

ANNUAL REPORT

EL65/2004, DERBY AREA, NORTH EAST TASMANIA

(For the period 22nd November 2008 to 21st November 2009)

**Arcadia Resources Ltd
Suite 304, 22 St. Kilda Road
ST. KILDA VIC 3182**

Prepared by Dr Hugh K Herbert
Arcadia Resource Ltd
Suite 304, 22 St. Kilda Road
ST. KILDA VIC 3182

5th February 2009

Abstract

During the previous reporting period, Arcadia Resources Ltd entered into an Agreement with Kintore Resources Ltd (Kintore) to undertake an Initial Public Offering (IPO) to list and raise capital for comprehensive exploration of EL65/2004, Derby, north-east Tasmania. The Prospectus, lodged with ASIC at the onset of the global economic recession on 17th October, 2008, failed to achieve the minimum subscription of \$3.5 million to list and had to be withdrawn. A copy of the Kintore Prospectus comprises Appendix 1.

Subsequently, Arcadia entered into acquisition discussion with ASX-listed Argo Exploration Ltd (ASX Code: AXT) to acquire the issued capital of Arcadia in a script for script transaction. Given existing related party issues, and as part of the due diligence process, an Independent Valuation of EL65/2004 was commissioned. The Independent Valuation by Veronica Webster Pty Ltd comprises Appendix 2.

The value of the tenement was placed in the range of \$80K to \$325K, with the preferred value being \$190,000. Based on this low valuation, the Directors of Argo Exploration Ltd concluded that the contemplated transaction was not fair and reasonable for its shareholders and, hence, terminated the acquisition process.

Following release of the Independent Valuation, and having regard for the compounding negative impact of low tenement valuation and failure of the nearby Van Dieman Mines alluvial tin/gemstones operations on capital raising, the Directors of Arcadia Resources Ltd, and its corporate advisors, have been engaged in a comprehensive internal review of the economic merits of the project moving forward. This review is ongoing and is expected to be concluded by June 2010.

Contents

Introduction

Review of Previous Work

Work Completed During the Report Period

Discussion of Results

Conclusions

Environment

Expenditure

Key Words

Two Appendices accompany this Report:

Appendix 1

Prospectus – Kintore Resources Ltd (ACN 128 761 688). For the issue of up to 25,000,000 shares at an issue price of 20 cents each to raise up to \$5,000,000. 17th October, 2008: 84p.

Appendix 2

Davis, L.W. – Independent Geologist's Valuation Report on Tin Exploration Property of Arcadia Resources Limited in Tasmania. Veronica Webster Pty Ltd, Brisbane, 16th October 2009: 22p.

This Report is accompanied by a DVD containing an electronic copy of the report.

Introduction

The prime objective of Arcadia Resources Ltd (Arcadia) during the reporting period has been to raise capital to advance comprehensive exploration of residual exhumed and buried deep leads within EL65/2004.

Arcadia had previously entered into an Agreement with Kintore Resources Ltd (Kintore) to undertake IPO/listing obligations. The timing of an IPO (17th October, 2008) was unfortunate, coinciding with a catastrophic collapse in global equities/resources markets with the result that the minimum subscription to list of \$3.5 million was not achieved and the Prospectus was withdrawn. A copy of the Kintore Prospectus comprises Appendix 1.

Subsequently, Arcadia entered into acquisition discussion with ASX-listed Argo Exploration Ltd (Argo - ASX Code: AXT) to acquire the issued capital of Arcadia in a script for script transaction. With in excess of \$4 million cash at hand, Argo had the financial capacity to undertake all necessary exploration of EL65/2004. However, given existing related party issues, and as part of the due diligence process, an Independent Valuation of EL65/2004 was commissioned. The Independent Valuation by Veronica Webster Pty Ltd comprises Appendix 2.

The value of the tenement was placed in the range of \$80K to \$325K, with the preferred value being \$190,000. Based on this low valuation, the Directors of Argo concluded that the contemplated transaction was not fair and reasonable and not in the best interests of its shareholders and, hence, terminated the acquisition process.

