

18 August 2008

The Company Announcements Office
ASX Limited

Via E Lodgement

Cape Lambert to explore Pilbara iron ore project and evaluate new projects post settlement of AUD\$400M sale

Key points:

- **Settlement of the AUD\$400M sale complete and first cash payment of AUD\$240M received;**
- **Company is repositioning to focus on new project acquisition with more than AUD\$250M of cash at bank;**
- **Exploration at the Cape Lambert South Iron Ore Project to commence in September 2008; and**
- **Shareholder approved return of capital to occur in late September 2008 after receipt of 2008 audited accounts, with record date to be set at that time.**

Cape Lambert Iron Ore Limited (“Cape Lambert” or the “Company”) (ASX: **CFE**, AIM: **CLIO**) has stepped up evaluation of potential new project acquisitions, following the settlement of the AUD\$400M transaction with MCC Mining (Western Australia) Pty Ltd, a wholly owned subsidiary of Chinese company China Metallurgical Group Corporation (“MCC”).

The commencement of on-the-ground exploration at the Cape Lambert South Iron Ore Project is scheduled to start in September 2008 with a structural mapping program. The exact commencement date is subject to the granting of tenement EL47/1493 (the tenement upon which the Cape Lambert South Iron Ore Project is located). The Native Title advertising period, the final step before the tenement is granted, will end today and the tenement is expected to be granted before the end of August 2008.

The Company recently received the first substantive cash payment from MCC of AUD\$240 million pursuant to the sale of its 1.56 billion tonne JORC¹ compliant magnetite iron ore resource² and associated tenements (“Sale Project”). A second cash payment of AUD\$80 million is scheduled to be paid by MCC to the Company on or before Monday, 15 September 2008. The final cash payment of AUD\$80 million is to be paid by MCC to Cape Lambert on the grant of a mining lease and related construction approvals in respect of the Sale Project.

With the first substantive payment now received and the second payment due shortly, the Company is fast-tracking its repositioning for future growth.

Cape Lambert South Project

The Cape Lambert South Project is located on exploration license application (“ELA”) 47/1493, which is immediately south of, and contiguous with, the Sale Project. The Company has held an exploration license application over this area since 2005, but the area was part of a granted title that was held by others and subsequently extinguished.

¹ The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves as may be amended from time to time.

² Refer ASX and AIM release dated 30 January 2008 for full details of the mineral resource including classification and competent persons attribute.

The extinguishment of the existing title held by others allowed the Company to initiate the grant of an exploration license. The Native Title advertising period, the final step before the tenement is granted, will end today and the exploration license is expected to be granted before the end of August 2008.

A 3km long, untested magnetic anomaly is located within ELA 47/1493. This untested, magnetic anomaly, which lies within the highly prospective Cleaverville geological formation, is the southern strike extension of the 1.56 billion tonne magnetite iron ore resource comprising the Sale Project.

The Company has completed geophysical modelling of the 3km long magnetic anomaly for the purpose of drill planning and has developed a first pass program of 5,000 to 8,000 metres of reverse circulation and diamond drilling, with anticipated expenditure of AUD\$3-5M for this program. Field mapping is scheduled to commence in September 2008 ahead of drilling.

New Project Evaluation/Acquisition

The Company has stepped up the evaluation of iron ore assets, projects and companies, and will continue to review opportunities as they are presented or identified.

Return of Capital

As approved by Shareholders on 28 July 2008, the Board of Cape Lambert is proposing to undertake an equal reduction of capital via a cash distribution to Shareholders of up to AUD\$37.7M ("Return Amount"). The exact amount to be distributed to each Shareholder will be determined by the number of shares held by each Shareholder on the record date applicable to the reduction of capital ("Record Date").

The Directors will make an announcement after receipt of the second payment of funds from MCC regarding the timetable applicable to the reduction of capital (including the Record Date) and the final amount to be returned to Shareholders. This announcement is likely to be made on or around 15 September 2008.

The determination of the Return Amount of AUD\$37.7M was based on the unaudited accounts of the Company for the nine months ending 31 March 2008. The audited accounts of the Company as at 30 June 2008 may require the Company to revise the Return Amount that can be distributed to Shareholders by way of a capital return.

Unfranked Dividend

In addition to the return of capital, the Directors also propose to pay an unfranked dividend to Shareholders.

The amount to be paid to Shareholders by way of an unfranked dividend will be calculated such that the total amount paid to Shareholders as a capital reduction AND unfranked dividend is up to approximately AUD\$100M (for example if the Return Amount is AUD\$37.7M, then the unfranked dividend will be up to approximately AUD\$62.3M).

The exact amount that is paid to Shareholders by way of unfranked dividend will be resolved by the Directors after receipt of the second payment from MCC and the audited 30 June 2008 accounts and then announced to the market on release of the audited accounts.

It should be noted that the return of capital and unfranked dividend payments are only applicable to Shareholders in the Company as at the Record Date and do not apply to option holders. However, in accordance with ASX Listing Rule 7.22.3, all options on issue in the

Company at the Record Date will have their exercise price reduced by the same amount as the Return Amount per share (the unfranked dividend will not have an impact on the exercise price of the options).

Option holders who would like to exercise their options should contact the Company's share registry, Computershare Investor Services, on 1300 557 010.

Retirement of Chairman

With the Company having settled the AUD\$400M sale and its repositioning to acquire early definition projects, which have a longer time-frame to development, Chairman Ian Burston has tendered his resignation as a director of the Company, effective immediately.

Ian has been instrumental in unlocking the value of the Sale Project for Shareholders and it is with much regret that the Board accepts his resignation. The Board wishes Ian every success for the future and thanks him for the considerable role that he has played in the Company's development in recent years.

Tony Sage, former Executive Chairman and current Director, has been appointed Executive Chairman of the Company.

Yours faithfully
Cape Lambert Iron Ore Limited

Tony Sage
Executive Chairman

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