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## **CHAIRMAN'S ADDRESS – 2006 ANNUAL GENERAL MEETING**

**10.00am – Wednesday, 22 November 2006**

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Good morning Ladies and Gentlemen and welcome to Gindalbie's 2006 Annual General Meeting.

In my inaugural Chairman's Address at last year's AGM, I outlined my vision to transform Gindalbie into a substantial new independent Australian iron ore producer through the exploration and development of our quality assets in the Mid West region of Western Australia.

After 12 months of hard work, we have reached a particularly exciting stage in realising this vision; and I am pleased to say that we have either achieved or exceeded most of the objectives which I outlined at last year's AGM.

As a result, Gindalbie is now well placed to commence development of the Karara Project next year, establishing a new iron ore business based around the recently announced 1.29 billion tonne Karara Magnetite resource, which will be of considerable significance, not just to your Company, but also to the broader Mid West region and the State.

Shareholders have enjoyed a strong year of growth as the market has begun to appreciate the true potential of the Karara Project as a long-life, world-class iron ore project.

I am confident that Gindalbie will be further significantly re-rated over the coming months as we continue to deliver on our objectives – firstly, with the commencement of the Stage 1 Hematite Project next year leading to first iron ore exports by mid-2008 and, secondly, with an accelerated timetable for development and commissioning of the Stage 2 Concentrate/Pellet Project by mid-2009.

### **Year in Review**

Turning first to the achievements of the past 12 months, I would like to briefly recap the key objectives I outlined for Gindalbie at last year's AGM. These included:

- securing a quality partner to take a 50% interest in the Karara magnetite project to underwrite its financing and development;
- commencing the Definitive Feasibility Study on the two-stage, integrated development of the Karara Project;

- assessing the most favourable options for plant construction, in the current tight market for equipment and services in the Australian mining industry;
- divesting our non-core gold and base metal assets in the Mid West region;
- commencing intensive drilling programs to establish sufficient hematite resources at Karara to underpin a direct shipping ore project; and
- drilling to establish a substantial resource base for the Karara magnetite deposit, with an initial target of 400 million tonnes, increasing subsequently to 800 million tonnes.

I think we can be justifiably proud of the achievements of the past year, which have included:

- the signing of a landmark 50:50 Joint Venture Agreement with AnSteel at Parliament House in Canberra in April this year, in the presence of senior Chinese Government officials and senior Australian parliamentarians;
- successful magnetite drilling programs, resulting in the definition of a larger-than-expected initial magnetite resource for the Karara deposit of 737 million tonnes at 37.1% Fe, which has recently been increased by 75% to the current level of 1.29 billion tonnes grading 36.3% Fe, confirming the status of the Karara Project as a potentially world-class, long-life asset;
- successful hematite exploration programs, with resource drilling well advanced and on track for the delineation of an initial 15 million tonne resource grading +61.5% Fe by December 2006;
- the commencement of the Karara Definitive Feasibility Study, which is currently well advanced with capital and operating cost estimates substantially completed and the overall study due for completion in February 2007;
- the decision by the Joint Venture to locate the Karara Pellet Plant in China at the site of a major new steel mill being constructed by AnSteel in north-west China, delivering significant capital cost savings and strategic advantages to the integrated Karara Project; and
- the sale of the non-core Minjar gold and base metal assets to Monarch Gold Mining Company Limited for A\$10 million, as part of our strategy of focusing exclusively on our Mid West iron ore business;

In addition, we raised some \$33.5 million in equity funding to underpin our objectives, while AnSteel has contributed its 50% share of the costs of the Karara Feasibility Study.

### **AnSteel Joint Venture and Iron Ore Market**

Last week, I hosted a visit by a group of senior executives from AnSteel to Perth for a series of high-level meetings with State Government as well as joint venture meetings both in Perth and on site at Karara. This visit was very successful and reinforced the strength of our relationship.

AnSteel brings a wealth of technical expertise in large-scale magnetite projects; they bring financial strength and backing; they bring market intelligence; most importantly, they bring a strong will to see the Karara Project developed and brought into production as rapidly as possible.

During the year, we have worked closely with AnSteel to identify potential capital costs savings for the Karara Project through the procurement of major capital items out of China.

The success of this strategy was demonstrated in September, when we made the significant decision to locate the Karara joint venture pellet-making facility in China, within the confines of a major new 5mt/annum steel mill being developed by AnSteel at the Port of Yingkou, in Liaoning Province.

Our studies have shown that the decision to locate the joint venture pellet plant in China has the potential to achieve a 50% capital cost saving.

During a recent reciprocal visit by your Board to China, we were once again impressed by the sheer scale of growth and development of China's steel industry. There is no doubting the strength of demand for iron ore in China, and the strategic importance they are assigning to new supply sources such as the Mid West region of Western Australia.

The strength of the iron ore market was demonstrated during the year with the increase in the iron ore price by 19%. According to the latest estimates, demand for seaborne iron ore will continue to increase strongly, reaching almost 900 million tonnes by 2010 from 670 million tonnes in 2005 – with China continuing to be the key driver of this growth.

Chinese demand for seaborne iron ore is predicted to almost double to 460 million tonnes by 2010 from 270 million tonnes in 2005.

At the same time, non-Chinese demand for iron ore is also gathering momentum with the continued strong growth of the global steel industry. According to Macquarie Bank, global steel production will increase on average by almost 6% per annum through to the end of this decade, reaching 1.5 billion tonnes by 2010.

The important underlying message is that China's impact on the metals and mining industry does not represent a cyclical peak, but rather a fundamental structural change in the global economy.