Following release of the Independent Valuation, and having regard for the compounding negative impact of low tenement valuation and failure of the nearby Van Dieman Mines alluvial tin/gemstones operations on capital raising, the Directors of Arcadia, and its corporate advisors, have been engaged in a comprehensive internal review of the economic merits of the project moving forward. This review is ongoing and is expected to be concluded by June 2010.

This Report refers to EL65/2004 (originally held by P. W. Askins and J. I. Stewart) Derby Deep Leads Tin Project centered on Derby NE Tasmania. The tenement was granted for a five year period effective 22nd November 2005 and was the subject of a registered Agreement to acquire for the purposes of an IPO with Arcadia. Consistent with the terms of the Agreement, the title has been transferred to Arcadia Resources Ltd.

Review of Previous Work

The following documents, submitted as Appendices 1 to 3 with the 2007 Annual Report, coupled with Appendices 1 and 2 of this Report, provide a comprehensive review of relevant records, data and literature pertinent to the current tenement:

P.W. Askins and J.I Stewart (2007): Report on Prospectivity of EL65/2004, Derby Deep Leads Tin Project, Tasmania: March 2007, 43 pp.

S. Mann (2008): Scottsdale NanoTEM Survey, Logistics Summary, January 2008 for Arcadia Resources Limited: Report No. 780, Zonge Engineering & Research Organization (Australia) Pty Ltd, February 2008, 16pp. (Plus Station Plot, Raw Data, Processed Data and 780 NanoTEM Processed Data Files)

M.F. Stephens (2008): Completion Report on Geophysical Survey Conducted by Zonge Engineering on Behalf of Arcadia Resources Within Exploration Licence 65/2004 Situated in NE Tasmania, January 2008: Luksam Consultants, 19th February 2008, 16pp.

Exploration Completed During the Report Period

No in-ground exploration was undertaken during the reporting period. Work consisted of capital raising initiatives and the preparation of an Independent Valuation (Appendix 2) as a necessary adjunct to project financing.

Discussion of Results

The combination of the global economic recession, failure of the nearby Van Dieman Mines alluvial tin/gemstone operations and the sobering Independent Valuation of Arcadia's project, adversely impacted Arcadia's capital raising initiatives to fully fund required exploration of EL65/2004. Given these circumstances, The Board of Arcadia considered it prudent to initiate a comprehensive internal assessment of the merits of committing further shareholder funds to exploration of an asset independently valued at less than the cumulative expenditure commitment.

Conclusions

Arcadia Resources Ltd previously concluded that there was significant potential to delineate remnant economic alluvial tin resources (plus accessory heavy minerals) sufficient to support viable downstream mining in exposed 'headwater' areas of a number of the deep leads. In addition, the Company concluded that potential existed to delineate substantial resources in buried virgin sections of the deep leads.

The demise of Van Dieman Mines, coupled with totally conflicting conclusions drawn in the accompanying Independent Valuation (Appendix 2) are sobering and demand full project review ahead of any further field-based work.

Environment

No surface disturbance occurred during the reporting period.

Expenditure

\$46,959 was spent on on-going project review, independent valuation and related legal/administrative charges taking the cumulative total expenditure on EL65/2004 to \$178,504.

Key Words

Alluvial tin, deep lead, Derby, Tasmania, Independent Valuation.

Accompanying DVD

Dr Hugh K Herbert
Arcadia Resources Ltd
10 February 2010

Appendix 1

Prospectus – Kintore Resources Ltd (ACN 128 761 688). For the issue of up to 25,000,000 shares at an issue price of 20 cents each to raise up to \$5,000,000. 17th October, 2008: 84p.

Appendix 2

Davis, L.W. – Independent Geologist’s Valuation Report on Tin Exploration Property of Arcadia Resources Limited in Tasmania. Veronica Webster Pty Ltd, Brisbane, 16th October 2009: 22p.