**VERONICA WEBSTER PTY. LIMITED**
(Incorporated in Queensland; ACN 010 299 224)
Consultants to the Mining Industry
Les W Davis - Minerals Exploration Consultant

**Brisbane Office**
7 O'Quinn Street
Nudgee Beach, QLD. 4014
**Telephone & Fax: 07 3267 3355**
**L Davis 0411 484 295**
**V Davis 0407 596 301**

**Email lesdavis@ozemail.com.au**
**POSTAL ADDRESS: P O Box 619, Hamilton QLD 4007**

16 October 2009

Directors (Attention Dr H K Herbert, Managing Director),
Argo Exploration Limited
Suite 304, 22 St Kilda Road
St Kilda VIC 3182

Dear Dr Herbert

**RE: INDEPENDENT GEOLOGIST'S VALUATION REPORT ON TIN EXPLORATION PROPERTY OF ARCADIA RESOURCES LIMITED IN TASMANIA.**

## 1.0 INTRODUCTION

### 1.1 Outline of commission

The Directors of Argo Exploration Limited ("Argo") commissioned Veronica Webster Pty Limited ("VWPL") to prepare an Independent Valuation ("Valuation" or "Valuation Report") for the mineral property of Arcadia Resources Limited ("Arcadia"), near Derby in Tasmania.

The mineral property, which is warranted to be in good standing is contained within Exploration Licence ("EL") 65/2004 "Derby" of 100 km$^2$, held by Arcadia Resources. EL 65/2004 was granted on 22 Nov 2005 and has a term of five years. The current exploration commitment is ?$50 000.

We understand that the Report may be included in an Information Memorandum or documents for shareholders of Argo and Arcadia in respect of Argo acquiring 100% of the shares in Arcadia.

### 1.2 Information

Mr. L Davis of VWPL has prepared the Valuation Report. He was supplied exploration data by Argo and has been instructed to rely on the information being accurate and complete. Mr Davis has relied at his own discretion on the observations and interpretations of previous explorers, exploration consultants and Argo geological staff. However, the views and conclusions expressed in this report are solely those of VWPL, L W Davis and associate Mr P N Scott.

VWPL engaged Mr P N Scott, mining engineer, of P S Associates Pty Limited to assist in the valuation of the Arcadia property. L Davis and P Scott have not visited the property.

The most concise and up-to-date summary of the mineral property is give by Luksam Consultants, (author Matthew Stephens), which acted as the Independent Geologist for a prospectus, dated 17 October 2008, produced by Kintore Resources Limited. After perusing older material we have drawn heavily on the Independent Geologist's Report for considering the geology and exploration of the property. A brief discussion was held with Mr M Stephens. Older available sources of information are listed in Section 6.0. Another report by Paul Askin entitled "Report on Prospectivity of EL 65/2004 Derby Deep Leads Tin Project, Tasmania" was also a very useful source.

An appraisal of all the above mentioned information forms the basis of this report.

## 2.0 VALUATION SUMMARY

A single Exploration Licence contains the Derby Tin Project of Arcadia. The project is an advanced exploration scenario, rather than a mining property.

Ancestral drainage from the Blue Tier granite batholiths contains widespread alluvial tin deposits. Tertiary basalt has filled some of the old stream channels so that the alluvials are dominantly "deep leads" in the tenement area. Small amounts of tin alluvials remain at some of the abandoned mines but these are currently not economic, neither in volume nor grade. These deposits are generally at the edges of the basalt and deep leads extending under the basalt are an obvious exploration target. About 10 have been recognised and there are plans to prospect these leads with geophysical methods that have shown encouragement and then by drilling.

VWPL has considered the Valuation of the Derby Tin Project in three components (see Table 1):

1. The Briseis Mine (currently sub-economic)
2. The Arba Mine (currently sub-economic)
3. Exploration – possible new economic deposit

| **Project - Prospect** | **HIGH** | **LOW** | **PREFERRED** |
|---|---|---|---|
| | $ | $ | $ |
| Briseis Mine | 150 000 | 25 000 | 100 000 |
| Arba Mine | 25 000 | 5000 | 10 000 |
| New deposit | 150 000 | 50 000 | 80 000 |
| | | | |
| **Derby Tin Project TOTAL** | **325 000** | **80 000** | **190 000** |

**Table 1 Valuation of Arcadia Mineral Property – Derby Tin Project**

VWPL stresses that a detailed mining and financial model has not been derived from classified resources under the JORC Code: likely scenarios based on hypothetical cases have been examined.

To assist in determining value, reference was made to hypothetical DCFROR models applied to the known sub-economic deposits and one possible new economic discovery.

The valuations are only valid at the date of this Valuation Report and conditional on the granting of applications for new tenements and the granting of renewal applications for existing tenements.

All estimates are in Australian dollars and rounded to the nearest A$5000.

Descriptions of valuation methods are supplied in Appendix I.

## 3.0 DESCRIPTION OF PROJECTS

This is only a brief outline of exploration and mineral property of Arcadia.

The Derby Tin Project, Exploration Licence 65/2004 is situated in the north-east of Tasmania, approximately 110 km by road from the City of Launceston.

The EL and environs have a Paleozoic basement containing Devonian to Carboniferous granite suites of the Blue Tier Batholith intruding Ordovician to Devonian sediments (see Figure 1). Erosion of the tin-bearing granites has produced widespread alluvial tin deposits. Flat lying Tertiary basalts and sediments now crop out in the Ringarooma Valley area, along the length of the EL. The sediments have a maximum thickness of 123 m while the Miocene basalts attain a maximum thickness of about 100 m. The basalts are interpreted to have filled many of the existing Tertiary rivers including the ancestral Ringarooma River, causing the diversion of the river to its current position.

The current Ringarooma River valley has exposed some of the deep leads under the basalt and Recent alluvial sediments.

