



HALF-YEAR FINANCIAL STATEMENTS

FOR SIX MONTHS ENDED 31 DECEMBER 2008

ASX Code: ARE
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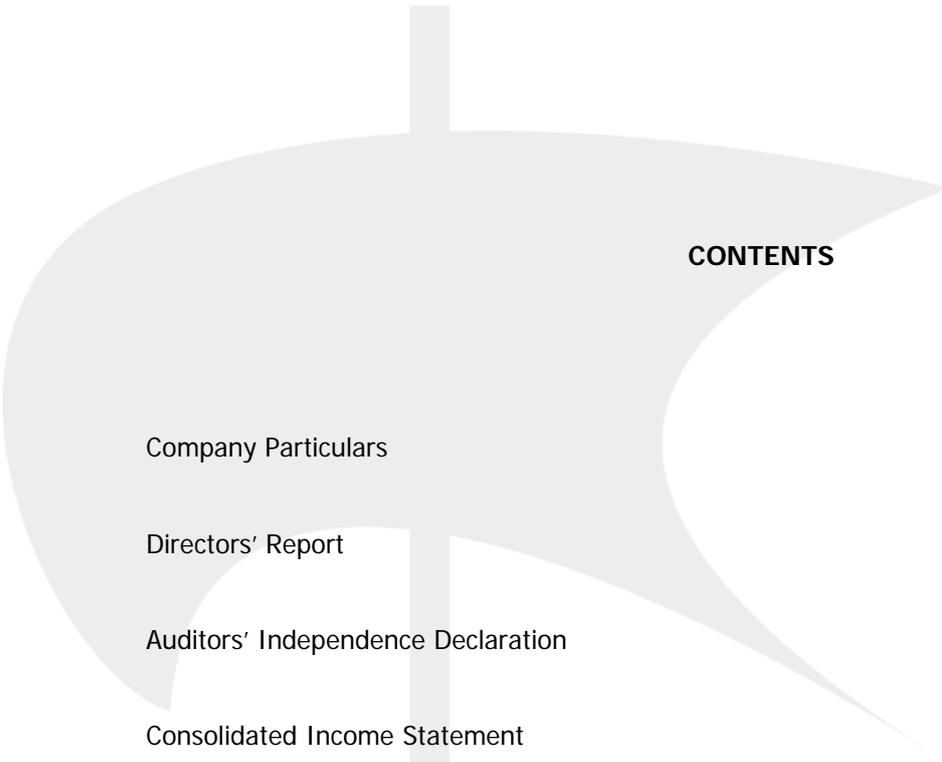
Head Office

Suite 4, Level 7
60 Park Street
Sydney 2000 Australia
T: +61 2 9268 5186
F: +61 2 9268 5188
E: sydney@argonautresources.com

Laos

Unit 3, Level 5
Vientiane Commercial Building
33, Lane Xang Avenue
Vientiane, Laos
T: +856 21 222 731
F: +856 21 240 281
E: laos@argonautresources.com

www.argonautresources.com

CONTENTS

	Page No.
Company Particulars	3
Directors' Report	4
Auditors' Independence Declaration	8
Consolidated Income Statement	9
Consolidated Balance Sheet	10
Consolidated Statement of Changes in Equity	11
Statement of Cash Flow Statement	12
Notes to the Financial Statements	13
Directors' Declaration	19
Independent Review Report to the Members	20

COMPANY PARTICULARS

Directors

Patrick J D Elliott

Independent Non Executive Chairman

Graeme A Ellis

Managing Director

Geoff N Williams

Independent Non Executive Director

Lindsay J Owler

Exploration Director

Company Secretary

Graeme A Ellis

Registered Office

Suite 4, Level 7
60 Park Street
Sydney NSW 2000

T: 02 9268 5186

F: 02 9268 5188

E: sydney@argonautresources.com

Laos Office

Unit 3, Level 5
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Vientiane, Laos PDR

T: +856 21 222 731

F: +856 21 240 281

E: laos@argonautresources.com

Auditor

Ernst & Young
Ernst & Young Centre
680 George Street
Sydney NSW 2000

Share Register

Registries Limited
Level 7, 207 Kent Street
Sydney NSW 2000

Solicitors

Watson Mangioni
50 Carrington Street
Sydney NSW 2000

Stock Exchange Listing

Argonaut Resources NL's shares are quoted
on the Australian Stock Exchange
Stock code 'ARE'

Website

www.argonautresources.com

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity (referred to hereafter as 'the Group') consisting of Argonaut Resources NL and the entities it controlled at the end of, or during, the half-year ended 31 December 2008.

