

Gujarat NRE Resources NL

EL 41 / 2004 Nelson Bay River

Year 3 Annual Report

For the period 1 March 2007 to 1 March 2008

W M Harder

12th February 2008

Gujarat NRE Resources NL

ABN 12 109 660 497

**Broker Street
Russell Vale**

**PO 281
FAIRY MEADOW
NSW 2519 AUSTRALIA**

**Ph + 61 2 4223 6818
Fx + 61 2 4283 7449
Mob 0404 050 468**

ABSTRACT

EL 41/2004 was previously explored in 2000 when Pacific Nevada carried out a two diamond drill hole exploration programme to test a large airborne magnetic anomaly in the centre of the licence. The target was gold and base metals. The holes intersected a west dipping dyke structure that contained only pyrite and magnetite mineralization. No further work was carried out.

Gujarat NRE Resources NL was interested to investigate this magnetic anomaly further and re look at it from a magnetite resource viewpoint and also investigate the other areas of targeted mineralization as outlined by our Independent Consultant Geologist Report as per the Zinico Resources NL prospectus of August 2005.

A programme of work proposal was submitted to the MRT and the Environmental Field Officer made a field visit with the company's Consulting Geologist. A recommended programme of flora hygiene and quarantine was submitted and approved and was put in place prior to the commencement of any field work.

A line cutting contractor was engaged to extend the base line and prepare drill pad sites.

A diamond drilling programme comprising three inclined holes was carried out in May and June 2006 in the previous reporting period. This was designed to confirm the 2000 drilling results, improve quantity and quality of knowledge of the resource and provide enough mineralized rock material for metallurgical testing.

All the drill core was transported to Hobart, logged and the mineralized sections split and sent as 1 metre samples to SGS Labs in Perth for assay and Davis Role Tube analysis.

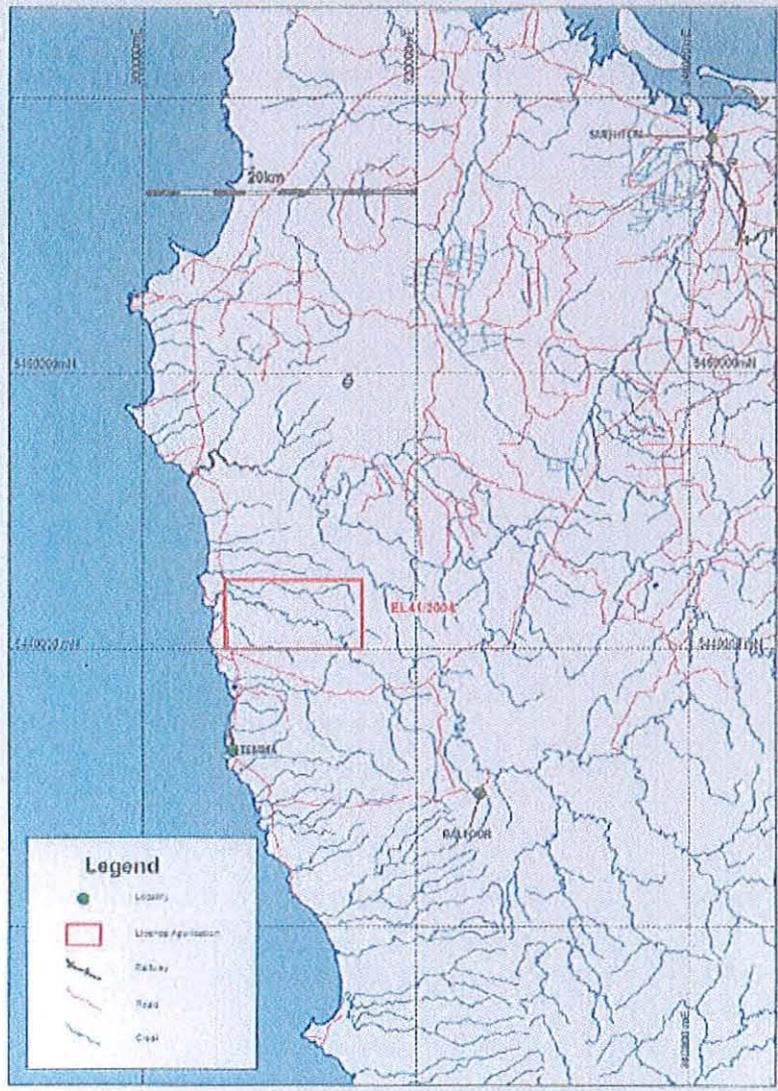
The results of all this work were studied, interpreted and an upgrade of the resource estimate to 6.9Mt at 38.2% magnetite in the (JORC) inferred category was reported.

The EL 41/2004 looks promising for a magnetite resource suitable for use in coal washing plants.

The resources will undergo continuing exploration and study.

| CONTENTS | Page Number |
|--|--|
| Abstract | 2 |
| 1. Introduction | 5 |
| 1.1 Exploration Rational | 5 |
| 1.2 Tenement Information | 5 |
| 2. Review of work | 8 |
| 2.1 Regional Geology | 11 |
| 2.2 Previous Exploration and Mining | 11 |
| 3. Current Exploration | 14 |
| 3.1 Literature Review | 15 |
| 3.2 Regional Exploration Activities | 15 |
| 3.3 Prospect-based Exploration Activities | 16 |
| 4. Discussion of results | 17 |
| Conceptual Mine Study | 18 |
| Revised Conceptual Mine Study | 20 |
| Metallurgical Results | 22 |
| Resource Recalculated Estimate | 23 |
| 5. Conclusions | 26 |
| 6. Environment | 27 |
| 7. Expenditure | 28 |
| 8. References | 29 |
| | |
| List of Maps | |
| Location | 4 |
| Topographic 1:100 000 scale | 6 |
| Land Tenure | 7 |
| Topographic 1: 25 000 | 9/10 |
| Geology EL Area | 12 |
| Geophysics (magnetics) | 13 |
| Conceptual Mine Design | 19 |
| Revised Conceptual Mine Design | 21 |
| 3D ore resource images | 24 |
| | |
| Appendix | Conceptual Mine Study July 2007 |
| | |
| Photograph | Heathland southern licence boundary 8 |

LOCATION MAP



1 Introduction

1.1 Exploration Rational

EL 41/2004 was last explored in 2000 when Pacific Nevada carried out a two diamond drill hole exploration programme to test a large airborne magnetic anomaly in the centre of the licence. The target was gold and base metals. The holes intersected a west dipping dyke structure that contained only pyrite and magnetite mineralization. No further work was carried out.

Gujarat NRE Resources NL was interested to investigate this magnetic anomaly further and re look at it from a magnetite resource viewpoint and also investigate the other areas of targeted mineralization as outlined by our Independent Consultant Geologist as per the prospectus of Zinico Resources NL August 2005.

1.2 Tenement Information

The exploration licence EL 41/2004 measures 50 square kilometres and is located in the far North-West of the State near the small township of Temma about 70km southwest of Smithton.

The licence was granted for 5 years from 1 March 2004 until 1 March 2009.

The company holds a 100% interest in the Exploration Licence EL 41/2004.

The First Year Annual Report covered the nine month period from 1 July 2005 until 1 March 2006 which is the annual renewal date.

The Second Year Annual Report covers the full year from 1 March 2006 to 1 March 2007.

