

20 January 2009

The Company Announcements Office  
ASX Limited

**Via E Lodgement**

**QUARTERLY OPERATIONS REPORT FOR PERIOD ENDING 31 DECEMBER 2008.**

Yours faithfully  
CAPE LAMBERT IRON ORE LIMITED

Tony Sage  
**Executive Chairman**

## COMPANY HIGHLIGHTS

### Corporate

- During the quarter, the Company successfully completed a AUD\$100 million combined return of capital and unfranked dividend distribution to shareholders equating to AUD\$0.217 per share, which comprised;
  - A return of capital of AUD\$0.068 per share; and
  - An unfranked dividend of AUD\$0.149 per share.
- As at 19 January 2009, Cape Lambert had cash reserves of approximately AUD\$223 million.
- Cape Lambert is continuing to work closely with China Metallurgical Group Corporation, providing assistance and guidance in respect to permitting and mining approvals to enable the grant of a mining lease and related construction approvals in the shortest possible time frame, thereby enabling receipt of the final cash payment of AUD\$80 million.
- Mezzanine financings totalling AUD\$7.8 million via secured convertible notes at a 12% coupon rate were provided to ASX listed, iron ore exploration company DMC Mining Limited (ASX: DMM), uranium explorer Scimitar Resources Limited (ASX: SIM) and coal development company, Continental Capital Ltd (ASX: CNF). Cape Lambert is evaluating other convertible note opportunities that potentially enable it to convert to a controlling equity position.
- The Company continues to evaluate investment opportunities in early definition iron ore and related steel making assets. The current turmoil being experienced in financial markets has resulted in an extensive number of opportunities being presented to the Company.

### Cape Lambert South Project (100% interest, Pilbara, Western Australia)

- During the quarter, the Company completed an initial drilling program at Cape Lambert South, which is located in the coastal Pilbara region of Western Australia. The completed program comprised 14 reverse circulation ("RC") drill holes for a total advance of 4,107 metres and a single diamond hole (375m).
- Within the central portion of the magnetic anomaly, magnetite banded-iron-formation, with down-hole intervals of between 35 and 73 metres, was logged in 4 RC holes and the diamond hole over a strike length of approximately 1.8km. Assay results and Davis Tube Recovery tests for these intervals and the other drill holes are pending, with first results expected at the end of January 2009.

### Marampa Iron Ore Project (30% interest and Manager, Sierra Leone, West Africa)

- Planning and definition of the initial work program, including recruitment of several expatriate project management personnel, completed for Marampa Iron Ore Project (Sierra Leone).
- Initial work program at Marampa has commenced, which will involve regional mapping, geophysics, drilling and metallurgical test work on the tailings (including recovery of a bulk sample for pilot scale work in Australia) and drill testing of the known geophysical anomalies.

Cape Lambert Iron Ore Limited ("Cape Lambert" or the "Company") (ASX: CFE, AIM: CLIO) is an Australian domiciled, cashed-up iron ore exploration and development company, with interests in two early definition iron assets located in the Pilbara region of Western Australia and Sierra Leone, West Africa (refer Figure 1).

The Company's objective is to use its substantial cash reserves to invest in a portfolio of early definition iron ore and related steel making assets and to add value to those assets to position them for either development and/or sale.

### **Return of Capital and Unfranked Dividend**

During the quarter, the Company successfully completed a AUD\$100 million combined return of capital and unfranked dividend distribution to shareholders equating to AUD\$0.217 per share, which comprised;

- A return of capital of AUD\$0.068 per share; and
- An unfranked dividend of AUD\$0.149 per share.

The distribution was made following shareholder approval on 28 July 2008 and the successful completion of the AUD \$400 million sale of the Company's namesake magnetite project to MCC Mining (Western Australia) Pty Ltd, a wholly owned subsidiary of Chinese conglomerate China Metallurgical Group Corporation ("MCC").