DIRECTORS

The following persons were Directors of Argonaut Resources NL during the whole of the half-year and up to the date of this report.

Patrick J D Elliott

(Independent Non Executive Chairman)

Geoff N Williams

(Independent Non Executive Director)

Graeme A Ellis

(Managing Director)

Lindsay J Owler

(Exploration Director)

REVIEW OF OPERATIONS

The consolidated loss of the consolidated entity for the six months to 31 December 2008, after providing for any income tax, was \$622,011. (2007: \$580,233 loss).

PRINCIPAL ACTIVITIES

During the half-year the principal continuing activities of the consolidated entity were directed toward identifying resource opportunities capable of exploration to increase value with clear emphasis on projects capable of early development into production.

EXPLORATION

Laos

Century Area (Argonaut 70%)

Coherent gold targets at Houai Khouay, in central Century block, remain a focus for the Company. Targets were defined by soil anomalies and a highly successful trenching program, announced last year.

Houai Khouay Prospect

The dry season exploration program commenced at the company's Houai Khouay gold prospect, at the Century tenement in Western Laos during the period.

The gold mineralisation at Houai Khouay, as defined by trenching, appears to be coherent and robust over potentially economic widths.

The mineralisation is found in a swarm of quartz veins, with individual veins up to 5m in thickness. Three distinct types of quartz have been identified at Houai Khouay: sugary (textured) quartz, milky (coloured) quartz and sulphide bearing 'quartz box-work'. It's the later quartz type that carries economic gold grades seen to date.

Structural geological mapping shows these veins are generally shallow dipping (40-50 degrees).

Recent trenching, and in some cases, pitting, has focused on exposing and 'chasing' quartz box-work veins throughout the prospect in preparation for drilling.

The quartz veins are hosted near the margin of an intrusive mafic body, interpreted to be part of broader, fractionated, intrusive igneous system. Geologists have confirmed the presence of diorite and quartz-monzonite in the Houai Khouay area lending weight to this theory.

The combination of: strong gold and pathfinder element geochemistry; an extensive and densely packed system of quartz veins; and a favourable, intrusive igneous setting, make the Houai Khouay gold prospect truly exciting.

The company commenced reverse circulation drilling at Houai Khouay in February 2009.

Nam Hone East

Argonaut has contingent plans in the current dry season to drill test the nickel targets at Nam Hone East where trenching returned intercepts up to 22m at 1.0% Ni. Up to 500m of RC drilling is planned to provide unoxidised sample for metallurgical testwork.

Xekong Area (Argonaut 65%)

The company has defined seven prospective areas over the 588 square kilometre tenement at Xekong. The most prospective area defined by reconnaissance sampling is a prospect known as Ban Bak.

Field work was not undertaken at Xekong in the period.

Ban Bak Prospect

The principal gold mineralisation at Ban Bak appears to be strata-bound, replacement style gold mineralisation hosted in a silicified mudstone, stratigraphically above a decalcified bioclastic limestone.

Mineralisation at Ban Bak is spatially associated with porphyry intrusions which, in many cases, are related to separate economically viable deposits.

The mineralised areas were identified using a gold, arsenic and antimony geochemical signature in soil samples. This geochemical 'fingerprint' has been used in the discovery of numerous economic gold deposits.

Australia

Kroombit Zn-Cu Deposit (Argonaut 100%)

During the period Argonaut completed the resource drilling program at the Kroombit copper-zinc deposit in Central Queensland.

The program comprised 184 Reverse Circulation holes for a total of approximately 14,678 metres.

These results are now being used to progress the resource calculation at Kroombit to JORC standards.

The results indicate that copper mineralisation within the system is more extensive than anticipated. Typically, copper mineralisation is discrete from zinc mineralisation with only minor zones of mixed, copper/zinc sulphides.

Mineralisation is generally evident from surface and drill logging plus sulphur values from multi-element geochemistry indicate that the oxide zone is typically limited in its depth extent.

The Kroombit copper-zinc deposit is a skarn-style mineral deposit hosted in Devonian age sediments and volcanics with interpreted associated porphyritic intrusive rocks.