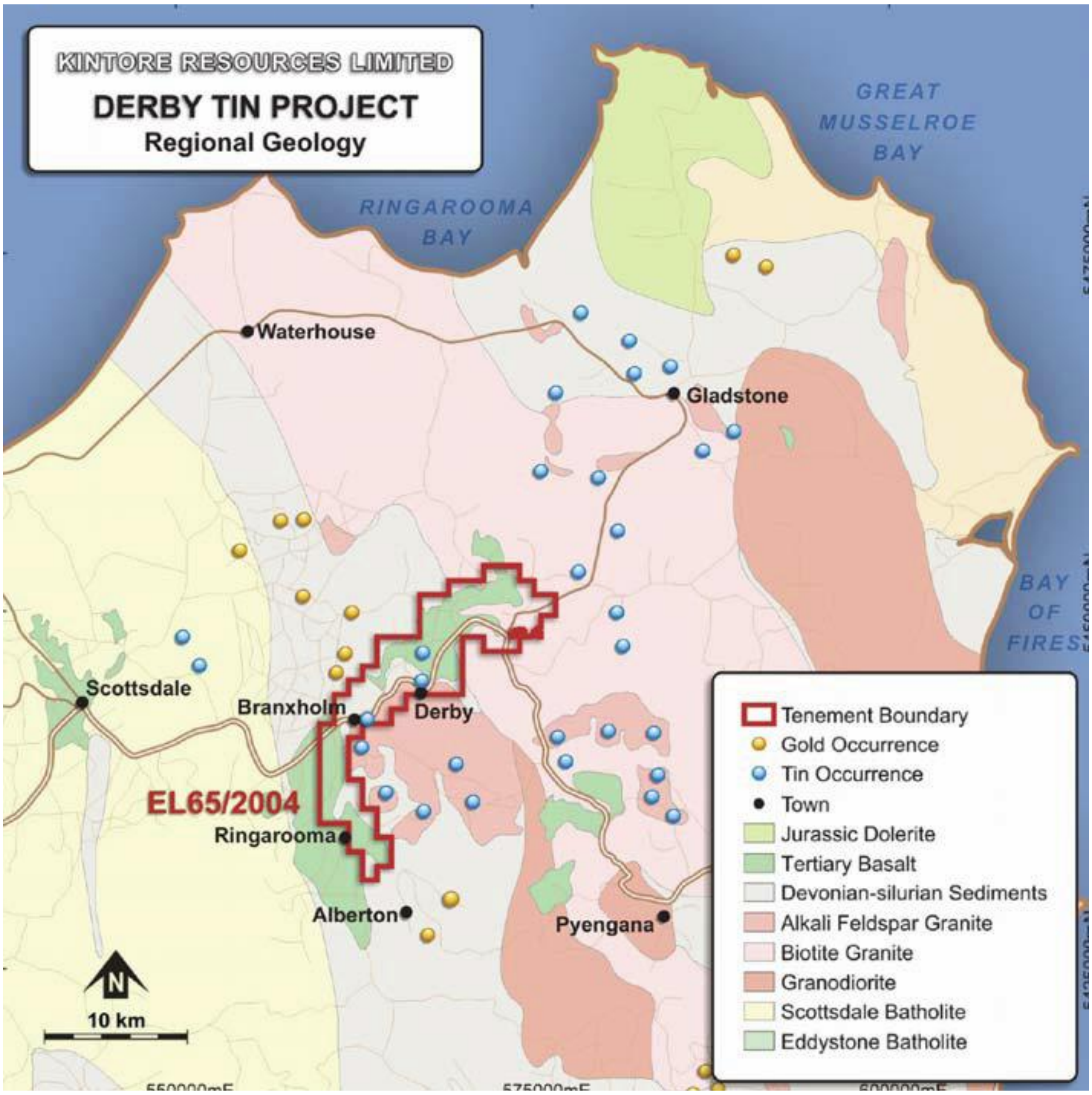


**Figure 1. Location of EL65/2004 and Derby Tin Project – Regional geology (after Kintore Prospectus).**

### 3.1 History

After discovery of tin in north-eastern Tasmania in the 1870s, the Briseis mine (Cascade Lead), Pionier Lead and other leads were found near Derby, circa 1875. These were mined by hydraulic sluicing and some dredging. Production peaked in the early to mid 1900s but continued at a reduced level until 1982 when the remaining mines closed. Recorded production from alluvial deposits in north-eastern Tasmania is about 37 300 tonnes of tin metal, with some 23 522 tonnes reported from EL 65/2004, about 63% of all alluvial tin production.

By far the largest deposit was the Cascade Lead at which the Briseis Mine, close to Derby (see Figure 2), operated from 1876-1960 and has a recorded production of 20 787 tonnes of tin metal. Based on historic production records the average grade of the alluvium mined is estimated to be about between 1 and 2 lb/cubic yards of cassiterite (i.e. 70% tin) in the better years, but this includes higher grade units diluted by large thicknesses of lower grade material.

**Figure 2: Derby from the air, showing flooded Cascade Lead mine workings and typical basalt covered farming terrain in mid distance.**

Other leads within the EL have little or no recorded production. The Arba Mine on the Branxholm Lead with 2180 tonnes of tin metal is reported to be the second largest. Historic records are often incomplete and inaccurate and can only be used as a guide to volumes and grade and this includes the relatively well documented Briseis Mine.

In more recent times AIM listed company Van Dieman Mines PLC has attempted mining at the Scotia and Endurance Deep Lead tin deposits, which are located to the north of the Tenement.

### 3.2 The Briseis Mine, Cascade Lead

The lead is contained within alluvium over 3000 m that is up to 300 ft (approx. 90m) thick and is covered by basalt of up to 150 ft (approximately.45 m) thick. Records show that 50% of the cassiterite occurs within 30 ft (approx. 9m) of the bottom of the lead and reportedly includes bonanza grades of up to 78 lb/cu yd (approxmately 46 kg/m3) over 5 ft (1.5m) of the basal interval.

The base of the lead is up to 150 ft (approximately 45 m) below the present Ringarooma River.

The method of working adopted by Briseis Tin Consolidated NL was to break down the drift immediately below the basalt with hydraulic monitors, thus causing the basalt to collapse, blast any large boulders and remove the whole of the overburden hydraulically in a flume located in a tunnel. From the end of the flume fines went direct to the river while the oversize was stacked by a conveyor belt. In a similar manner the remainder of the drift was broken down by monitors and elevated to sluices by gravel pumps. Ample water at high pressure was provided by long races from the Ringarooma River and the Cascade River.

During the course of operations the Ringarooma River was diverted three times and although there were two disastrous floods which completely wrecked the plant and workings the present river diversion bund would appear to be well above any possible flood level.

The operation had trouble containing the walls of the opening.

The profit made by the Company in 1945 was small and it was realised that with decreasing tin content indicated in exploration drilling, future operations were likely to be at a loss. Furthermore overburden along the eastern wall collapsed and the workings were buried under 8 m to 10 m of slurry and rock. Some major items of plant were recovered but a great deal was lost and mining of the deep lead ceased in the middle of 1946.

### 3.2.1 Exploration

The north-western extension of the Cascade Lead was drilled over a 500 m strike length (six lines about 100 m apart) in the period 1939 – 1941, with holes drilled at approximately 30 m intervals along the lines. This drilling has identified tin mineralised alluvium over a 300 m strike length from the final working face (Lines 4 to 7), with better results of 54 m at 2.28 kg/$m^3$ from 50 m down hole (Line 4 – Hole No 9) and 56 at 1.29 kg/$m^3$ from 53 m down hole (Line 6 – Hole No 9). A summary of results is shown in Table 2 and a plan of the drilling is shown in Figure 3 (after Kintore Prospectus, Stephens 2008).