This Third Year Annual Report covers the full year from 1 March 2007 to 1 March 2008.

2 Review of Previous Work

CRAE Pty Ltd (now Riotinto Ltd) carried out mapping and exploration in 1983 and 1997 of the general area.

Full details of this work are described in the consultant's report which is attached to the Annual Report Year 1: 2006.

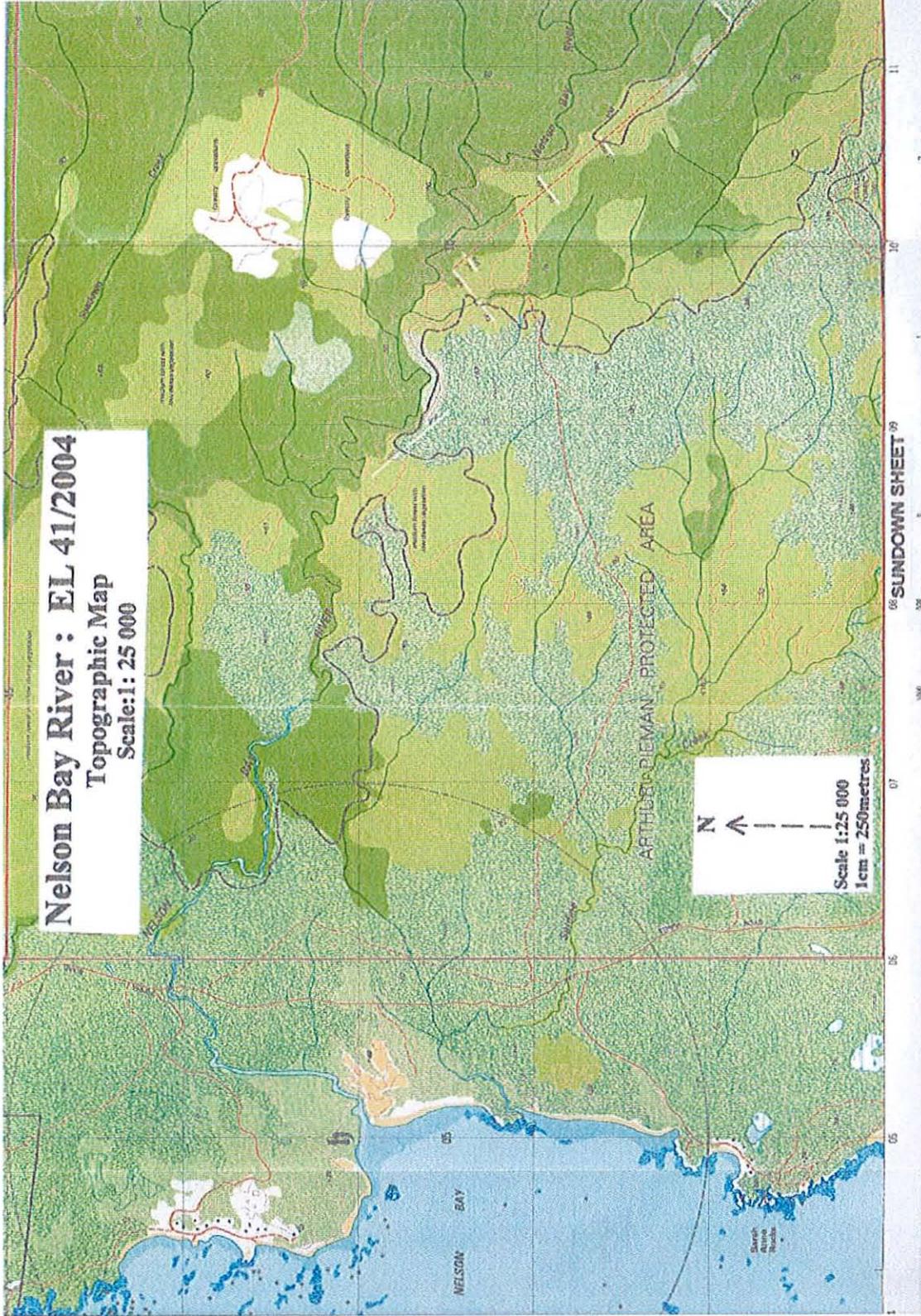
Pacific Nevada Mining Pty Ltd held the licence in 2000 and carried out a diamond drilling programme. Their target was gold and base metal mineralization and when this was not found in the drill core, the licence was relinquished.

In summary the two diamond drill holes were sited to drill to 55 degrees (magnetic) at -45 degrees dip and ended around 250m of inclined depth. They intersected a magnetite mineralized dyke. Full details of the results of this work are described in the SMG Consultants report which was appended to the Year 1 Annual Report 2006.

This dyke became the focus for work carried out by Gujarat NRE Resources NL.