EL3195, Torrens (Argonaut 100%)

During the period Argonaut and its Joint Venture partner, Straits Resources Ltd., closely monitored ongoing third-party legal proceedings which will affect the timing of further access negotiations.

The JV has maintained a constant presence at the Torrens site throughout the period at the substantial campsite constructed by Straits on Andamooka Island (within the tenement) for the purpose of deep diamond drill programs and other associated exploration works.

No exploration was undertaken at Torrens during the period.

The Torrens Project is located in South Australia's Gawler Craton region (Stuart Shelf), within 50 kilometres of Teck Cominco's Carapateena copper-gold discovery and 75 kilometres from BHP's Olympic Dam mine.

The project contains strong magnetic and gravity anomalies with previous drilling by WMC Ltd intersecting intense magnetite and haematite alteration typical of Olympic Dam and Carapateena style ore bodies in SA.

Straits Resources Ltd. has the right to earn a 70% interest in the project, pursuant to the terms of the Joint Venture, by spending \$7 million on exploration. Argonaut currently holds 100%.

EL3037, Alford

Argonaut's Joint Venture partner, Hillgrove Resources Ltd can earn a 70% interest by spending \$4 million on exploration.

EL3193 and EL3075, Aroona

No exploration work was undertaken on EL3195 or EL3075 during the period. These tenements are currently subject to a joint venture agreement with Perilya Limited.

Irregularities in Financial Records Update (see note 8)

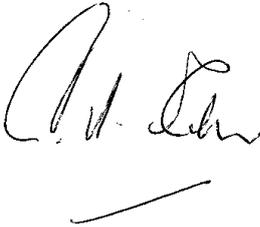
As disclosed in the 30 June 2008 Annual Report, the Company became aware of irregularities in its financial records which are consistent with fraudulent misappropriation of funds. At the date of this report, the fraud investigation is ongoing.

To date \$2,816,907 of fraudulent transactions have been recorded during the period 2002 to September 2008. The Directors of the Company continue to pursue various avenues to maximise the recovery of misappropriated funds.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 8.

This report is made in accordance with a resolution of the Directors.



Graeme A Ellis
Director

13th March 2009

Sections of information contained in this report that relate to Exploration Results and Mineral Resources were compiled or supervised by Mr Lindsay Owler BSc, MAusIMM who is a Member of the Australasian Institute of Mining and Metallurgy and is a full time employee of Argonaut Resources NL. Mr Owler has sufficient experience which is relevant to the style of mineral deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Mr Owler consents to the inclusion in this report of the matters based on his information in the form and context in which it appears

Auditor's independence declaration to the directors of Argonaut Resources NL

In relation to our review of the financial report of Argonaut Resources NL for the half-year ended 31 December 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'M. Elliott'.

Michael Elliott
Partner

Sydney
13 March 2009

**ARGONAUT RESOURCES NL
CONSOLIDATED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008**

CONSOLIDATED			
	Note	31 December 2008 \$	31 December 2007 Restated \$
Revenue		339,025	163,506
Accounting, audit & legal fees	3	(442,125)	(101,617)
Office administration expenses		(45,221)	(86,597)
Office lease & maintenance costs		(9,895)	(24,869)
Foreign exchange loss		-	(39,120)
Travel expenses		(21,251)	(128,985)
ASX and registry fees		(33,783)	(10,082)
Borrowing costs		(4,040)	(2,612)
Depreciation expense		(18,994)	(27,865)
Director & employee benefits		(385,727)	(321,992)
Loss before income tax expense		(622,011)	(580,223)
Income tax expense		-	-
Loss after tax for the period		(622,011)	(580,223)
Loss Attributable to Members of Argonaut Resources NL		(622,011)	(580,223)
Loss Per Share Attributable to the Ordinary Equity Holders Of The Company:			
Basic loss per share (cents)		(0.38)	(0.39)
Diluted loss per share (cents)		(0.38)	(0.39)

The above consolidated income statement should be read in conjunction with the accompanying notes.