I have gone on record recently as saying that I expect iron ore prices to increase by around 10% next year. Given the immediate and longer term supply/demand outlook, I do not think this is an unreasonable prediction.

The comprehensive Karara Joint Venture agreement not only underpins project financing and off-take arrangements, but also capitalises on AnSteel's considerable experience in the construction and operation of iron ore pellet plants and the Corporation's standing as a significant player in global steel production.

AnSteel will also purchase the entire Karara pellet production, for its own use.

### **Infrastructure**

Infrastructure development remains a key component of major bulk commodity projects, and I would like to make a few brief comments on this important aspect of our development.

Last week, I signed two important Memoranda of Understanding (MOU's) with the Geraldton Port Authority on behalf of the Karara Joint Venture, for access to suitable storage and loading facilities at Berth 5 and Berth 7 for the export of our iron products.

We made the decision earlier in the year to export both our magnetite concentrates from the Stage 2 project and our Stage 1 hematite products through the Geraldton Port. This decision was made in order to expedite the development of the Project and was made with strong support from AnSteel.

Under the MOU's, Gindalbie and the Geraldton Port Authority have agreed to work together to complete formal documentation for the lease of space at Berth 5 for the storage and shipment of up to 4mt/annum of hematite ore and at Berth 7 for the storage and shipment of up to 8mt/annum of magnetite ore.

I would like to take this opportunity to thank the Geraldton Port Authority for its commitment towards the development of the Project and its cooperation during the year in identifying and assisting in the design of the Company's port facilities.

It is important to reiterate that all essential infrastructure components required for our Stage 1 hematite project are already in place, including the existing Karara haul road, Mid West railway and the Geraldton Port.

The infrastructure requirements for the Stage 2 Project include the provision of power and water to the Karara mine site, the construction of a 225km slurry pipeline to the port of Geraldton, and the wharf and ship-loading facility at Berth 7.

In addition to the infrastructure required at the Geraldton Port, we have made significant progress in all of the other key infrastructure requirements necessary to support a project of this size.

A water licence was applied for in an area considered suitable for the quantity and quality of water required at the mine site. We have advanced negotiations underway with various power generation and transmission groups for a power supply solution capable of delivering 100 megawatts of power per annum at the mine site.

The power supply requirements of the Karara Iron Ore Project are sufficient to underwrite the base load requirements of an independent power station in the Mid West region and, importantly, also the upgrade to the inter-connector from Pinjar to Eneabba from 130KV to 330KV as an essential piece of state infrastructure.

This upgrade of Western Power's transmission line capacity represents an important piece of infrastructure for the future expansion of the Mid West region and will benefit many other industries in the region for decades to come.

Gindalbie has been working closely with both the State and Federal Governments to secure the required environmental approvals for the Karara Project.

In Western Australia, we have lodged scoping documents for both the magnetite and hematite projects and we will be lodging our first public environmental review document for the hematite project in January 2007. Subject to the appeal process, we expect to receive environmental approvals for the hematite project in July 2007.

Similarly with the magnetite project, the Company is targeting all environmental approvals to be granted by October 2007 again subject to any appeals.

## **Summary and Outlook**

We have much to look forward to in the next 12 months.

The Karara Feasibility Study is on track for completion by the end of February next year. We expect to have all required approvals in place for the hematite project by the end of June. We expect to be ordering long-lead items for the magnetite project by the middle of next year, with all key approvals for the Stage 2 project in place by October.

We are currently completing the resource estimation process for our hematite prospects, and we expect to be in a position to announce an initial hematite resource by the end of December 2006, covering the first nine hematite deposits at Karara, MR1-6 and BH 1-3.

Subject to necessary approvals, mining activities will commence for the hematite operation by the second half of 2007, positioning us to commence exports at the initial rate of 2mt/annum through the Port of Geraldton by mid-2008.

We are now working with Ansteel to attempt to bring forward the planned start-up for the Stage 2 magnetite project to the second quarter of 2009.

Given the exploration upside that has been identified at Karara, I have no doubt that our hematite resource base will continue to grow to support an expansion of production from the initial rate of 2mt/annum to 4mt/annum by 2010.

These expansion plans are justifiably based on the enormous exploration upside within Gindalbie's broader land holding in the Mid West region.

The Company's iron ore rights extend for over 100km north and south of the Karara Joint Venture ground. Within this land holding are numerous hematite and magnetite prospects.

The priority prospect identified from exploration activities during the year is the Lodestone Prospect, lying some 50km south of Karara. This formation has a 5km strike length and is up to 1km in width; it is considered to be analogous to the mineralisation at Karara.

Exploration drilling is due to get underway early in 2007 and we are very optimistic about the potential to identify additional magnetite and hematite resources.

Success in this regard would add further substantial value to an asset which, based on the currently identified 1.29 billion tonne magnetite resource at Karara, already has a potential mine life in excess of 40 years.

I would like to conclude by thanking all our staff, employees and contractors – a significantly expanded team – for their effort, dedication and commitment over the past 12 months.

As shareholders would be aware, David McSweeney will step down from his position as Managing Director next month. David has been a genuine team player and has made a significant contribution to the evolution of this Company, including its repositioning over the past two years as an emerging iron ore company. We wish him and his family every success in the future.

I look forward to working very closely with our new Managing Director, Garret Dixon, and the rest of the management team, as we continue deliver on the milestones that we have set ourselves and on which we will be judged in the years ahead.

Thank you for your attention.

**George Jones**  
**Chairman**