

Mediterranean Resources Ltd.

Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2011 and 2010

(Unaudited)

(Expressed in Canadian Dollars)

Mediterranean Resources Ltd.

**Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2011
(Unaudited)**

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Mediterranean Resources Ltd.
Condensed Consolidated Interim Statements of Financial Position
(Expressed in Canadian Dollars)
(Unaudited)

<i>As at</i>	March 31, 2011	December 31, 2010	January 01, 2010
		(Note 13)	(Note 13)
ASSETS			
Current assets			
Cash and cash equivalents	\$ 952,345	\$ 117,947	\$ 516,222
Short-term investments	-	-	1,019,624
HST and VAT receivable	28,612	27,070	27,576
Prepaid expenses and deposits	102,890	48,338	164,321
	1,083,847	193,355	1,727,743
Non-current assets			
Exploration and evaluation assets (Note 4)	17,784,975	17,529,304	16,033,854
Plant, property and equipment (Note 5)	65,033	65,907	88,821
Loans receivable from related parties			107,205
	17,850,008	17,595,211	16,229,880
TOTAL ASSETS	\$ 18,933,855	\$ 17,788,566	\$ 17,957,623
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	\$ 203,921	\$ 211,969	\$ 297,156
Due to related parties (Note 7)	25,331	54,436	44,354
	229,252	266,405	341,510
SHAREHOLDERS' EQUITY			
Share capital (Note 6)	20,467,855	19,058,571	18,079,353
Reserves (Note 6)	6,415,976	6,377,703	6,298,514
Deficit	(8,179,228)	(7,914,113)	(6,761,754)
	18,704,603	17,522,161	17,616,113
TOTAL EQUITY AND LIABILITIES	\$ 18,933,855	\$ 17,788,566	\$ 17,957,623

Nature of operations and continuance of operations (Note 1)

Commitments and contingencies (Note 9)

Subsequent events (Note 14)

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 16, 2011. They are signed on the Company's behalf by:

John Clarke
Director

Christopher Ecclestone
Director

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

Mediterranean Resources Ltd.
Condensed Consolidated Interim Statements of Operations and Comprehensive Loss

(Expressed in Canadian Dollars)

(Unaudited)

	For the three months ended	
	March 31, 2011	March 31, 2010
		(Note 13)
EXPENSES		
Communications	\$ 14,273	\$ 39,233
Consulting	27,500	8,250
Office, insurance and sundry	29,186	33,159
Professional fees (Note 7)	52,427	4,009
Rent	18,887	15,841
Regulatory and transfer agent fees	18,637	20,649
Salaries and benefits (Note 7)	116,997	136,931
Share-based compensation (Note 6(d))	26,907	23,502
Travel	12,805	25,284
less: recovery of expenses	(1,050)	(900)
	316,569	305,958
OTHER EXPENSE (INCOME)		
Interest income	-	(1,571)
Foreign exchange loss	2,401	6,116
Write-off of accounts payable	(53,855)	-
	(51,454)	4,545
NET LOSS AND TOTAL COMPREHENSIVE LOSS	\$ 265,115	\$ 310,503
Weighted average number of common shares outstanding	110,957,696	87,219,248
Basic & diluted loss per share	\$ 0.00	\$ 0.00

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

Mediterranean Resources Ltd.
Condensed Consolidated Interim Statements of Changes in Equity

(Expressed in Canadian Dollars)

(Unaudited)

	Number Of Shares	Reserves					Total Shareholders' Equity
		Share capital	Equity settled employee benefit reserve	Reserves for warrants	Reserves for convertible debt	Deficit	
Balance, December 31, 2009	87,219,248	\$ 18,079,353	\$ 3,344,876	\$ 1,080,670	\$ 1,872,968	\$ (6,761,754)	\$ 17,616,113
Private placements for cash	14,125,000	1,130,000	-	-	-	-	1,130,000
Share issuance costs - cash	-	(105,383)	-	-	-	-	(105,383)
Share issuance costs - agent's warrants	-	(45,399)	-	45,399	-	-	-
Share-based compensation	-	-	33,790	-	-	-	33,790
Net loss and total comprehensive loss	-	-	-	-	-	(1,152,359)	(1,152,359)
Balance, December 31, 2010	101,344,248	19,058,571	3,378,666	1,126,069	1,872,968	(7,914,113)	17,522,161
Private placements for cash	15,000,000	1,500,000	-	-	-	-	1,500,000
Share issuance costs - cash	-	(114,558)	-	-	-	-	(114,558)
Share issuance costs - agent's warrants	-	(45,771)	-	45,771	-	-	-
Exercise warrants for cash	352,080	35,208	-	-	-	-	35,208
Fair value adjustment on exercise of agent's warrants	-	34,405	-	(34,405)	-	-	-
Share-based compensation	-	-	26,907	-	-	-	26,907
Net loss and total comprehensive loss	-	-	-	-	-	(265,115)	(265,115)
Balance, March 31, 2011	116,696,328	\$ 20,467,855	\$ 3,405,573	\$ 1,137,435	\$ 1,872,968	\$ (8,179,228)	\$ 18,704,603