ARGONAUT RESOURCES NL
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2008

	Note	CONSOLIDATED	
		31 December 2008 \$	30 June 2008 Restated \$
ASSETS			
Current assets			
Cash and cash equivalents		8,478,695	12,352,643
Other current assets		325,125	130,782
Total current assets		8,803,820	12,483,425
Non-current assets			
Available for sale financial assets	4	540,000	1,183,218
Property, plant and equipment		572,930	94,948
Exploration and evaluation assets	7	11,521,348	6,855,342
Total non-current assets		12,634,278	8,133,508
Total assets		21,438,098	20,616,933
LIABILITIES			
Current liabilities			
Payables		951,213	804,987
Interest bearing liabilities		22,279	29,088
Total current liabilities		973,492	834,075
Non-current liabilities			
Provisions		119,983	190,063
Total non-current liabilities		119,983	190,063
Total liabilities		1,093,475	1,024,138
Net assets		20,344,623	19,592,795
EQUITY			
Contributed equity	5	27,698,987	27,698,987
Reserves		(71,281)	(1,445,120)
Retained losses		(7,283,083)	(6,661,072)
Total equity		20,344,623	19,592,795

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

ARGONAUT RESOURCES NL
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

	CONSOLIDATED	
	31 December 2008 \$	31 December 2007 Restated \$
Total equity at the beginning of the half-year as previously reported	19,872,630	8,146,566
Prior period adjustments (note 8)	(279,835)	(387,501)
Restated total equity at the beginning of the half-year	19,592,795	7,759,065
Exchange differences on translation of foreign operations	2,027,686	(615,948)
Changes in the fair value of available for sale financial assets, net of tax	(653,847)	-
Net income recognised directly in equity	1,373,839	(615,948)
Loss for the half-year	(622,011)	(580,233)
Total recognised income and expense for the half-year	751,828	(1,196,181)
Transactions with equity holders in their capacity as equity holders:		
Contributions of equity, net of transactions costs	-	11,405,306
Total equity at the end of the half-year	20,344,623	17,968,190
Total recognised income and expense for the half-year is attributable to:		
Members of Argonaut Resources N.L.	751,828	(1,196,181)

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

ARGONAUT RESOURCES NL
CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

	CONSOLIDATED	
	31 December 2008	31 December 2007 Restated
	\$	\$
<i>Cash Flows from Operating Activities</i>		
Payments to suppliers and employees (inclusive of goods and services tax)	(1,014,612)	(1,144,130)
Interest received	297,438	163,506
Borrowing costs	(4,040)	(2,612)
GST refund received	-	111,250
Receipts from other debtors	-	36,968
Net cash outflow from operating activities	(721,214)	(835,018)
<i>Cash Flows from Investing Activities</i>		
Exploration expenditure	(2,648,949)	(976,248)
Payments for property, plant and equipment	(496,975)	-
Net cash outflow from investing activities	(3,145,924)	(976,248)
<i>Cash Flows from Financing Activities</i>		
Proceeds from share issue	-	12,076,000
Share issue transactions costs	-	(714,694)
Finance lease principal repayments	(6,810)	(6,578)
Net cash inflow/(outflow) from financing activities	(6,810)	11,354,728
Net increase/(decrease) in cash and cash equivalents	(3,873,948)	9,543,462
Cash and cash equivalents at the beginning of the half-year	12,352,643	2,329,998
Effects of exchange rate changes on cash	-	(39,120)
Cash and cash equivalents at the end of the half-year	8,478,695	11,834,340

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

ARGONAUT RESOURCES NL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

1. Basis of Preparation and Accounting Policies

This general purpose financial report for the half-year ended 31 December 2008 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This half-year financial report does not include all the notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2008 and considered together with any public announcements made by Argonaut Resources NL during half-year ended 31 December 2008 in accordance with the continuous disclosure obligations of the ASX listing rules.

The half-year financial report has been prepared in accordance with the historical cost convention, except for certain assets, which are at fair value. For the purposes of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

The financial report is presented in Australian Dollars.

The Group has not elected to early adopt any new standards or amendments.

2. Segment Information

The economic entity operates predominantly in the one industry and in two geographical areas, namely mineral exploration and evaluation in Australia and Laos.