Heathland grass and scrub on the southern edge of the EL

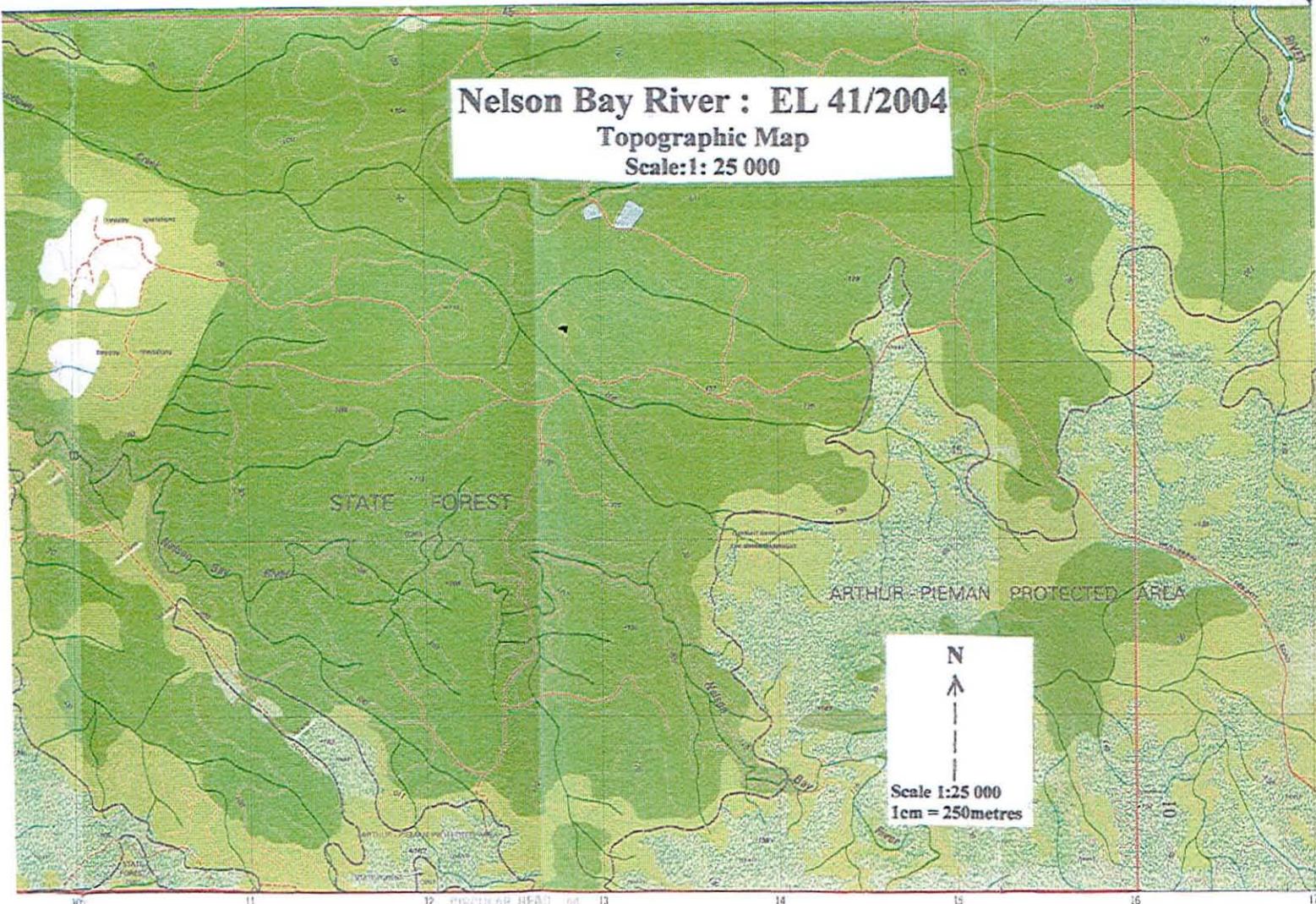


Nelson Bay River : EL 41/2004
Topographic Map
Scale:1: 25 000

N ↑
Scale 1:25 000
1cm = 250metres

06 SUNDOWN SHEET 09

Nelson Bay River : EL 41/2004
Topographic Map
Scale:1: 25 000



SCALE 1:25 000

BOUNDARIES shown on this map are NOT authoritative. For full particulars please contact the Registrar-General of Land Information Systems, Department of Conservation, Wellington, New Zealand.

MFAN TEMPERATURE RECORD

UNIVERSAL GRID

2.1 Regional Geology

The geology of the Nelson Bay River licence area consists of a mixed siltstones, sandstones and carbonaceous mudstones of the Cowrie Siltstone, part of the Rocky Cape Stratotectonic Element.

CRAE Pty Ltd mapped the area in 1997 and noted a sequence of northwest striking quartzites, black siltstones with cherts, chloritic siltstones (possibly volcanic tuffs) and black shales. Their detailed work also suggested a volcanic sinter in conjunction with the tuff units. Locally there is pyrite within the sediments and pyritic quartz veins are developed in fault zones. A black carbonaceous chert was found in Sundown Creek with anomalous levels of lead and arsenic. This unit is along strike from the magnetic anomaly

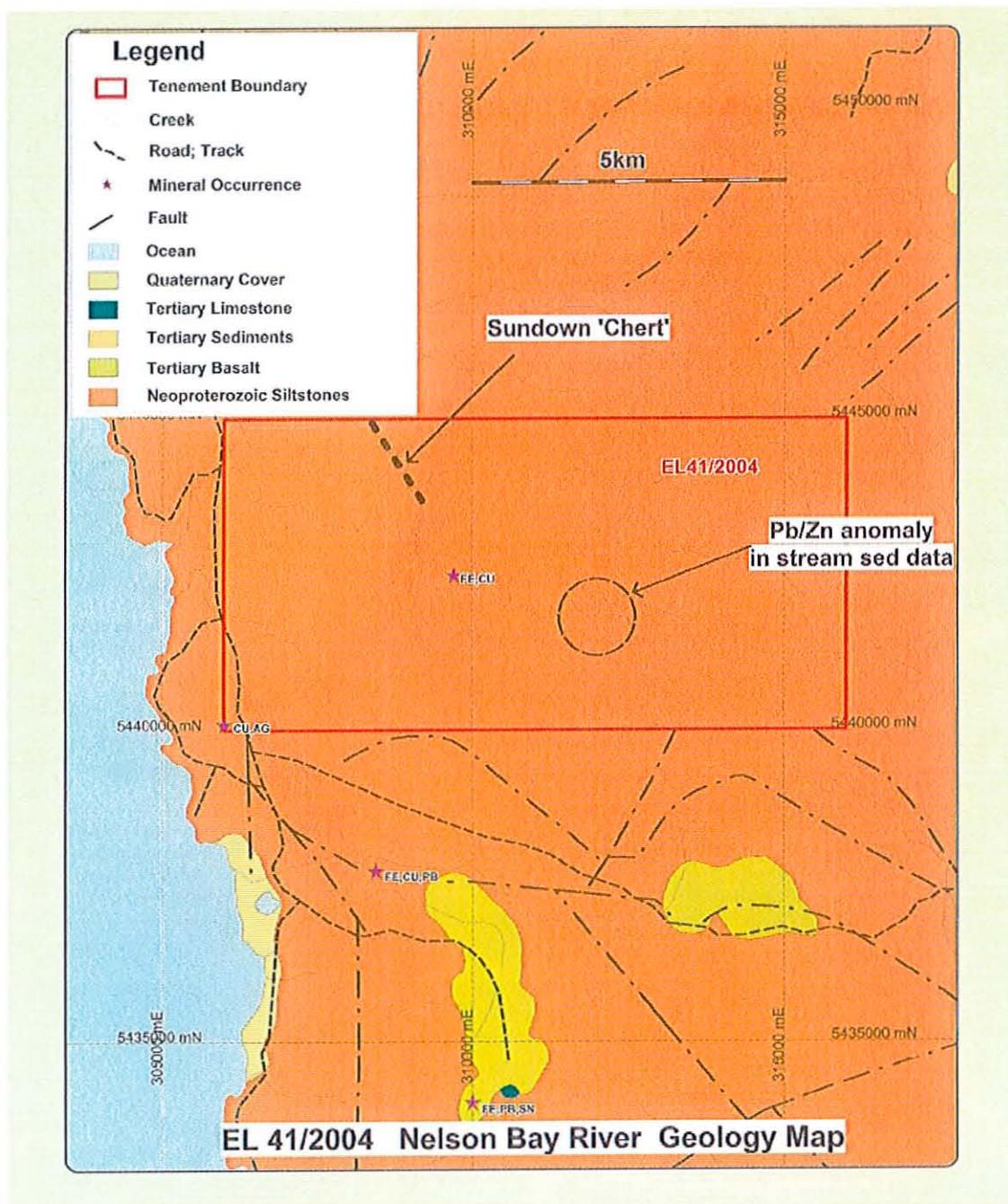
This regionally big magnetic anomaly is an iron lode and reported in the literature as a 40m wide dyke-like structure containing a quartz-carbonate-magnetite-pyrite-garnet-amphibole assemblage that cross cuts stratigraphy at right angles. This mineral style has been linked in the past to iron formations that occur at Tennant Creek, NT.

