



GULLEWA LIMITED

A  
S  
X  
  
R  
e  
l  
e  
a  
s  
e

31 October, 2014

ASX Code : GUL

ABN 30 007 547 480  
Level 8  
49-51 York Street  
Sydney NSW 2000  
Australia

Tele : +61 2 9397 7555  
Fax : +61 2 9397 7575

[www.gullewa.com](http://www.gullewa.com)  
[info@gullewa.com](mailto:info@gullewa.com)  
[www.allegiancecoal.com](http://www.allegiancecoal.com)  
[www.centralironorelimited.com](http://www.centralironorelimited.com)

## Quarterly Report

For period ended 30 September, 2014

### Coal

#### **JOGMEC Joint Exploration Agreement**

Allegiance Coal Limited ("Allegiance Coal") and JOGMEC, a Japanese government owned corporation, signed on 14<sup>th</sup> July 2014 a Joint Exploration Agreement to undertake an extensive exploration program in the Company's Kilmain tenements.

Under the terms of the Joint Exploration Agreement ("JEA"), JOGMEC will provide up to \$3 million of exploration expenditure to Allegiance Coal over a 3 year period for the Kilmain Coal Project in three stages.

The JEA was approved by FIRB on 29 August 2014.

JOGMEC will earn up to a 40% economic interest in the Kilmain Project and has the right to assign that interest to a Japanese nominee company in the future, in order to progress the project to development.

- JOGMEC to provide \$3 million of exploration funding over 3 years in exchange for a 40% interest in Allegiance Coal's Kilmain Coal project, located in Queensland's Bowen Basin.
- The funding package will allow substantial exploration of the coal within the Project area.
- Exploration Joint Venture with a key Japanese Government owned corporation will progress the evaluation of the open cut and underground potential within the Kilmain tenements.
- Part repayment and renegotiation of loans
- Further relinquishments of tenements
- Maintaining focus on cost control and cash preservation.



## PROJECT STATUS

### Kilmain Project

The Kilmain Project (EPC 1298 and EPC 1917) is a 56 square km area within the Bowen Basin. The project area is located 85 km southeast of Emerald and 12km west of the Rolleston rail line. The project area on its eastern boundary adjoins the BMA Togara South Project while on the western boundary adjoins the Bandanna Energy's Arcturus Project and to the north the Bandanna Energy Springsure Creek Project.

The Kilmain Project has potential for an open cut/underground deposit of coking/PCI/thermal coal within the Rangal Coal Measures and has an exploration target of 100 to 200 Mt of coal. **See NOTE A.**

The JEA provides Allegiance Coal with funding for all of the planned exploration expenditure over three years including seismic exploration, drilling and associated coal quality analysis within the Kilmain Project area. Funding provided under the JEA will also allow Allegiance to build a comprehensive geological model of the area utilising the new data along with previous company drilling and historical data within and adjacent to the tenements.

Under the JEA the first activities were seismic surveying and ground magnetometer surveys which took place during September 2014. The initial seismic surveying took place in the southern part of the Project area. Previous drilling by Allegiance Coal identified coal seams at depth and a working seam section of 3.1 m within the Castor/Pollux Seams.

Drilling is planned to commence the second week in October subject to suitable weather conditions.

Aurizon's (ASX:AJZ) electrification of the Rolleston rail line continued during the Quarter.

The electrification of the Rolleston rail line to meet the planned increase in production from Glencore's Rolleston Mine to the south will enhance the Kilmain project since there is the potential for lower cost rail transportation in the future. <sup>(2)</sup>