Primary Reporting Format – Business Segments

31 December 2008	Australia	Laos	Consolidated
	\$	\$	\$
Total segment revenue	339,025	-	339,025
Total revenue			339,025
Segment result	(604,761)	(17,250)	(622,011)
Loss from operations before related income tax expense			(622,011)

2. Segment Information (continued)

31 December 2007	Australia	Laos	Consolidated
	\$	\$	\$
Total segment revenue	163,506	-	163,506
Total revenue			163,506
Segment result	(563,358)	(16,875)	(580,223)
Loss from operations before related income tax expense			(580,223)

3. Accounting, Audit and Legal Fees

	Consolidated	
	31 December 2008	31 December 2007
	\$	\$
Fraud investigation:		
Forensic investigation	162,796	-
Legal costs	196,284	-
Accounting, audit and legal fees	83,045	101,617
	442,125	101,617

4. Available for Sale Financial Assets

	Consolidated	
	31 December 2008 \$	30 June 2008 \$
Investment in listed securities (a)	540,000	1,183,218

- (a) As at 31 December 2008, the Group holds 4 million shares in Hillgrove Resources Limited. The market value of the shares at balance date was \$540,000 or 13.5 cents per share. The fair value adjustment of \$653,847 has been recorded directly against reserves to reflect the change in value.

5. Contributed Equity

	CONSOLIDATED		CONSOLIDATED	
	31 December 2008 Shares	30 June 2008 Shares	31 December 2008 \$	30 June 2008 \$
Equity securities issued	165,244,720	165,244,720	27,698,987	27,698,987

6. Share Based Payments

The following unlisted options were on issue at balance-date.

Number	Date of Issue	Exercise Price	Expiry
2,500,000	30/11/2004	\$0.30	15/12/2009
500,000	30/11/2004	\$0.30	10/09/2009
500,000	31/10/2005	\$0.30	09/11/2009
5,000,000	29/11/2007	\$1.00	29/11/2009
8,500,000			

Options	Consolidated		Consolidated	
	31 December 2008 Options	30 June 2008 Options	31 December 2008 \$	30 June 2008 \$
Unlisted options:				
Opening Balance	8,500,000	3,500,000	48,633	48,633
Option issued	-	5,000,000	-	-
Closing Balance	8,500,000	8,500,000	48,633	48,633

Fair Value of Options Granted

The assessed fair value at the grant date of options issued during the year ended 30 June 2008 was zero per option. The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate of the term of the option.

The model inputs for the options granted during the year ended 30 June 2008 included:

- i. options are granted for no consideration and are vested upon issue
- ii. exercise price: \$1.00
- iii. grant date: 30 November 2007
- iv. expiry date: 29 November 2009
- v. share price at grant date: \$0.52
- vi. expected price volatility of the company's shares: 22%
- vii. risk free interest rate: 6.4%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

7. Exploration and Evaluation Assets

	Consolidated	
	31 December 2008	30 June 2008
	\$	\$
Exploration assets – opening balance	6,855,342	5,783,227
Expenditure incurred during the half-year	2,901,255	2,248,712
Exchange differences	1,764,751	(1,115,562)
Exploration assets disposed	-	(61,035)
Exploration assets – closing balance	11,521,348	6,855,342

8. Prior Period Adjustments

Classification of Expenses	CONSOLIDATED			Note
	31 December 2007 \$ Previously Disclosed	\$ Adjustment	31 December 2007 \$ Restated	
Employee & director benefits	348,992	(27,000)	321,992	a
Audit, accounting & legal expenses	128,688	(27,071)	101,617	a
Office administration expenses	114,372	(27,775)	86,597	a
Statutory expenses	40,493	(30,411)	10,082	a
Travel expenses	211,524	(82,539)	128,985	a
Depreciation expense	10,990	16,875	27,865	b
Loss before income tax	758,154	(177,921)	580,233	a,b

30 June 2008

Consolidated

Balance Sheet classification	30 June 2008		30 June 2008	Note
	\$ Previously disclosed	\$ Adjustment	\$ Restated	
Property plant & equipment	143,687	(48,739)	94,948	b
Exploration and evaluation assets	6,907,611	(52,269)	6,855,342	b
Total non current assets	8,234,611	(101,102)	8,133,509	
Total assets	20,717,941	(101,007)	20,616,934	b
Trade and other payables	676,160	128,827	804,987	a
Total current liabilities	705,248	128,827	834,075	a
Provisions	140,063	50,000	190,063	a
Total non current liabilities	140,063	50,000	190,063	a
Total liabilities	845,311	178,827	1,024,138	a
Net assets	19,872,630	(279,835)	19,592,795	a,b
Accumulated losses	6,381,237	279,835	6,661,072	a,b
Total equity	19,872,630	(279,835)	19,592,795	

(a) Irregularities in Financial Records

Due to the discovery of irregularities in the financial records as previously disclosed, the 31 December 2007 consolidated loss before tax was understated by \$177,921. The error also had the effect of overstating consolidated retained earnings by \$177,971.