### **Project Sale – Final Cash Payment**

In respect of the sale of its namesake magnetite project, the Company has received AUD\$320 million of the AUD\$400 million sale price, with the final cash payment of AUD\$80 million to be paid by MCC on the grant of a mining lease and related construction approvals in respect of the project.

Cape Lambert is continuing to work closely with MCC, providing assistance and guidance in respect to permitting and mining approvals to enable the grant of a mining lease and related construction approvals in the shortest possible time frame thereby enabling receipt of the final AUD\$80 million cash payment.

### **Mezzanine Financings**

During the quarter, and through its 100% owned subsidiary Dempsey Resources Pty Ltd ("Dempsey"), the Company provided mezzanine financings totalling AUD\$7.8 million via secured convertible notes to ASX listed, iron ore exploration company DMC Mining Limited (ASX: DMM), uranium explorer Scimitar Resources Limited (ASX: SIM), and coal development company, Continental Capital Ltd (ASX: CNF) (the "Notes"). For all Notes, interest is payable quarterly at a rate of 12% per annum. The face value and term of the Notes vary as set out below;

- AUD\$2.0 million with a term of 12 months for DMM;
- AUD\$2.3 million with a term of 15 months for SIM; and
- AUD\$3.5 million with a term of 24 months for CNF.

Pursuant to the terms of the convertible notes, Dempsey has the right before the repayment dates to convert the Notes into ordinary shares.

Peter Landau, a non-executive director of Cape Lambert, is Executive Chairman and Company Secretary of CNF.

Cape Lambert is evaluating other convertible note opportunities that potentially enable it to convert to a controlling equity position in resource companies with assets which the Company believes to be attractive.

### **Cape Lambert South Project (100% interest, Pilbara, Western Australia)**

The Company completed an initial drilling program at Cape Lambert South, which is located in the coastal Pilbara region of Western Australia (refer Figure 2).

This initial drilling program, which comprised 14 reverse circulation ("RC") drill holes for an advance of 4,107m and a single diamond hole (375m), was designed to confirm the presence and extent of magnetite iron mineralisation.

Within the central portion of the magnetic anomaly, magnetite banded-iron-formation, with down-hole intervals of between 35 and 73 metres, was logged in 4 RC holes (SRC04, SRC06, SRC12 and SRC14) and the diamond hole (DD1) over a strike length of approximately 1.8km (refer Figure 3).

Follow-up drilling is planned to commence at Cape Lambert South in late March 2009, following the end of the Pilbara cyclone season.

At the completion of the program, the Company had submitted approximately 440 samples for Davis Tube Recovery ("DTR") test work. First DTR results for the program are expected to be received at the end of January 2009.

### **Marampa Iron Ore Project (30% interest and Manager, Sierra Leone, West Africa)**

On 1 October 2008, Cape Lambert made a 30% investment in the Marampa Iron Ore project ("Project") located in Sierra Leone, West Africa (refer Figure 4). Pursuant to the terms of its investment, Cape Lambert is the Manager of the Project.

During the quarter, the Company completed planning and definition of the initial work program, including recruitment of several expatriate project management personnel, who have now mobilised to the Project.

The initial work program will involve regional mapping, geophysics, drilling and metallurgical test work on the tailings (including recovery of a bulk sample for pilot scale work in Australia) and drill testing of the known geophysical anomalies.