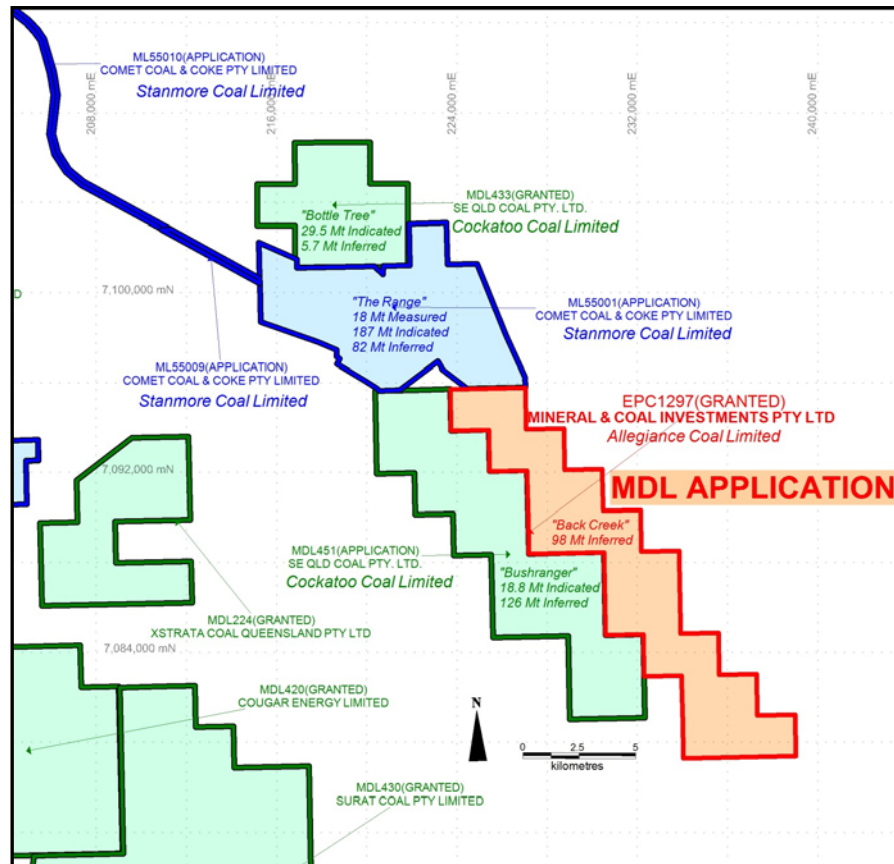
### Back Creek Project

The posting of the maiden 98 Mt JORC Inferred Resource in November, 2012 <sup>(1)</sup> enabled the Company to progress the Project to the stage of lodging a Mineral Development Licence Application (MDLA) in March, 2013. Following discussions with DNRM it has been decided to resubmit the MDLA utilising data and geological concepts that were either not available or considered in making the original MDLA. The resubmittal planned for this Quarter has been delayed to enable staff to focus on planning for exploration on the Kilmain project. See Plan 1

*The Project is well suited to gain benefit from further development of Surat Basin infrastructure.*

(1) Allegiance Coal Limited ASX Announcement 26/11/2012

(2) Aurizon Holdings Limited ASX Announcement 13/04/2013



**Plan 1 - Back Creek Project – MDL Application**

*Sources of information in Plan 1:*

- “Bottle Tree” and “Bushranger” resources are from [www.cockatoocoal.com.au](http://www.cockatoocoal.com.au).
- “The Range” resource is from [www.stanmorecoal.com.au](http://www.stanmorecoal.com.au).
- “Back Creek” resource is from [www.allegiancecoal.com.au](http://www.allegiancecoal.com.au).
- Mt = Million tonnes.
- Measured, Indicated and Inferred are resource categories defined by the Joint Ore Reserve Committee (JORC) of the Australasian Institute of Mining and Metallurgy (AusIMM).
- Map projection is Map Grid of Australia Datum 1994, Zone 56.



**NOTE A :**

The Exploration Target was announced on 12<sup>th</sup> October 2011 by Gullewa Limited prior to the listing of Allegiance Coal Limited.

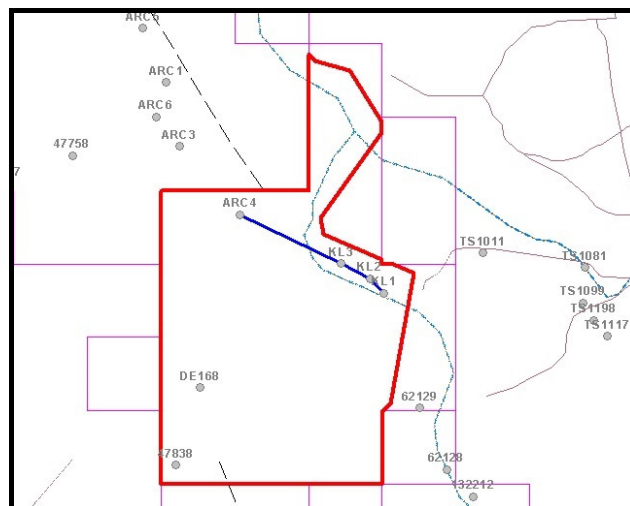
The Exploration Target was estimated by Competent Person Colin Randall, utilising the results of drilling of KL001 as well as existing drill holes (ARC4 and DE168) within the tenement from earlier exploration.