In addition to the overstatement of consolidated loss before tax, as noted above, the classification of expenses on the income statement was also affected. The table above shows the changes recorded against each expense classification affected, including consolidated loss before tax.

The 31 December 2007 consolidated statement of changes in equity has been restated to reflect the impact of the irregularities in opening equity at 1 July 2007 of \$387,501.

The consolidated cash flow statement of the half-year to 31 December 2007 has been restated. Payments made to suppliers and employees was understated by \$207,112; GST refund received was overstated by \$19,728; receipts from other debtors were understated by \$36,968; and exploration expenditure was overstated by \$189,872.

In respect of the 30 June 2008 balance sheet, the error had the effect of understating total liabilities by \$178,827. The error also had the effect of overstating consolidated equity by \$178,827.

The error has been corrected by restating each of the affected financial statement line items for the prior year, as described in the table above.

Basic & diluted loss per share for the prior year have been restated. The amount of the correction for both basic and diluted loss per share was a reduction of 0.18 cents per share.

(b) Depreciation

An adjustment of \$16,875 has been recorded in respect depreciation of non exploration related plant, property and equipment which has been capitalised within exploration and evaluation assets in the 31 December 2007 half-year financial statements and the 30 June 2008 financial statements. Depreciation expense relating to non exploration related plant, property and equipment has been adjusted to recognise this expense in the income statement of the period to which it relates and in accumulated depreciation.

The error had the effect of overstating property, plant and equipment by \$48,739 and exploration and evaluation assets by \$52,269.

9. Contingent Liabilities

The consolidated entity has contingent liabilities at 31 December 2008 in respect of:

Native Title

Tenements in which the company has an interest are covered by one or more Native Title claims or are within aboriginal lands. The estimated contingent liability with respect to Native Title claims is not expected to exceed \$100,000. No material losses are anticipated in respect of this contingent liability.

Deferred Laos Acquisition Costs

On completion of a bankable feasibility study relating to Century or Xekong tenements and the issue of a mining licence for either tenement on terms acceptable to the Company, the Company is required to pay within 5 days US\$450,000 (Century) or US\$700,000 (Xekong) respectively in deferred acquisition costs.

There are no other material contingent liabilities relating to the Company and/or the Group.

10. Events Occurring After Balance Date

No matters or circumstances have arisen since 31 December 2008 that have significantly affected or may significantly affect:

- i. the consolidated Company's operations in future financial years; or
- ii. the results of those operations in future financial years; or
- iii. the consolidated Company's state of affairs in future financial years.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Argonaut Resources NL, I state that:

In the opinion of the directors:

- (a) The financial statements and notes of the consolidated entity are in accordance with the *Corporation Act 2001*, including:
 - i. Giving a true and fair view of the financial position as at 31 December 2008 and the performance of the half-year ended on that date for the consolidated entity
 - ii. Complying with the Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable

On behalf of the board



Graeme A Ellis
Director

13th March 2009

Independent auditor's report to the members of Argonaut Resources NL

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Argonaut Resources NL which comprises the balance sheet as at 31 December 2008 and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and its performance for the half-year period ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* and other mandatory financial reporting requirements in Australia. As the auditor of Argonaut Resources NL and the entities it controlled during half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Basis for Qualified Review Conclusion

As set out in Note 6 to the half-year financial statements, the company issued 5 million share options to the directors on 30 November 2007 for which a nil value has been determined based on the assumptions set out in Note 6. In our opinion, the share price volatility assumption used to value those share options is inappropriate and the value of those options should have been approximately \$575,000. Accordingly, for the consolidated entity:

- the directors expense for the half-year ended 31 December 2007 and the associated share based payment reserve within equity should be higher by that amount;
- the net loss for the half-year ended 31 December 2007 and the retained losses for the year ended 30 June 2008 and the half-year ended 31 December 2008 should be higher by that amount; and
- consolidated basic and diluted loss per share at 31 December 2007 would be higher by approximately 0.39 cents per share.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter, other than the effect on the comparative periods of the matter referred to in the preceding paragraph, that makes us believe that the interim financial report of Argonaut Resources NL is not in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



Michael Elliott
Partner

Sydney
13 March 2009