

17 October 2006

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**

Iron ore exploration and development company Cape Lambert Iron Ore Ltd (ASX: CFE AIM:CLIO) ("CFE") is pleased to confirm that Scezhwen stock exchange listed Chinese Group Xinxing Iron Pipes Co. Ltd (Xinxing) has signed a Memorandum of Understanding ("MOU") confirming its intention to take a significant equity stake of up to 57 million shares or 19.9% of the issued capital, whichever is the higher, in CFE.

The acquisition of equity was of a result of Xinxing wanting to have "first right of refusal" to negotiate an off-take agreement at CFE's 100% owned Cape Lambert Iron Ore Project in North-Western Australia. This agreement, which is not binding, was finalised during negotiations in China in early October.

Xinxing Iron Pipes Company Limited is the largest steel pipe manufacturer in China and the world's second largest employing over 13,000 people and with an annual turnover in excess of US1.3 billion. Its main activities are smelting and processing steel and iron as well as manufacturing and selling cast iron pipes and steel grates.

Negotiations between CFE and Xinxing regarding the off-take agreement at the Cape Lambert Project are complete with Xinxing initially contracting to take 500,000 to 1 million tonnes per annum with an ability under the terms of the MOU to take a maximum of 5 million tonnes of iron ore concentrate.

Xinxing will send a delegation to visit the Company's office and conduct an on-site visit during October, with a view to finalising a formal Heads of Agreement.

CFE remains in negotiations with other major Chinese and Indian groups 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.

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

Yours faithfully

CAPE LAMBERT IRON ORE LTD

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