2011 ANNUAL MEETING – CHAIRMAN'S ADDRESS

Good morning Ladies and Gentlemen:

It is my pleasure to welcome you to Gindalbie's 2011 Annual General Meeting. I would like to begin with some brief comments on the past year before touching on the current market and looking to the year ahead – which will be, without question, the most important in the Company's history.

While the past 12 months has brought significant challenges – most notably in the form of an increase in the construction cost estimate for our flagship Karara Iron Ore Project and the return of volatility to global financial and commodity markets – we should not lose sight of our achievements. These include:

- excellent progress with construction at Karara and a host of key milestones to be achieved between now and the end of the year;
- the completion of a $209 million equity raising to fund the revised $2.57 billion cost estimate for Karara (subject to Chinese regulatory approval for the share placement to Ansteel, recently approved by shareholders); and
- the mining of approximately 800,000 tonnes of direct shipping hematite ore from Karara, and the subsequent sale of over 400,000 tonnes of ore.

However, no resource project of the scale of Karara can be developed without encountering hurdles and unexpected challenges. We've seen this already with the increase in the construction cost estimate, and unfortunately another unexpected challenge is facing us today.

As a result of issues being experienced by the principal supplier of piping to the Karara Project, we are currently reviewing the project construction and commissioning schedule and expected timing of the first shipment of magnetite concentrate.

The supplier, which is a major supplier of piping to the global mining and oil & gas industries, has experienced some interruptions to its production line due to the extensive flooding which has occurred in the vicinity of its works in Thailand and which has been widely reported in the media.

While work is ongoing to minimise the flow-on effects of this situation, it is likely that the timing of critical deliveries of piping to Karara may be affected, impacting the overall project completion and commissioning timeline.

While we will continue to work to mitigate the impact of these delays and manage the schedule in order to deliver the project as quickly as possible, Gindalbie believes it is prudent to adjust the target date for the first trial shipment of magnetite concentrate to the September Quarter 2012 rather than June 2012 as previously announced.

Importantly, we do not believe that there will be any material impact on the overall project construction budget as a result of this unexpected and unavoidable delay.

It is unfortunately a reality that unexpected challenges are to be expected with a project such as this, and I am not going to claim that there won't be further challenges ahead, as we begin the lengthy process of commissioning the various components of the Karara Project and work towards our first test shipment of high-grade magnetite concentrate in the September Quarter next year.

However, I can assure you that we have the best possible people managing the project. They in turn are being closely monitored by some of your Directors who have been requested to serve on the specially-formed Project Oversight Committee. This ensures enhanced oversight and strategic input into the delivery of the project through to the completion of construction. Furthermore, it is intended to also establish an Operational Oversight Committee, made up of selected members of your Board, to oversee the commissioning and operation phases.

Despite the challenges, the landscape at Karara is changing rapidly day by day, reminding us that we are on the verge of achieving a major feat of complex engineering and construction. Karara is on the verge of delivering magnetite production from a Tier One resource asset and, with it, substantial cash flows on a scale that will rapidly transform this Company.

And this is not simply rhetoric. While it will take until late next year before we are able to ramp up all components of the Karara Concentrator to the full 8Mtpa production capacity, we will be delivering a high-value product that even at our long-term iron ore forecasts will generate a strong margin.

This is the prize, and I can assure you that everyone within the organisation and the Joint Venture is completely focused on achieving it, and as quickly as possible.

As I have seen on many other previous occasions with companies that are constructing and commissioning major new resource projects, it is only once the market sees tangible evidence of cash being generated and banked month by month that a genuine re-rating of its share price will occur. In Gindalbie's case, that time is now at hand.

This is a view shared by many of the world's leading broking houses and investment banks, who all see us as a buy and with price targets well in excess of current levels.

As I said in the Annual Report, Gindalbie and Ansteel made a strategic decision in 2009 to begin construction at Karara while the detailed planning and design elements of the project were still in their relative infancy.

While a partial flow-on effect of this has been cost increases stemming mainly from the completion of detailed design work, I firmly believe that our decision will in hindsight be viewed as a crucial turning point for the Project.

We are already seeing the onset of a new bout of inflation within the construction and mining sector in Western Australia and our decision means production of magnetite concentrate will begin at least two years earlier than would have been the case had a final investment decision been delayed until all detailed design work was finished.

I also believe that the difficulties and delays being suffered at the Oakajee Port and Rail Project have further vindicated the Karara development strategy. While fellow Mid West iron ore projects are facing development delays, Karara can push ahead with its timetable thanks to the estimated 16 million tonnes a year of capacity available via our own dedicated berthat Geraldton Port.

I think it is also worth highlighting the fact that, at a time when local content has become such a burning issue within the resource and construction industry in Australia, the Karara Project has been a shining example of what can be achieved in this regard when the right policies and structures are put in place.

Australian content makes up more than 90 per cent of the total expenditure to date at Karara of $1.6 billion, with more than $1 billion spent in WA and more than $140 million in the immediate Mid West region. KML's Local Preference Policy has resulted in more than 900 West Australian businesses being engaged on this Project, of which 250 are from the Mid West.

