

**CORONADO RESOURCES LTD.**  
**(An Exploration Stage Company)**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**AUGUST 31, 2011**

**(Prepared by Management Without Audit)**  
**(Expressed in Canadian Dollars)**

*Note: These unaudited financial statements, and the accompanying notes thereto, for the period ended August 31, 2011 have not been reviewed by the Company's auditors.*

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## **NOTICE TO READER**

In accordance with National Instrument 51-102 of the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed the unaudited condensed consolidated interim financial statements for the six months ended August 31, 2011. These financial statements have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

**CORONADO RESOURCES LTD.**  
**(An exploration stage company)**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION**  
**(Prepared by Management Without Audit)**  
**(Expressed in Canadian Dollars)**

	<u>August 31,</u> <u>2011</u>	<u>February 28,</u> <u>2011</u>	<u>March 1,</u> <u>2010</u>
<b>ASSETS</b>			
<i>CURRENT ASSETS</i>			
Cash	\$ 117,270	\$ 26,729	\$ 162,358
Accounts receivable	28,150	10,245	10,177
Prepaid expenses	8,949	9,099	6,302
	154,369	46,073	178,837
PROPERTY, PLANT AND EQUIPMENT	745,534	543,396	598,942
DEPOSITS FOR RECLAMATION	51,965	51,965	53,300
MINERAL PROPERTY INTERESTS (Note 3)	4,813,705	5,050,066	5,072,517
	<u>\$5,765,573</u>	<u>\$5,691,500</u>	<u>\$5,903,596</u>
<b>LIABILITIES</b>			
<i>CURRENT LIABILITIES</i>			
Accounts payable	\$ 143,148	\$ 127,622	\$ 57,071
Loans payable	55,000	-	84,344
	198,148	127,622	141,415
<b>SHAREHOLDERS' EQUITY</b>			
SHARE CAPITAL (Note 4)	9,455,279	9,070,141	8,879,581
CONTRIBUTED SURPLUS	1,708,549	1,699,512	1,833,072
DEFICIT	(5,596,403)	(5,205,775)	(4,950,472)
	<u>5,567,425</u>	<u>5,563,878</u>	<u>5,762,181</u>
	<u>\$5,765,573</u>	<u>\$5,691,500</u>	<u>\$5,903,596</u>

**APPROVED ON BEHALF OF THE BOARD BY:**

"Eugene Larabie" , Director

"Miles Desharnais" , Director

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

**CORONADO RESOURCES LTD.**  
**(An exploration stage company)**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF LOSS AND DEFICIT**  
**(Prepared by Management Without Audit)**  
**(Expressed in Canadian Dollars)**

	<b>Three Months Ended</b>		<b>For the Six Months</b>	
	<b>August 31,</b>		<b>Ended August 31,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<i>OFFICE, GENERAL &amp; ADMINISTRATION EXPENSES</i>				
Business development	\$ 4,656	\$ 5,563	\$ 5,906	\$15,413
Legal & audit	3,224	616	3,224	1,044
Transfer & regulatory	883	3,318	2,564	4,346
Management fees	15,000	15,000	30,000	28,400
Office & sundry	4,763	3,726	6,239	10,479
Insurance	1,477	1,293	1,477	1,293
Telephone	757	552	1,382	1,374
Travel	2,999	-	3,892	2,087
Rent	8,868	9,210	19,586	20,621
Salaries & wages	16,683	15,000	31,683	34,100
Property evaluation	-	-	-	1,330
Stock-based compensation	284,765	-	284,675	-
Foreign exchange	-	-	-	(5,366)
<b>NET LOSS FOR THE PERIOD</b>	<b>\$343,885</b>	<b>\$ 54,277</b>	<b>390,628</b>	<b>115,121</b>
<b>DEFICIT, BEGINNING OF YEAR</b>			<b>5,205,775</b>	<b>4,950,472</b>
<b>DEFICIT, END OF PERIOD</b>			<b>\$5,596,403</b>	<b>\$5,065,593</b>

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

**CORONADO RESOURCES LTD.**  
**(An exploration stage company)**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY**  
**For the Six Months ended August 31, 2011**  
**(Prepared by Management Without Audit)**  
**(Expressed in Canadian Dollars)**