The potential quantity and quality of the Exploration Target is conceptual in nature and there has been insufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of a Mineral Resource.

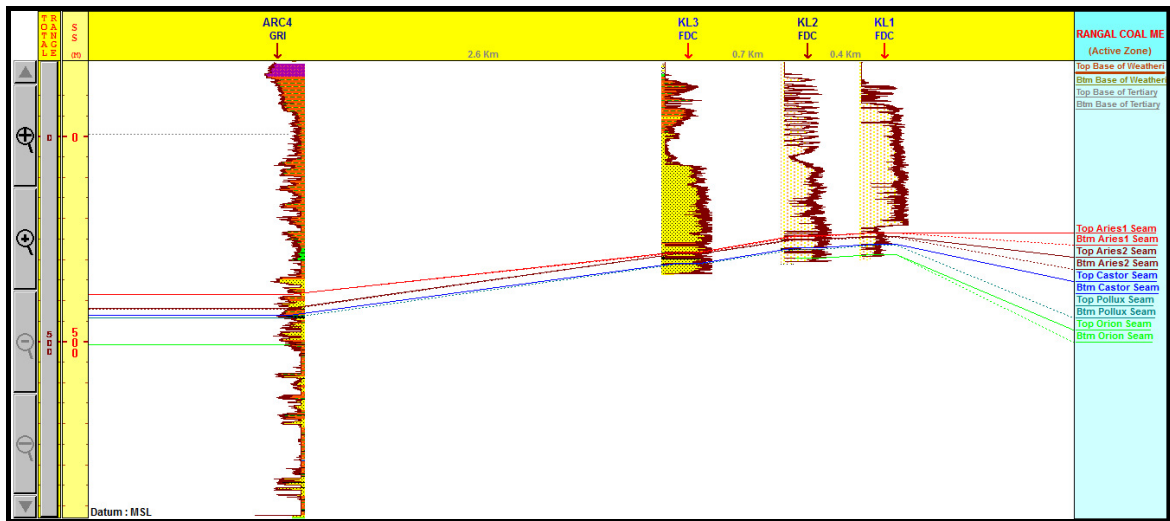
Further technical details supporting the Exploration Target as per clause 17 of the JORC Code 2012 are AS FOLLOWS:

