CAPE LAMBERT RESOURCES LIMITED

ABN 71 095 047 920

AND ITS CONTROLLED ENTITIES

Consolidated Financial Report
For The Half-Year Ended
31 December 2010

CAPE LAMBERT RESOURCES LIMITED
ABN 71 095 047 920
AND ITS CONTROLLED ENTITIES

INTERIM FINANCIAL REPORT
For the Half-Year Ended 31 December 2010

Corporate directory	1
Directors' report	2
Auditor’s independence declaration	5
Consolidated statement of comprehensive income	6
Consolidated statement of financial position	7
Consolidated statement of changes in equity	8
Consolidated statement of cash flows	10
Notes to the consolidated financial statements	11
Directors' declaration	25
Independent auditor’s review report	26

DIRECTORS

Antony Sage
(Executive Chairman)

Timothy Turner
(Non-Executive Director)

Brian Maher
(Non-Executive Director)

Ross Levin
(Non-Executive Director)

COMPANY SECRETARY

Claire Tolcon (appointed 1 December 2010)

REGISTERED OFFICE

18 Oxford Close
LEEDERVILLE WA 6007
Telephone: (08) 9388 9555 Facsimile: (08) 9388 9666

AUDITORS

PricewaterhouseCoopers
QV1 Building
Levels 19 – 21, 250 St George's Terrace
PERTH WA 6000
Telephone: (08) 9238 3000   Facsimile: (08) 9238 3999

SHARE REGISTRAR

Computershare Investor Services
Level 2, 45 St George’s Terrace
PERTH WA 6000
Telephone: (08) 9323 2000   Facsimile: (08) 9323 2033

STOCK EXCHANGE LISTING
Australian Securities Exchange
(Home Exchange: Perth, Western Australia)
Code: CFE

CAPE LAMBERT RESOURCES LIMITED
ABN 71 095 047 920
AND ITS CONTROLLED ENTITIES

INTERIM FINANCIAL REPORT
For the Half-Year Ended 31 December 2010

DIRECTORS REPORT

Your Directors submit the financial report of Cape Lambert Resources Limited ("Cape Lambert" or the "Company" or the "Consolidated Entity") for the half-year ended 31 December 2010.

DIRECTORS

The names of Directors who held office during or since the end of the half-year are set out below. Directors were in office for this entire period unless otherwise stated.

Antony Sage
Timothy Turner
Brian Maher
Ross Levin

COMPANY SECRETARY

Claire Tolcon (appointed 1 December 2010)
Eloise von Puttkammer (resigned 1 December 2010)

REVIEW OF RESULTS AND OPERATIONS

Principal Activity

The principal activity of the Consolidated Entity during the half-year was mineral investment, exploration and evaluation.

There were no significant changes in the nature of the principal activity during the half-year.

Review of Operations

The half-year ended 31 December 2010 was another productive period for Cape Lambert with a number of transactions completed to build on and enhance its multi commodity and geographically diverse portfolio of mineral assets and investments.

During the half-year, the Cape Lambert completed the following significant transactions:

- Payment of a $44 million fully franked special dividend.
- A strategic alliance with Chameleon Mining NL ("Chameleon") was formed. Cape Lambert advanced $6.5 million which will serve as a loan facility, and participated to the extent of $2 million in a placement conducted by Chameleon. The alliance with Chameleon exposes Cape Lambert Shareholders to a potential positive outcome from a pending Federal Court decision in relation to Murchison Metals Limited in respect of the ownership of the producing Jack Hills iron ore asset.
- The acquisition of the Leichhardt Copper Project located in the world class Mt Isa base metals province of North West Queensland. Payment on completion amounted to $6.8 million which was in addition to a $1 million deposit paid in the prior year. The Leichhardt process plant at Mt Cuthbert – a heap leach, solvent extraction and electrowinning facility has an installed production capacity of 9,000 tpa of copper cathode.
- The100% acquisition of DMC Mining Limited ("DMC") pursuant to a takeover bid. The Company paid $32.4 million during the current period to complete the acquisition of DMC.
- Commenced an on market share buy-back of up to 10% of the Company's fully paid ordinary shares (54,059,653 shares) within a 12 month period. During the current period, the Company paid $6.2 million to

buy back 12,888,429 shares. On 22 February 2011, the on market buy back was completed with 54,059,653 shares bought back for total consideration of $31.9 million.