	<u>Common Shares</u>		<u>Contributed Surplus</u>	<u>Deficit</u>	<u>Total</u>
	<u>Number</u>	<u>Amount</u>			
Balance, March 1, 2010	24,123,098	\$8,879,581	\$1,833,072	\$(4,950,472)	\$5,762,181
Loss for the period	-	-	-	(115,171)	(115,171)
Shares issued for cash	50,000	9,000	-	-	9,000
Balance, August 31, 2010	<u>24,173,098</u>	<u>\$8,888,581</u>	<u>\$1,833,072</u>	<u>\$(5,065,593)</u>	<u>\$5,656,060</u>
Balance, March 1, 2011	24,493,098	\$9,070,141	\$1,699,512	\$5,205,775	\$5,563,878
Shares issued for options exercised	730,000	109,500	-	-	109,500
Transfer from contributed surplus on exercise of stock options	-	275,638	(275,638)	-	-
Non-cash stock option compensation charge	-	-	284,675	-	284,675
Loss for the period	-	-	-	(390,628)	(390,628)
Balance, August 31, 2011	<u>25,223,098</u>	<u>\$9,455,279</u>	<u>\$1,423,874</u>	<u>\$(5,596,403)</u>	<u>\$5,567,425</u>

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

**CORONADO RESOURCES LTD.**  
**(An exploration stage company)**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN CASH FLOWS**  
**For the Six Months Ended August 31, 2011**  
**(Prepared by Management Without Audit)**  
**(Expressed in Canadian Dollars)**

	<b>Three Months Ended</b>		<b>For the Six Months</b>	
	<b>August 31,</b>		<b>Ended August 31,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>CASH PROVIDED BY (USED) IN:</b>				
<b>OPERATING ACTIVITIES</b>				
Net loss for period	\$ (343,885)	\$ (54,277)	\$ (390,628)	\$ (115,121)
Items not involving cash				
Stock option compensation	284,675	-	284,675	-
Changes in non cash working capital	(7,576)	(72,030)	(2,228)	(160,743)
Used in operating activities	(66,786)	(126,307)	(108,181)	(275,864)
<b>FINANCING ACTIVITIES</b>				
Loan advances	-	-	55,000	-
Issuance of common shares	(22,000)	9,000	109,500	9,000
Provided by financing activities	(22,000)	9,000	164,500	9,000
<b>INVESTING ACTIVITIES</b>				
Mining equipment additions	(202,138)	-	(202,138)	-
Recovery proceeds	777,550	593,662	777,550	1,057,896
Exploration expenditures	(366,886)	(508,025)	(541,190)	(725,212)
Provided by (used in) investing activities	208,526	85,637	34,222	332,684
<b>INCREASE (DECREASE) IN CASH</b>	<b>119,740</b>	<b>(31,670)</b>	<b>90,541</b>	<b>65,820</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>(2,470)</b>	<b>259,848</b>	<b>26,729</b>	<b>162,358</b>
<b>CASH, END OF PERIOD</b>	<b>\$117,270</b>	<b>\$228,178</b>	<b>\$117,270</b>	<b>\$ 228,178</b>

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

**CORONADO RESOURCES LTD.**  
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**NOTES TO CONDENSED CONSOLIDATED STATEMENTS**  
**For the Six Months Ended August 31, 2011**  
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**1. NATURE OF OPERATIONS AND GOING CONCERN**

The Company is an exploration stage company incorporated under the Business Corporations Act of Yukon on March 1, 1999, engaged in the exploration and development of mineral property interests. On September 22, 2005, the Company changed its name to Coronado Resources Ltd. and now trades on the TSX Venture Exchange under the symbol "CRD".

At February 28, 2011, the Company has working capital deficiency of \$81,549 (February 28, 2010 - working capital of \$37,422). At February 28, 2011, the Company also has an accumulated deficit of \$5,205,775 (February 28, 2010 - \$ 5,950,472). The Company has no property interest in commercial production and is therefore likely to be reliant upon future equity financing to advance its projects to a feasibility stage of development.