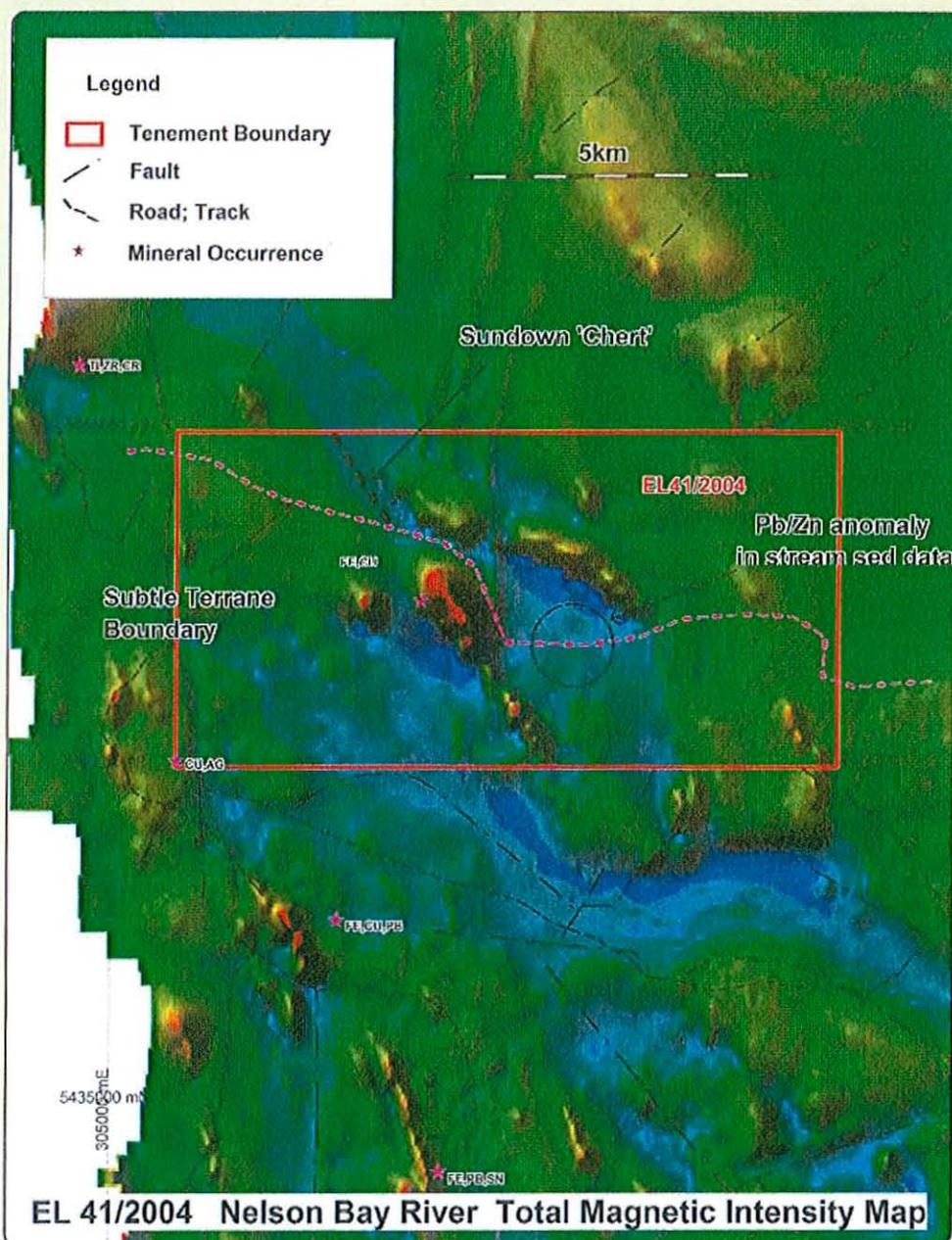
The airborne magnetic data indicates a slightly more varied picture than the geology map. There is a strong 4km long, stratabound magnetic feature coincident with the NBR copper/iron occurrence. This occurrence exists close to the boundary between two subtly distinct geological sub-terrane with the join terminating at a north-south striking set of presumed dolerite dykes. This structural setting in combination with the magnetic anomaly and mineral occurrence is considered very prospective. There are additional magnetic features that could indicate mineralization around the licence (see map p13).

There is also a mineral occurrence in the southwest corner of the licence, reported as a silver/copper anomaly with minor gold and arsenic (see map p12).

2.2 Previous Exploration and Mining

The area (in modern time) was looked at and drilled by Pickands-Mather (the developer of the Savage River Magnetite Mine in 1966). CRAE Pty Ltd in 1983, 1997 and Geopeko in the mid 1980's carried out field gridding and mapping. Pacific-Nevada drilled two diamond holes in 2000. (for details see SMG consultants report appended to the Annual Report Year 1 2006).





3 Current Exploration

A mining engineering consultancy, The Minserve Group, was commissioned to conduct a conceptual mine study of the potential to mine the ore resource as known from previous work. The focus was on an open pit to extract the magnetite resource and prepare it for the coal washing market. The full report is appended to the Year 2 Annual Report 2007.

The company contracted TasGold Diamond Drillers to drill a minimum three further exploration angled holes into the main magnetite anomaly.

This work was carried out in the reporting period to 1 March 2007, AR Y2 and discussed below.

Drill core was transported to Hobart where it was logged, the mineralised sections split and half sent to SGS Lakefield Oretest Pty Ltd in Perth for chemical assay, Davis Role Tube and bulk metallurgical analysis.

The results are discussed below and tables of the actual results are appended in the AR Y2 :2007.

The results of this testing was sent to the company's consultant geologist for the purposes of a recalculation of the estimate of the ore resource. A revised estimate is 6.9Mt at 38.2% magnetite with the resource being in the inferred category, this equates to a contained magnetite content of 2.63Mt under JORC classification.

The consultant's report is appended to the Annual Report Y2, 2007.

The consultants who carried out the scoping study have been commissioned to further study the project and report findings to a pre feasibility study stage.

The found that the magnetite resource has all the metallurgical characteristics that are suitable for reduction to iron ore pellets as well as having characteristics for a product that would be suitable for use in the coal washing industry.

This report is appended.

3.1 Literature Review

The company commissioned a very comprehensive data compilation and study with a recommended exploration programme and this report by Simon Tear of SMG Consultants 2005 was appended to the Year 1 Annual Report.

The other main literature study was based on previous drilling results as reported by Newnham Exploration and Mining Services for Pacific-Nevada Mining Pty Ltd in 2000.

Other literature studies were of company commissioned reports on various aspects of the project such as the initial conceptual mining study and the revised conceptual mining study which used data from the revised resource estimate study report. These reports are noted and discussed below. They are listed in the references and appended to the Annual Reports in the relevant year. The latest conceptual mine study is appended to this report.

3.2 Regional Exploration Activities

In 2005 the company conducted 2 reconnaissance field trips to the area. The area was first visited on a regional reconnaissance basis in July when local logistics were recorded for future reference and use.

A follow up field visit period followed in November 2005 and resulted in the consultant's major literature study and an estimate of the ore resource as 4Mt at 40% iron (ASX release 24 November 2005).

Other Regional exploration included a partial traverse of the Nelson Bay River in the area near the magnetite resource. The purpose was topography familiarity, confirmation of the mapped geology, and general prospecting. The prospect and environs were surveyed.

3.3 Prospect-based Exploration Activities.

A second field visit was made to the area in November 2005. This field trip of several days comprised a party of three geologists and one metallurgist. A visit was made to the drill sites of the 2000 work and the collar of the 1966 drill site (by Pickhands-Mather) was also found. The field mapping of Geopecko of the 1980s was confirmed. And a detailed study of all past work and literature with future work recommendations was commissioned. This report was appended to the Annual Report Year 1.

Amdel Laboratories of Adelaide was commissioned to conduct petrographic studies and Davis Tube Recovery of four core samples from the drilling that was done in 2000. The full report was appended in the Annual Report Year1.