- The Company commenced legal action against MCC Australia Sanjin Mining Pty Ltd, and its parent company Metallurgical Corporation of China Limited (collectively "MCC") to recover the final $80 million payment from the sale of the Cape Lambert magnetite iron ore project in mid-2008. Cape Lambert is confident that it will be successful in establishing that the final payment is due and payable by MCC.
- Convertible notes totalling $5.7 million were repaid.
- A facility for the sale of unmarketable parcels of shares was established. An unmarketable parcel is a parcel of shares valued at less than $500 as at the close of trade on 26 October 2010 ("Record Date"). On the Record Date, the Company had 463 shareholders holding less than a marketable parcel of shares, representing 325,686 shares. After following the prescribed notice periods and provision of notices to those shareholders, the Company completed the sale process in January 2011 and 178,836 shares were sold on market on behalf of those shareholders holding unmarketable parcels of Shares.
- 26.4 million shares in Speewah Metals Limited ("Speewah") (previously NiPlats Australia Limited) were sold realising $10.9 million and reducing the Company's shareholding in Speewah to 5% at 31 December 2010. The Company subsequently disposed of its remaining stake in generating additional cash proceeds of approximately $2.7 million.
- Other non-core shareholdings were divested during the half-year realising $2.3 million.

The Board intends to continue to follow its strategy of acquiring and investing in undervalued mineral assets and companies, and adding value to these assets through a hands on approach to management, exploration and evaluation to enable the assets to be monetised at a multiple. As assets are monetised, the Board intends to follow a policy of distributing surplus cash to Shareholders.

Result

The consolidated entity made a loss after income tax for the half-year ended 31 December 2010 of $17,546,489 (2009: profit of $144,352).

EVENTS SUBSEQUENT TO BALANCE DATE

The following significant events and transactions have taken place subsequent to 31 December 2010:

- On 10 January 2011, the Company completed the sale of wholly owned subsidiary DMC to African Iron Limited ("African Iron"). The Company received $47 million in cash and 120 million African Iron shares which equates to a 25% interest in African Iron. In addition, Cape Lambert will receive a production royalty of $1 per tonne of iron ore shipped. Cape Lambert expects to recognise a gain on disposal of DMC of approximately $27 million.
- On 4 February 2011, the Company entered into an in principle agreement to sell its 25% interest in the Lady Loretta project in Queensland to Noranda Pacific Pty Ltd, a wholly owned subsidiary of Xstrata plc ("Xstrata"), for a total consideration of $30 million payable in cash on completion. The remaining 75% interest in Lady Loretta is held by Xstrata. A formal sale agreement with Noranda Pacific Pty Ltd was signed in March 2011.
- On 18 February 2011, the Company advised that it had disposed of its entire stake in Speewah generating total cash proceeds of approximately $13.6 million of which $2.7 million was received subsequent to 31 December 2010.
- The Company continued the on market buy-back of up to 10% of the Company's fully paid ordinary shares (54,059,653 shares) within 12 months from 7 October 2010. Shares that have been bought back by the Company have been cancelled. On 21 February 2011, the Company completed the buy back. A total amount of

$31,924,485 was paid to buy back 54,059,653 ordinary shares. Of this total, $25,771,596 was paid subsequent to 31 December 2010.

- The Company has acquired a further 12 million shares in Pinnacle Group Assets Limited ("Pinnacle") for $13 million, which has increased the Company's interest in Pinnacle to 46.11%.

DIVIDEND

On 16 July 2010, Cape Lambert paid a fully franked special dividend of 7 cents per share which was previously announced on 15 June 2010.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration under section 307C of the *Corporations Act 2001* is set out on page 5 for the half-year ended 31 December 2010.

This report is signed in accordance with a resolution of the Board of Directors.

Timothy Turner
Director

Dated this 10th day of March 2011

Auditor's Independence Declaration

As lead auditor for the review of Cape Lambert Resources Limited for the half year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Cape Lambert Resources Limited and the entities it controlled during the period.

N Henry

Nick Henry
Partner
PricewaterhouseCoopers

Perth
10 March 2011

PricewaterhouseCoopers, ABN 52 780 433 757
QV1,250 St Georges Terrace, PERTH WA 6000, GPO BOX D198, PERTH WA 6840
DX 77 Perth, Australia
T +61 8 9238 3000, F +61 8 9238 3999, www.pwc.com.au

