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**QUARTERLY REPORT  
FOR THE PERIOD ENDING  
31 MARCH 2007**

**PROPERTY**

**NORMANHURST**

The subdivision is not yet complete. The work will continue in the next quarter.

**ST IVES**

There have been several DA applications lodged with Ku-Ring-Gai Council. We are monitoring the outcome over the next few months.

**ALLEGIANCE**

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

Mining operations commenced in earnest during the Quarter with 10,000 tonnes of ore now stockpiled. All sectors of the mine and mine site are now connected to the State hydroelectric grid. Construction and fabrication continue apace, with major equipment items arriving on site – including the ball mill shell which arrived early! The mechanical completion date remains in place with October-November being the target.

During the Quarter, Allegiance shares became a component of the Standard & Poors ASX 300 index, and as such, gained qualification for investment by a broad range of local and overseas institutions. This, in part, may account for the recent firm share price.

The exploration philosophy over the last six months has been to “scope out” the province, making most effective use of the drier weather. In addition to the **Saxon** Announcement last Quarter, **Bison** and **North Avebury Extended** have been added to our prospect list. These finds will be subject to follow-up drilling in due course. Access tracks have been constructed to allow winter drilling on the eastern prospects, and North Avebury Extended will be drilled from underground as mine development allows. Underground ore definition and exploration definition will commence in mid-May with one mobile rig and later a further fixed drilling rig will be added. Surface drilling will continue with three rigs. The budget has been expanded to permit this increase in drilling.

At Melba Flats, encouraging drilling results have encouraged Allegiance to apply for a Mining Lease. This is now in the final documentation stage.

At the Quarter end, Allegiance had a positive bank balance of \$39 million. During the Quarter, Jinchuan took a placement of 7,500,000 shares at \$0.53/share, a further sign of our growing co-operation. Discussions with banks continued and will be completed during June Quarter.

I have many conversations with shareholders each quarter and the soaring nickel price is top of the list. I believe that the nickel price will remain firm for the next few years. Only when the **increase** in production of new mined nickel **exceeds** the increase in demand will nickel prices fall. New uses may well add materially to this demand. Many of you will be aware that Toyota has announced that in the future, it expects all of its cars to be **hybrids**. If Toyota delivers this plan, it will require 500,000 additional tonnes of nickel for those hybrid electric batteries. Current annual world production of nickel will not exceed 1,400,000 tonnes.

Thus good times for nickel and great times ahead for Allegiance!

## Principal Points

### AVEBURY NICKEL PROJECT IMPLEMENTATION

- Construction is at full pace and production is scheduled to commence in the 4<sup>th</sup> Quarter 2007.
- The main long-lead item, the primary ball mill has been fabricated by Outokumpu Technology Australia and the largest mill component, the shell barrel, was delivered to Avebury site on 20 April 2007 - 17 days ahead of schedule.
- Engineering firm, Metplant of Perth relocated its construction team to the Avebury process plant site in January-February and site construction offices are fully equipped and staffed.
- The project will mill 900,000 tonnes of ore producing 8,500 tonnes of nickel ("Ni") in concentrates pa. The revised business plan currently extends to June 2016 - to extend as resources expand.
- All infrastructure components including roads, Tasmanian grid hydro-electrical power, water management systems, site construction office and Zeehan office-accommodation are complete.
- The Avebury nickel mine is fully operational and has delivered 10,000 tonnes of normal run-of-mine ore to stockpile. Ore geometry and grades encountered to date are as planned.
- The entire senior management team for the Avebury Project has been successfully recruited.