Balance, December 31, 2009	87,219,248	\$ 18,079,353	\$ 3,344,876	\$ 1,080,670	\$ 1,872,968	\$ (6,761,754)	\$ 17,616,113
Share-based compensation	-	-	9,696	-	-	-	9,696
Net loss	-	-	-	-	-	(296,697)	(296,697)
Balance, March 31, 2010	87,219,248	18,079,353	3,354,572	1,080,670	1,872,968	(7,058,451)	17,329,112

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

Mediterranean Resources Ltd.
Condensed Consolidated Interim Statements of Cash Flows
(Expressed in Canadian Dollars)
(Unaudited)

	For the three months ended	
	March 31, 2011	March 31, 2010
		(Note 13)
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Net loss for the period	\$ (265,115)	\$ (310,503)
Items not requiring (providing) cash:		
Depreciation	2,156	3,718
Accrued interest income	-	(913)
Share-based compensation	26,907	23,502
Foreign exchange loss	2,401	6,116
Write-off of accounts payable	(53,855)	-
Changes in non-cash working capital components		
HST and VAT receivable	(1,542)	(5,164)
Prepaid expenses and deposits	(54,552)	23,710
Accounts payable and accrued liabilities	20,656	(23,728)
Due to related parties	(29,105)	(40,154)
CASH USED FOR OPERATING ACTIVITIES	(352,049)	(323,416)
FINANCING ACTIVITIES		
Issuance of common shares for cash	1,535,208	-
Share issuance costs	(114,558)	-
CASH PROVIDED BY FINANCING ACTIVITIES	1,420,650	-
INVESTING ACTIVITIES		
Purchase of short-term investments	-	(1,014,000)
Proceeds from redemptions of short-term investments	-	1,713,462
Investment in exploration and evaluation assets	(228,851)	(513,707)
Acquisition of plant, property and equipment	(2,951)	(4,576)
CASH USED FOR INVESTING ACTIVITIES	(231,802)	181,179
Foreign exchange loss on cash held in foreign currency	(2,401)	(6,097)
INCREASE IN CASH	834,398	(148,334)
CASH, BEGINNING OF PERIOD	117,947	516,222
CASH, END OF THE PERIOD	\$ 952,345	\$ 367,888
INTEREST PAID IN CASH	\$ -	\$ 14,057
INCOME TAXES PAID IN CASH	\$ -	\$ -

Supplemental disclosure with respect to cash flows (note 8)

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

Mediterranean Resources Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2011 and 2010

(Expressed in Canadian Dollars)

(Unaudited)

1. NATURE OF OPERATIONS AND CONTINUANCE OF 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 March 31, 2011, the Company has an accumulated deficit of \$8,179,228. 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 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. BASIS OF PRESENTATION

(a) Statement of compliance and conversion to International Financial Reporting Standards

The Canadian Accounting Standards Board ("AcSB") confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian Generally Accepted Accounting Principles ("GAAP") for publicly accountable enterprises for financial periods beginning on and after January 1, 2011.

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These are the Company's first IFRS condensed consolidated interim financial statements for part of the period covered by the Company's first IFRS condensed consolidated annual financial statements for the year ending December 31, 2011. Previously, the Company prepared its condensed consolidated annual and condensed consolidated interim financial statements in accordance with GAAP. GAAP differs in some areas from IFRS. In preparing these financial statements, management has amended certain accounting and measurement methods previously applied in the GAAP financial statements to comply with IFRS. Note 13 contains reconciliations and descriptions of the effect of the transition from GAAP to IFRS on equity, operations and comprehensive loss along with line-by-line reconciliations of the statements of financial position as at January 1, 2010, March 31, 2010 and December 31, 2010 and the statements of operations and comprehensive loss and cash flows for the three months ended March 31, 2010 and for the year ended December 31, 2010.

As these are the Company's first set of condensed consolidated interim financial statements in accordance with IFRS, the Company's disclosures exceed the minimum requirements under IAS 34. The Company has elected to exceed the minimum requirements in order to present the Company's accounting policies in accordance with IFRS and some additional disclosures required under IFRS, which also highlight the changes from the Company's 2010 annual condensed consolidated financial statements prepared in accordance with GAAP. In 2012 and beyond, the Company may not provide the same amount of disclosure in the Company's condensed consolidated interim financial statements under IFRS as the reader will be able to rely on the annual condensed consolidated financial statements, which will be prepared in accordance with IFRS.

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Notes to the Condensed Consolidated Interim Financial Statements
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2. BASIS OF PRESENTATION (continued)

(b) Basis of preparation

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for financial instruments that have been measured at fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The preparation of interim financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

These condensed consolidated interim financial statements, including comparatives, have been prepared on the basis of IFRS standards that are published at the time of preparation and that are expected to be effective or available for early adoption on December 31, 2011, the Company's first IFRS annual reporting date.