CAPE LAMBERT RESOURCES LIMITED
ABN 71 095 047 920
AND ITS CONTROLLED ENTITIES

INTERIM FINANCIAL REPORT
For the Half-Year Ended 31 December 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	For the six months ended 31 December 2010 $	31 December 2009 $
Continuing Operations			
Revenue	3a	**1,989,591**	8,786,827
Other income	3b	**13,313,604**	18,074,000
Production costs		**-**	(7,707,785)
Share based payments expense		**(797,277)**	(3,498,392)
Employee benefits expenses		**(975,666)**	(1,001,687)
Consulting expenses		**(2,856,586)**	(6,120,340)
Occupancy expenses		**(666,653)**	(549,289)
Compliance and regulatory expenses		**(247,366)**	(277,517)
Travel and accommodation		**(404,193)**	(541,883)
Share registry maintenance		**(87,406)**	(233,236)
Depreciation and amortisation expense		**(208,894)**	(144,202)
Foreign currency loss		**(496,528)**	-
Finance costs		**(10,659)**	(253,461)
Loss on fair value of financial assets through profit and loss		**(1,579,221)**	-
Loss on disposal of associate		**-**	(1,525,846)
Loss on disposal of financial assets	6c	**(179,071)**	(665,809)
Other expenses		**(2,099,518)**	(3,080,250)
Discount on acquisition of business combination		**-**	637,774
Impairment of capitalised exploration	7	**(36,452,961)**	-
Share of losses of associates accounted for using the equity method		**(5,919,055)**	(2,144,836)
Loss from continuing operations before income tax		**(37,677,859)**	(245,932)
Income tax benefit		**20,131,370**	390,284
Profit/(Loss) from continuing operations after income tax		**(17,546,489)**	144,352
Other comprehensive income net of tax			
Foreign exchange differences arising on translation of foreign operations		**(95,267)**	(1,125,699)
Share of reserves of associate accounted for using the equity method		**28,042**	-
Total comprehensive loss for the period		**(17,613,714)**	(981,347)
Profit/(Loss) from continuing operations after income tax attributable to:			
Members of Cape Lambert Resources Limited		**(17,546,489)**	144,352
Non controlling interests		**-**	-
		(17,546,489)	144,352
Total comprehensive loss attributable to:			
Members of Cape Lambert Resources Limited		**(17,613,714)**	(981,347)
Non controlling interests			-
		(17,613,714)	(981,347)
Basic profit/(loss) per share (cents per share)		**(2.8549)**	0.0269
Diluted profit/(loss) per share (cents per share)		**(2.8549)**	0.0252

The accompanying notes form part of this financial report.

CAPE LAMBERT RESOURCES LIMITED
ABN 71 095 047 920
AND ITS CONTROLLED ENTITIES

INTERIM FINANCIAL REPORT
For the Half-Year Ended 31 December 2010

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2010 $	30 June 2010 $
CURRENT ASSETS			
Cash and cash equivalents		**31,301,871**	135,709,067
Restricted cash	4	**6,525,257**	25,257
Trade and other receivables	5	**10,528,161**	14,091,619
Inventories		**200,587**	-
Assets classified as held for sale	11	**52,785,451**	-
TOTAL CURRENT ASSETS		**101,341,327**	149,825,943
NON-CURRENT ASSETS			
Trade and other receivables	5	**1,137,691**	5,294,805
Other financial assets	6	**29,735,295**	26,634,643
Entities accounted for using the equity method	8	**57,514,341**	66,785,069
Restricted cash	4	**5,085,042**	1,466,716
Plant and equipment		**2,957,078**	1,209,050
Exploration and evaluation and expenditure	7	**132,370,128**	200,148,822
Deferred tax asset		**668,462**	-
TOTAL NON-CURRENT ASSETS		**229,468,037**	301,539,105
TOTAL ASSETS		**330,809,364**	451,365,048
CURRENT LIABILITIES			
Trade and other payables		**7,708,302**	32,894,299
Provisions		**-**	43,803,183
Current tax liabilities		**-**	1,611,932
Deferred income		**26,815**	96,678
Liabilities directly associated with the assets classified as held for sale	11	**449,711**	**-**
TOTAL CURRENT LIABILITIES		**8,184,828**	78,406,092
NON-CURRENT LIABILITIES			
Provisions		**2,349,210**	-
Deferred tax liability		**-**	19,586,090
TOTAL NON-CURRENT LIABILITIES		**2,349,210**	19,586,090
TOTAL LIABILITIES		**10,534,038**	97,992,182
NET ASSETS		**320,275,326**	353,372,866
EQUITY			
Issued capital	9	**171,450,336**	177,603,225
Reserves		**(561,408)**	(1,291,460)
Retained earnings		**149,386,398**	166,932,887
Parent interests		**320,275,326**	343,244,652
Non-controlling interests		**-**	10,128,214
TOTAL EQUITY		**320,275,326**	353,372,866

The accompanying notes form part of this financial report.

CAPE LAMBERT RESOURCES LIMITED
ABN 71 095 047 920
AND ITS CONTROLLED ENTITIES

INTERIM FINANCIAL REPORT
For the Half-Year Ended 31 December 2010

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued Capital	Retained earnings	Share Based Payment Reserve	Foreign Currency Translation Reserve	Non-controlling interests	Total
	$	$	$	$	$	$
Balance at 1 July 2010	177,603,225	166,932,887	167,308	(1,458,768)	10,128,214	353,372,866
Loss for the year	-	(17,546,489)				(17,546,489)
Other comprehensive income						
Share of associate's reserve	-	-	28,042	-	-	28,042
Foreign exchange differences arising on translation of foreign operations	-	-	-	(95,267)	-	(95,267)
Total comprehensive income for the half-year	-	(17,546,489)	28,042	(95,267)	-	(17,613,714)
Transactions with owners in their capacity as owners						
Acquisition of controlled entity	-	-	-	-	(10,128,214)	(10,128,214)
Share based payments expense	-	-	797,277	-	-	797,277
Share reduction via on-market buy back	(6,152,889)	-	-	-		(6,152,889)
Transactions with equity holders in their capacity as equity holders	(6,152,889)	-	797,277	-	(10,128,214)	(15,483,826)
Balance at 31 December 2010	**171,450,336**	**149,386,398**	**992,627**	**(1,554,035)**	**-**	**320,275,326**

The accompanying notes form part of this financial report.