| | Hole No | Interval (m) | Grade (kg/m3) $SnO^2$ | Depth From (m) |
|---|---|---|---|---|
| Line 4 | 7 | 46 | 0.57 | 13 |
| | 8 | 55 | 0.88 | 27 |
| | 9 | 54 | 2.28 | 50 |
| | 10 | 54 | 1.60 | 51 |
| | 11 | 54.5 | 0.94 | 58 |
| | 12 | 50 | 0.66 | 59 |
| Line 5 | 5 | 51 | 0.17 | 14 |
| | 6 | 52 | 0.24 | 27 |
| | 7 | 37 | 1.28 | 62 |
| | 8 | 42 | 1.02 | 65 |
| | 9 | 39 | 0.63 | 72 |

| | Hole No | Interval (m) | Grade (kg/m3) $SnO^2$ | Depth From (m) |
|---|---|---|---|---|
| | 10 | 57 | 0.61 | 61 |
| | 11 | 23 | 1.54 | 98 |
| Line 6 | 6 | 50 | 0.19 | 12 |
| | 7 | 46 | 0.81 | 37 |
| | 8 | 52 | 0.34 | 49 |
| | 9 | 56 | 1.29 | 53 |
| | 10 | 48 | 0.42 | 67 |
| | 11 | 53 | 0.56 | 66 |
| Line 7 | 9 | 54 | 0.18 | 67 |
| | 10 | 54 | 0.46 | 73 |
| | 11 | 55 | 0.30 | 75 |
| | 12 | 81 | 0.05 | 51 |
| | | 1163.5 | | 1207 |
| | | | | |

**Table 2 Briseis Mine, Cascade Lead exploration drill results (after Stephens 2008)**
N.B intersection widths, down-hole depths and grades converted to metric. Results for cassiterite content, i.e. about 70% tin. As shown in Figure 3 the drilling has not closed off the Lead on the eastern flank or to the north, although the northern most drill line (Line 7) has shown a general decrease in grade and an apparent narrowing of the lead. No known drilling has occurred to the north of Line 7.

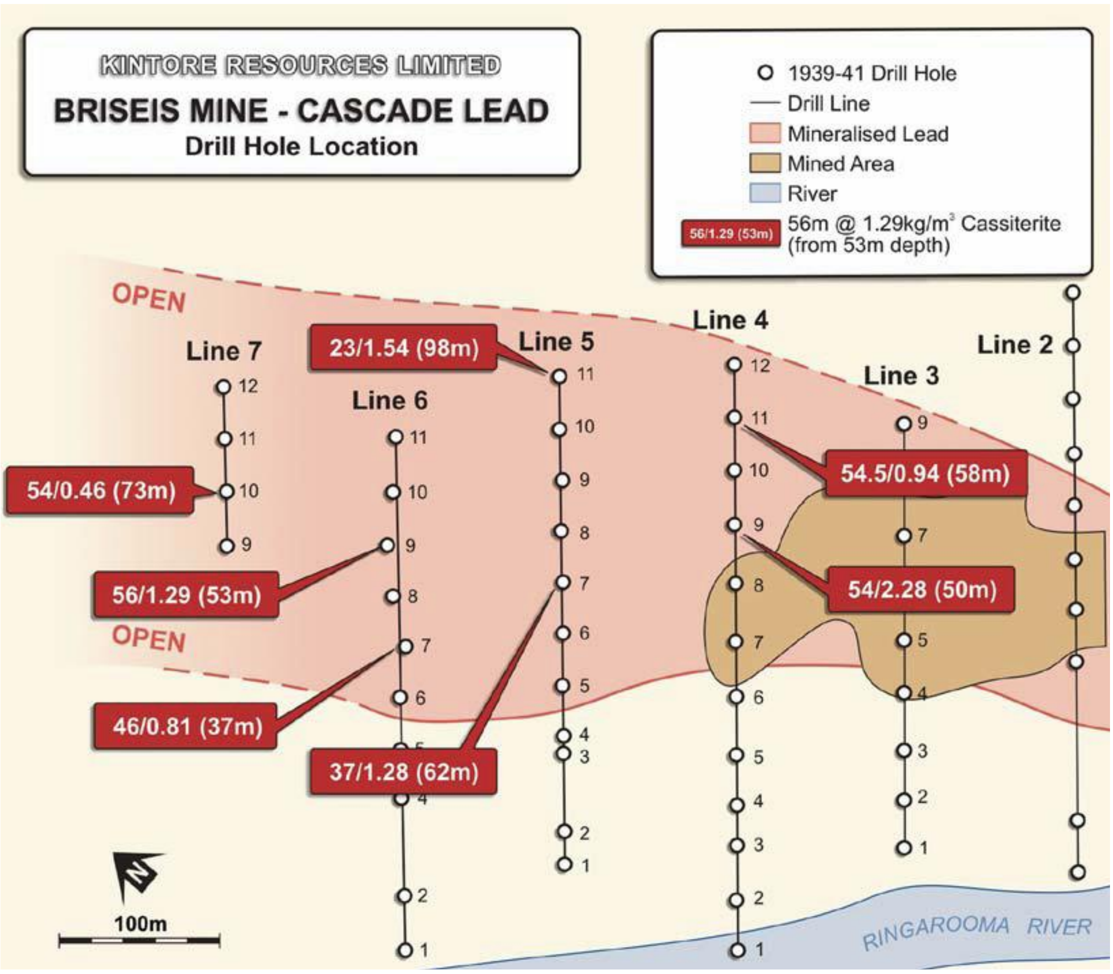



**Figure 3. Briseis Mine exploration drilling summary.**

### 3.2.2 Mine Reserves

The total quantity of cassiterite estimated from drilling and remaining unmined when operations ceased in 1946 was 1685 tons (Askins suggests up to 2000 tons) but some of the higher level deposits have since been mined and the total now remaining is probably less. In 1946, the mining company recorded the Briseis estimate as in Table 3. Although not JORC Code standard, an estimate from an existing operation has to be given credibility.

| | | ***Below RL 600*** | | | ***From RL 720 to 600*** | | | ***Above RL 720*** |
|---|---|---|---|---|---|---|---|---|
| **Line No.** | **Bore No** | **Corrected Grade, lb/cu yd** | **Volume1000 cu yd** | **Tons SnO2** | **Corrected Grade, lb/cu. yd.** | **Volume 1000 cu yd** | **Tons SnO2** | **Overburden Volume, 1000 cu yd** |
| 3 | 8,9 | 2.68 | 84 | 100 | 0.13 | 60 | 3 | 330 |
| 4 | 6 | 0.00 | 2 | 0 | 0.00 | 6 | 0 | |
| | 7 | 3.91 | 12 | 21 | 9 | 0 | 0 | |
| | 8 | 4.24 | 32 | 60 | 0 | 10 | 0 | |
| | 9 | 10.24 | 46 | 210 | 0.04 | 25 | 0 | |
| | 10 | 7.36 | 65 | 215 | 0.04 | 80 | 2 | 15 |
| | 11 | 2.03 | 73 | 66 | 0.24 | 120 | 13 | 60 |
| | 12 | 3.73 | 22 | 37 | 0.20 | 120 | 11 | 900 |
| 5 | 5 | 0.48 | 13 | 3 | 0.08 | 133 | 5 | 60 |
| | 6 | 1.36 | 60 | 36 | 0.04 | 140 | 3 | 120 |
| | 7 | 4.92 | 83 | 183 | 0.08 | 140 | 5 | 120 |
| | 8 | 3.30 | 70 | 103 | 0.04 | 140 | 2 | 120 |
| | 9 | 1.84 | 70 | 58 | 0.05 | 140 | 3 | 125 |
| | 10 | 2.19 | 74 | 72 | 0.11 | 140 | 7 | 180 |
| | 11 | 1.21 | 50 | 27 | 0.08 | 140 | 5 | 1060 |
| 6 | 6 | 0.62 | 28 | 8 | 0.06 | 140 | 4 | 83 |
| | 7 | 3.00 | 65 | 87 | 0.07 | 140 | 4 | 240 |
| | 8 | 1.55 | 65 | 45 | 0 | 140 | 0 | 400 |
| | 9 | 5.80 | 73 | 190 | 0.02 | 140 | 1 | 446 |
| | 10 | 1.33 | 85 | 50 | 0.06 | 140 | 4 | 530 |
| | 11 | 2.10 | 40 | 38 | 0.08 | 110 | 4 | 1625 |
| **TOTALS** | | **3.20** | **1,112** | **1,609** | **0.08** | **2,213** | **76** | **6,414** |