The standards that will be effective or available for voluntary early adoptions in the condensed consolidated annual financial statements for the year ending December 31, 2011 are subject to change and may be affected by additional interpretation(s). Accordingly, the accounting policies for the annual period that are relevant to these condensed consolidated interim financial statements will be determined only when the first IFRS financial statements are prepared for the year ending December 31, 2011.

The preparation of these condensed consolidated interim financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under GAAP. The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements. They also have been applied in preparing an opening IFRS statement of financial position at January 1, 2010 for the purpose of the transition to IFRS, as required by IFRS 1, *First Time Adoption of International Financial Reporting Standards* (IFRS 1). The impact of the transition from GAAP to IFRS is explained in Note 13.

(c) Foreign Currencies

The presentation currency of the Company and the functional currency of the Company and its subsidiary is the Canadian dollar.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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2. BASIS OF PRESENTATION (continued)

(d) Significant Accounting Judgments and Estimates

The preparation of these interim condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated interim financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and may affect both the period of revision and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- the recoverability of amounts receivable and prepayments which are included in the condensed consolidated interim statement of financial position;
- the carrying value and recoverable amount of exploration and evaluation assets
- the estimated useful lives of property, plant and equipment which are included in the condensed consolidated interim statement of financial position and the related depreciation included in the condensed consolidated interim statements of operations and comprehensive loss for the period ended March 31, 2011; and
- the inputs used in accounting for share-based compensation expense in the condensed consolidated interim statements of operations and comprehensive loss.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Consolidation

The condensed consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiary Akdeniz Resources Madencilik A.S., an exploration company operating in Turkey.

Inter-company balances and transactions, including unrealised income and expenses arising from intercompany transactions, are eliminated in preparing the condensed consolidated interim financial statements.

(b) Financial Instruments

Financial assets and financial liabilities are recognized on the statement of financial position when the Company becomes a party to the contractual provisions of the financial instrument. The Company does not have any derivative financial instruments.

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or financial assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in the income statement.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial Instruments (continued)

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest rate method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the income statement.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the income statement.

Transactions costs associated with Fair value through profit or loss financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the income statement.

Other financial liabilities: This category includes promissory notes, amounts due to related parties and accounts payables and accrued liabilities, all of which are recognized at amortized cost.

(c) Cash and Cash Equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand, and short term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash.

Mediterranean Resources Ltd.
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Exploration and Evaluation Assets

The Company is in the exploration stage with respect to its investment in mineral properties and accordingly follows the practice of capitalizing all costs relating to the acquisition of, exploration for and development of mineral claims and crediting all proceeds received against the cost of the related claims. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and sampling. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves. The aggregate costs related to abandoned mineral claims are charged to operations at the time of any abandonment, or when it has been determined that there is evidence of a permanent impairment. An impairment charge relating to a mineral property is subsequently reversed when new exploration results or actual or potential proceeds on sale or farmout of the property result in a revised estimate of the recoverable amount, but only to the extent that this does not exceed the original carrying value of the property that would have resulted if no impairment had been recognized.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

The Company recognizes in income costs recovered on mineral properties when amounts received or receivable are in excess of the carrying amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets.

All capitalized exploration and evaluation expenditure is monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that exploration expenditure is not expected to be recovered, it is charged to the results of operations.

(e) Property, Plant and Equipment

Property, plant and equipment ("PPE") are carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Plant, property and equipment are depreciated annually on a declining-balance basis at a rate of 20%, except for leasehold improvements which are depreciated at 20% straight-line.

An item of PPE is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the condensed consolidated statement of comprehensive income or loss.

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of plant and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, Plant and Equipment (continued)

The Company compares the carrying value of property, plant and equipment to estimated net recoverable amounts, based on estimated future cash flows, to determine whether there is any indication of impairment whenever events or circumstances warrant.

(f) Impairment

At each financial position reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(g) Share Capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(h) Share-based Payment Transactions

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value is measured at grant date, and each tranche is recognized on the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Income Taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized as equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(j) Provisions

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events; it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in any provision due to passage of time is recognized as accretion expense.

(k) Asset Retirement Obligation

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight-line method. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses. The Company has no material restoration, rehabilitation and environmental costs as the disturbance to date is minimal.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Loss per Share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

(m) New accounting standards and interpretations not yet adopted

At the date of authorization of these financial statements, the IASB and IFRIC have issued a number of new and revised standards and interpretations which are not yet effective for the relevant reporting periods.

The Company has not early adopted these standards, amendments and interpretations. However the Company is currently assessing what impact the application of these standards or amendments will have on the condensed consolidated financial statements of the Company.