CAPE LAMBERT RESOURCES LIMITED
ABN 71 095 047 920
AND ITS CONTROLLED ENTITIES

INTERIM FINANCIAL REPORT
For the Half-Year Ended 31 December 2010

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued Capital $	Retained earnings $	Share Based Payment Reserve $	Foreign Currency Translation Reserve $	Non-controlling interests $	Total $
Balance at 1 July 2009	126,016,077	138,487,994	4,386,526	-	-	268,890,597
Profit for the year	-	144,352	-	-	-	144,352
Other comprehensive income						
Foreign exchange differences arising on translation of foreign operations	-	-	-	(1,125,699)	-	(1,125,699)
Total comprehensive income for the half-year	-	144,352	-	(1,125,699)	-	(981,347)
Transactions with owners in their capacity as owners						
Acquisition of controlled entity	-	-	-	(8)	16,622,323	16,622,315
Share based payments – shares issued as purchase consideration	18,477,926	-	-	-		18,477,926
Share-based payments – shares issued to directors, employees and consultants	3,498,392	-	-	-		3,498,392
Expired options	69,300	-	(69,300)	-		-
Transactions with equity holders in their capacity as equity holders	22,045,618	-	(69,300)	(8)	16,622,323	38,598,633
Balance at 31 December 2009	**148,061,695**	**138,632,346**	**4,317,226**	**(1,125,707)**	**16,622,323**	**306,507,883**

The accompanying notes form part of this financial report.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	For the six months ended 31 December 2010 $	31 December 2009 $
CASHFLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		**-**	6,431,042
Payments to suppliers and employees (inclusive of GST)		**(9,783,097)**	(15,053,298)
Interest received		**2,176,653**	2,848,739
Interest paid		**(10,659)**	(103,918)
Receipts – other		**77,563**	86,401
Income tax paid		**(1,611,935)**	-
Net cash used in operating activities		**(9,151,475)**	(5,791,034)
CASHFLOWS FROM INVESTING ACTIVITIES			
Payment for acquiring interest in associated entity		**(7,148,940)**	(1,841,954)
Proceeds on disposal of interest in associated entity		**17,996,041**	587,843
Payments for exploration and evaluation		**(8,467,151)**	(2,178,765)
Purchase of property, plant and equipment		**(529,424)**	(848,599)
Payment for environmental bonds		**(3,880,639)**	(5,475,866)
Release of restricted guarantees in respect of performance bonds		**178,750**	-
Purchase of equity investments		**(9,341,957)**	(6,697,310)
Proceeds from sale of equity investments		**9,944,554**	2,078,185
Purchase of call options		**(60,506)**	-
Payments pursuant to business combinations		**(39,019,058)**	-
Loans to related entities		**(12,340)**	-
Funds transferred to trust account	4	**(6,500,000)**	
Proceeds on repayment of loans		**7,927,499**	-
Loans to associated entity		**(2,101,685)**	-
Payments relating to assets classified as held for sale		**(3,994,660)**	-
Payment of stamp duty in relation to asset acquisitions		**-**	(2,675,502)
Cash balances acquired on acquisition of controlled entities		**-**	735,674
Release of restricted cash on return of Receivers guarantees		**-**	2,000,000
Release of restricted cash on retirement of Receiver and Manager of controlled entities		**-**	1,242,000
Proceeds on disposal of restricted securities by Receiver and Manager		**-**	535,873
Payment on subscription to convertible loan notes		**-**	(5,900,000)
Net cash (used in)/provided by investing activities		**(45,009,516)**	(18,438,421)
CASHFLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		**-**	793,500
Repayment of borrowings		**-**	(15,416,569)
On market buy back		**(6,152,889)**	-
Dividend paid to Shareholders		**(43,803,183)**	-
Net cash (used in)/provided by financing activities		**(49,956,072)**	(14,623,069)
Net (decrease) increase in cash and cash equivalents		**(104,117,063)**	(38,852,524)
Cash and cash equivalents at beginning of period		**135,709,067**	74,058,703
Cash and cash equivalents at end of period	14	**31,592,004**	35,206,179

The accompanying notes form part of this financial report.

1. BASIS OF PREPARATION

This general purpose condensed financial report for the half-year ended 31 December 2010 has been prepared in accordance with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001*.