Yours faithfully  
Cape Lambert Iron Ore Limited

Tony Sage  
**Executive Chairman**

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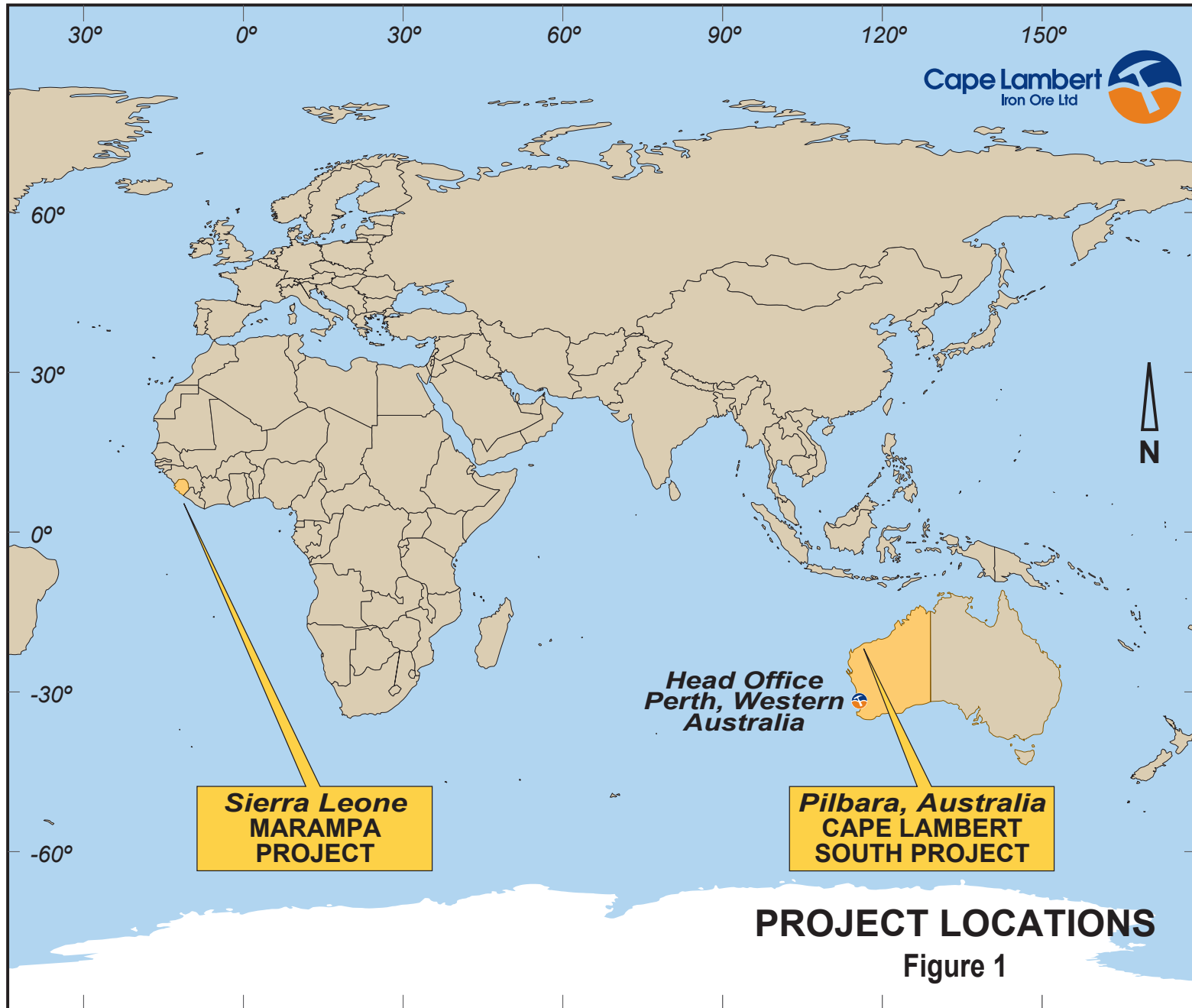
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**Competent Persons Attributes:**