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4. EXPLORATION AND EVALUATION ASSETS

The Company had accumulated the following acquisition and exploration expenditures:

Turkey - Yusufeli properties

	December 31, 2009	Costs for the year	December 31, 2010	Costs for the period	March 31, 2011
Acquisition costs	1,378,515	-	1,378,515	-	1,378,515
Exploration costs					
Assaying and sampling	1,824,700	24,498	1,849,198	-	1,849,198
Drilling	5,165,407	153,296	5,318,703	-	5,318,703
Environmental baseline studies	312,636	28,091	340,727	-	340,727
Field costs	1,167,926	59,670	1,227,596	8,702	1,236,298
Geological consulting	3,034,028	483,165	3,517,193	97,840	3,615,033
Geophysics	84,066	-	84,066	-	84,066
Licences, permits and fees	495,812	138,304	634,116	84,312	718,428
Metallurgy	206,612	185,768	392,380	3,750	396,130
Office and administrative	1,445,017	239,647	1,684,664	41,522	1,726,186
Project and supervision	270,206	78,180	348,386	19,545	367,931
Road construction	215,180	22,611	237,791	-	237,791
Transport and travel	433,749	121,340	555,089	-	555,089
	14,655,339	1,534,570	16,189,909	255,671	16,445,580
	16,033,854	1,534,570	17,568,424	255,671	17,824,095
Licences written off	-	(39,120)	(39,120)	-	(39,120)
Total expenditures	16,033,854	1,495,450	17,529,304	255,671	17,784,975

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

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

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

During the year ended December 31, 2010, the Company wrote off \$39,120 of licences. No licences or other costs were written off during the three months ended March 31, 2011.

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5. PROPERTY, PLANT AND EQUIPMENT

	Vehicles	Computer hardware	Computer software	Office furniture and equipment	Leasehold Improvements	Total
	\$	\$	\$	\$	\$	\$
COST						
Balance at December 31, 2009	38,007	37,815	12,283	72,020	19,162	179,287
Additions	-	1,373	756	4,403	1,810	8,342
Disposals	-	-	-	-	(19,162)	(19,162)
Balance at December 31, 2010	38,007	39,188	13,039	76,423	1,810	168,467
Additions	-	2,951	-	-	-	2,951
Disposals	-	-	-	-	-	-
Balance at March 31, 2011	38,007	42,139	13,039	76,423	1,810	171,418

ACCUMULATED DEPRECIATION						
Balance at December 31, 2009	26,380	14,673	3,686	33,681	12,046	90,466
Depreciation for the period	7,581	4,850	1,866	9,602	2,139	26,038
Disposals	-	-	-	-	(13,944)	(13,944)
Balance at December 31, 2010	33,961	19,523	5,552	43,283	241	102,560
Depreciation for the period	202	1,058	375	2,100	90	3,825
Balance at March 31, 2011	34,163	20,581	5,927	45,383	331	106,385

CARRYING AMOUNTS						
At December 31, 2009	11,627	23,142	8,597	38,339	7,116	88,821
At December 31, 2010	4,046	19,665	7,487	33,140	1,569	65,907
At March 31, 2011	3,844	21,558	7,112	31,040	1,479	65,033

For the three months ended March 31, 2011, depreciation of \$2,156 (three months ended March 31, 2010 - \$3,718) was included in office, insurance and sundry expenses and \$1,669 (three months ended March 31, 2010 - \$nil) was capitalised to exploration and evaluation assets.

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6. SHARE CAPITAL

(a) Authorized Share Capital

At March 31, 2011, the authorized share capital comprised an unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

(b) Issued

On February 8, 2011, the Company closed a non-brokered private placement of 15,000,000 units at \$0.10 per unit. Each unit consists of one common share and one-half of one warrant of the Company. Each whole warrant is exercisable to purchase one common share of the Company until February 8, 2012 at \$0.14 per share. As the issue price of each unit was less than the market price of the Company's shares on the day of issue, the full issue price was allocated to share capital. Share issue costs of \$160,329 were incurred, which included \$45,771 attributable to 1,050,000 agent warrants issued with an exercise price of \$0.14 per share for a period of twelve months. The fair value of the agent warrants was estimated using the Black-Scholes option pricing model based on the following assumptions: risk free interest rate of 1.37%; expected life of 1 year; volatility of 113.83% and dividend rate of 0%.

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

(c) Warrants

The continuity of warrants for the three months ended March 31, 2011 is as follows:

	Number Outstanding	Exercise Price	Weighted Average Exercise Price	Expiry Date
Balance at December 31, 2009	-	-	-	-
Granted	464,580	\$ 0.10	\$ 0.10	May 2012
Balance, December 31, 2010	464,580	\$ 0.10	\$ 0.10	May 2012
Granted	8,550,000	\$ 0.14	\$ 0.14	February 2012
Exercised	(352,080)	\$ 0.10	\$ 0.10	May 2012
Balance, March 31, 2011	8,662,500		\$ 0.14	

	March 31, 2011		
Expiry date	Warrants Outstanding	Exercise price	Weighted average remaining contractual life
May 11, 2012	112,500	\$ 0.10	1.12
February 08, 2012	8,550,000	\$ 0.14	0.86
	8,662,500	\$ 0.14	0.86

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6. SHARE CAPITAL (continued)

(d) Share Purchase Option Compensation Plan

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.