This financial report is to be read in conjunction with the annual financial report for the year ended 30 June 2010 and any public announcements made by Cape Lambert Resources Limited and its controlled entities during the half-year in accordance with the continuous disclosure requirements arising under the *Corporations Act 2001*.

The half-year report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the group as in the full financial report.

Significant Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Impact of standards issued but not yet applied by the entity
AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. The Company has not yet decided when to adopt AASB 9.

Significant estimates and judgments

The consolidated entity makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. In addition to the areas disclosed in the most recent financial report, the estimates and assumptions that have a significant risk of causing material adjustment to the carrying amount of assets and liabilities are discussed below.

Business Combination

During the current financial year, the Company through its wholly owned subsidiary, Cape Lambert Leichhardt Pty Ltd, completed the acquisition of the Leichhardt Copper project from Matrix Metals Limited (Receivers and Managers Appointed) (In Liquidation). Management have made a number of assumptions in determining the fair values of the assets acquired and the liabilities assumed pursuant to this business combination.

Impairment

The consolidated entity assesses impairment at each reporting date by evaluating conditions specific to the Consolidated Entity that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amounts of the assets are determined.

As at 31 December 2010, management have recognised impairment losses in respect of those assets which had a carrying value which exceeded their recoverable amounts.

2. SEGMENT INFORMATION

The Company has identified its operating segments based on the internal reports that are reviewed and used by the executive management team in assessing performance and in determining the allocation of resources. The Company has one main operating segment being mineral exploration which comprises the costs associated with acquiring mineral assets, the costs incurred in carrying out exploration work at key projects and the costs incurred and any revenues generated from investments in junior exploration companies in the form of either equity investments or convertible loan notes.

The following table presents revenue and profit information for reportable segments for the half-years ended 31 December 2010 and 31 December 2009.

	Mineral Exploration		**Other**		**Total**	
	31 December 2010	**31 December 2009**	**31 December 2010**	**31 December 2009**	**31 December 2010**	**31 December 2009**
	$	**$**	**$**	**$**	**$**	**$**
Revenue						
Sales to external customers	**-**	6,431,042	**-**	-	**-**	6,431,042
Rental revenue	**-**	-	**125,152**		**125,152**	
Other revenue	**747,230**	-	**1,117,208**	2,355,785	**1,864,438**	2,355,785
Total segment revenue	**747,230**	6,431,042	**1,242,360**	2,355,785	**1,989,591**	8,786,827
Result						
Segment result	**(15,152,917)**	(4,982,980)	**(2,393,572)**	5,127,332	**(17,546,489)**	144,352
Reconciliation of segment net profit after tax to net profit/loss after tax						
Income tax benefit					**20,131,370**	(390,284)
Net profit before tax per the statement of comprehensive income					**(37,677,859)**	(245,932)
Assets	**31 December 2010**	**30 June 2010**	**31 December 2010**	**30 June 2010**	**31 December 2010**	**30 June 2010**
Segment assets	**320,441,865**	436,790,768	**10,367,499**	14,574,280	**330,809,364**	451,365,048
Total assets from continuing operations per the statement of financial position					**330,809,364**	451,365,048

	Consolidated	
	31 December 2010 $	**31 December 2009 $**
3. PROFIT/(LOSS) FROM OPERATIONS		
(a) Revenue		
Copper sales	**-**	6,431,042
Interest	**1,862,219**	2,307,193
Rental revenue	**125,152**	-
Other	**2,220**	48,592
	1,989,591	8,786,827
(b) Other income		
Gain on fair value of financial assets through profit and loss	**-**	13,794,688
Gain on disposal of financial assets	**2,078,577**	2,500
Gain on receipt of call option	**67,060**	1,792,675
Gain on disposal of associate	**8,621,099**	-
Gain on conversion of convertible note	**-**	2,245,573
Gain on recognition of deferred consideration	**2,500,000**	
Foreign currency gains	**-**	169,838
Other	**46,868**	68,726
	13,313,604	18,074,000
(c) Disclosure of tax effects relating to each component of other comprehensive income		
Share of reserves of associates accounted for using the equity method	**-**	-
Exchange differences on translating foreign operations	**-**	-
4. RESTRICTED CASH		
Current		
Funds held in trust[1]	**6,500,000**	-
Term deposits[2]	**25,257**	25,257
	6,525,257	25,257
Non current		
Term deposits[2]	**5,085,042**	1,466,716
	5,085,042	1,466,716

[1] During the period, a strategic alliance with Chameleon Mining NL ("Chameleon") was formed. Cape Lambert advanced $6.5 million which will serve as a loan facility to Chameleon once the legal action brought against Chameleon by International Litigation Partners Pte Ltd has been resolved. The funds advanced are currently held in trust pending the outcome of the legal action.

[2] Term deposits are held with financial institutions as security for bank guarantees issued to:

(a) Various environmental regulatory departments in respect of the potential rehabilitation of exploration areas;
(b) Landlords of leased properties; and
(c) Other third parties in line with contractual agreements.