These consolidated financial statements have been prepared on a going-concern basis, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

The ability of the Company to continue as a going concern and to meet its commitments as they become due, including completion of the acquisition, exploration and development of its mineral properties, is dependent on the Company's ability to obtain the necessary financing. Management is planning to raise additional capital to finance operations and expected growth, if necessary, or alternatively to dispose of its interests in certain properties. To date the Company has been able to fund operations by the sale of ore on a pre-commercial basis and the completion of equity financings. However, in the event that the Company is unable to continue to obtain such financing on terms that are acceptable to its shareholders, management would be required to curtail the Company's operations. The outcome of these matters cannot be predicted at this time.

The business of mineral exploration involves a high degree of risk and there is not assurance that current exploration projects will result in future profitable mining operation. The Company has significant cash requirements to meet its administrative overhead, pay its debts and liabilities, and is dependent on several factors. These include the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties, and future profitable production of proceeds from disposition of mineral properties. The carrying value of the Company's mineral property interests reflects historical costs incurred and is not intended to reflect current to future values.

These consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

**2. SIGNIFICANT ACCOUNT POLICIES**

**(a) Basis of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned integrated subsidiary, Coronado Resources USA LLC. All significant intercompany balances and transactions have been eliminated upon consolidation.

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**2. SIGNIFICANT ACCOUNT POLICIES (cont'd)**

**b) Statement of compliance and conversion to International Financial Reporting Standards**

These condensed interim financial statements are unaudited and have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting, using accounting policies consistent with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations of the International Reporting Interpretations Committee (IFRIC). They do not include all of the information required for full annual financial statements.

These are the Company's first IFRS condensed interim financial statements for part of the period covered by the first IFRS annual financial statements to be presented in accordance with IFRS for the year ended February 28, 2011. IFRS 1 - First-time Adoption of International Financial Reporting has been applied. Previously the Company prepared its financial statements in accordance with Canadian generally accepted accounting principles ("CGAAP"). IFRS employs a conceptual framework that is similar to CGAAP. Note 11 contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, loss and comprehensive loss along with reconciliation of the statements of financial position as at February 28, 2011 and March 1, 2010 and the statement of comprehensive loss for the year ended February 28, 2011.

The preparation of condensed 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, revenue and expenses. Actual results may differ from these estimates.

The Company has adopted IFRS on March 1, 2011 with a transition dated of March 1, 2010.

**(c) Property and Equipment**

Hydro and mining equipment and trailer are recorded at cost and amortized using a declining-balance method at a rate of 20% annually. Additions during the year are amortized at one-half the annual rate. Amortization of exploration-related assets is included within deferred mineral property costs.

**(d) Mineral Property Interests**

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of cost recoveries from incidental revenues. Incidental revenues are recognized when the product has been delivered to the buyer's plant. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed, the interest is sold or the Company's mineral rights are allowed to lapse.

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**(d) Mineral Property Interests (cont'd)**

All capitalized costs are reviewed annually, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property interest exceeds its net recoverable amount (as estimated by quantifiable evidence of an economic geological resources or reserve or by reference to option of joint venture expenditure commitments) or when, in the Company's assessment, it will be unable to sell the property interest for an amount greater than the deferred costs, provision is made of the impairment in values.

When it has been determined that a mineral property can be economically developed as a result of establishing proven and probable reserves, costs incurred prospectively to develop the property are capitalized and incurred and will be amortized using the unit-of-production method over the estimated life of the ore body based upon recoverable ounces to be mined from estimate proven and probable reserves.

The Company is still in the exploration stage and commercial production has not yet commenced. Hence, amortization has not been charged in these financial statements. Commercial production occurs when an asset of property is substantially complete and ready for its intended use. Revenues realized on the sale of ore prior to the commencement of commercial production are offset against the accumulated costs incurred on the property to which they related, with any excess amounts included in operations.

From time to time the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the Company, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received. Proceeds received on the sale or option of the Company's property are recorded as a reduction of the mineral property cost and recognizes in income those costs that are recovered in excess of the carrying amount.

**(e) Asset Retirement Obligation**

The Company recognizes the fair value of liabilities for asset retirement obligations in the period in which a reasonable estimate of such costs can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is allocated to expenses using a systematic and rational method and is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and revisions to either timing or the amount of the original estimate of the undiscounted cash flow. As at August 31, 2011, the Company did not have any asset retirement obligations.