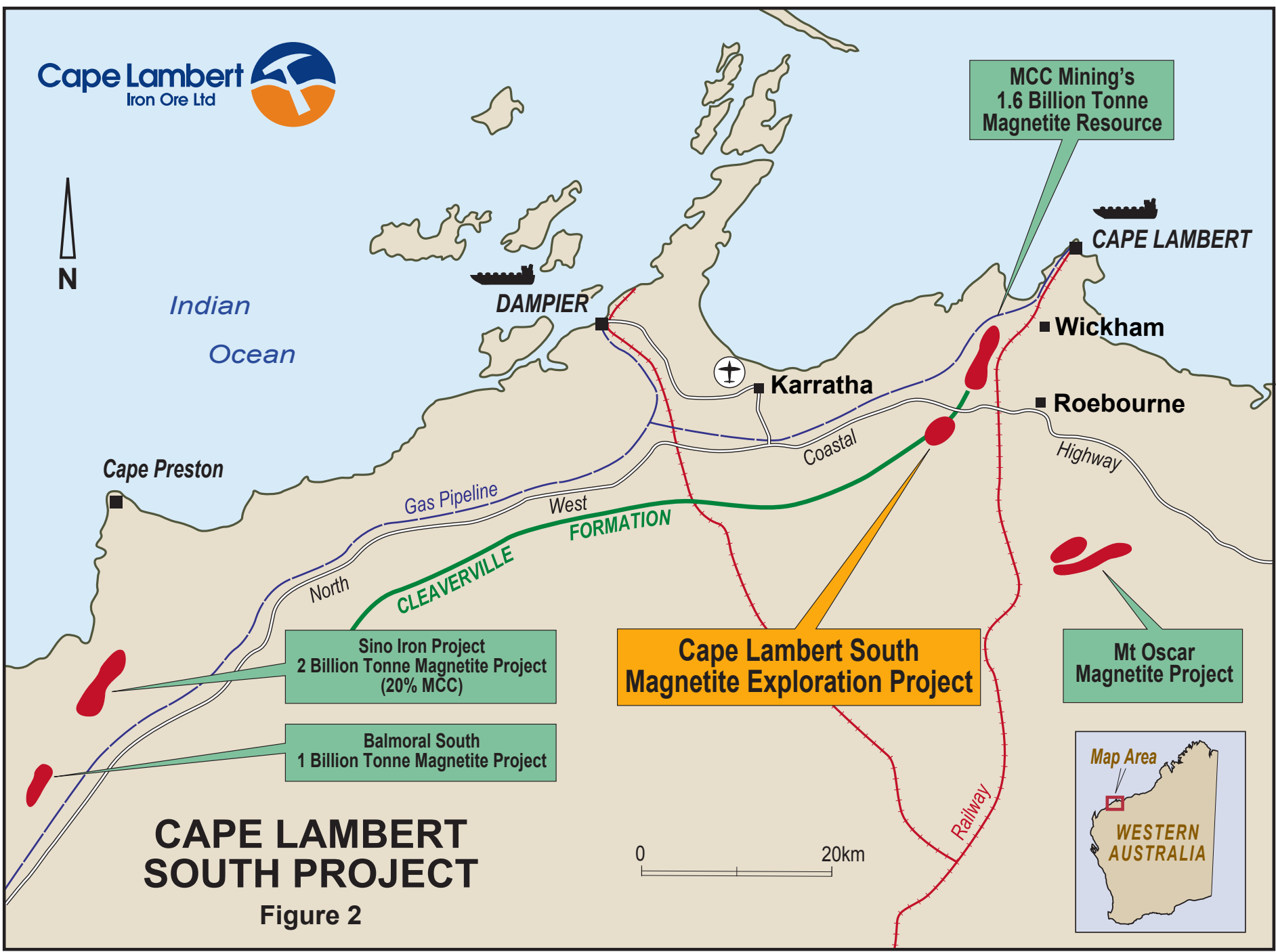
*The Metallurgical information in this report is based on information compiled by GV Ariti who is a Member of The Australasian Institute of Mining and Metallurgy. Mr. Ariti has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr. Ariti consents to the inclusion in this report of the matters based on his information in the form and the context in which it appears.*

*The Exploration information in this report is based on information compiled by K Bischoff who is a Member of The Australasian Institute of Mining and Metallurgy. Mr. Bischoff has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr. Bischoff consents to the inclusion in this report of the matters based on his information in the form and the context in which it appears.*