**Table 3. The Briseis mine reserve estimates circa 1946 (Askins after Braithwaite).**

The drill values are erratic and six bores account for 1000 tons out of a total of 1600 $SnO^2$. The operation was considering mining the whole profile of alluvium: 1685 tons cassiterite in 3 325 000 cubic yards, with 6 414 000 cubic yards of overburden. The RLs presumably are in feet so the low grade upper alluvium is about 24 m thick. Table 2 gives the basalt overburden thickness as about 52 m and the total alluvium as 50 m thick. By extrapolation, the thickness of the high grade section is a maximum of ~25 m but the volumes in Table 3 suggest much less.

### 3.3 The Arba Mine, Branxholm Lead

The Branxholm Lead was discovered in 1876 and the deposit was mined until 1920, with only minor works carried out by tributers after that time. The reported average grade of the alluvium mined from 1903 was about 0.93 lb/ cubic yards (approx. 0.55 kg/$m^3$) of cassiterite.

The lead is contained within alluvium that is up to 147 ft (approx. 45 m) thick and the thickness of basalt overburden at the working face is about 50 ft (approx. 15 m).

Mining ceased when the lead extended beneath Arba Hill and the height of the working face became unmanageable. It is reported that the lower 30 ft (approx. 9 m) of the lead was not mined in the area adjacent to the final working face due to insufficient capacity of the mining plant. The majority of production was sourced from the southern side of Arba Hill, with only minor production from the northern side.

Drilling ahead of the Arba face has indicated approximately 4.5 million cubic yards of 0.28 lb $SnO^2$/cubic yards at depths of up to 200 feet (60 m) (King, 1963). Askins infers 6.0 million cubic metres at a grade of 470 g $SnO^2/m^3$ (derived from Munro 81-1529).The basalt cap on Arba Hill is said to be about 60 feet (18 m) thick and to be made up of 30 feet of fairly solid basalt and 30 feet of solid, decomposed material. The depth of the Arba Lead when it emerges from Arba Hill is likely to be about 100 feet (30 m).

### 3.3.1 Exploration

Limited drilling to test the lead from the hill above, adjacent to the working face and ahead of the lead was completed in the late 1930s. Records of this drilling are limited to average grade for the length of each hole with no account taken of depth or grade of barren material above the mineralised lead. Drilling results show thick alluvium a few metres ahead of the mine face but at low grades; ~70 m grading ~0.25 $g/m^3$ cassiterite.

There have also been a number of phases of drilling to the north of Arba Hill on the river flats south of the present Ringarooma River testing the downstream extension of the Branxholm Lead. These drilling phases consisted of:

- two phases of shallow drilling in the 1930s by the Tasmanian Department of Mines,
- one program by Briseis Consolidated N.L. in 1938,
- a limited program in 1965 by the Utah Development Company, and follow up drilling in the early 1980's by Australian Anglo American Limited.

This drilling has not definitively identified the lead to the north of Arba Hill although it did return a number of anomalous zones related to both basal zones within the alluvium and shallow shingle layers.

## 3.4 Other Leads in the EL

Only small volumes have been mined and exploration has not been fruitful. At the Valley Lead, drilling within the mine environs and to test the immediate north-west extension of the lead took place in the early 1900s. Amdex Mining Limited completed two holes in 1979. These holes failed to intersect any significant concentrations of tin mineralisation.

At the Sarah Ann / Mutual Hill Mines, Main Lead there is no record of exploration activities completed along the interpreted north-western extension of the Main Lead.

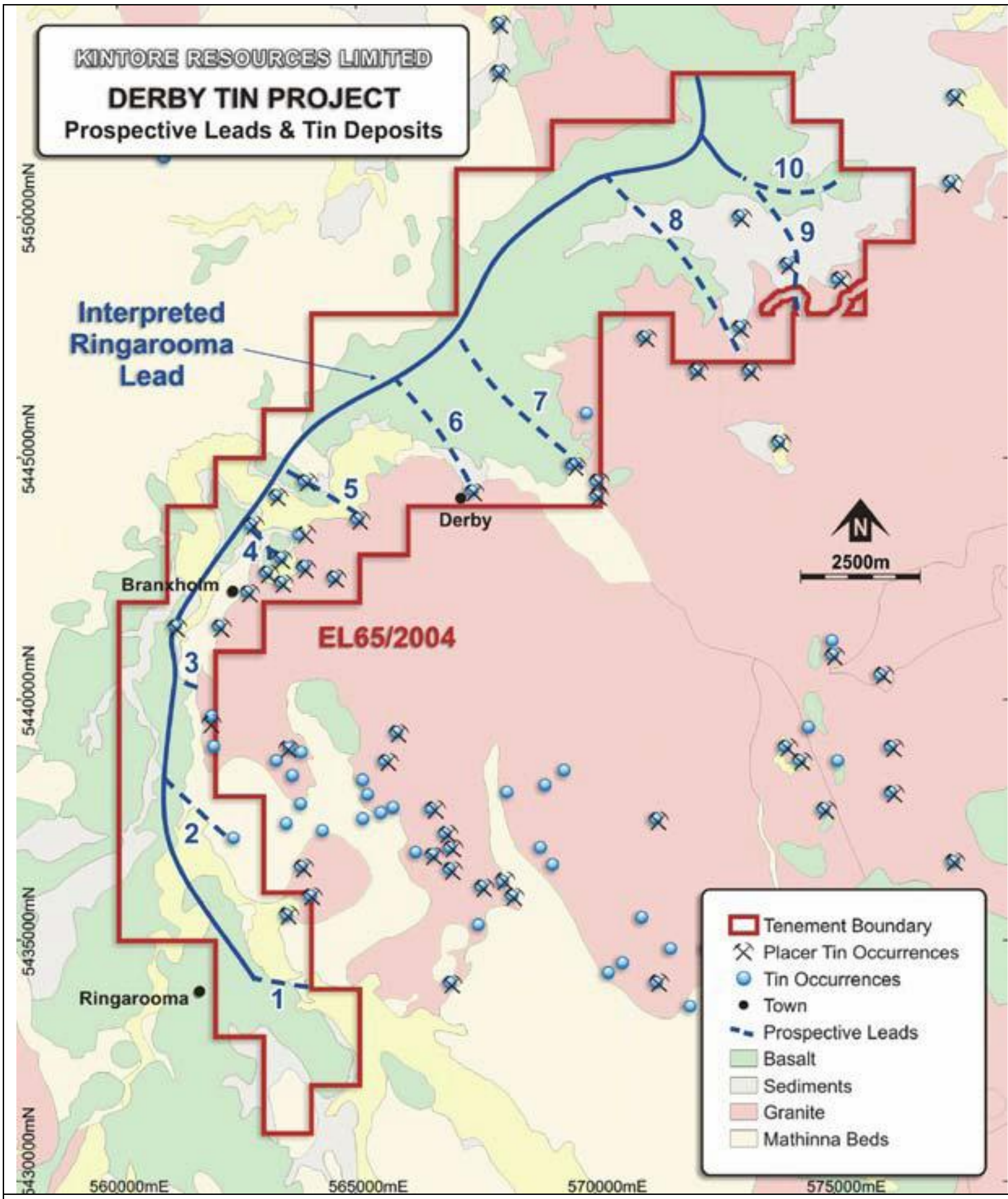
In 1930, at the Echo and Weld River Leads the Tasmanian Department of Mines completed 13 holes immediately to the north of the final mining face of the Echo Mine. This drilling indicated that previous mining had exploited a "perched" mineralised zone and defined a new basal mineralised zone, albeit at generally low tin grades. Australian Anglo American Limited conducted a drilling program in 1981 along the line of Davids Creek, located about 2.0 km north of the Echo Mine, aimed at identifying the interpreted extension of the Echo Lead in an area of shallower overburden. Drilling complexities limited the effectiveness of this program, with only 9 of 18 planned holes completed and of these only one hole reached basement.