### EXPLORATION

- BISON discovery was announced during the Quarter. This is not yet included in resources.
- The North Avebury Extended orebody has been extended a further 200 metres below previous drilling – this too is not yet included in resources.
- In-fill drilling at East Avebury-Saxon is continuing and an initial resource has been announced.
- Resources increased 15% to 12 million tonnes grading 1.11% Ni containing 131,000 tonnes of Ni at a 0.7% Ni cut-off grade. Application of strict new resource classification boundaries, Ore Reserves stand at 3.35 million tonnes grading 1.16% Ni, sufficient for initial production to mid 2011.
- Infill drilling will commence in the mine in mid-May so as to materially increase reserves by year-end, well ahead of production to allow an early assessment of mill-mine expansion options.

- Orebody widths are typically 10 metres to 40 metres in good ground conditions.
- Drilling west and especially east of the known resource is encountering additional mineralisation.

#### **FINANCE & CORPORATE**

- Cash balance at the end of March stood at \$39.15 million.
- Share placement to Jinchuan Nickel Group of China raised A\$4 million, announced in January.

#### **MARKETING**

- US\$2.8 billion offtake agreement with Jinchuan Nickel Group of China remains a cornerstone agreement that brings major benefits to the Avebury Nickel Project.



**DAVID DEITZ**  
**Chairman**

30 April 2007

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

GULLEWA LIMITED

ABN

30 007 547 480

Quarter ended ("current quarter")

31 March 2007

### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (9 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors		
1.2 Payments for		
(a) exploration and evaluation		
(b) development		
(c) production		
(d) administration	(225)	(522)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	16	17
1.5 Interest and other costs of finance paid	(17)	(20)
1.6 Income taxes paid	(7)	(6)
1.7 Other (provide details if material)		
<b>Net Operating Cash Flows</b>	<b>(233)</b>	<b>(531)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects		
(b) equity investments		
(c) other fixed assets	(12)	(12)
1.9 Proceeds from sale of:		
(a) prospects		
(b) equity investments	(19)	725
(c) other fixed assets		
1.10 Loans to other entities		
1.11 Loans repaid by other entities	(46)	(141)
1.12 Other (property)	107	180
<b>Net investing cash flows</b>	<b>30</b>	<b>752</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(203)</b>	<b>221</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(203)	221
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.		
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings	907	907
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other (provide details if material)		
	<b>Net financing cash flows</b>	907	907
	<b>Net increase (decrease) in cash held</b>	706	1,128
1.20	Cash at beginning of quarter/year to date	488	66
1.21	Exchange rate adjustments to item 1.20		
1.22	<b>Cash at end of quarter</b>	1,194	1,194

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	67
1.24	Aggregate amount of loans to the parties included in item 1.10	

1.25 Explanation necessary for an understanding of the transactions

NIL
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**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

NIL
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2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

NIL
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+ See chapter 19 for defined terms.

### Financing facilities available

*Add notes as necessary for an understanding of the position.*

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities – Guarantee of mortgage on St Ives property	1,050	1,050
Normanhurst property	600	600
3.2 Credit standby arrangements		

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	20
4.2 Development	
<b>Total</b>	<b>20</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	1,194	489
5.2 Deposits at call		
5.3 Bank overdraft		
5.4 Other (provide details)		
<b>Total: cash at end of quarter (item 1.22)</b>	<b>1,194</b>	<b>489</b>

### Changes in interests in mining tenements

Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed			
6.2 Interests in mining tenements acquired or increased			

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

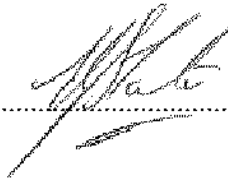
	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	125,957,029	125,957,029		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>	11,000,000 12,256,756 11,000,000	Nil Nil Nil	<i>Exercise price</i> 6 cents 3.25 cents 7.25 cents	<i>Expiry date</i> <b>30.06.2009</b> <b>05.12.2010</b> <b>30.11.2011</b>
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 <b>Debentures</b> <i>(totals only)</i>				
7.12 <b>Unsecured notes</b> <i>(totals only)</i>				

+ See chapter 19 for defined terms.

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:..... Date 30 April 2007



(Company Secretary)

Print name: ELAN SLATER

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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