**PROJECT LOCATIONS**

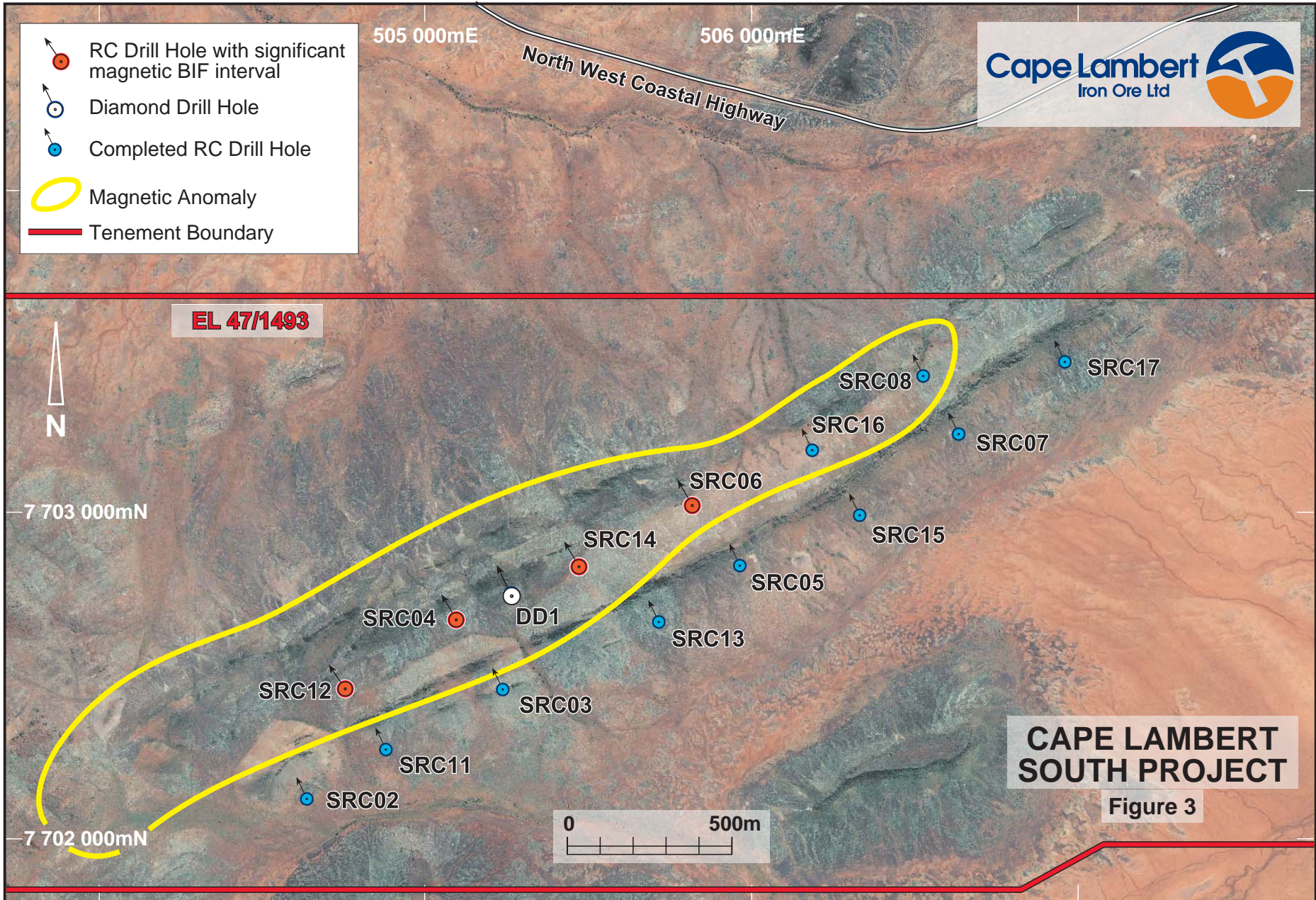
Figure 1