## 3.5 Exploration Model and Targets

Paul Askins (Chartered Professional – Geology) and James Stewart, have used Landsat imagery and digital elevation models ("DEM") in conjunction with detailed reviews of past literature and previous explorers work to develop a revised interpretation of the history of drainages, palaeochannels and leads for the project area.

The DEM images provide a good overview of the dominant fracture pattern controlling the drainages, showing that the drainages coming from the Blue Tier Batholith have a pronounced west-north-west trend. When projected under the basalt these trends give an indication of where to expect the course of leads (see Figure 4). The overall pattern of drainages is similar to that proposed by Nye in 1925. This pattern of drainages has several leads draining west from the Batholith towards an ancestral Ringarooma River beneath the dominant basalt outcrop.

The revised interpretation requires that the drainage system from the Tenement exited to the coast via Boobyalla and that the major drainage through the Pioneer Lead (located to the north of the project area) trends west-south-west into the Tenement.




- Target 1 – Unnamed Lead
- Target 2 – Unnamed Lead
- Target 3 – Mt Joseph Lead
- Target 4 – Branxholm Lead
- Target 5 – Valley Lead
- Target 6 – Cascade Lead
- Target 7 – Main Lead
- Target 8 – Echo / Weld River Lead
- Target 9 – OK Creek Lead
- Target 10 – Unnamed Lead

**Figure 4 – Interpreted lead positions (Askins & Stewart, 2007 from Kintore Prospectus).**

Figure 4 shows the interpreted position of leads within the project area which were tributaries of the ancestral Ringarooma River, believed to have been located to the west of the current

Ringarooma River. Primary exploration targets within the project area are the upper reaches of the palaeochannels that drain from the Blue Tier Batholith, most of which are defined by historic mining activities. These targets are labelled from 1 to 10.

Stephens has reviewed the 10 target areas by field checking their locations via GPS and considering their viability as potential palaeochannel sites and more or less agrees with this priority list.

A recent trial of geophysical ground survey techniques within the project area has showed that electro-magnetics ("EM") is a viable technique to "map" these palaeochannels, which are water bearing and conductive units, beneath the basalt cover. Single EM traverses were completed across some of the target areas, with the technique clearly mapping a palaeochannel beneath Arba Hill.

### 3.5.1 Exploration Program and Budget

Briefly, a program of mapping and EM surveys will be carried out to generate palaeochannel targets under cover. Priority will be given to drilling favourable conductive zones where the cover is not great enough to pose serious mining problems.

In the Prospectus, Kintore Mining Limited allocated an expenditure of $2.5 million over two years which included about $1 million for aircore and percussion drilling. VWPL considers that this program is adequate to test the prospects.

### 3.5.2 Conceptual target size

The type of tin targets that may prove to be economic depend greatly on the ability of the operator to avail itself of low-cost mining and processing approaches, particularly dredging/slurry pumping. Conventional "dry" mining with associated waste dumps/tailings dams essentially involves significantly higher costs. The strip ratio, and prevailing geotechnical and hydrological conditions will also have a profound influence on the mining method selected and the cost of mining. For the purposes of this discussion a "wet" approach to mining and processing is one that relies primarily on the use of slurry pumping to mine/transport both overburden and ore with minimal use of wheeled vehicles.

Environmental access and the requirement for supporting studies together with the cost of establishing treatment facilities essentially implies that a certain critical mass in terms of deposit size is required to justify development. It is suggested that a minimum target size of 5000 tonnes of contained tin metal be sought (this could be aggregated over a number of separate deposits provided they can be serviced by the same processing facility. This implies an "insitu value" of US$75 million if a US$15 000/tonne tin price is utilised.

It is thought that an establishment cost in the range of A$10 million should be considered to cover all activities (except exploration) up to the start of production including permitting costs and the purchase of suitable (second-hand plant and equipment).

If a "wet" approach to mining/processing can be adopted then target grades of 0.5 kg/$m^3$ Sn (800 g/$m^3$ $SnO^2$) could be considered to be of interest for smaller size deposits (say less than 3 million tonnes). As the target size increases then with economies of scale lower grades can be accommodated. However, it is unlikely that grades of less than 250 g/$m^3$ Sn (350g/m3 $SnO^2$) will provide a satisfactory result within the currently anticipated tin price range and cost structure.

"Dry" mining can be expected to be significantly more expensive but any reliable estimation of costs requires information on the material to be excavated, strip ratio, etc. Mining costs can vary greatly depending on whether it is required to drill and blast overburden material, whether truck/excavator combinations are required to remove overburden or whether a simple dozer push can be used to access the ore.

In 2007, Van Dieman Mines Plc ("VDM") were expecting a mining cost in the region of A$ 5/bcm ("bank cubic metres") of ore processed. From P Scott's experience this is very optimistic in the context of the mining method proposed by VDM. VDM appears to have focussed on mining grades of in excess of 1000 g $SnO^2$/bcm, and utilised a fairly high throughput plant with the capacity of 300 bcm/hour.

VWPL's view is that where dredge style techniques cannot be used a base grade of 0.3% Sn (0.43% $SnO^2$) should be targeted, plus an allowance to cover incremental stripping costs, which will vary in accordance with the local conditions.

