GULLEWA
LIMITED

ACN 007 547 480
ABN 30 007 547 480

QUARTERLY REPORT
FOR THE PERIOD ENDING
30 SEPTEMBER 2006

PROPERTY

NORMANHURST

The approval of the Development Application to subdivide the property into 4 lots was received on 2 August 2006. It is subject to conditions that we will be able to satisfy. We will proceed to implementation of these conditions.

ST IVES

As stated last quarter, the market for medium size density developments in St Ives is not strong at the moment. We will wait for market conditions to improve.

ALLEGIANCE

The Chairman of Allegiance Mining NL made the following comments in their September quarterly.

We much appreciate the support shown in our recent Share Purchase Plan, with one in five of our shareholders supporting the issue and each contributing and average of $3,766 per shareholder. The Team will work assiduously to justify your confidence!

In the coming summer (good weather) season intense exploration programmes are planned between Saxon and Avebury, west of Avebury and at East Renison. Drilling at Melba continues to be both intriguing and most prospective from a geological standpoint. I feel confident that understanding the geological complexity will eventually yield good results.

Undoubtedly, the outstanding discovery during the quarter was the discovery of the Saxon deposit. This represents a "new line of lode" further south and bodes well for further discoveries.

As announced on 27 September, Allegiance bought back the options granted to Société Générale as part of the $5 million loan facility. Société Générale did not require repayment of the loan at that time. This was a cost-effective capital management measure.

As you are aware the nickel price continues to surprise analysts on the upside. While one feels instinctively that such huge prices cannot continue, the present long term expansion rates of 4.3% pa for new mined nickel indicate massive shortages after 2010, assuming all projects now in construction are successfully commissioned. Thus the future remains bright.

At the time of writing, we are still slated for start-up in the 3rd quarter of 2007. We have attempted to mitigate the world wide skills, materials and equipment shortages by early recruitment of skilled personnel, early ordering of long lead items and early mine preparation. It should be realised that these shortages do have a positive aspect – namely it will be difficult for supply to catch up with accelerating demand for the foreseeable future – short of a major economic downturn!

During the quarter Allegiance pursued the possibility of early production of nickel concentrates by processing ore from its Avebury nickel mine through the Renison Bell mineral processing facility while construction of the purpose built plant at the Avebury site proceeds. While due diligence investigations on the plant were undertaken, negotiations of the terms of a final agreement progressed. Allegiance declined to make any further financial or option commitments and consequently halted the due diligence process pending an agreement being reached the basis first proposed by Bluestone. Discussions may continue.

We are particularly pleased that Jinchuan Group Limited, China's largest and the world's fifth largest nickel smelter has exercised its options to become a 3.7% shareholder. They have expressed an interest in increasing their holding in future.
With the support of our shareholders, and of our offtake partner Jinchuan, together with our consultants and contractors working constructively, it really is a most exciting period for your team at Allegiance. The continuing firm nickel price helps too!

Principal Points

AVEBURY NICKEL PROJECT IMPLEMENTATION

- Construction continues at full pace and all long-lead items are being ordered in a timely manner. Both ball mills are under contract, the crushers are being ordered and critical-path components are in the final stages of firm quotes to the EPCM Engineering firm, Metplant of Perth.
- The project will have a mill throughput of 900,000 tonnes of ore per annum producing more than 8,500 tonnes of nickel ("Ni") in concentrates per annum. The business plan is to extract and sell 70,000 tonnes of Ni in concentrates from the currently known resources.
- All infrastructure components are now in place on site - Tasmanian grid hydro-electrical power, dewatering pump station and pipelines, roads, and the Zeehan office + accommodation is complete.
- The water storage dam is 80% complete and is on schedule.
- Two shafts for ventilation and services have been completed by Mancala contractors as planned during the quarter and are now fully equipped with ladders, pipes and electrical cables.
- The mine is ready to commence mining operations to deliver up to 1.0 million tonnes of ore per annum and the appointment of the mining contractor is in the final stage of negotiations.
- Recruitment firm Mining People International has been employed to assist recruitment of the operating workforce over the coming months.

EXPLORATION

- The new SAXON discovery is likely to be a new line of lode within 2 kilometres of Avebury mill.
- Avebury resources are 10 million tonnes averaging 1.14% Ni containing 114,000 tonnes of Ni.
- Orebody widths are typically 10 metres to 40 metres in good ground conditions.
- Drilling east and west of the known resource is encountering additional mineralisation.
- Higher grade ore zones near to the current mine access have been proven up.

FINANCE & CORPORATE

- Cash balance at the end of September stood at $47.2 million.
- Share Purchase Plan raised $4.8 million at an issue price of 31.1 cents per share in October.
- Jinchuan Nickel Group of China exercised options worth A$7 million in October.

MARKETING

- US$2.2 billion offtake agreement with Jinchuan Nickel Group of China remains a cornerstone agreement that brings major benefits to the Avebury Nickel Project.
- Arrangements for delivery of nickel concentrates from Avebury to China are being finalised.

DAVID DEITZ
Chairman

31 October 2006

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