**(a) Current Process and Data Supporting The Exploration Target**

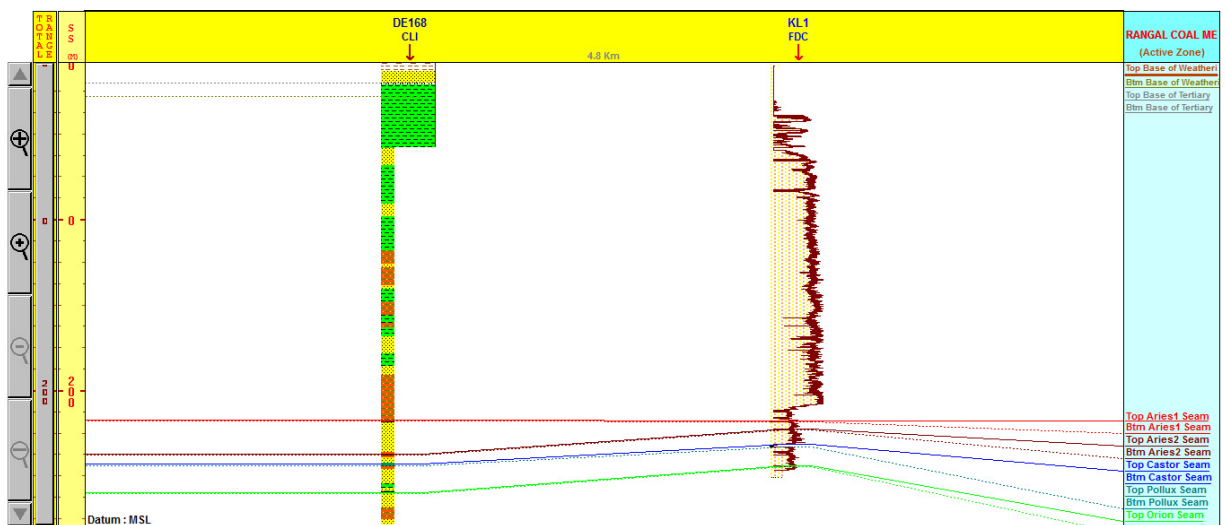
As stated above the Exploration Target was estimated using MCI drill hole KL001 as well as existing holes ARC4 and DE168. Figures showing the location of these holes and drill sections containing these holes showing the respective seam correlations are shown below in Plans 2-5. The inter-hole distance (Km) is clearly shown in the headers of the two drill sections. The Albinia Fault is not shown on these sections as the average known displacement (based on the adjacent Arcturus deposit of some tens of metres) would not be visible at the vertical scale used in these drill sections. The location of the N-S aligned Albinia Fault is however, clearly shown in Plan 6 as is its displacement effect on the depth contours for the base of the target Castor-Pollux Seam. An internal drift is a typical standard underground mining engineering method for maintaining access to coal seams which have been moved due to the effects of such geological structures.



***Plan 2 - Kilmain Project – Drill holes (in sections) used for Exploration Target***



**Plan 3 - Kilmain Project – Section looking NE showing seam extension to NW corner of tenement (ARC4)**



**Plan 4 - Kilmain Project – Section looking NW showing seam extension to SW corner of tenement (DE168)**

The following table (Table 1) summarises coal quality data obtained from MCI drill hole KL001 used to define the Exploration Target. Subsequent drilling of holes KL002 and KL003 confirmed these coal quality data. As seen in the table below the range of raw ash content varies from 9 to 15% on an air dried basis. The tonnage calculation for the Exploration Target was based on the average thickness of the coalesced Castor-Pollux Seams at approximately 3 metres thickness as well as thickness of the Aries Seam plies above 1.5 metres over the area of the tenement which is approximately 50 square kilometres. A density factor of 1.5 grams per cubic centimetre was used in the calculation as was a mining dilution factor of 50%. A detailed seam section of drill hole KL001 is shown below in Plan 5 with the respective seam names clearly indicated. Numerous unnamed thin coal seam plies are also seen in this seam section, which have not been used in the target tonnage calculation.



**Table 1: Kilmain Project – Raw Coal Quality Summary Data for Drill Hole KL001**

SEAM NAME	From	To (m)	Length (m)	#	RD	A	FC	VM	IM	S	SE	CSN
ARIES 1	414.66	419.25	0.86	2	1.42	11.0	52.2	30.10	6.7	0.52	5404	NA
ARIES 2	427.69	428.72	1.03	3	1.45	15.1	49.4	30.4	5.1	0.27	6738	1.0
CASTOR-POLLUX	445.22	448.35	3.13	8	1.45	14.4	51.5	27.8	6.3	0.34	6460	3.0
ORION	470.48	471.54	1.06	2	1.41	11.8	52.1	28.9	7.1	0.36	6130	1.0