During the 1960s and 1970s, a number of major companies conducted exploration throughout the region and substantial drilling programmes saw the delineation of the Offshore, Great Northern Plains, Scotia and Central Ringarooma deposits. Askins provides a Table of resources but we are unsure of the reliability of these data especially the "Measured" Resource classification. Nevertheless, an order of magnitude can be gleaned from the Table 4 for likely target volume and grade.

| Tenement | Volume (million m$^3$) | | Grade | Total $SnO_2$ | Resource | Strip |
|---|---|---|---|---|---|---|
| | Ore | Overburden | (kg $SnO_2$/m$^3$) | (tonnes) | Classification | Ratio |
| Central Ringarooma | | | | | | |
| Endurance | 1.57<br>2.40 | 8.94 | 1.065<br>0.972 | 1,674<br>2,300 | Measured and Inferred | 5.7 |
| Pioneer | 4.62<br>3.50 | 22.73 | 0.872 | 4,027 | Measured and Inferred | 4.9 |
| Scotia | 5.32<br>21.35 | 24.90 | 1.300<br>0.348 | 6,913<br>7,430 | Measured and Inferred | 4.7 |
| Gt. Northern Plains | | | | | | |
| Fosters Marsh | 34.10 | 77.40 | 0.260 | 8,878 | Measured | 2.3 |
| Braithwaites | 5.16 | 14.46 | 0.282 | 1,416 | Measured | 2.8 |
| Peripheral Resource Areas | 39.70 | | 0.100 to 0.300 | | Inferred | 2.3 to 2.8 |

**Table 4. Alluvial tin resources in north-east Tasmania – source Askins and Stewart**

There are both low volume/high-grade and high volume/low-grade exploration targets:

- 2 to 5 million m$^3$ grading from 0.75-1.0 kg $SnO^2$
- >20 million m$^3$ grading from 0.2-0.35 kg $SnO^2$

This compares with the stated resource for the Briseis Mine of:
- 2.5 million m$^3$ grading 680 g cassiterite/m$^3$ with 4.9 million m$^3$ of overburden

These exploration targets can be used to examine hypothetical NPVs that might be realistic in the Derby Tin Project, based on value of contained tin and estimated mining costs. The cost of overburden removal is a major cost in all cases. The key to all positive outcomes will be grade. We note that VDM were targeting 1kg/$m^3$ $SnO^2$. An unusually rich tin deposit with much more contained tin than the ranges shown by known mineralisation may be discovered, but we place low probability on this eventuality (see next section 4.0, Project Valuation).

## 4.0 PROJECT VALUATION

Any valuation of this property relies heavily on the tin price considered, with exchange rates and prevailing interest rates also key factors.

The graph below shows the tin price (cash price) in US$ over the past five years. It will be seen that a record high of just below US$26 000 was reached in 2008, The current price is in the US$15,000 range, with historic real long term prices significantly lower. The tin price has been highly volatile over the past five years. The current price has been referred to by VWPL as the basis for the valuation provided [USD$14,725 on 22.10.2009].


VWPL stresses that a detailed mining and financial model has not been derived from classified resources under the JORC Code: it is a likely scenario based on hypothetical cases. The project is an advanced exploration scenario and VWPL has considered the Valuation of the Derby Tin Project in three components:

4. The Briseis Mine (currently sub-economic)
5. The Arba Mine (currently sub-economic)
6. Exploration – possible new economic deposit

Reference was made to hypothetical DCFROR models applied to the known sub-economic deposits and one possible new economic discovery. Only tin metal was considered but the presence of other minerals, principally gold and sapphire could assist a projects earnings.

### 4.1 Briseis Mine Cascade Lead

Askins converted the Briseis Mine estimates to metric:-

- 1712 tonnes cassiterite in 2 542 000 $m^3$, (say 5 million tonnes).
- 2.5 million $m^3$ grading 680 g cassiterite/$m^3$ with 4.9 million $m^3$ of overburden.

- Or 1350 tonnes tin metal in 5 million tonnes alluvium, with 10 million tonnes of overburden.

Given the upper alluvium is clearly sub economic (refer Section 3.2.2), VWPL has considered 850 000 $m^3$ containing 1634 tonnes of cassiterite at a grade of 0.096% $SnO^2$, or 0.07% Sn with 6.6 million $m^3$ of overburden (i.e. a strip ratio of approximately 8:1). The low grade is such that a tin price in excess of US$30 000/tonne would be required to support the mining of this mineralisation, assuming that both low cost mining and processing were available to the operator.

[At a US$15 000/tonne tin price the in situ value is in the order of A$20/$m^3$, (~A$10/tonne) with a recoverable value of perhaps ~A$8/tonne, while mining and processing costs can be expected to be higher than this given the strip ratio involved (obviously dependant on the mining method selected)]

### 4.1.1 Assumptions

The following analysis was carried out on the Briseis Mine Cascade Deposit (with sensitivities); the assumptions are generally the more optimistic cases considered:-

Capital in pre-production year of $10 000 000.
Mining over 3 years, "wet mining approach"
Mined grade – 0.07% Sn
Metal Price USD$ 15 000 and USD$30 000
Exchange Rate A/US = 0.85
Reserve (conceptual) 1.7 million tonnes (not JORC Code)
Mining dilution 10% at grade of 0.04% Sn
Ore loss 5%
Metal Recovery 80%
Mining Costs minimum A$0.5/tonne waste, minimum A$1.00 ore..
Ore transport to plant minimum A$0.5/tonne
Ore processing  and tails disposal minimum A$ 4.0
Tin production 320 tonnes per year

At a NPV discount rate of 12.5% this model shows a negative value: -A$11.8million at US$15 000 tin price and -A$0.68 million at US$30 000 tin price. At the US $30 000 tin price the project has an internal rate of return of 8% utilising the other assumptions given.

The mining and processing costs utilised above assume very favourable conditions, the key issue is the small size of the project compared with the required upfront capital. Operating costs on the above scenario are just below US$ 15 000/tonne.

### 4.1.2 Valuation.

NPV analysis will not provide a positive value for this deposit as a stand-alone project at tin prices below USD$ 30 000/tonne. It is possible that this deposit might be mined in conjunction with another discovery; in this instance it may provide positive returns at tin prices above USD $15 000. As such VWPL has placed a nominal valuation of from A$25 000 to A$150 000, on the basis that it provides an "option value" if future tin prices exceed US$15 000 or additional economic resources can be identified.

### 4.2 Arba Mine

Using a headgrade of 470g/$m^3$ $SnO^3$, assuming a wet mining/processing approach with mining costs of A$0.5/tonne waste, and A$0.75/tonne ore and a processing cost of A$2.5/tonne, an operating cost in excess of US$30 000 is estimated. .As such this project is considered to have no potential to add value even on an incremental basis.

VWPL concludes that the grades are simply too low to support any form of mining operation, unless clearly defined higher grade zones within the resource can be identified and mined. VWPL considers it appropriate to ascribe a "nominal value of A$ 5000 to A$15 000 to reflect possible option value if future tin prices were to significantly exceed US$30 000/tonne.

### 4.3 Exploration and new deposit discovery

VWPL suggests that a minimum target NPV of A$20 million would be necessary to establish an operation and no value is given to a lesser scenario.

A probability of this discovery is given as one chance in 250 or 0.004. This gives a Value of $80 000.

### 4.4 Valuation statement for the Derby Tin Project

Table 5 summarises the Valuation.

| Project – Prospect | HIGH | LOW | PREFERRED |
|---|---|---|---|
| | $ | $ | $ |
| Briseis Mine | 150 000 | 25 000 | 100 000 |
| Arba Mine | 25 000 | 5000 | 10 000 |
| New deposit | 150 000 | 50 000 | 80 000 |
| | | | |
| **Derby Tin Project TOTAL** | **325 000** | **80 000** | **190 000** |

**Table 5 Valuation of Arcadia Mineral Property – Derby Tin Project**

The valuations are only valid at the date of this Valuation Report and conditional on the granting of applications for new tenements and the granting of renewal applications for existing tenements.