**(f) Impairment of Long-Lived Assets**

Long-lived assets of the Company are reviewed annually or when changes in circumstances suggest their carrying value has become impaired. Management considers assets to be impaired if the carrying value exceeds the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition. If impairment is deemed to exist, the assets will be written down to fair value. Fair value is generally determined using a discounted cash flow analysis.

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**(g) Income Taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and losses carried forward. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in operation in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

**(h) Stock-Based Compensation**

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments to directors, employees and non-employees. For directors, employees and non-employees, the fair value of the options is accrued and charged either to operations or mineral property interest, with the offset credit to contributed surplus, on the individual vesting periods. If and when the stock options are exercised the applicable amounts are transferred from contributed surplus to capital stock.

**(i) Foreign Currency Translation**

The functional and reporting currency of the Company is the Canadian dollar,. Amounts recorded in foreign currency are translated into Canadian dollars as follows:

- (i) Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet date;
- (ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and
- (iii) Income and expenses (excluding amortization, which is translated at the same rate as the related asset), at the average rate of exchange by quarter.

Gains and losses arising from the translation of foreign currency are included in net loss for the year.

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**(j) Use of Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of estimates include the collectability of accounts receivable, the rates of amortization for property and equipment, the recovery of mineral property interests, valuation of accrued liabilities, assumptions used in the determination of the fair value of stock-based compensation and determination of the valuation allowance for future income tax assets. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

**(k) Financial Instruments**

All financial instruments are classified as one of the following: Held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income (loss). Financial assets held-to-maturity, loans and receivable, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value.

Comprehensive income or loss is defined as the change in equity from transactions and other events from sources other than the Company's shareholders. Other comprehensive income or loss refers to items recognized in comprehensive income or loss that are excluded from net income or loss calculated in accordance with Canadian generally accepted accounting principles.

**(l) Share Capital**

Common shares issued for non-monetary consideration are recorded at the fair market value based upon the trading price of the Company's shares on the TSX Venture Exchange on the date of the agreement to issue the shares. The proceeds of cash unit offerings are split such that the share purchase warrant is independently fair-valued and recorded within contributed surplus, and the residual cash proceeds are allocated to share capital.

**(m) Advances Payable**

Advance payment received for the sale of copper and gold is deferred until the product is delivered to the buyer's plant, at which time the amount is recognized as recovery against the deferred expenditures of mineral property.

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**3. MINERAL EXPLORATION PROPERTIES**

Madison Property, Montana

In April 2005, the Company entered into an agreement to acquire a 100% interest in 18 mineral claims in Montana. The Company paid \$25,000 US to secure the option and is to make payments of \$275,000 US, make share issuances in stages and work commitments of \$1,100,000 in stages; all to be made by April 1, 2009. The Company has completed all payments and work commitments in respect to the agreement. The Company acquired an additional eight unpatented mineral claims adjacent to the property by staking.

True North Property, Quebec

In May 2003, the Company purchased a 100% interest in 304 mining claims situated in the Raglan Mine District, Ungava, Quebec, comprising 30,775 acres. The vendor retained a 1% net smelter return royalty, and the Issuer has the right to purchase one-half of the royalty in consideration of \$1,000,000.

In March, 2004, the Company entered into an agreement to option the Property. The Optionee can earn a 70% interest in the property by expending \$440,000 cumulative in development expenditures over five years to March, 2009. At February 28, 2010, the Company wrote the property down to a nominal value due to inactivity.

	<b>Six Months Ended August 31, 2011</b>	<b>Year Ended February 28, 2011</b>
Mineral Exploration Property- Beginning of period	\$5,050,066	\$5,072,517
Acquisition costs in period	-	-
Expenditures		
- camp costs	18,217	38,478
- assaying	14,979	24,291
- metallurgical testing	16,075	83,278
- drilling	-	48,698
- contracting - surface	16,881	13,891
- fieldwork and wages	105,234	81,131
- consulting and engineering	107,565	105,709
- assessment taxes, royalty	52,917	71,623
- travel	-	3,788
- amortization - equipment	-	55,546
- trucking, transport	21,837	132,035
- mining and ore development	187,474	376,977
	541,190	1,035,445
Mineral recoveries	(777,550)	(1,057,896)
	(236,360)	(22,451)
Mineral Exploration Property, End of Period	\$4,813,705	\$5,050,066