The continuity of share purchase options for the three months ended March 31, 2011 is as follows:

	Number Outstanding	Weighted Average Exercise Price
Balance, December 31, 2009	6,080,000	\$ 0.33
Granted	300,000	\$ 0.13
Cancelled	(80,000)	\$ 0.20
Balance, December 31, 2010	6,300,000	\$ 0.32
Granted	600,000	\$ 0.13
Expired	(400,000)	\$ 0.30
Cancelled	(2,150,000)	\$ 0.42
Balance, March 31, 2011	4,350,000	\$ 0.30

Expiry date	Options Outstanding	Options Exercisable	Exercise Price	Average Remaining Contractual Life (years)
May 9, 2011 *	30,000	30,000	\$ 0.38	0.11
June 6, 2011 **	410,000	410,000	0.47	0.18
December 14, 2011 ***	1,250,000	1,250,000	0.30	0.71
24-Jan-12	200,000	200,000	0.30	0.82
July 6, 2012 ****	1,280,000	1,280,000	0.38	1.27
20-Jun-13	480,000	480,000	0.20	2.22
July 4, 2013 *****	100,000	100,000	0.20	2.26
27-Jan-16	400,000	100,000	0.11	4.83
21-Feb-16	200,000	50,000	0.16	4.90
	4,350,000	3,900,000	0.30	1.60

* These 30,000 options expired unexercised in May 2011

** 100,000 of these options were subsequently cancelled in April 2011

*** 300,000 of these options were subsequently cancelled in April 2011

**** 250,000 of these options were subsequently cancelled in April 2011

***** These 100,000 options were subsequently cancelled in April 2011.

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6. SHARE CAPITAL (continued)

During the three months ended March 31, 2011 600,000 stock options were granted to directors of the Company (three months ended March 31, 2010 – 300,000 options were granted to an employee):

Date of grant	Stock options granted	Stock options vested to date	Fair value of options	Share-based compensation for the three months ended March 31, 2011	Share-based compensation for the three months ended March 31, 2010
January 18, 2010	300,000	300,000	\$ 34,056	\$ 266	\$ 23,502
January 27, 2011	400,000	100,000	\$ 35,137	\$ 16,836	-
February 21, 2011	200,000	50,000	\$ 26,893	\$ 9,805	-
				\$ 26,907	\$ 23,502

The fair value of the options issued was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions:

	March 31, 2011	March 31, 2010
Risk-free interest rate	2.06%	1.31%
Expected annual volatility	127%	135%
Expected life	5.00	5.00
Expected dividend yield	-	-

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's share purchase options.

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7. RELATED PARTY BALANCES AND TRANSACTIONS

(a) Management transactions

For the three months ended March 31, 2011

	Short-term employee benefits \$	Post- employment benefits \$	Other long- term benefits \$	Termination benefits \$	Share-based payments \$	Total \$
Dr. Peter Guest Former President and CEO	92,813	-	-	-	-	92,813
Pacific Opportunity Capital Ltd (i)	12,000	-	-	-	-	12,000
Fehr and Associates (ii)	3,290	-	-	-	-	3,290
Ibrahim Guney General manager and director of subsidiary	60,614	-	-	-	-	60,614

For the three months ended March 31, 2010

	Short-term employee benefits \$	Post- employment benefits \$	Other long- term benefits \$	Termination benefits \$	Share-based payments \$	Total \$
Dr. Peter Guest Former President and CEO	92,033	-	-	-	-	92,033
Pacific Opportunity Capital Ltd (i)	12,000	-	-	-	-	12,000
Ibrahim Guney General manager and director of subsidiary	33,212	-	-	-	-	33,212

(i) Pacific Opportunity Capital Ltd., a company related by the former Chief Financial Officer, Winnie Wong, who is Vice-president-Client services of Pacific Opportunity Capital Ltd.

At March 31, 2011 \$4,480 (March 31, 2010 - \$4,200) fees owed to Pacific Opportunity Capital Ltd was included in accounts payable and accrued liabilities.

(ii) Fehr and Associates, a private company controlled by the current Chief Financial Officer, Ann Fehr.

At March 31, 2011 \$3,685 (March 31, 2010 - \$nil) fees owed to Fehr and Associates was included in accounts payable and accrued liabilities.

(b) Director transactions

During the three months ended March 31, 2011 and 2010, the following expenses related to directors were recognised:

	March 31, 2011		March 31, 2010	
Directors fees	\$	12,665	\$	6,000
Share-based payments (i)		26,641		-
	\$	39,306	\$	6,000

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7. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

(c) Director transactions (continued)

(i) Comprised of options granted pursuant to the Company's stock option plan.

400,000 options were granted to Christopher Ecclestone on January 27, 2011 with a fair value of \$0.09 per option, calculated using the Black-Scholes option pricing model. 25% of these options vested immediately on grant date and 25% every four months thereafter until January 2012. Share-based compensation of \$16,836 was recognised during the period.