The term deposits are not readily accessible to Cape Lambert.

5. TRADE AND OTHER RECEIVABLES

	31 December 2010 $	30 June 2010 $
Trade and other receivables – current		
Trade debtors	**75,573**	487,774
GST recoverable and other debtors	**449,737**	978,377
Prepayments	**139,881**	158,976
Interest receivable	**413,324**	930,031
Deferred consideration	**2,500,000**	-
Loans to unlisted entities[1]	**4,003,099**	5,902,787
Loans to ASX-listed entities[2]	**1,843,915**	3,500,000
Deposit paid on asset purchase	**-**	1,000,000
Funds in trust	**1,102,632**	1,133,674
	10,528,161	14,091,619
Trade and other receivable – non current		
Loans to unlisted entities[1]	**-**	2,400,000
Loans to ASX-listed entities[2]	**1,129,423**	2,886,537
Other	**8,268**	8,268
	1,137,691	5,294,805

[1] Current and non current loans to unlisted entities at 31 December 2010 include:

- an amount of $1,590,759 (30 June 2010: $3,662,787) owing from CopperCo Limited (In Liquidation) (Receivers and Managers Appointed).The outstanding balance including interest accrued was received on 13 January 2011.
- an amount of $2,400,000 (30 June 2010: 2,400,000) in the form of a convertible loan note which bears interest at the rate of 12% per annum. The conversion option embedded in the loan note allows the Company to convert the outstanding principal and any accrued interest balance at a conversion rate which results in the Company holding a 10% interest in the borrower’s share capital post conversion. Given that the borrower is an unlisted entity, the fair value of the conversion option cannot be reliably measured. Accordingly, a nil value has been assigned to the conversion option. This loan is due for repayment on 26 August 2011 or such other date as agreed by the parties to the convertible note.
- an amount of $12,340 relating to loans to related entities.

5. TRADE AND OTHER RECEIVABLES (continued)

[2] Current and non current loans to ASX listed entities comprise the following amounts in relation to convertible notes:

	Interest rate	Carrying value of loans	
		30 Dec 2010	**30 June 2010**
		$	**$**
Current			
Convertible loan note of $2,000,000	12%	**1,693,841**	-
Fair value of loans at inception		**1,693,841**	-
Interest receivable recognised using the effective interest rate		**463,718**	-
Interest received at the coupon rate		**(313,644)**	-
Current carrying value at amortised cost at balance date		**1,843,915**	**-**
Non current			
Convertible loan note of $1,500,000	10%	**1,020,822**	1,020,822
Convertible loan note of $2,000,000	12%	**-**	1,693,841
Fair value of loans at inception		**1,020,822**	2,714,663
Interest receivable recognised using the effective interest rate		**325,587**	505,901
Interest received at the coupon rate		**(216,986)**	(334,027)
Non current Carrying value at amortised cost at balance date		**1,129,423**	2,886,537

At inception, the conversion options embedded within the above convertible loan agreements were fair valued using a Black-Scholes Option Pricing Model. The fair values of the options were recognised as financial assets at fair value through profit and loss and reduced the carrying value assigned to the loans receivable balances. Subsequent to their initial recognition, the loans receivable have been measured at amortised cost using the effective interest rate method.

6. OTHER FINANCIAL ASSETS

	31 December 2010 $	30 June 2010 $
Shares in listed entities	**19,870,983**	16,688,006
Conversion options (a)	**299,901**	220,780
Call options (b)	**364,411**	865,857
Equity interests in listed entities	**20,535,295**	17,774,643
Shares in unlisted entities (d)	**9,200,000**	8,860,000
Total Financial Assets	**29,735,295**	26,643,643

(a) Conversion options

The Company currently has $3,500,000 of convertible loans to ASX listed entities. At inception, the conversion options and call options within these loan agreements were fair valued using a Black-Scholes Option Pricing Model. The fair values of the options were recognised as financial assets at fair value through profit and loss. Subsequent to their initial recognition, the conversion options have been measured at fair value, with any gains or losses being recognised in the consolidated statement of comprehensive income. Details are summarised below:

31 December 2010

	Interest rate	Option conversion price	No. of call options issued	Call option exercise price	Fair value of loan at inception $	Fair value of conversion option at inception $	Fair value of call option at inception $
Loan note of $1,500,000	10%	$0.50[1]	-	-	1,020,822	479,179	-
Loan note of $2,000,000	12%	$0.30[2]	-	-	1,693,841	306,159	-
					2,714,663	785,338	-
Loss on fair value of options through profit and loss						(485,437)	-
Carrying value at 31 December 2010						**299,901**	**-**

30 June 2010

	Interest rate	Option conversion price	No. of call options issued	Call option exercise price	Fair value of loan at inception $	Fair value of conversion option at inception $	Fair value of call option at inception $
Loan note of $1,500,000	10%	$0.50[1]	-	-	1,020,822	479,179	-
Loan note of $2,000,000	12%	$0.30[2]	-	-	1,693,841	306,159	-
					2,714,663	785,338	-
Loss on fair value of options through profit and loss						(564,558)	-
Carrying value at 30 June 2010						**220,780**	**-**

6. OTHER FINANCIAL ASSETS (continued)

[1] option conversion price is the lower of $0.50 or the VWAP over the 20 days prior to conversion. The minimum conversion price is set at $0.425.