The Coast and Mountain Exploration Consultant firm was contracted to supervise the line cutting extension of the existing base line, preparation of the drilling sites and supervised the actual diamond drilling which commenced on 15 May 2006, during the previous reporting period.

At the time of drilling, some field prospecting of the EL was also carried out and involved reconnaissance mapping and stream and rock chip sampling.

Drilling was the major focus of the work carried out early in the previous reporting period and thereafter the treatment of the recovered diamond drill core and its interpretation.

In the current reporting period, the data obtained from the drilling was re calculated to bring the resource (in the Inferred JORC Category) up to 6.9Mt at 38.2% magnetite. This is a magnetite content of 2.63Mt.

Using this new data the updated Conceptual Mining Study (appended) is positive overall for the resource to be developed but also lists a number of problems that need to be overcome.

The report:

- Recommends additional drilling to better define the resource
- Recommends open cut mining
- Requests further study for mine design parameters
- Requires further metallurgical test work
- Wants marketing studies carried out
- Lists project parameters
- Tabulates a positive net cash flow and project profit.

4 Discussion of Results

17

Year 1

As reported in the Year 1 Annual Report the consulting geologist's report was read, and extensively discussed in detail at a conference held with all the company's consulting contractors. Geophysical input was provided by the company's Consulting Geophysicist at this same meeting. This cross reference meeting was very successful and set strategies and guidelines for carrying out the proposed drilling and other field work.

The company's consultant went over the core logs from the drilling in 2000 and was able (using Min-Pac Software) to estimate an inferred iron-ore resource of 4 million tonnes at 40% iron. (Release to the ASX 24th November 2005)

The AMDEL petrographic study of the four samples said that the rock types are: Banded Iron Formation and composed as follows:

| | | | | | | | | | | |
|-------|-------|-----|-----------|-----|-----------|-----|-----------|-----|----------|---------|
| NBR 1 | Pet 1 | 54% | Magnetite | 35% | Tremolite | 45% | Mica | 15% | 222.3m | |
| | Pet 2 | 36% | Magnetite | 25% | Tremolite | 20% | Carbonate | 20% | Mica 25% | 223.1m |
| | Pet 3 | 50% | Magnetite | 65% | Tremolite | 1% | Carbonate | 25% | Mica 5% | 224.25m |
| | Pet 4 | 48% | Magnetite | 30% | Tremolite | 45% | Carbonate | 8% | Mica 10% | 225.4m |

The samples above came from the NBR 001 drill hole of June 2000 from the inclined depth of 222.3 to 228m: a 6 metre interval.

The results confirmed the presence of Magnetite with the first column being the % magnetic fraction, the second the mineral composition and lastly the inclined depth of the sample. The description and results are consistent with a magnetite rich dyke.

The full AMDEL report was appended in the Annual Report Year1.

Conceptual Mine Study

As stated above an ore resource of 4Mt was outline by the drilling of 2000. With this resource, the company was very interested to asses the potential to mine this orebody by open cut methods down to a depth of around 250 metres.

In February 2006 just prior to the commencement of the 2007 reporting year the company commissioned SMG Consultant's mining group (Minserve Pty Ltd of Brisbane) to carry out a conceptual mine study of the NBR project. This report was received in March 2006.

The report looked at the resource and developed an open cut mine design to produce a run of mine product that would undergo beneficiation to a saleable product. Three process options were nominated by Gujarat. In addition an indicative order of magnitude of the costs of the perceived best case was to be included, ie a project capital cost estimate. Two product options were to produce 1) pig iron and 2) the production of magnetite for use in coal washeries.

The conceptual study mine design shows that open cut mining can proceed to a depth of 225m but that all waste would need to go to out of pit waste dumps owing to the limited strike length of the pit and the need to keep a 1 in 10 access ramp open to the pit bottom.

The study notes that the production of magnetite for coal washing purposes is the highest value market for the NBR product. In addition it noted that the mines supplying this product are on a small scale ie 50 000 – 100 000 tonnes per annum. This would suit the NBR resource and at the 100 000 tpa production level at a capital cost in the range of \$10 to \$20M was estimated.

The full report is appended to the Year 2 Annual Report March 2007.

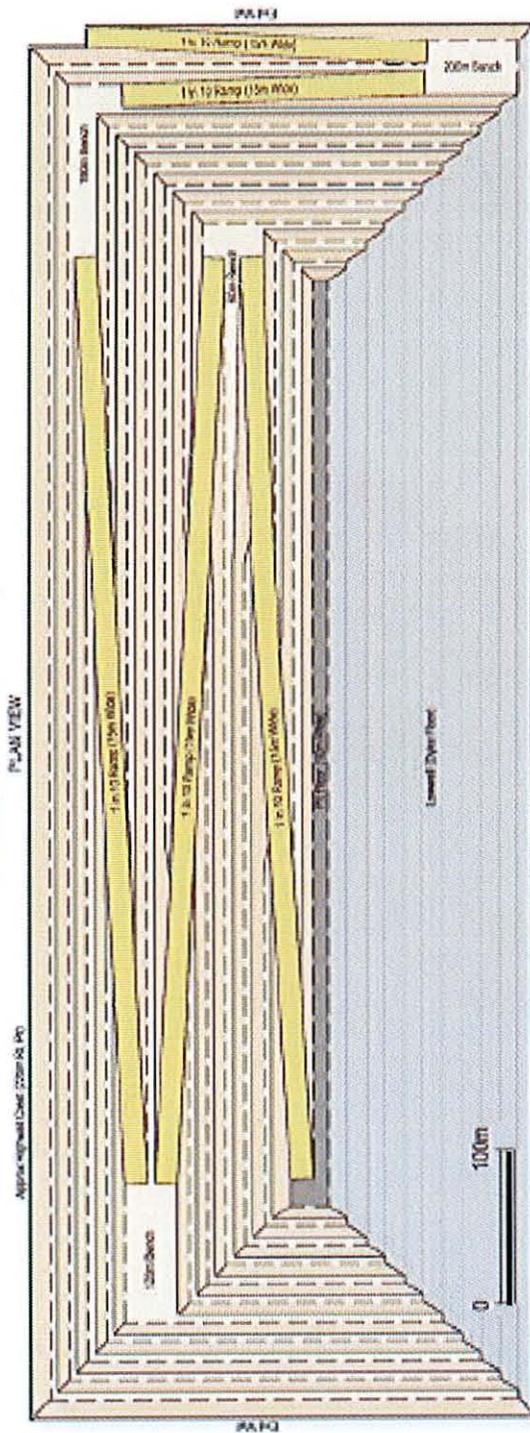
The Conceptual Mine Design is illustrated over the page →

The plan view shows the road layout to the bottom of a 225m pit.

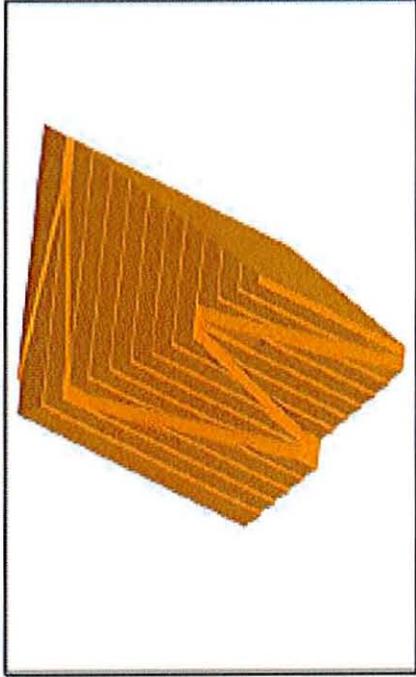
The cross section shows the relationship of the mineralized dyke to the mining benches.