All estimates are in Australian dollars and rounded to the nearest A$5000.

Descriptions of valuation methods are supplied in Appendix I.

## 5.0 COMPARISON WITH PREVIOUS VALUATIONS

We are not aware of any previous formal Valuations.

On 26 June 2008, Arcadia entered into an agreement with James Ian Stewart and Paul Winston Askins, ("Vendors"), who agreed to sell their right, title and interest in exploration licence 65/2004 for a payment of $50,000 to each of the Vendors and the issue of 2 000 000 shares in Arcadia at $0.001 per share to each of the Vendors.

As part of the agreement Arcadia would seek admission to the official list of ASX within nine months from the date of the agreement. The Vendors would be able to trade their shares in the listed Arcadia unconditionally.

## 6.0 SOURCES OF INFORMATION

Askins, P.W. and Stewart, J. I., 2007 – “Report on Prospectivity of EL 65/2004 Derby Deep Leads Tin Project, Tasmania”. Unpublished Report.

Arcadia Resources Ltd -Acn 126 192 452. Alluvial Tin Project memorandum

Bottrill, R.S., 1996 – “Corundum and Sapphire in Tasmania”. Tasmanian Geological Survey Record 1996/05.

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Fleming, A.W. and Munro, R., 1980 – “EL 28/76 Derby, Tasmania. Report for the Six Month Period Ending 22nd December 1979”. Amdex Mining Limited.

King, D., 1963 – “Report on the Tin Resources of Tasmania”. Utah Development Company.

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Kintore Resources Limited notice “Tin In North East Tasmania” Kintore has lodged a prospectus for an initial public offer (IPO) of 25 million shares at $0.20 to raise $5.0 million (minimum subscription of 17.5 million shares at $0.20 to raise $3.5 million).

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Nye, P.B., 1933 – “Report on the Boring Campaign on the Arba Lead”. Tasmanian Mines Department, Unpublished Report.

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Development Company.

Yim, W.W.S., 1991. – “Tin Placer Genesis in North Eastern Tasmania”. In: Williams, M.A.J., De Deckker, P., Kershaw, A.P. eds.,“The Cainozoic in Australia: A Reappraisal of the Evidence, Special Publication No. 18”. Geological Society of Australia Incorporated.

## 7.0 DECLARATION

### 7.1 Qualifications and Experience

This report has been prepared by Veronica Webster Pty Limited which has operated in Australia serving the mining industry since 1980.

Mr. L W Davis who is a duly authorised representative and director of VWPL has prepared the opinion report, which includes an assessment of fair market value of the mineral tenements of Argo. Mr Davis has had over 40 years experience in the minerals industry, is a registered Chartered Professional (Geology), and is affiliated with the Aus. I.M.M., and the A.I.G. He specialises in mineral resource/reserve estimations, advanced project assessment and exploration management.

Mr. Davis has had 40 years experience in the minerals industry, particularly exploration for precious metals and base metals, mining geology, ore resource/reserve estimation and property evaluation. He held senior positions with Electrolytic Zinc Co of Australasia Limited, Freeport Minerals Corporation of Australia, Tenneco Oil & Minerals and Amad NL before joining Veronica Webster Pty Limited in 1985. Mr. Davis is a registered Chartered Professional (Geology) and is affiliated with The Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists.

His principle qualification is Bachelor of Science (Special Geology) Leics., UK. His professional affiliations are as follows:-

Ruby Fellow -The Australasian Institute of Mining & Metallurgy :103477
Chartered Professional Geology CPGeo
Fellow - Australian Institute of Geoscientists
Member -Geological Society of Australia

Mr P N Scott of PS Associates Pty Limited assisted in the Valuation Report. Mr Scott has over 26 years experience in the minerals industry, particularly mining for precious metals and base metals; has held senior positions with Otter Gold Mines Group, Normandy Group, Aztec Mining and a number of overseas mining companies. His responsibilities have frequently included the evaluation and subsequent development of open pit and underground ore bodies.

Mr Scott holds an honours degree in mining engineering from the Royal School of Mines London (UK), is an Associate of the Royal School of Mines (UK), is a Fellow of the Australian Institute of Mining and Metallurgy, a member of the Institute of Materials (UK), and is a Chartered Engineer (UK).

Mr Scott holds first class mine manager certificates for both the Northern Territory and Western Australia for the management of open pit and underground metalliferous mines.

### 72 Independence

Veronica Webster Pty Limited L W Davis and P N Scott have no conflict of interest in preparing this report. The report has been commissioned by Argo with payment to be made for services rendered solely on a standard time-fee basis. The companies and consultants preparing this report have no association with Argo nor have they any financial interest in or entitlement to Argo or any associates of Argo.

**7.3 Limitations and requirements**

The views expressed in this report are solely those of Veronica Webster Pty Limited, and L W Davis. When conclusions and interpretations credited specifically to other parties are discussed within the report, then these are not necessarily the views of Veronica Webster Pty Limited or L W Davis.

L Davis observes Section 947B of the Corporations Act 2001. In accordance with Corporations Regulation 7.6.01 (1) (u) and Corporations Amendment Regulations 2003 (No. 7) 2003 No. 202, the Valuation Report is not financial product advice but is intended to provide DMR with expert opinion on matters relevant to the mineral properties of Argo. L Davis and VWPL are not operating under an Australian financial services licence and the advice in the Valuation is an opinion on matters other than financial products and does not include advice on a financial product.

All references to mineral resources are consistent with the most recent Australasian Code (and Guidelines to the Code) for Reporting of Identified Mineral Resources and Ore Reserves: Reports prepared by the Joint Committee of The Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Minerals Council of Australia (JORC).

In this Report, VWPL observes the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (The Valmin Code), which is referred to by the Australian Securities Investment Commission ("ASIC") and as well, ASIC Practice Notes 43 and former National Companies Security Commission Release 149 are observed.

All references to mineral resources are consistent with the most recent Australasian Code (and Guidelines to the Code) for Reporting of Identified Mineral Resources and Ore Reserves: Reports prepared by the Joint Committee of The Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Minerals Council of Australia (JORC).

In this Report, VWPL observes the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (The Valmin Code), which is referred to by the Australian Securities Investment Commission ("ASIC") and as well, ASIC Practice Notes 43, 55 and former National Companies Security Commission Release 149 are observed.

**7.4 Consents**

Veronica Webster Pty Limited has consented to the inclusion of the Valuation Report in an Independent Expert's Report in relation to the proposed acquisition of Arcadia by Argo.

We agree to execute a consent to be named in the Information Memorandum as Argos's independent geologist and in respect of any text included in the Information Memorandum which makes reference to VWPL.

