

REPORT FOR THE QUARTER ENDING 30 JUNE 2006

COMPANY HIGHLIGHTS

CAPE LAMBERT IRON ORE PROJECT

- On 27 March 2006, the Company announced it had received approval of the exploration licence (EL 47/1462) for the Cape Lambert Iron Ore Project. The grant of EL 47/1462 satisfied the remaining terms of the Share Sale Agreement, completing the transaction.
- Mid June 06 marked the commencement of the First Phase Drilling Programme that the Company anticipates will be completed by mid August 06.
- The Phase Two Drilling Programme will commence immediately after the completion of Phase One.

SPIN OFF OF GOLD ASSETS

On 2 May 2006, International Goldfields Limited (**IGC**) shares Listed on the Australian Stock Exchange (**ASX**) through an initial public offering (**IPO**) of 20,000,000 shares at 20c per share, to raise \$4 million. The offer was oversubscribed for an additional \$1 million for a total of \$5million raised.

Cape Lambert was issued 35 million IGC shares pursuant to the Mining Assets Agreement between Cape Lambert and IGC and dated 14 March 2006. On 27 April 2006, Cape Lambert distributed 28 million IGC shares to shareholders of Cape Lambert by way of an in-specie distribution.

LISTING ON AIM

On 5 May 2006 the Company announced that it had been successfully Admitted on London Stock Exchange's AIM market via a fast-track compliance listing. The Company's shares are now dual listed on the Australian and UK (**AIM**) stock markets.

APPOINTMENT OF CHAIRMAN

On 29 June 2006 the Company announced the appointment of Dr Ian Burston, AM as non-executive Chairman (effective 3 July 2006) to lead the development of the Company's Cape Lambert Iron Ore Project. Dr Burston brings to the Company over 40 years experience in the iron ore business.

VENDOR PAYMENT

Under the terms of the Share Sale Agreement on granting of the exploration licence the funds held in trust by the Company for the purchase of Mt Anketell Pty Ltd were released to the Vendors.

QUARTERLY REPORT FOR THE PERIOD ENDING 30 June 2006

CAPE LAMBERT IRON ORE PROJECT

SIGNS MOU WITH SINOSTEEL FOR DEVELOPMENT AND OFF-TAKE AGREEMENT

On 21 March 2006 the Company announced it had signed a Memorandum Of Understanding (MOU) with Chinese steel company Sinosteel Corporation (Sinosteel) for the development of, and off-take from, the Cape Lambert Iron Ore Project located in the Pilbara region of Western Australia.

As part of the MOU, Sinosteel and Cape Lambert would negotiate a commercial agreement to purchase up to 100% of the off-take from the Cape Lambert Iron Ore Project, expected to be in the range of five to ten million tonnes per annum, and also continue formal negotiations regarding a Joint Venture (JV) agreement for the development of this project.

Cape Lambert and Sinosteel are currently developing a time-table to negotiate and execute a Formal Agreement which will include, among other things, JV obligations, detail product specifications, annual quantity, delivery schedule, pricing and payment terms.

The Company welcomes the signing of the MOU with Sinosteel, particularly as Sinosteel represents 18 major steel mills in China, last year traded more than 20 million tonnes of iron ore and has historical links to the Pilbara.