And a stylized 3D view of the open cut pit.

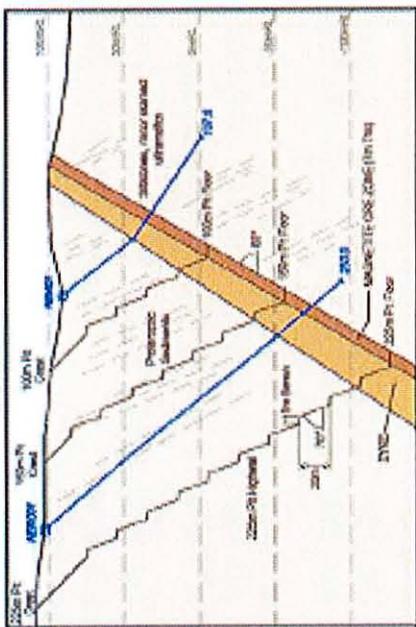
Conceptual Mine Design



3D REPRESENTATION OF DESIGN, PIT SHEL



TYPICAL CROSS-SECTION



Conceptual Mining Study (24 July 2007)

Minserve were asked again in March 2007 to do a revision of a mine study based on the drilling data obtained in 2006 and a revised ore resource outlined early in 2007.

Again the concept of mining by open cut methods was recommended with on site processing to produce around 150 000tpa of coal washery heavy media magnetite product.

After a ground survey and compilation of all known reference points and data from the past onto one MGA94 datum map; has clearly shown the deposit in relation to the Nelson Bay River. This now allows the position of the river to be taken into account when assessing the open cut mining options.

The report mentions limitations in the available data such as insufficient geological data (under the JORC Code) to be able to define a measured resource and its boundaries. In addition it notes the limitations still existing with the interpretation of the distribution of the magnetite mineralization within the deposit.

The report goes on to list further limitations in known information such as costings, discussions with contractors, government agencies, port authorities, etc.

The report reviews the options of mining with or without a diversion of the river, assumes on site treatment, conveyor transport to the north side of the river and truck transport to port (assumed to be Port Latta).

Despite the limitations and scenario outlined the project is calculated to be cash flow positive and provide a healthy surplus for the expected project mine life estimated at 12 years.

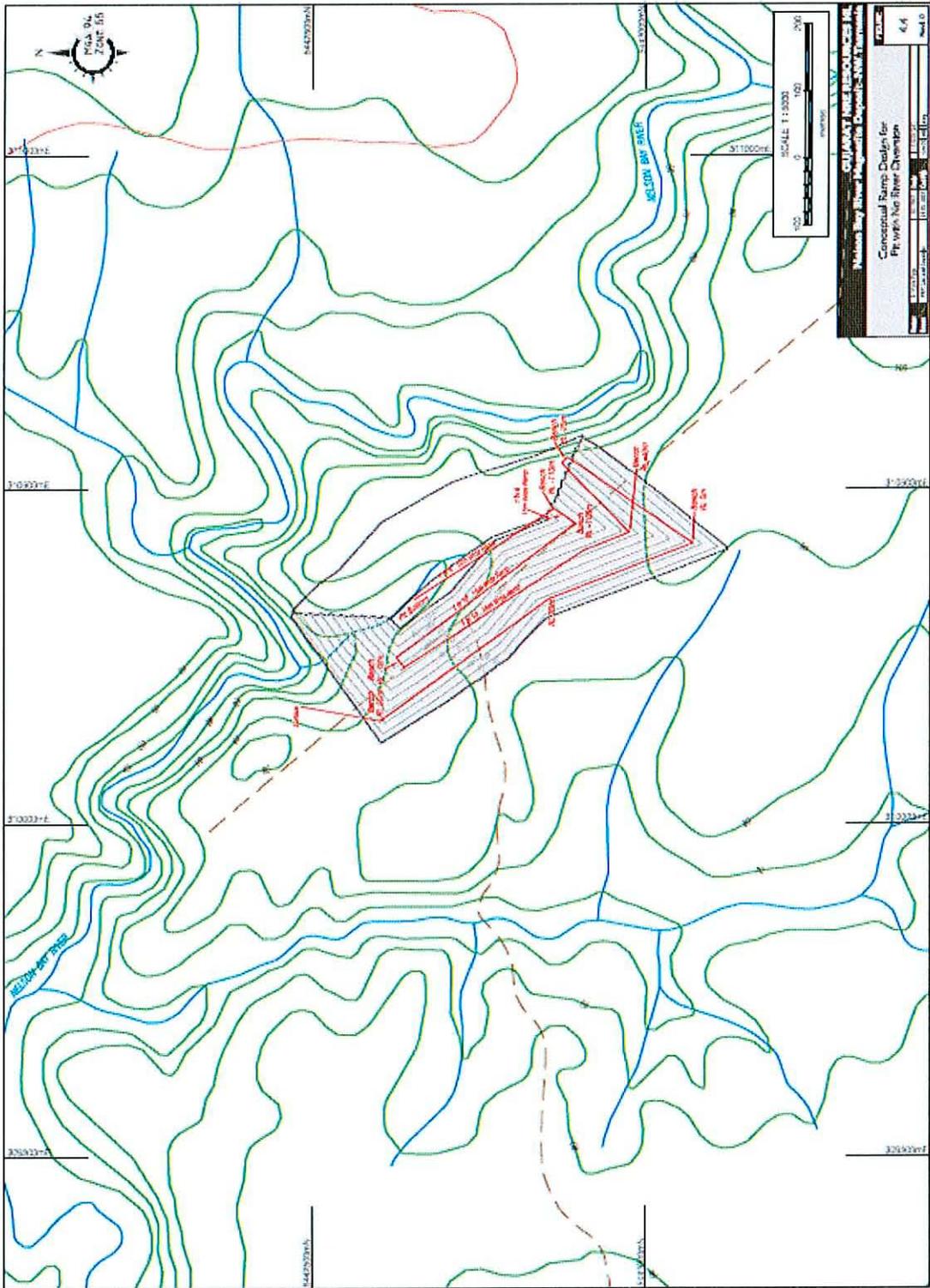
For details of the above notes see the report in full which is appended to this Year 3 Annual Report February 2008..

Drilling

A full description of drilling details such as equipment, locations, sections, core recovered etc was reported in the Year 2 Annual Report March 2007.

Assay Results

A complete list of all core assayed and the results was presented as tables in the Year Two Annual Report March 2007. Similarly all core sections of the mineralization assayed by the Davis Role Tube method for metallurgical purposes was also tabulated in the Y2 Annual Report March 2007.



Metallurgical Recoveries

The results are very encouraging and as noted in the previous year petrography report, and the conceptual mine study.

The Davis Role Tube analysis technique was used to determine the percentage of magnetite in the same samples and also in the bulk sample provided.

The result of this work is also very favourable.

