2012 ANNUAL GENERAL MEETING – CHAIRMAN'S ADDRESS

Good morning Ladies and Gentlemen and welcome to Gindalbie's 2012 Annual General Meeting.

Three years ago, at the official ground-breaking ceremony for the Karara Project, I said the start of construction at Karara was a pivotal moment in Gindalbie's history and marked the start of a new era of growth and development for the Midwest region of Western Australia. And I was right.

And at last year's AGM, I said that unexpected challenges and hurdles with the development of major resources projects such as Karara were to be expected. And I was right about that too.

However, thanks to a combination of the skills of our people, persistence, focus and support from our partner Ansteel, we have arrived at our destination.

Under the strong leadership of our Managing Director Tim Netscher and the firm hand of Karara Mining CEO Steve Murdoch, this world-class project has overcome some stiff challenges to be at the stage where it is now generating cash flow.

As well as the usual obstacles confronted by major resource projects, Karara has also had to endure an exceptional macro environment. During its short life, Karara has already witnessed both a white-hot market for labour and materials and, more recently, a sharp slump and then rebound in iron ore prices.

But despite this economic roller-coaster ride, we have delivered the project broadly in line with the revised construction budget and schedule. Some of the key milestones achieved in recent weeks have included:

- the successful completion and commissioning of our world-class logistics chain, including our state-the-art port facilities at Geraldton – all of which are performing very well;
- the commencement and ramp-up of iron ore shipments, with 250,000 tonne shipped in just the first month; and
- the production of the first magnetite concentrate from Karara – the first time, that we know of, that magnetite concentrate has been produced in WA.

I would like to thank Tim, Steve and their teams for their efforts in ensuring that we have been able to do all of this while maintaining a safe working environment, ensuring a very high level of Australian content, and creating a very positive culture of teamwork and cooperation.

While these achievements should be recognised and appropriately celebrated, there is a lot of work still to do and I want to assure shareholders that we will be working tirelessly over the coming months to ensure that we complete the final construction and commissioning phase of the Karara Concentrator as quickly and efficiently as we can.

Gindalbie has received a fair amount of criticism in recent years - some has been fair, some has been ill-judged and some has just been plain wrong. That's part-and-parcel of running a public company and is to be expected, particularly when you develop a resource project of this magnitude.

But I believe that, given our recent milestones, we can, and should, stand proud of what a company our size has been able to achieve. The hardest of the hard work has been done, the money has largely been spent in the ground, and our future is now ahead of us.

I'd now like to make some comments about China's economy and the future of the iron ore market.

First, there is no doubt in my mind that the reaction to the economic slowdown seen in China this year has been overdone. Yes China's growth may have fallen to its slowest pace since 2009, just after the global financial crisis hit: the IMF is forecasting 7.8% this year and 8.2% next year. China itself is targeting 7.5% this year.

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However, these numbers need to be considered in historical context. China's GDP in 2011 was around US$7.3 trillion, according to IMF figures, putting it just behind the world's biggest single economy, the United States at just over US$15 trillion, and the Eurozone at US$17.6 trillion.

Just 10 years ago, in 2002, China's GDP was around US$1.3 trillion. That means that China's economy has grown 462 per cent in a decade, which in turn means that 7-8 per cent annual growth today is going to have a much bigger proportional impact, coming off a much larger base, than 10 per cent plus growth did 10 years ago.

The World Bank still foresees China overtaking the US as the world's largest economy by 2030, if it maintains an annual growth rate of 8 per cent.

And even if growth falls to 7 per cent and this process takes a bit longer, it's hardly a disaster of cataclysmic proportions – as some recent commentary seems to suggest.

Second, I firmly believe that the Chinese economy is undergoing a fundamental transition which some fast-growing Asian "Tiger" economies like Singapore went through a few decades ago. This transition occurs as fixed-asset investment falls and the economy makes the all-important transition to become a consumption-led economy.

Singapore's DBS Group made this point recently, arguing that a 30 per cent drop in fixed-asset investment in China is the main explanation for the drop in growth from 9.5 per cent to 7.5 per cent.

This slower growth rate appears to accord quite closely with targets set in China's 12th Five-Year Plan (2011-2015), and to be consistent with efforts by the Government to cool an overheated property and housing market and prevent an asset bubble. The focus, they now say, is on achieving "sustainable and quality growth".

While it's been suggested that the current leadership transition has seen Chinese policy-makers lose their way and run out of levers to stimulate the economy, I am confident that China's leadership does understand the structural shift occurring in their economy and is actively planning to manage it.

According to the Economist Intelligence Unit, China's urbanisation rate surpassed 50 per cent for the first time in 2011, with the Government aiming to boost this figure to 52 per cent in 2015 and 65 per cent by 2030. As economic commentator Michael Pascoe pointed out recently, China built Europe in the past 15 years and more than built Australia last year alone.

History suggests that an economy requires around 60 per cent of its population to be urbanised before a truly consumption-driven model can take off. That means that, even if the rate of urbanisation slows (a bit like the overall economy), there is still going to be around 200 million more people moving into cities over the next two decades.

Accordingly, the Economist Intelligence Unit predicts that the number of cities in China with more than 10 million people – so called "megalopolises" – will grow from three in 2000 to 13 in 2020.

That means that demand for steel and steel-making raw materials will continue to grow. A China Steel Study Report released in September by Standard Chartered Bank says that China's steel consumption will continue to grow until 2025, providing support for the price of iron ore for a long period of time.

All of which brings me to my third and final point.

Iron ore prices fell sharply earlier this year, from around $140 a tonne to a three-year low of $85 a tonne, sending shock-waves through the industry and financial markets. However, my view is that, a bit like the Chinese property market, this was a case of the heat coming out of iron ore, enabling the price to stabilise at more realistic price levels.

The Australian iron ore industry has recently demonstrated an ability to react quickly and effectively to this changing cost structure by putting its house in order and becoming more lean and mean.

With an appropriate focus on cost control and the right checks and balances in place, most genuine players in the industry should still be able to make money. This includes Karara because we have a world-class asset, great people, a sound business model and a competitive cost structure.

In conclusion, I would like to leave one final point with you all, and with our policy-makers: Karara will be seen as a test case for the wider magnetite industry in Australia, and particularly WA.

There are extensive magnetite deposits throughout this State. This fledgling industry has the potential to generate enormous economic and social returns for the country, often in areas which are yet to enjoy the benefits of the so-called resources boom.

A greater willingness by Government to invest in infrastructure would go a long way to opening up new, undeveloped areas.

In closing, I would like to express my thanks to our loyal shareholders, who have supported our vision during what has been a very difficult period in financial markets over the past 3-4 years.

My message to you is simple: Gindalbie is about to emerge from the construction phase at Karara in an enviable position which will be characterised by a high-value product, strong cash flow, robust cash margins and outstanding growth potential.

While there are likely to be more challenges ahead, I am confident that we are now ready to share in the benefits of what we have sowed and can look forward to a productive and rewarding period.

Thank you for your attention.

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