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**4. SHARE CAPITAL**

<i>Authorized: an unlimited number of common shares</i>	<b>Shares</b>	<b>Amount</b>
Balance - February 28, 2009	21,949,098	\$ 8,683,365
Issued for loan fee	320,000	25,600
Issued for mineral property	800,000	64,000
Issued for cash	1,054,000	106,616
Balance - February 28, 2010	24,123,098	8,879,581
Issued for options and warrants	370,000	190,560
Balance - February 28, 2011	24,493,098	9,070,141
Issued for options	730,000	385,138
Balance - August 31, 2011	<u>25,223,098</u>	<u>\$ 9,455,279</u>

**Stock options**

	<b>Amount</b>	<b>Weighted Average Price/Share</b>
Balance - February 28, 2009	2,050,000	.15
Granted in year	300,000	.15
Expired in year	(50,000)	.15
Balance - February 28, 2010	2,300,000	.15
Exercised in year	(320,000)	.15
Expired in year	(590,000)	.15
Balance - February 28, 2011	1,390,000	.15
Granted in period	2,175,000	.15
Exercised in period	(730,000)	.15
Expired in period	(660,000)	.15
Balance - August 31, 2011	<u>2,175,000</u>	<u>.15</u>

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**4. SHARE CAPITAL (cont'd)**

	<b>Amount</b>	<b>Exercise Price/Share</b>
<b>Warrants Outstanding</b>		
Balance - February 28, 2009	NIL	
Issued in year - Expiry Sept 10, 2010	1,024,000	\$.18
Exercised in year	(30,000)	
Balance - February 28, 2010	994,000	
Exercised in period	(50,000)	
Expired in period	(944,000)	
Balance - February 28, 2011 and August 31, 2011	-	

**5. LOAN PAYABLE**

During the period two shareholders, one being the President, loaned the Company \$55,000 which is non-interest bearing without fixed terms of repayment.

**6. RELATED PARTY TRANSACTIONS**

The Company paid \$16,304 for rent to a company controlled by a director in the period. The Company also paid the president \$20,000 for mineral consulting fees in the period. The Company had loan advances due to the president of \$30,000 at the end of the period.

**7. RISK MANAGEMENT**

The Company classifies its cash as held-for-trading; accounts receivable as loans and receivables, deposits for reclamation as held-to-maturity; accounts payable and accrued liabilities and advances payable as other financial liabilities.

The carrying values of cash, accounts receivable, deposits for reclamation, accounts payable and accrued liabilities, and advances payable approximate their fair values due to the expected maturity of these financial instruments.

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

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**7. RISK MANAGEMENT (cont')**

**(a) Credit Risk**

The Company manages credit risk in respect of cash holding at a major Canadian financial institution in accordance with the Company's investment policy.

Concentration of credit risk exists with respect to the Company's cash as the majority of amounts are held at a single major Canadian financial institution. The Company's concentration of credit risk and maximum exposure thereto is as follows:

	<b>August 31, 2011</b>		<b>February 28, 2011</b>
Cash	\$ 117,270	\$	26,729
	\$ 117,270	\$	26,729

The credit risk associated with cash and cash equivalents is minimized by ensuring that these financial assets are placed with major Canadian financial institutions with strong investment-grade ratings by a primary rating agency.

**(b) Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in obtaining funds to meet commitments. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company normally maintains sufficient cash and short-term investments to meet the Company's business requirements. At August 31, 2011 the cash of 117,270 was sufficient to meet the Company's general administrative, property and exploration requirements for the coming period. However, subsequent to the period end the Company received \$560,000 US as proceeds from a private placement. At August 31, 2011, the Company had accounts payable and accrued liabilities of \$143,148 (August 31, 2010 - \$41,800); and loans payable of \$55,000 (August 31, 2010 - \$Nil). Accounts payable are due within three months. Advances payable are repaid by offsetting the related revenue from the sale of ore against the balance due.