200,000 options were granted to Jeffrey Nichols on February 21, 2011, at a fair value of \$0.13 per option, calculated using the Black-Scholes option pricing model. 25% of these options vested immediately on grant date and 25% every four months thereafter until February 2012. Share-based compensation of \$9,805 was recognised during the period.

At March 31, 2011 and 2010 the following loans were receivable from a director and former director, respectively:

	March 31, 2011		March 31, 2010
John Clarke	\$	-	\$ 52,030
Dr. Peter Guest	\$	-	\$ 55,175
	\$	-	\$ 107,205

These loans were non-interest bearing, and repayable within two years. They were repaid in full during the year ended December 31, 2010.

The balance of \$25,331 due to related parties at March 31, 2011 included \$11,166 (March 31, 2010 - \$nil) directors fees not yet paid, as well as \$6,000 (March 31, 2010 - \$nil) consulting fees earned by the former director of the Company's subsidiary during the year ended December 31, 2010, for arranging and participating in business negotiations in Turkey. These consulting fees were capitalised to exploration and evaluation assets.

(d) Other related party transactions

i) Legisterra Consulting Ltd

A director of Legisterra Consulting Ltd, Nursel Atar, is a director of the Company's subsidiary. For the three months ended March 31, 2011, \$3,107 (March 31, 2010 - \$nil) rental expense from Legisterra Consulting Ltd. was incurred.

ii) 494361 BC Ltd

494361 BC Ltd is owned by a close family member of the Company's former President and CEO. For the three months ended March 31, 2011, \$1,050 (March 31, 2010 - \$900) rental income (included as a recovery of rental expense) was received from 494361 BC Ltd.

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8. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash financing and investing activities during the three months ended March 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Fair value of agent warrants issued	\$ 45,771	\$ -
Fair value adjustment on exercise of agent's warrants	34,405	-

9. COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitment

The Company leases office premises with a lease term of five years. The Company's commitment for future minimum payments in respect of the operating lease contract was as follows:

	<u>March 31, 2011</u>	<u>March 31, 2010</u>
Not later than one year	\$ 47,873	\$ 44,689
Later than one year and no later than five years	\$ 153,640	\$ 201,513
	<u>\$ 201,513</u>	<u>\$ 246,202</u>

During the three months ended March 31, 2011 \$18,409 rental expense was recognised. \$1,050 of this expense was recovered from a related party (refer to note 7).

(b) Claim against Mediterranean Resources Ltd.

On March 28, 2011, the Company's former President, Chief Executive Officer and Director, Dr. Peter Guest, filed a notice of civil claim against the Company with respect to the termination of his contract. The financial effect of this event is not determinable at this time.

10. FINANCIAL INSTRUMENTS

The fair values of the Company's accounts receivable and accounts payables approximate their carrying values because of the short-term nature of these instruments.

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest risk and commodity price risk.

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10. FINANCIAL INSTRUMENTS (continued)

(a) Currency risk

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

The Company holds most of its funds in Canadian Dollars and funds the majority of its Turkish Lira exploration expenditure in US Dollars. A 5% change in the Turkish Lira exchange rate relative to the Canadian dollar would change the Company's net income by \$11,380, while a 5% change in the US dollar relative to the Canadian dollar would change the Company's net income by \$2,490.

(b) Credit risk

The Company's cash is held in large Canadian financial institutions. The Company's accounts receivable consist primarily of harmonized sales tax due from the federal government of Canada and value-added tax due from the government of Turkey.

(c) Liquidity risk

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

Accounts payable and accrued liabilities are due within twelve months of the financial position date.

(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 Company's financial instruments consist of cash and deposits, and accounts payable and accrued liabilities. The Company's exposure to interest rate risk is minimal due to the short term maturity of its investments.

(f) Classification of Financial instruments

IFRS 7 'Financial Instruments: Disclosures' establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy.

	Level 1	Level 2	Level 3
Cash	\$ 952,345	-	-
	\$ 952,345	\$ -	\$ -

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11. MANAGEMENT OF CAPITAL

The Company manages its cash, share capital and reserves as capital (see Note 6). The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

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

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

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

12. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being the exploration of mineral resource properties.

The Company has non-current assets in the following geographic locations:

	March 31, 2011	December 31, 2010
Canada	42,206	41,413
Turkey	17,807,802	17,553,798
	17,850,008	17,595,211

The Company's net losses are attributable to the Canada geographic location. All expenses incurred at the Turkey location are capitalised as exploration and evaluation assets.

13. FIRST TIME ADOPTION OF IFRS

As stated in Note 2, these are the Company's first condensed consolidated interim financial statements for the period covered by the first annual condensed consolidated financial statements prepared in accordance with IFRS.

The accounting policies in Note 3 have been applied in preparing the condensed consolidated interim financial statements for the three months ended March 31, 2011, the comparative information for the three months ended March 31, 2010, the statement of financial position as at December 31, 2010 and the preparation of an opening IFRS statement of financial position on the transition date, January 1, 2010.