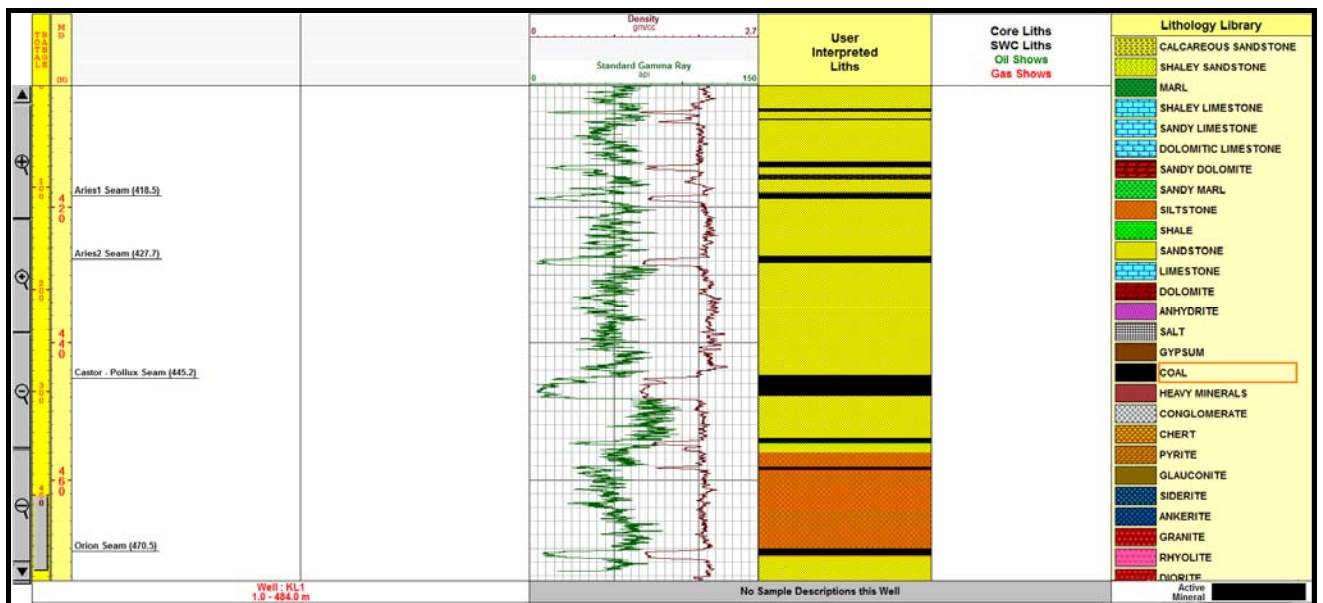
*Notes:*

1. Aries 1 seam comprises 2 samples (414.66-414.74, 418.47-419.25). Sample No.s 129361,129364.
2. Aries 2 seam comprises 3 samples (427.69-427.80, 427.80- 428.95, 427.95-428.72). Sample No.s 129367-129369.
3. Castor –Pollux seam comprises 9 samples (Sample Numbers 129372 to 129380).
4. Orion seam comprises 2 samples (470.48 – 471.01, 471.01 – 471.54). Sample No.s 129392,129393.
5. Core recovery across all seams averaged > 95%
6. #N means number of samples on which the simple average was based. Sample variance was low which precluded the need for a weighted average calculation.
7. Due to sample mass restrictions 6 samples for HGI determination were obtained out of the 9 samples from the Castor-Pollux seam. The average HGI value is based on these 6 samples. HGI means Hardgrove Grindability Index and is a test of the coal’s hardness which is important when transporting the coal.
8. RD means relative density measured in grams per cubic centimetre
9. A means % ash content from proximate analysis on an air dried basis
10. FC means % fixed carbon from proximate analysis on an air dried basis
11. VM means % volatile matter from proximate analysis on an air dried basis
12. IM means inherent moisture from proximate analysis on an air dried basis
13. S means % total sulphur
14. SE means specific energy (a.k.a. calorific value) measured in kilocalories per kilogram on and air dried basis. Daf values were also assayed but are not included in Table 1.
15. CSN mean raw crucible swelling number which is used for coking coal property assessment. The best result is tabulated above rather than the average.
16. NA means not assayed
17. One assay from a thin (0.10m) carbonaceous shale band at the base of the Castor-Pollux seam was omitted from the average calculation for this seam.
18. Aries 1 seam contained a thin internal stone band which was not assayed.



Notes on washability analyses :

1. Coal quality test work from the three holes tested to date has determined that the combined Castor-Pollux seam is capable of producing three products comprising a semi hard coking coal, PCI and a high energy thermal coal.
2. Float sink analyses were conducted on a ply-by-ply basis on KL001 and KL002.
3. From analyses of the float sink data and with testing for crucible swell index (CSN) a low ash coking coal fraction was identified. The washed CSN values on average show a 1 to 2 point lift compared to raw CSN values. The best value of washed CSN from the Castor-Pollux seam was 5.
4. The coking coal fraction was recovered as F1.30 and had ash less than 5% with CSN 5 and composed of vitrinite. A yield of 38% was estimated.
5. With recovery of further fraction at F1.40 A PCI coal with an ash of 9% with estimated yield of 28%.
6. With recovery of a further fraction at F 1.50 a thermal coal with ash of 15% with estimated yield of 20%.
7. Overall yield of 86% is expected.
8. Indicative specifications for all 3 coal products have been prepared.