**(c) Market Risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

**(i) Interest rate risk**

The Company's cash consists of cash held in bank accounts. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

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**7. RISK MANAGEMENT (cont'd)**

(ii) *Foreign currency risk*

The Company is exposed to foreign currency risk as its mineral exploration activity is mainly through its US subsidiary where transactions are denominated in US dollars. The Company considers the Canadian dollar to be its functional currency and translates the results of foreign operations into Canadian currency using approximately the average exchange rate for the year. The exchange rate may vary from time to time. The Company has not entered into any foreign currency contracts to mitigate this risk. Management has concluded that due to the short-term maturity of these financial instruments, the effect of any exchange rate fluctuations is immaterial.

(iii) *Other price risk*

Other price risk is the risk that the fair or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign exchange risk. The Company's investments are carried at market value, and are therefore directly affected by fluctuation in the market value of the underlying securities. The Company is not exposed to significant other price risk.

**8. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Financial instruments are classified at one of three levels within a fair value hierarchy according to the relative reliability of the inputs used to estimate their values. The three levels of the hierarchy are as follows:

- *Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;*
- *Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and*
- *Level 3: Inputs that are not based on observable market data.*
  
- *The carrying values, fair market values, and fair value hierarchical classification of the Company's financial instruments here have been assessed as Level 1.*

**9. CAPITAL MANAGEMENT**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support future business opportunities. The company defines its capital as shareholders' equity and loans and advances payable. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

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**9. CAPITAL MANAGEMENT (cont'd)**

The Company currently has revenues from the incidental sale of copper and gold, but there is no long-term contract in place; as such, the Company is dependent upon external financing or the sale of assets (or an interest therein) to fund activities. In order to carry future projects and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management review its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements.

**10. SEGMENTED INFORMATION**

The Company's one reportable operating segment is the acquisition and exploration of resource properties. Geographic information is as follows:

	<b>August 31, 2011</b>	<b>February 28, 2011</b>
<i>Assets</i>		
Canada	\$ 18,350	\$ 35,160
United States	5,747,223	5,646,340
	<b>\$ 5,765,573</b>	<b>\$ 5,691,500</b>

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

**11. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")**

An explanation of how the transition from previous GAAP to IFRS has affected the Company's financial position and comprehensive income (loss) is set out in this note.

The accounting policies set out in Note 2 have been applied in preparing the financial statement for the period ended August 31, 2011, the comparative information presented in these financial statements for the year ended February 28, 2011 and in the preparation of an opening IFRS Balance Sheet at March 1, 2010 (the Company's date of transition).

IFRS 1, which governs the first-time adoption of IFRS, generally requires accounting policies to be applied retrospectively to determine the opening balance sheet on the transition date of March 1, 2010, and allows certain exemptions on the transition of the transition to IFRS. The elections the Company have chosen to apply and that are considered significant to the Company include:

**a) First time adoption exemptions applied**

(i) Decommissioning liabilities included in the cost of property, plant and equipment:

The Company has applied IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities ("IFRIC 1") as of the date of transition to IFRS. IFRIC 1 requires specific changes in decommissioning, restoration or similar liabilities to be added or deducted from the cost of the asset to which it relates and the adjusted depreciable amount of the asset to then be depreciated prospectively over its remaining useful life. IFRS 1 provides the option to measure the restoration provision at the date of transition in accordance with the requirement of IAS 37.

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**11. TRANSITION TO IFRS (cont'd)**

Accordingly the Company re-measured the provisions at the date of transition under IAS 37, and estimated the amount to be included in the cost of the related asset by discounting the liability to the date which the liability first arose. The Company did this using best estimates of the historical risk-free discount rates.

(ii) Share-based payments transactions

IFRS 1 encourages, but does not require a first time adopter to apply IFRS 2 Share-based Payment ("IFRS 2") to equity instruments that were granted on or before November 7, 2002, or were granted after November 7, 2002 but vested before the Company's IFRS transition date. Accordingly, the Company chose to not retrospectively apply IFRS 2 to share-based payments settled before the transition date.