In preparing its opening IFRS statement of financial position and comparative information for the financial statements for the year ended December 31, 2010, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP.

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13. FIRST TIME ADOPTION OF IFRS (continued)

An explanation of how the transition from previous GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables.

The guidance for the first time adoption of IFRS is set out in IFRS 1 *'First-time Adoption of International Financial Reporting Standards'*. Under IFRS 1 the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under GAAP taken to retained earnings unless certain exemptions are applied. The Company has applied the following exemptions to its opening statement of financial position dated January 1, 2010:

(a) Business Combinations

IFRS1 indicates that a first-time adopter may elect not to apply IFRS 3 *'Business Combinations'* retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has taken advantage of this election and will apply IFRS 3 to business combinations that occur on or after January 1, 2010. There is no adjustment required to the January 1, 2010 statement of financial position on the transition date.

(b) Share-based Payment

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 has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010.

(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.

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company has applied the following guidelines to its opening statement of financial position dated January 1, 2010:

Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of January 1, 2010 are consistent with its GAAP estimates for the same date.

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, some differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the Company's reported financial position. In order to allow the users of the financial statements to better understand these changes, the Company's Canadian GAAP statement of operations and comprehensive income, statement of financial position and statement of cash flows for the quarter ended March 31, 2010 and the years ended December 31, 2009 and 2010 have been reconciled to IFRS, with the resulting differences explained, below.

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13. FIRST TIME ADOPTION OF IFRS (continued)

Reconciliation of Assets, Liabilities and Equity

	January 01, 2010			March 31, 2010			December 31, 2010			
	Note	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS										
Current assets										
Cash		\$ 516,222	\$ -	\$ 516,222	\$ 367,888	\$ -	\$ 367,888	\$ 117,947	\$ -	\$ 117,947
Short-term investments		1,019,624	-	1,019,624	321,075	-	321,075	-	-	-
HST and VAT Receivable		27,576	-	27,576	76,923	-	76,923	27,070	-	27,070
Prepaid expenses and deposits		164,321	-	164,321	140,611	-	140,611	48,338	-	48,338
		1,727,743	-	1,727,743	906,497	-	906,497	193,355	-	193,355
Non-current assets										
Exploration and evaluation assets		16,033,854	-	16,033,854	16,661,009	\$ -	16,661,009	17,529,304	\$ -	17,529,304
Plant, property and equipment		88,821	-	88,821	89,679	-	89,679	65,907	-	65,907
Loans receivable from related parties		107,205	-	107,205	107,205	-	107,205	-	-	-
		16,229,880	-	16,229,880	16,857,893	-	16,857,893	17,595,211	-	17,595,211
TOTAL ASSETS		\$ 17,957,623	\$ -	\$ 17,957,623	\$ 17,764,390	\$ -	\$ 17,764,390	\$ 17,788,566	\$ -	\$ 17,788,566
LIABILITIES										
Current liabilities										
Accounts payable and accrued liabilities		\$ 297,156	\$ -	\$ 297,156	\$ 431,078	\$ -	\$ 431,078	\$ 211,969	\$ -	\$ 211,969
Due to related parties		44,354	-	44,354	4,200	-	4,200	54,436	-	54,436
		341,510	-	341,510	435,278	-	435,278	266,405	-	266,405
SHAREHOLDERS' EQUITY										
Share capital		18,079,353	-	18,079,353	18,079,353	-	18,079,353	19,058,571	-	19,058,571
Reserves	(a), (b)	6,298,514	-	6,298,514	6,308,210	13,806	6,322,016	6,375,292	2,411	6,377,703
Deficit	(a)	(6,761,754)	-	(6,761,754)	(7,058,451)	(13,806)	(7,072,257)	(7,911,702)	(2,411)	(7,914,113)
		17,616,113	-	17,616,113	17,329,112	-	17,329,112	17,522,161	-	17,522,161
TOTAL EQUITY AND LIABILITIES		\$ 17,957,623	\$ -	\$ 17,957,623	\$ 17,764,390	\$ -	\$ 17,764,390	\$ 17,788,566	\$ -	\$ 17,788,566

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13. FIRST TIME ADOPTION OF IFRS (continued)

Reconciliation of Operations and Comprehensive Loss

	For the three months ended March 31, 2010			Year ended December 31, 2010			
	Note	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
EXPENSES							
Communications		\$ 39,233	\$ -	\$ 39,233	\$ 97,663	\$ -	\$ 97,663
Consulting		8,250	-	8,250	33,352	-	33,352
Office, insurance and sundry		33,159	-	33,159	119,203	-	119,203
Professional fees		4,009	-	4,009	99,146	-	99,146
Rent		15,841	-	15,841	76,466	-	76,466
Regulatory and transfer agent fees		20,649	-	20,649	34,527	-	34,527
Salaries and benefits		136,931	-	136,931	553,204	-	553,204
Share-based compensation	(a)	9,696	13,806	23,502	31,379	2,411	33,790
Travel		25,284	-	25,284	50,795	-	50,795
less: recovery of expenses		(900)	-	(900)	(3,600)	-	(3,600)
		\$ 292,152	\$ 13,806	\$ 305,958	\$ 1,092,135	\$ 2,411	\$ 1,094,546
OTHER EXPENSE (INCOME)							
Interest income		(1,571)	-	(1,571)	(3,489)	-	(3,489)
Foreign exchange loss		6,116	-	6,116	16,964	-	16,964
Loss on disposal of leasehold improvements		-	-	-	5,218	-	5,218
Licences written off		-	-	-	39,120	-	39,120
		4,545	-	4,545	57,813	-	57,813
NET LOSS AND COMPREHENSIVE LOSS		\$ 296,697	\$ 13,806	\$ 310,503	\$ 1,149,948	\$ 2,411	\$ 1,152,359