[2] option conversion price is the higher of $0.30 or the VWAP over the 5 days prior to conversion.

(b) Call options

The Company has call options in ASX listed entities subsequent to providing funding in the form of convertible loan notes as well as a result of participating in entitlement and rights issues. The call options have been fair valued using a Black-Scholes Option Pricing Model and have been recognised as financial assets at fair value through profit and loss. The gain on receipt of the options has been recognised in the Statement of Comprehensive Income.

Subsequent to their initial recognition, the call options have been measured at fair value, with any gains or losses being recognised in the Statement of Comprehensive Income. Details are summarised below:

31 December 2010

No. of call options received	Call option exercise price	Call option expiry date	Fair value of call options at inception $	Gain / (loss) on fair value of options through profit and loss $	Fair value of call options at 31 December 2010 $
10,000,000	$0.20	24/02/2010	691,655	(525,408)	166,247
1,650,522	$0.45	31/10/2012	74,670	58,567	133,237
4,400,000	$0.30	31/03/2013	52,896	12,031	64,927
			819,218	(454,810)	364,411

30 June 2010

No. of call options received	Call option exercise price	Call option expiry date	Fair value of call options at inception $	Gain / (loss) on fair value of options through profit and loss $	Fair value of call options at 30 June 2010 $
10,000,000	$0.20	24/02/2010	691,655	(494,869)	196,786
35,000,000	$0.05	06/08/2013	1,792,675	(1,123,604)	669,071
			2,484,330	(1,618,473)	865,857

6. OTHER FINANCIAL ASSETS (continued)

(c) Conversion and call options exercised during the period

During the half year ended 31 December 2010, the $3,500,000 loan note provided to an ASX listed company was repaid. In addition, the Company exercised the 25 million options it received pursuant to the loan note agreement and subsequently sold the shares. The loss on disposal has been recognised in the Statement of Comprehensive Income. Details are as follows:

	Total $
Value of options at inception	1,792,675
Gain / (loss) on fair value of options through profit and loss	(1,123,604)
Carrying value of options at 30 June 2010	669,071
Consideration of sale of shares	2,240,000
Amount paid on exercise of call options	(1,750,000)
Carrying value of options at conversion	(669,071)
Loss on conversion	(179,071)

During the previous half year, the Company converted its loan to DMC Mining Limited ("DMC") and exercised its call options in DMC, and also converted its loan to Cauldron Energy Limited. The gain on conversion was recognised in the Statement of Comprehensive Income as follows:

	Loans $	Call options $	Conversion options $	Total $
Carrying value at 30 June 2009	2,370,070	508,319	4,706,715	7,585,104
Interest receivable recognised using the effective interest rate	63,245	-	-	63,245
Interest received at the coupon rate	(11,901)	-	-	(11,901)
Gain / (loss) on fair value of options through profit and loss		166,223	523,291	689,514
Carrying value on conversion	2,421,414	674,542	5,230,006	8,325,962

Fair value of ordinary shares received on conversion	11,321,535
Amount paid on exercise of call options	(750,000)
Carrying value of loans, call options and conversion options on conversion	(8,325,962)
Gain on conversion	2,245,573

(d) Shares in unlisted entities

Unlisted securities are traded in inactive markets and are carried at cost because their fair values cannot be reliably measured.

7. EXPLORATION AND EVALUATION EXPENDITURE

	6 Months to 31 December 2010 $	Year Ended 30 June 2010 $	6 Months to 31 December 2009 $
Exploration and evaluation phases – at cost			
Movement in carrying amounts			
Brought forward	**200,148,822**	154,679,278	154,679,278
Exploration and evaluation expenditure capitalised during the period	**8,473,375**	11,790,230	1,178,764
Exploration assets acquired	**8,305,185**	109,912,431	63,807,559
Reclassified as held-for-sale	**(48,104,293)**	-	(74,908,850)
Impairment	**(36,452,961)**	-	-
Exploration assets sold during the year	**-**	(76,233,117)	-
Total exploration and evaluation phases	**132,370,128**	200,148,822	144,756,751