The Davis Role Tube recovery figures of the iron content range from:

| | | | |
|------|----------------|--------------------|--------|
| NBR1 | 51.0 to 70.5 % | with an average of | 52.2 % |
| NBR2 | 58.9 to 61.9 % | | 32.5 % |
| NBR3 | 44.2 to 70.6 % | with an average of | 65.6 % |
| NBR4 | 47.0 to 69.7 % | | 59.5 % |

The details of the results of this work are in the tables reported in the Year Two Annual Report March 2007.

The values obtained for the mass % of the magnetic fraction of the sample and other chemistry values such as silica, alumina and also calculated are the percentages recalculated for a magnetite mineral equivalent (Fe₃O₄).

It is apparent from the tables of results that impurities are overall a small percentage of the ore and would be removable in a mill to produce a suitable product for sale.

The Davis Role Tube analysis is a comprehensive method. The main purpose of the tests was to establish whether a heavy media material could be produced from the proposed ore.

The test work included composite chemical analysis, dry magnetic separation at 600 Gauss, Davis Tube analyses at 1000 Gauss (wet magnetic separation), bond work index, and liberation sizing assessment for waste rejection.

The additional test work for the magnetite assessment was conducted to provide information for future scoping and feasibility studies.

The coarse dry magnetic separation and Davis Tube analyses (wet magnetic separation of dry magnetic material) and recoveries are shown in the table below.

Composition & Recovery of Magnetic Fraction

| Sample particle size [dry magnetic separation] | Sample particle size [DTR] | Magnetic fraction recovery (%) | Fe (%) | SiO ₂ (%) | Al ₂ O ₃ (%) | S (%) | P (%) |
|--|----------------------------|--------------------------------|--------|----------------------|------------------------------------|-------|-------|
| -3.35 mm | 95% - 75um | 57.0 | 69.9 | 1.58 | 0.05 | 0.08 | 0.00 |
| -2.0 mm | 95% - 75um | 61.3 | 70.1 | 1.57 | 0.06 | 0.10 | 0.00 |
| -0.5 mm | 95% - 75um | 61.1 | 70.4 | 1.49 | 0.05 | 0.08 | 0.00 |

The test work indicated that a recoverable magnetite concentrate by weight should be in the range 57% – 61% with Fe grade greater than 69.0% and SiO₂ less than 1.6%, Al₂O₃ less than 0.05%, S less than 0.1% and P less than 0.01%.

This implies that more than 96% of the magnetic material is magnetite.

The above results indicate that material equivalent to the composite sample from Nelson Bay River deposit can be ideally suited for the production of a marketable magnetite concentrate for either heavy media markets or pellet production.

Recalculation of the Resource Estimate.

All the available drilling, logging, surveying, assay and metallurgical data were passed on to the company's consulting geologist who was commissioned in 2007 to recalculate the ore resource estimate.

The company's consultant using all the available information was able to calculate a new revised ore resource estimate as below.

The Inferred Resource now stands at:

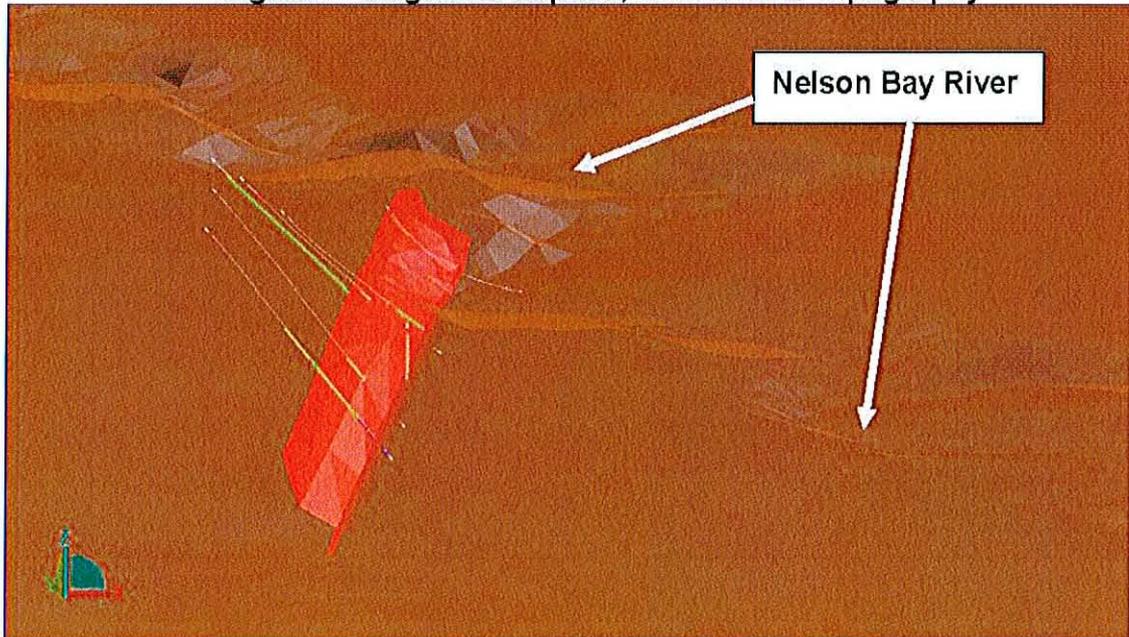
6.9 million tonnes at 38.2% magnetite, using a 20% magnetite cut off, equating to 2.8 million tonnes of magnetite.

This amounts to a 70% increase in the resource size from the previous estimation work carried out in 2005.

The consultants work involved using all the data noted above and with that was also able to complete three dimensional (3D) modeling of the ore body.

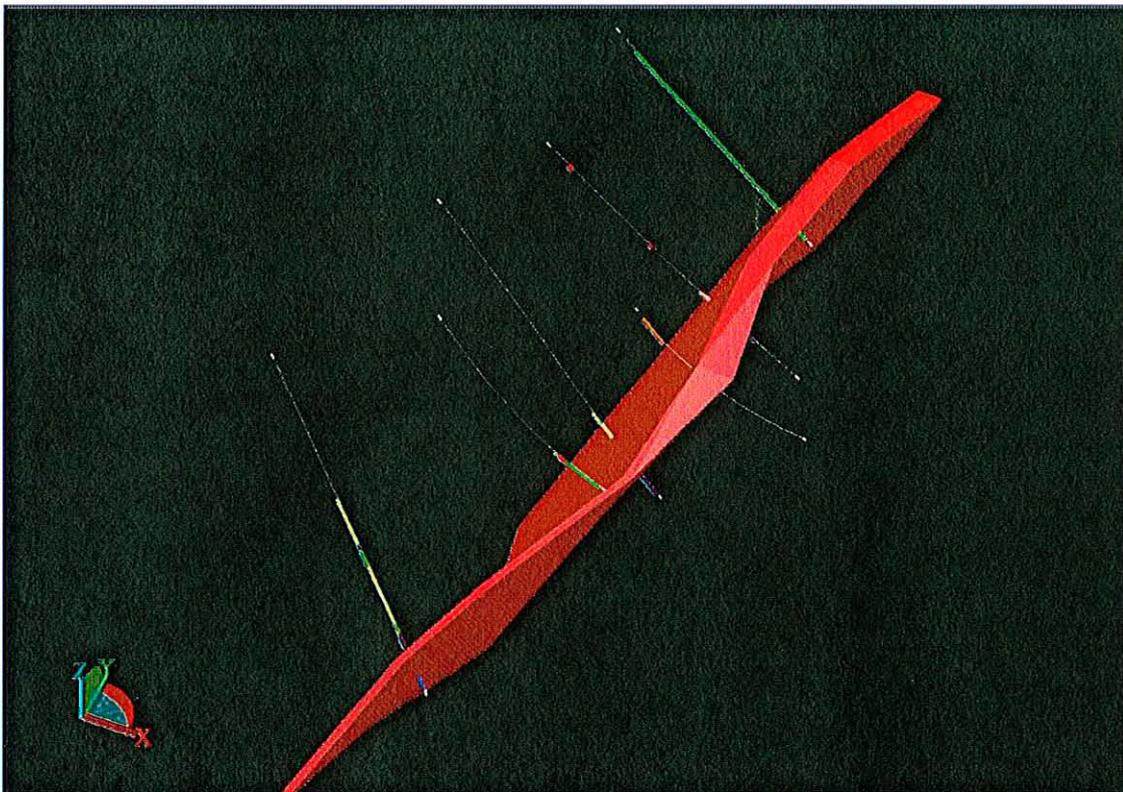
Three of those pictures are reproduced below.