These are achievements of which we should feel justifiably proud and which I believe sets a new benchmark for resource projects in this State. At a time when there is an enormous amount of rhetoric and background noise in Australia about two speed economies, local content, skills shortages, inflation and taxes, we have quietly gone about our business at one speed and with one focus – and actually done something about it.

In the Annual Report, I said that in my experience I hadn't witnessed a time when challenge and opportunity both presented themselves in such abundance.

Since writing those words, we have seen more strong evidence of this with a sharp sell-off in commodity prices in response to the European financial crisis, wild gyrations in financial markets and, more recently, speculation that the "China story" could be over following reports of falling iron ore spot prices and a slowing Chinese economy.

Add to this the challenges of a new mining tax and a carbon tax in Australia and it's no wonder that investors are thoroughly perplexed and struggling to find clear directions on whether to Buy, Sell or Hold.

In these difficult times it is up to business leaders and companies to give investors some idea of where they stand; I will attempt to do that for investors in Gindalbie today. Let me begin with the recent falls in Asian iron ore spot prices and the resulting media commentary speculating on a hard economic landing in China and the end of the "China story".

I have only two words to say in response to this: "I disagree".

Yes, the recent falls in spot iron ore prices in North China were real. Yes, they do reflect weakening steel prices and a build-up in inventories. Yes, Chinese steel mills, as one would expect of any prudent business, have been pushing for lower prices and some big miners have responded by offering them the option of paying for fourth quarter supplies based on current spot prices rather than index-linked quarterly pricing. And yes, there was a very small drop in Chinese economic growth in the third Quarter, with UBS recently predicting that GDP growth would slow to 8-8.5 per cent in Q4 and possibly below 8 per cent in the first quarter of next year – led by weaker exports and construction – but still average a healthy 8.3 per cent for 2012.

Does that sound like an economic growth story that's about to fall apart at the seams?

I hardly think so. Rather, it appears to be a classic case of over-reaction and unfortunate timing.

History tells us that the recent drop in steel prices is as much a seasonal phenomenon as anything. The September-October period is normally a slow period for steel manufacture. With the shortening of contract prices for coal and iron ore – a well-publicised process which began last year – iron ore prices are now much more responsive to shifts in these underlying fundamentals.

Hence, the recent shift appears to be another seasonal move, not a structural shift in trade reflecting a failure of growth in China. Equally, I doubt that iron ore price correction has any relation to the recent commodity market sell-off, although the timing could hardly have been worse for equity investors bruised by the global sell-off.

As one UBS analyst put it recently, "China's short-term macro-outlook points to some weakness, but it appears modest and manageable; no crisis here; nothing to see; please move along..."

For pure iron ore plays like Gindalbie, the impact on our share price is a classic case of throwing the baby out with the bathwater. I agree with the growing number of analysts who see the spot price correction as a fleeting event, with prices set to recover into November as China begins its normal seasonal re-stocking of iron ore.

It was only just a few months ago that many analysts upgraded their iron ore price forecasts for 2012 to around US$170-180/tonne for fines. And, nothing has changed our view that the marginal cost of production of many Chinese domestic suppliers of around US$130/tonne will continue to support prices in the medium term.

Many market observers also tend to forget that a sustained period of lower iron ore prices would also see the Australian dollar, very much a commodity currency, retreat to more long-term levels around US80c – which for Australian producers goes someway to offsetting the lower commodity prices.

All of this bodes well for Gindalbie, which is already a growing producer of direct shipping hematite ore and which next year, as I said, will become a producer of premium quality, high-grade magnetite concentrate which will attract a significant premium over prevailing iron ore prices. While the price is commercial- in-confidence, it is around 20 per
cent higher to the Pilbara fines price.

In summary then, I think it is very important for shareholders who may have become despondent over our share price performance over the past year to remember three key factors:

- Gindalbie is now just months away from delivering a Tier One resource project, which means we are now in the "home straight" from a technical, engineering and construction perspective;

- We have dealt quickly and effectively with the cost increases thanks to the support of our shareholders, and the Company remains in a strong financial position with a sound balance sheet and, importantly, 50 per cent ownership of an asset that is about to start generating a robust cash flow;

- We have a long-term customer for our product in China who first invested in this project six years ago to secure a long-term source of supply because they could see rising demand for the product over the coming decades. That outlook has not changed and, in my view, won't change for the foreseeable future.

In conclusion, I would like to thank our Managing Director, Tim Netscher, and his hard-working team for their efforts during the year. Tim has made a significant impact across all aspects of the Company since joining in May and he is working extremely well with our senior team in managing both the operational and financial aspects of the Karara Project and guiding the Project towards completion.

I would also like to acknowledge the continuing support of Ansteel, whose contribution to this Project has been absolutely pivotal and who, like us, are very much looking forward to seeing the fruits of our efforts crystallise next year as we become a world-class iron ore producer.

George Jones
Chairman