer of the Company, to purchase shares of the Company. The loans were outstanding as of October 29, 2009 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.

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

MEDITERRANEAN RESOURCES LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

CONTAINING INFORMATION UP TO AND INCLUDING November 5, 2010

(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 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.

(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 \$1,000.

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.

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

MEDITERRANEAN RESOURCES LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

CONTAINING INFORMATION UP TO AND INCLUDING November 5, 2010

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.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. Management of the Company, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as at September 30, 2010, as required by Canadian securities law. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of September 30, 2010, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws were recorded, processed, summarized and reported within the time period specified by those laws and that material information was accumulated and communicated to management of the Company, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow for accurate disclosure to be made on a timely basis.

Changes in Internal Control over Financial Reporting

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The Chief Executive Officer and Chief Financial Officer have concluded that there has been no change in the Company's internal control over financial reporting during the three months ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. As of September 30, 2010, the Company's internal control over financial reporting was effective.

International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the mandatory change-over date to International Financial Reporting Standards ("IFRS") for Canadian profit-oriented publicly accountable entities ("PAE's") such as the Company.

The AcSB requires that IFRS compliant financial statements be prepared for annual and interim financial statements commencing on or after January 1, 2011. For PAE's with a December 31 year-end, the first unaudited interim financial

International Financial Reporting Standards (continued)

statements under IFRS will be the quarter ending March 31, 2011, with comparative financial information for the quarter ended March 31, 2010. The first audited annual financial statements will be for the year ending December 31,

2011, with comparative financial information for the year ended December 31, 2010. This also means that all the opening balance sheet adjustments relating to the adoption of IFRS must be reflected in the January 1, 2010 opening balance sheet which will be issued as part of the comparative financial information in the March 31, 2011 unaudited

MEDITERRANEAN RESOURCES LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

CONTAINING INFORMATION UP TO AND INCLUDING November 5, 2010

interim financial statements.

In January 2010, the Company's management assessed the impact of adoption to IFRS and concluded that an adoption date will be January 1, 2011 and a transition date January 1, 2010. The Company's first financial statements prepared under IFRS will be the interim financial statements for the three months ended March 31, 2011 with comparatives for the three months ended March 31, 2010 along with the balance sheet as of the transition date and will include full disclosure of all new IFRS policies.

During 2009, the Company's accountants and CFO examined the impact of the changes in accounting policies per IFRS and attended seminars on the adoption and implementation of IFRS.

The Company reviewed its existing accounting system along with its internal and disclosure control process and concluded that they would not need significant modification as a result of the Company's conversion to IFRS in 2011. The Company also determined that it would rely on certain exemptions allowed under IFRS 1 "*First-time Adoption of International Financial Reporting Standards*" as of the transition date on January 1, 2010. Under IFRS 1 the IFRS standards are applied retrospectively at the transitional balance sheet date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Company intends to apply the following exemptions to its opening balance sheet dated January 1, 2010.

a) Business Combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 *Business Combination* retrospectively to business combinations that occurred before the date of transition to IFRS. The Company will take advantage of this election and will apply IFRS 3 to business combinations that occurred on or after January 1, 2010. There is no adjustment required to the December 31, 2009 financial statements on the transition date.

b) Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 Share-based Payment to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company will apply IFRS 2 to awards that vested prior to January 1, 2010 resulting in no adjustments to the December 31, 2009 financial statements on the transition date.

c) IAS 27 – Consolidated and Separate Financial Statements

In accordance with IFRS 1, if a company elects to apply IFRS 3 Business Combinations retrospectively, IAS 27 Consolidated and Separate Financial Statements must also be applied retrospectively. As the Company elected to apply IFRS 3 prospectively, the Company has also elected to apply IAS 27 prospectively. Therefore, there is no change to the December 31, 2009 financial statements on the transition date.

d) Cumulative Translation Differences

IFRS requires that the functional currency of each entity of the Company be determined separately and record the foreign exchange resulting from the consolidation in equity rather than in the statement of operations. IFRS 1 provides an exemption and allows for such adjustments to be made as of the transition date, resulting in no change to the December 31, 2009 financial statements on the transition date.

Given that the Company will apply the IFRS 1 exemptions noted above, the Company has thus far identified one adjustment to the December 31, 2009's financial statements on the transition date, as follows:

“Contributed surplus” versus various reserves in equity

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CONTAINING INFORMATION UP TO AND INCLUDING November 5, 2010

IFRS requires "contributed surplus" to be broken down into different categories as different reserves. The Company examined its "contributed surplus" account and concluded that approximately \$3,362,000 relates to "Equity settled employee benefit reserve"; approximately \$1,873,000 relates to "Reserves due to convertible debt"; and approximately \$1,064,000 relates to "Reserves for agents' options". As a result, on transition date, the Company believes that a reclassification would be necessary in the equity section between "Contributed Surplus" and the various reserve accounts totalling approximately \$6,299,000.

During the nine months ended September 30, 2010, the Company has identified these adjustments:

a) "Contributed surplus" versus various reserves in equity

As at September 30, 2010, a reclassification would be necessary in the equity section between "Contributed surplus" and the various reserve accounts totalling approximately \$6,369,000 by breaking down the "Contributed surplus" into these components: approximately \$3,387,000 relates to "Equity settled employee benefit reserve"; approximately \$1,873,000 relates to "Reserves due to convertible debt"; and approximately \$1,109,000 relates to "Reserves for agents' options".

b) Share-based payment transactions

IFRS 2, similar to Under Canadian Generally Accepted Accounting Principles ("Canadian GAAP"), requires the Company to measure share-based compensation related to share purchase options granted to employees at the fair value of the options on the date of grant and to recognize such expense over the vesting period of the options. However, under IFRS 2, the recognition of such expense must be done with a "graded vesting" methodology as opposed to the straight-line vesting method allowed under Canadian GAAP.

The adjustments were calculated only for unvested options issued and outstanding as of and after January 1, 2010, the Transition Date. During the nine months ended September 30, 2010, the share-based compensation related to the share purchase options granted during the period were approximately the same as under Canadian GAAP.

c) Cumulative Translation differences

For the period ended September 30, 2010, the "foreign currency translation" in the "shareholders' equity" increased by approximately \$6,000 while the deficit decreased by approximately \$6,000 as a result of recording the cumulative translation differences in the Statement of Equity under IFRS as opposed to the Statement of Operations under Canadian GAAP.