Figure 7 Magnetite Deposit, Drillholes & Topography



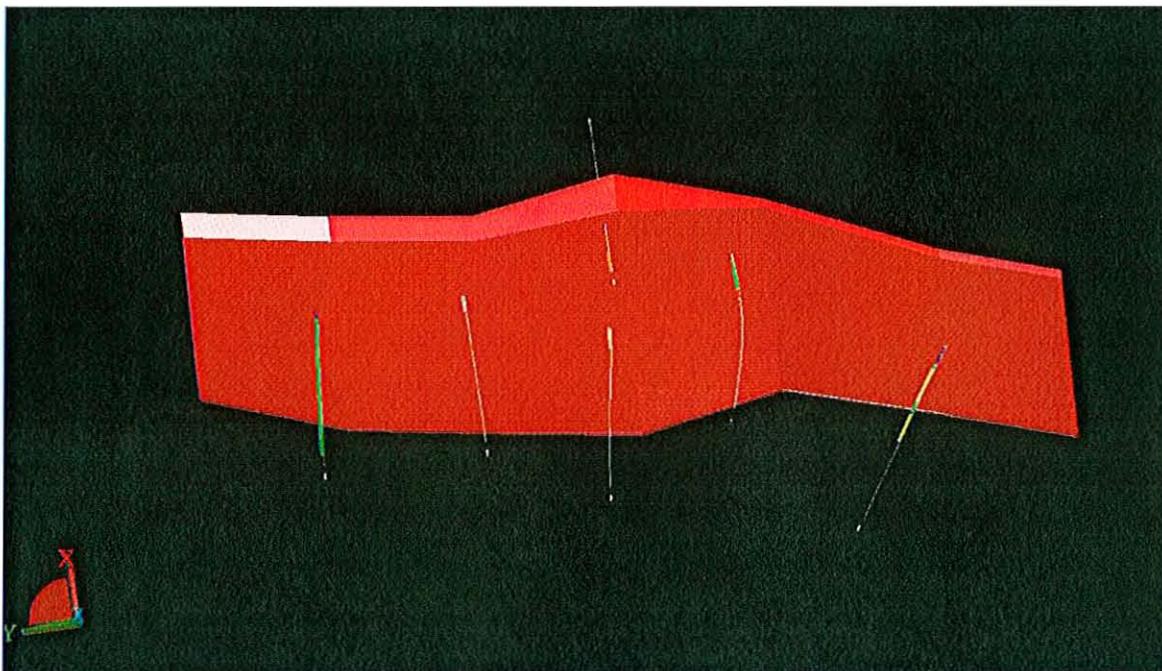
This view is from slightly above and looking from the south-south-west

Magnetite Body & Drillholes



This view is from above and looking from the south-south east

Figure 9 Magnetite Body & Drillholes



This view is from above and looking from the west

5 Conclusions

The initial 2005 regional reconnaissance of the area was very useful for the follow up work that was carried out.

Local contractors were sourced and used as was accommodation food supply etc.

The base line was extended and drill sites prepared in the reporting period to 1 March 2006. The recommended flora hygiene programme was also successfully implemented.

All this local and desk top work and study led to a successful diamond drilling programme which commenced in May 2006 and was completed by the end of June 2006.

The core was submitted to much testing with the results indicating that the magnetite ore in the resource is suitable for use as a heavy media product used in coal washing.

An initial and later more detailed conceptual mining study was completed and concluded that the magnetite resource if mined would bring a cash flow surplus to the project.

The EL 41/2004 main magnetic anomaly area looks promising for a magnetite resource suitable for use in coal washing and preparation plants.

The EL 41/2004 should be retained as the resources will undergo continuing exploration, study, and development as part of pre feasibility studies.

6 Environment

There are no environmental issues within the lease apart from the main magnetic anomaly area.

In the reporting period July 2005 to March 2006, the area was visited by the MRT Environmental Field Officer who noticed some *Phytophthora* infestation of the area that underwent drilling in 2000.

The infestation was surveyed and duly noted in the MRT memo to the company about the need for proper quarantine and flora hygiene. A proposal to manage this was implemented with wash stations, using appropriate disinfectants (phytoclean) and restricted use and access by the introduced machinery such as crawlers, backhoe and the drill rig. These machines had to be disinfected and sterilized prior to entry and upon leaving the area. In addition all field personals' boots in particular had to be washed and dipped in disinfectant before entry and after leaving the field work sites.

The existing base line was extended for about 600m beyond the previous most northerly drilling site and minor clearance made at the appropriate distance along the baseline for the proposed new diamond drill holes.

The existing track was used for foot access in the reporting period and was refurbished (corduroyed mostly using logs already felled, some were cut) for the use of quad bikes and a crawler.

Because the existing and new cut tracks are to be used again, it is proposed to upgrade the existing track by means of a geofelt underlay to a bed of gravel. This will allow access to the site by 4x4 vehicles without causing mud ponds and churning of the track. This proposal has been submitted to MRT and is approved in principal. A contractor based in Smithton has submitted a quote for the consideration of the company.

There has been no rehabilitation work carried out in the reporting period.

7 Expenditure

To the end of the December quarter 2007 total sent was \$ 11 494
mainly on the final installment of the mining study

In the year 1 March 2006 to 1 March 2007 a total of \$ 69 268
has been spent on the licence :

This brings the total of funds spent on the licence to date to \$ 357 615

8 References

MRT Open File Reports

00_4494
 NEWNHAM LA
 EL 15/97 Arthur River: Report on Nelson Bay River Drilling Program June-July 2000
 For Pacific-Nevada Mining Pty Ltd August 2000

Gujarat NRE Resources NL Commissioned Reports

TEAR S
 Zinico Resources NL: Independent Experts Report in Prospectus August 2005

TEAR S
 Nelson Bay River Licence EL41/2004: Literature Study Report for
 Zelos Resources NL November 2005

MINSERVE GROUP PTY LTD
 Nelson Bay River Iron Ore Conceptual Mining Study
 for Zelos Resources NL March 2006

TEAR S
 Report on the Resource Estimation of the NBR Magnetite Deposit
 NW Tasmania. Prepared for Gujarat NRE Resources NL January 2007

MINSERVE GROUP PTY LTD
 Nelson Bay River Magnetite Deposit Conceptual Mining Study
 for Gujarat NRE Resources NL July 2007