Mediterranean Resources Ltd.
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(Unaudited)

13. FIRST TIME ADOPTION OF IFRS (continued)

Reconciliation of Cash Flows

	Note	For the three months ended March, 31 2010			Year ended December 31, 2010		
		Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
CASH PROVIDED BY (USED FOR):							
OPERATING ACTIVITIES							
Net (loss) gain for the period	(a)	\$ (296,697)	\$ (13,806)	\$ (310,503)	\$ (1,149,948)	\$ (2,411)	\$ (1,152,359)
Items not requiring (providing) cash:							
Depreciation		3,718	-	3,718	11,834	-	11,834
Accrued interest income		(913)	-	(913)	-	-	-
Share-based compensation	(a)	9,696	13,806	23,502	31,379	2,411	33,790
Licences written off		-	-	-	39,120	-	39,120
Foreign exchange loss (gain)		6,116	-	6,116	16,964	-	16,964
Loss on disposal of leasehold improvements		-	-	-	5,218	-	5,218
Net changes in non-cash operating working-capital		(45,336)	-	(45,336)	147,131	-	147,131
CASH FROM OPERATING ACTIVITIES		(323,416)	-	(323,416)	(898,302)	-	(898,302)
FINANCING ACTIVITIES							
Proceeds from issuance of shares		-	-	-	1,130,000	-	1,130,000
Share issuance costs		-	-	-	(105,383)	-	(105,383)
CASH USED FOR FINANCING ACTIVITIES		-	-	-	1,024,617	-	1,024,617
INVESTING ACTIVITIES							
Purchase of short-term investments		(1,014,000)	-	(1,014,000)	(1,514,000)	-	(1,514,000)
Proceeds from redemptions of short-term investments		1,713,462	-	1,713,462	2,533,624	-	2,533,624
Investment in exploration and evaluation assets		(513,707)	-	(513,707)	(1,626,249)	-	(1,626,249)
Acquisition of plant, prooperty and equipment		(4,576)	-	(4,576)	(8,342)	-	(8,342)
Loans receivable from related parties		-	-	-	107,205	-	107,205
CASH USED FOR INVESTING ACTIVITIES		181,179	-	181,179	(507,762)	-	(507,762)
Foreign exchange loss on cash held in foreign currency		(6,097)	-	(6,097)	(16,828)	-	(16,828)
DECREASE IN CASH		(148,334)	-	(148,334)	(398,275)	-	(398,275)
CASH, BEGINNING OF PERIOD		516,222	-	516,222	516,222	-	516,222
CASH, END OF THE PERIOD		\$ 367,888	\$ -	\$ 367,888	\$ 117,947	\$ -	\$ 117,947

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13. FIRST TIME ADOPTION OF IFRS (continued)

Notes on GAAP – IFRS Reconciliations

- (a) Previously, under Canadian GAAP, the Company used the straight-line method of calculating vested options and the share-based compensation arising therefrom. Under this method, the fair value of share-based awards with graded vesting was calculated as one grant and the resulting fair value was recognised on a straight line basis over the vesting period.

However, IFRS requires that each tranche of an award with different vesting dates be considered a separate grant for the calculation of fair value, and the resulting fair value is recognised over the vesting period of the respective tranche using the graded vesting method.

As all options outstanding at January 1, 2010 were vested, no adjustment was required at this date. However, adjustments were required for the options granted and the share-based compensation recognized during the year ended December 31, 2010.

- (b) IFRS requires an entity to present, for each component of equity, a reconciliation between the carrying amount at the beginning and end of the period, separately disclosing each change. The Company examined its contributed surplus account and concluded that as at the January 1, 2010 transition date and the comparative dates of March 31, 2010 and December 31, 2010, part of the contributed surplus relates to “Equity settled employee benefit reserve”, part to “Reserves for agent warrants” and part to “Reserves for convertible debt”. As a result, the Company has made a reclassification in the statement of financial position where the previous contributed surplus has been classified as reserves; and in the statement of changes in equity section where the previous contributed surplus has been reclassified into the described reserve accounts.

14. SUBSEQUENT EVENTS

Subsequent to March 31, 2011, 750,000 stock options were cancelled and 30,000 stock options expired unexercised (Note 6(d)).