

19 December 2005

The Company Announcements Office
Australian Stock Exchange Limited

Via E Lodgement

**MAJOR CHINESE GROUP SHOWS INTENT FOR SIGNIFICANT EQUITY STAKE
AS PART OF OFF-TAKE AGREEMENT AT CAPE LAMBERT PROJECT**

Cape Lambert Iron Ore Ltd (**ASX: CFE**) is pleased to confirm that major Chinese Group Shandong Yuansheng International Trading Co. Ltd (Shandong) has provided CFE with written advice confirming its intention to take a significant equity stake (up to 50 million shares or 19.9% of the issued capital whichever is the higher) in CFE.

The acquisition of equity in CFE was a condition CFE had set as part of an original agreement reached with Shandong to have "first right of refusal" to negotiate an off-take agreement at the Cape Lambert Iron Ore Project. This agreement was finalised during negotiations CFE Chairman Tony Sage had with his Shandong counterparts in China last week. Shandong had agreed to acquire an equity stake in CFE via the recently closed A\$33 million capital raising, but was unable to finalise its funding arrangements by the close date of 12 Dec 2005.

A range of options to assist Shandong acquire equity in CFE have been reviewed by both parties. These included a private placement and a sell down by other major shareholders, but none were possible or suitable at this time for varying reasons. Therefore to meet the off-take condition Shandong will need to buy the equity stake on market.

CFE has advised Shandong of this and Shandong have in writing indicated their intention to buy the shares on market however Shandong has not yet provided details to CFE as to the time-frame involved in the purchase or the broker(s) that will facilitate the transaction on their behalf. As soon as these details are known to CFE the Company will continue to make ongoing disclosures to the market in relation to this transaction.

Negotiations between CFE and Shandong regarding the off-take agreement at the Cape Lambert Project are on-going with Shandong still committed to take all the iron ore concentrate that may be produced by the project.

CFE is still in negotiations with another major Chinese group and will continue to review all off-take opportunities, with the view to selecting a partner that is not only committed to take the ore, but also the development of the Cape Lambert Project.

Upon successful completion of the BFS it is expected the project will come on line in late 2009, with production likely to be between five and seven million tonnes of iron ore concentrate per annum.

As a result of the completion of the acquisition of Mt Anketell Pty Ltd, the company will proceed to allot and issue 12,500,000 options to the directors. Approval was provided by shareholders for the issue of these options on 17 October 2005 subject to completion of the acquisition. The company has sought and obtained a waiver from ASX Listing Rule 10.11 for the issue of these options outside of the one month period after the shareholders meeting, subject to these options being issued before 22 December 2005.

We have requested the ASX to reinstate the securities as soon as practicable.

Should you require any further information about the information contained within this announcement please contact the undersigned.

Yours faithfully

Tony Sage
Executive Chairman

The mineral Resource is based on information compiled by Martin Reynolds who is a fellow of the Australian Institute of Mining & Metallurgy. Mr Reynolds is a Director of Mackay & Schnellmann Pty Ltd, an independent geological consultant. Mr Reynolds is qualified as a Competent person as defined in the 2004, "Australasian Code for Reporting of Mineral Resources and Reserves" (JORC).

Editors Note:

About Cape Lambert

The Project has an area of 223 square kilometres and is located in the northern coastal Pilbara of Western Australia between the towns of Karratha, Roebourne and Wickham. The property is crossed by the North West Coastal Highway, gas pipeline, power transmission line and railway, and is only 10km from a suitable shipping port.

Recent independent analysis confirmed the total JORC Compliant mineral resource at this Project to be 2.5 billion tonnes magnetite iron ore.