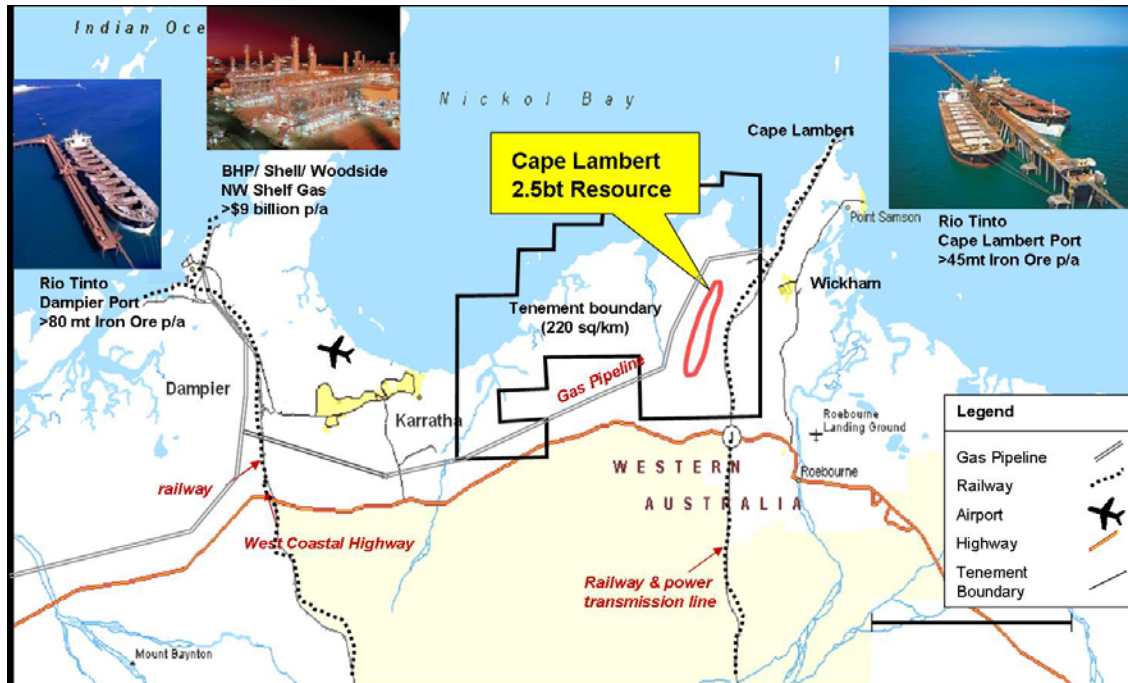
The Company advised that the MOU announced on 21 March 2006 is not a binding or exclusive agreement, and as such the Company is continuing its negotiations with Chinese trading group Shandong Yuansheng International Trading Co Ltd (Shandong), who are continuing to seek an equity position in the Company and an off-take agreement for up to 100% of the iron ore concentrate to be produced from the project.

These negotiations are still ongoing. Negotiations with other parties have commenced since the appointment of Dr. Ian Burston to the Board.

Location

The project is comprised of applications ELA47/1462 and 47/1493, in the name of Mt Anketell, and ELA47/1551 in the name of International Goldfields Ltd. The project has an area of 223 square kilometres and is located in the northern coastal Pilbara region 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 (refer Fig 1 below). The project area has a large number of tracks with cross country access also possible. The area is moderately rugged in parts but relatively flat away from the hills.

Figure 1 – Location



Websites, www.capelam.com.au is maintained providing all current information relating to the Company. Furthermore, should you wish to be placed on the electronic mailing list for all announcements please contact head office admin@capelam.com.au

Antony WP Sage
 Executive Director

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

CAPE LAMBERT IRON ORE LTD

ABN

71 095 047 920

Quarter ended ("current quarter")

30 June 2006

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (12 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors		
1.2 Payments for		
(a) exploration and evaluation	(765)	(2,140)
(b) development	-	-
(c) production	-	-
(d) administration	(352)	(1,317)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	219	526
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other	91	93
Net Operating Cash Flows	(807)	(2,838)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	(9,570)	(9,770)
(c) other fixed assets	-	(54)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	4,315
(c) other fixed assets	-	-
1.10 Loans to other entities	-	(123)
1.11 Loans repaid by other entities	-	-
1.12 Other – Deposits held in Trust	-	-
Net investing cash flows	(9,570)	(5,632)
1.13 Total operating and investing cash flows (carried forward)	(10,377)	(8,470)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(10,377)	(8,470)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	44	22,047
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other - repayment of issue proceeds	-	-
	- costs of share issues	-	(2,030)
	Net financing cash flows	44	20,017
	Net increase (decrease) in cash held	(10,333)	11,547
1.20	Cash at beginning of quarter/year to date	22,935	1,055
1.21	Exchange rate adjustments to item 1.20		-
1.22	Cash at end of quarter	12,602	12,602

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	71
1.24	Aggregate amount of loans to the parties included in item 1.10	

1.25 Explanation necessary for an understanding of the transactions

Executive and non executive directors salaries

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

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2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

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Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	-	-
3.2	Credit standby arrangements	-	-

+ See chapter 19 for defined terms.

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	1,000
4.2 Development	-
Total	1,000

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	624	4,493
5.2 Deposits at call	11,978	8,491
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	12,602	12,984

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1		Interests in mining tenements relinquished, reduced or lapsed		
6.2		Interests in mining tenements acquired or increased		

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	249,324,530	249,324,530		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	550,000 500,000 136,511,805 50,000,000 40,000,000	- - 136,511,805 - -	<i>Exercise price</i> 42.7 cents 36.7 cents 27.7 cents 32.7 cents 37.7 cents	<i>Expiry date</i> 22 October 2008 9 February 2009 31 October 2008 31 October 2009 31 October 2010
7.8 Issued during quarter				
7.9 Exercised during quarter	160,000		27.7 cents	
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here: Date: .31 July 2006...
(Director/Company secretary)

Print name:Timothy Turner.....

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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