For and on behalf of

**VERONICA WEBSTER PTY LIMITED**

**L W DAVIS**
**BSc (Special Geology), Leics. UK, FAusIMM, FAIG, CPGeo**

# APPENDIX I

## VALUATION PROCEDURES

### 1.0 Valuation Methodology

Projects, which contain indicated or measured resources from which mining reserves can be defined may then be the subject of feasibility studies based on estimations for amounts, rates and the costs of production together with the revenue defined from sales. The discounted cash-flow-rate-of-return ("DCFROR") method may then be applied to express the value of the project in terms of present day money, often called the Net Present Value ("NPV") using a variety of interest rates. For selected cases the return on invested funds or internal rate of return ("IRR") expressed as a percentage is estimated.

DCFROR is obviously the more accurate when the assumptions for the financial models are known with confidence; contracts for work and sales, etc. The more reliable the assessment of the resources/reserves, costs of mining and treatment, capital costs of mining and treatment, recovery in the mining and treatment processes, metal prices, exchange rates and all the associated operation issues, the more accurate the DCFROR method becomes. But it is always subject to assumptions and uncertainties of the estimations of a current nature and also for those in the future life of the project. The DCFROR technique cannot take into account abrupt and radical changes to market conditions.

For long-life projects where operations are expected to continue to some time in the future with only rough estimates for costs and sales and based on resources which may not be Indicated or Measured resources, a modified DCFROR can be applied. The NPV derived from such models may be discounted to obtain an Expected value or an Expected NPV (“ENPV”). This is a probabilistic approach and the probability factors are judged by and are the responsibility of the valuer.

Valuation of exploration tenements, which have geological prospectiveness but no defined resources, is more subjective and therefore contentious. Methods which can be applied include, when appropriate, expected value probability, multiples of past relevant and future committed expenditure, joint venture terms and points rating methods.

A brief description and commentary on some inherent advantages and disadvantages of subjective valuation technique follows.

### 1.1 Expected Value of Discovery (probabilistic method)

In phased exploration, a programme of work is planned to increase the value of the property. At the completion of the programme, the results are assessed and a decision is made whether or not to engage in a further programme. This process continues, ideally until there arrives a point of withdrawal or commercial discovery. At any stage, the probability of continuing or withdrawing may be forecast and also the probability of discovering various sizes and styles of mineral deposits and their NPV. The probability factors are judged by and are the responsibility of the valuer.

A simple exSOLGe of the procedure is as follows. The probability factors for continuing each stage of work are multiplied together, steps 1 to 5, and then multiplied by the value of the predicted discovery. In the exSOLGe, the probability for any discovery has been estimated to have a probability of 0.013 (step 5). This is about one chance in 80. The value of the overall discovery is a notional NPV, which may be a product of several possible discoveries (A, B and C, in the exSOLGe). In that case each possible discovery must be considered to be a percentage of the NPV.

| Activity | Probability of proceeding | Cumulative probability |
|---|---|---|
| 1 Early exploration (committed expenditure) | 100% or 1.0 | 1 |
| 2 Follow up activity | 70% or 0.7 | 0.7 |

| Activity | Probability of proceeding | Cumulative probability |
|---|---|---|
| 3 Drill testing | 30% or 0.3 | 0.21 |
| 4 Evaluation drilling | 20% or 0.2 | 0.04 |
| 5 Feasibility study | 30% or 0.3 | 0.013 |
| A Discovery NPV = $2.0 million | 80% or 0.8 | 0.010 |
| B Discovery NPV = $5.0 million | 19% or 0.19 | 0.002 |
| C Discovery NPV = $20 million | 1% or 0.01 | 0.0001 |

The chance of discovery of a deposit with a NPV of $20 million has been estimated as one in 10,000 (probability 0.0001); the chance of a discovery of a deposit with a NPV of $5 million has been estimated as one in 500 (probability 0.002); and the chance for a discovery of a deposit with a NPV of $2 million has been estimated as one in a 100 (probability 0.01). The values of these individual chances are $2,000, $10,000 and $20,000, respectively. When added the chance is $32,000. Exploration expenditures should be accounted for.

The method is extremely sensitive to the selected probability factors and a number of cases need to be compared. It is a useful method when there is enough geological evidence to limit the potential size of the discovery giving credibility to the relative probability for the value of a potential discovery. Other methods cannot account directly for these aspects.

### 1.2 Multiples of Cost of Valid Work

The present value of previous work (past expenditure method) and committed work, when it is relevant to enhancing the value of the Project and therefore warranting an objective future programme is often the first considered method for exploration projects.

Expenditure that has been assessed as relevant generally is multiplied by a factor of between 0.5 and 3.0 (the prospectivity enhancement multiplier or “PEM”) to value the property at a particular stage of development. This range of PEM is common in Australia. (For higher- and lower-cost countries the factors would be different). Factors of less than 0.5 may be selected, depending on the considered potential. In our opinion factors of above 2.0 should not be used, unless strong indications of potential for economic mineralisation have been identified. This usually means that there are encouraging intersections and perhaps estimated resources.

It is common to include committed expenditure as part of that already incurred.

High levels of past expenditure are indicative usually of historical prospectiveness but at some point in time further exploration will not be justifiable. Future discoveries in properties with modest expenditure levels will be undervalued by the method. Often, when applying the method of “multiple cost of valid work" there is potential bias towards higher valuations for older projects.

### 1.3 Points Rating System

In this method, points are awarded for various forms of geological prospectiveness, presence of mineralisation, anomalism and structures. In addition factors are applied to account for the current financial, commodity and stock market climate. Other methods do this indirectly. This method instils a regimen so that these parameters and issues must be considered specifically and it is a useful method for comparative purposes.

## 1.4 Joint Venture Terms, Capitalisation of Earnings, Yardstick and Real Estate Approaches

***Joint Venture Terms***

The minimum commitment by a joint venture partner establishes a minimum base value for the property. In most joint ventures the incomer agrees to expend a certain sum over a specified time period to earn equity, for example:

$2 million over a four year period to earn 60% interest

This arrangement can be used to value the property by time-discounting the money and suggesting the probability for the deal to be completed, thus:

$2 million x 0.88 (time discount) x 0.4-0.8 (probability range) x 60%
= $0.42 - $0.84 million

The method does not place any upside potential on the asset. It often gives a good value estimate for situations where the vendor is under some pressure to dispose of the asset.

***Real Estate Methods***

The simple face value of transactions that have taken place at similar properties and projects may be compared. Clearly current transactions are more useful as they reflect the trends and mood of the time, while older transactions require factoring for CPI, price changes, etc. The real estate approach is seldom simple to apply because, apart from all projects being unique:

- Deals are affected onerously when either the vendor or purchaser has special reasons to sell or buy such as financial pressures or needing the funds for a different project.
- The criteria of "knowledgeable and willing" parties may not apply.
- The value may not relate to the value of making the project successful and may not be a technical valuation.
- The parties are not always completely independent of each other.

In short, the sum that some party might be willing to pay is not necessarily the true value.

***Yardstick Values***

This method assigns a value per unit of commodity, which has been estimated to be contained on the project. This must vary greatly to account for the resource or reserve classification and the assumed costs for extraction and treatment. The availability and ownership of useful plant and facilities will alter cases radically.

For gold operations a range of from $10 per ounce - for inferred underground resources - to $40 per ounce - for open pit probable reserves - was recognised by some valuers (circa 1990s).