# CAPE LAMBERT SOUTH PROJECT

Figure 2







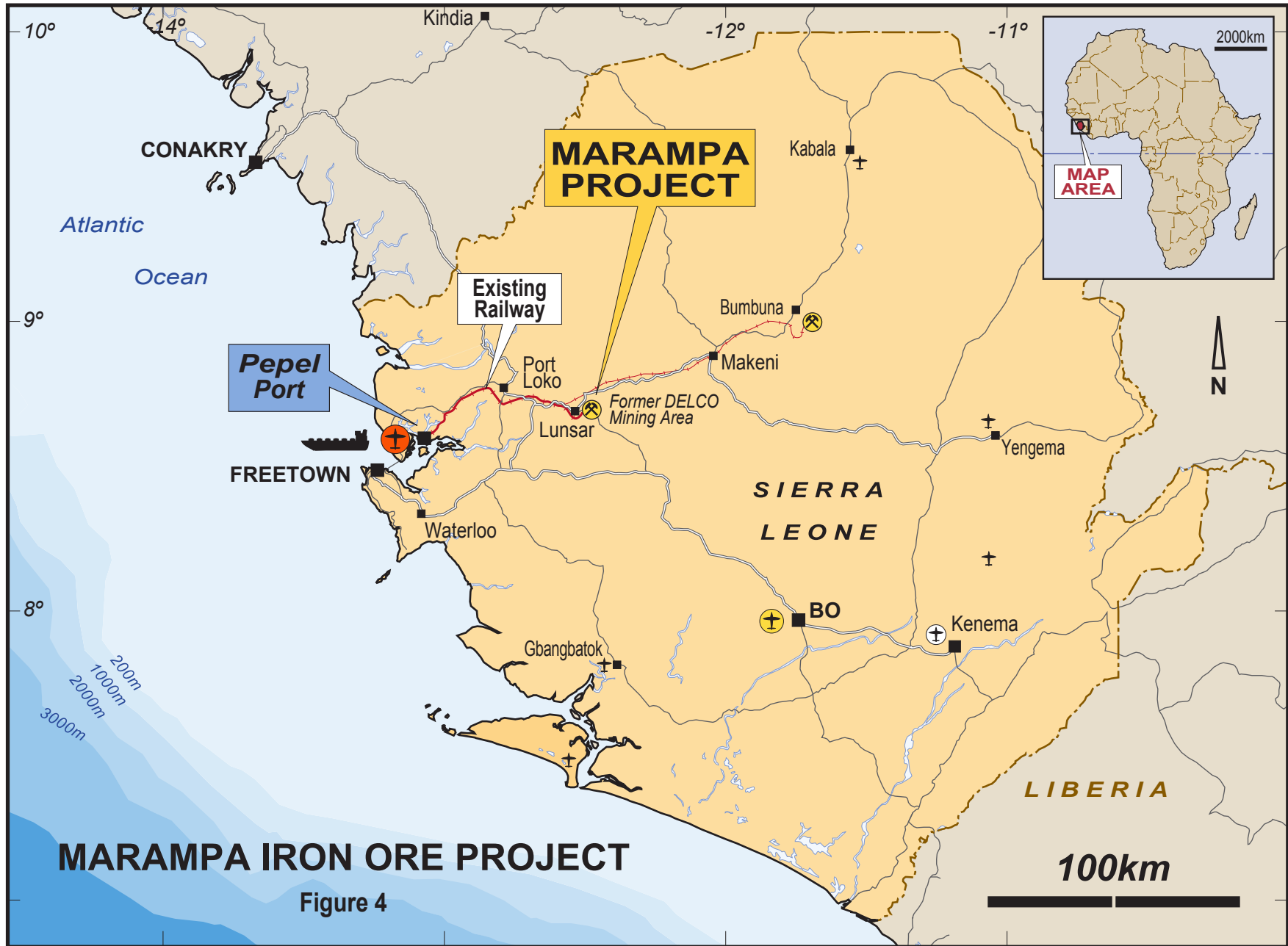


Figure 4