Plan 5 - Kilmain Project – Seam Section for Drill hole KL001



## Iron Ore and Gold

### Central Iron Ore (Gullewa 36.1%)

#### GOLD

- *Barrick Joint Venture* :
  - The Company has earned a 70% interest in the Barrick JV tenements.
  - A formal joint venture agreement is in the process of being drafted.
- *Eureka Gold* :
  - Ongoing discussions for Eureka Gold Project sale.
  - Discussions commenced for British King sale.
- *British King* :
  - *Detailed discussions have commenced on recommissioning the mine.*

## Minerals

### Claymor Resources Pty Ltd (Gullewa 100%)

#### Dandaloo Project - New South Wales

No field activities were undertaken.

Tenement Table

Holder	Project Name	Tenement	Equity at Beginning Quarter	Equity at End of Quarter	Nature of Interest	Location
Claymor Resources Pty Ltd	Dandaloo	EL 7022	100%	100%	Granted	Narromine, NSW





Gullewa is continuing to maintain tight controls on costs and is preserving cash. It has significantly reduced its tenement position over the past 18 months. Accordingly, given its strong financial position, your company is monitoring and reviewing investment possibilities in alternative jurisdictions as the exploration and mining sector improves.

## Property

The company is reviewing several property opportunities in New South Wales.

## Corporate

### Cash

The Gullewa Group's cash at bank at the end of March, 2014 was \$4.8 million.

### Repayment and repayment of loans

Mineral and Coal Investments Pty Limited (MCI) is a fully owned subsidiary of Allegiance Coal Limited. MCI had loans to a value of \$2.6m owing to Gullewa Limited and C. Randall & Associates Pty Ltd, which were due for repayment on 30 June 2014, either in full or in part depending on certain circumstances.

On 22 July it was announced that the company had negotiated the partial repayment of this loan by the repayment to Gullewa Limited of \$1,000,000.

The company had also negotiated an extension of the balance of the loans to 30 September 2015, subject to certain conditions.

These conditions include if MCI does not have sufficient cash to cover its 12 month operating budget at the repayment date, then the repayment date will be extended by a further 90 days. The repayment date can continue to be extended by 90 day periods in this manner if that condition cannot be met, until a sunset repayment date of 30 June, 2017, at which time all of the debts must be repaid in full. Interest is charged on the loans calculated on the 90 day bank bill swap rate plus 4%.

David Deitz

**Director & CEO**

B.Comm, MAusIMM, CPA

For any enquiries :

David Deitz

02 9397 7555



### **Competent Persons Statements**

*Mr Colin Randall is the Managing Director of Allegiance Coal Limited and is a Fellow of the Australasian Institute of Mining and Metallurgy. He has a minimum of 15 years' experience in the field of activity being reported on and is a Competent Person as defined in the 2012 JORC Code. This announcement accurately summarises and fairly reports his assessment and where required, has consented to the report in the form and context in which it appears.*

*The information in this report as it relates to Exploration Targets for the Kilmain Project is based on information compiled by Colin Randall who is the Managing Director of Allegiance Coal Limited and is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Randall has sufficient expertise in mineral resources estimation, which is relevant to the style of mineralisation and type of deposit under consideration and is qualified as a Competent Person as defined in the 2012 edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves. Mr Randall consent to the inclusion in the report of the information in the form and context in which it appears.*

*The information in this report as it relates to the coal resources for the Back Creek Project is based on information compiled by Colin Randall who is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Randall has sufficient expertise in mineral resources estimation, which is relevant to the style of mineralisation and type of deposit under consideration and is qualified as a Competent Person as defined in the 2004 edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves. Mr Randall consent to the inclusion in the report of the information in the form and context in which it appears.*