**b) Reconciliation of assets, liabilities, equity, comprehensive income and cash flows of the Company from those reported under Canadian GAAP to IFRS**

IFRS 1 requires an entity to reconcile equity and comprehensive income for prior periods presented under Canadian GAAP to IFRS as of the same date. In addition, an explanation is required for any material adjustments to cash flows to the extent that they exist. The analysis which follow represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted:

(in thousands of Canadian dollars)

**Assets**

	<b>February 28, 2011</b>	<b>August 31, 2010</b>	<b>March 1, 2010</b>
Total assets under Canadian GAAP	\$ 5,691	\$ 5,698	\$ 5,903
Adjustments for differing accounting treatments	-	-	-
<b>Total assets under IFRS</b>	<b>\$ 5,691</b>	<b>\$ 5,698</b>	<b>\$ 5,903</b>

**Liabilities**

	<b>February 28, 2011</b>	<b>August 31, 2010</b>	<b>March 1, 2010</b>
Total liabilities under Canadian GAAP	\$ 128	\$ 42	\$ 141
Adjustments for differing accounting treatments	-	-	-
<b>Total liabilities under IFRS</b>	<b>\$ 128</b>	<b>\$ 42</b>	<b>\$ 141</b>

**Equity**

	<b>February 28, 2011</b>	<b>August 31, 2010</b>	<b>March 1, 2010</b>
Total equity under Canadian GAAP	\$ 5,564	\$ 5,656	\$ 5,762
Adjustments for differing accounting treatments	-	-	-
<b>Total equity under IFRS</b>	<b>\$ 5,564</b>	<b>\$ 5,656</b>	<b>\$ 5,762</b>

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**11. TRANSITION TO IFRS (cont'd)**

Reconciliation GAAP to IFRS (cont'd):

The Canadian GAAP Consolidated Statement of Comprehensive Loss for the six-month period ended August 31, 2010 has been reconciled to IFRS as follows:

(in thousands of Canadian dollars)

	Canadian GAAP	Effect of transition to IFRS	IFRS
Net loss for the period	\$ (115)	\$ -	\$ (115)
Deficit, beginning of the year	4,950	-	(4,950)
<b>Deficit, end of the period</b>	<b>\$ (5,065)</b>	<b>\$ -</b>	<b>\$ (5,065)</b>

The Canadian GAAP Consolidated Statement of Comprehensive Loss for the year ended February 28, 2011 has been reconciled to IFRS as follows:

(in thousands of Canadian dollars)

	Canadian GAAP	Effect of transition to IFRS	IFRS
Net loss for the year	\$ (256)	\$ -	\$ (256)
Deficit, beginning of the year	(4,950)	-	(4,950)
<b>Deficit, end of the year</b>	<b>\$ (5,206)</b>	<b>\$ -</b>	<b>\$ (5,206)</b>

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**11. TRANSITION TO IFRS (cont'd)**

The following notes explain the significant differences between Canadian GAAP and the current IFRS accounting policies applied by the Company. These differences were considered and resulted in no adjustments to the tables above.

A) *Decommissioning and restoration provisions*

Consistent with IFRS, restoration provisions have been previously measured based on the estimated cost of restoration, discounted to its net present value upon initial recognition. However, adjustments to the current discount rate were not reflected in the provisions or the related assets under Canadian GAAP unless there was an upward revision in the future cost estimates. The Company elected to apply the exemption from full retrospective application as allowed under IFRS 1. As such, the Company has re-measured the restoration provision as at the transition date under IAS 37, and estimated the amount to be included in the related asset by discounting the liability to the date in which the liability arose.

B) *Statement of cash flows*

The transition from Canadian GAAP to IFRS had not impact on cash and cash equivalents. The Company made the following changes and reclassifications to cash flows resulting from the transition to IFRS:

- The foreign exchange loss on cash and cash equivalents is separated into its own reconciling line item on the statement of cash flows.

C) *Share-based payment transactions*

IFRS 2 Share-based Payment has not been applied to equity instruments that were granted on or before November 7, 2002, nor has it been applied to equity instruments granted after November 7, 2002 that vested before January 1, 2010.

Under previous GAAP, the Company recognized an expense related to share based compensation on graded vesting schedule from the grant date to full vesting but did not incorporate a forfeiture rate at the grant date. Under IFRS, the Company is required to recognize the expense over the individual vesting periods for the graded vesting awards and estimate a forfeiture rate at the date of grant and update it throughout the vesting period. The impact on transition was nil as all stock options vested on date of granting.