8. INVESTMENT IN ASSOCIATED ENTITIES

	31 December 2010 $	30 June 2010 $
Shares in associates accounted for using the equity method	**57,514,341**	66,785,069
(a) Investment details		
Listed		
International Goldfields Limited (previously Corvette Resources Limited)	**8,839,021**	14,880,060
Speewah Metals Limited (formerly NiPlats Australia Limited)	**-**	5,578,900
Fe Limited (formerly Buka Gold Limited)	**1,280,737**	1,033,212
Unlisted		
Pinnacle Group Assets Limited	**47,394,583**	45,292,897
	57,514,341	66,785,069
(b) Movement in the carrying amount of the investment in associates		
The carrying amounts are comprised as follows:		
Balance at beginning of period	**66,785,069**	38,384,711
Interest in associate acquired on conversion of convertible loan	**-**	34,822,200
Acquisition of shares in associate	**7,148,940**	40,355,469
Share of losses of associates during the period	**(5,919,055)**	(3,400,210)
Share of reserves of associate recognised during the period	**28,042**	(244,996)
Interest in associate disposed of during the period	**(12,630,340)**	(10,421,053)
Loan advanced to associate during the period	**2,101,685**	-
Interest in associate transferred to controlled entities during the period	**-**	(32,711,052)
	57,514,341	66,785,069

8. INVESTMENT IN ASSOCIATED ENTITIES (continued)

The carrying amounts of the investments in associates were assessed for impairment at 31 December 2010 and no impairment provisions have been considered necessary.

	31 December 2010 $	**30 June 2010 $**
(c) Fair value of investments in listed associates		
International Goldfields Limited (previously Corvette Resources Limited)	**14,385,648**	11,799,464
Speewah Metals Limited (formerly NiPlats Australia Limited)	**-**	6,337,500
Fe Limited [1]	**1,686,754**	1,391,480

[1] Although the Company holds less than 20% in Fe Limited, this investment is equity accounted given the significant influence the Company has through Mr Sage's role on the Board of Fe Limited.

9. SECURITIES ISSUED DURING THE PERIOD

	Ordinary fully paid shares Number	**$**
Shares on issue at 1 July 2010	625,759,256	177,603,225
Share reduction via on-market buy back	(12,888,429)	(6,152,889)
Shares on issue at 31 December 2010	612,870,827	171,450,336

10. BUSINESS COMBINATION

In March 2010, the Company launched a takeover bid for DMC Mining Limited ("DMC") which was successfully completed on 20 August 2010, with Cape Lambert acquiring 100% of DMC. The Company paid $32,367,873 during the current period to complete the acquisition of DMC. There were no changes to the provisional acquisition accounting at 30 June 2010. Details of the business combination were disclosed in note 24 of the Company's annual financial statements for the year ended 30 June 2010.

On 18 August 2010, the Company through its wholly owned subsidiary, Cape Lambert Leichhardt Pty Ltd, completed the acquisition of the Leichhardt Copper project from Matrix Metals Limited (Receivers and Managers Appointed) (In Liquidation). Payment on completion amounted to $6,645,566 in addition to the deposit of $1,000,000 paid in November 2009.

10. BUSINESS COMBINATION (continued)

The fair values of the identifiable assets and liabilities acquired have provisionally been recognised as follows:

	Fair value at acquisition date [1]
Plant and equipment	1,704,645
Inventory – consumables and spares	95,000
Tenements and mining information	8,299,565
	10,099,210
Employee liabilities assumed	(104,434)
Rehabilitation provision	(2,349,210)
	(2,453,644)
Provisional fair value of identifiable net assets	7,645,566
Acquisition-date fair-value of consideration transferred:	
Deposit paid	1,000,000
Settlement cash paid	6,645,566
Total consideration	7,645,566

[1] The acquiree's carrying amount for the assets and liabilities acquired / assumed have not been provided as it is impracticable to do so given that certain accounting records were excluded from the assets acquired.

Acquisition related costs
Acquisition related costs of $66,560 are included within consulting expenses in the Statement of Comprehensive Income.

Revenue and profit contribution
The acquired business did not contribute any revenues and contributed a loss of $253,351 to the consolidated entity for the period from 18 August 2010 to 31 December 2010.

11. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

On 10 January 2011, the Company completed the sale of wholly owned subsidiary DMC Mining Limited to African Iron Limited ("African Iron"). The Company received $47 million in cash and 120 million African Iron shares which equates to a 25% interest in African Iron. In addition, Cape Lambert will receive a production royalty of $1 per tonne of iron ore shipped.

The major classes of assets and liabilities of DMC Mining at 31 December 2010 are as follows:

	$
Assets	
Cash and cash equivalents	290,133
Trade and other receivables	119,218
Property, plant and equipment	277,147
Other current assets	3,994,660
Capitalised exploration and evaluation costs	48,104,293
Assets classified as held for sale	52,785,451
Liabilities	
Trade and other payables	326,532
Deferred tax liability	123,179
Liabilities directly associated with assets classified as held for sale	449,711
Net assets classified as held for sale	52,335,740

12. CONTINGENT ASSETS AND LIABILITIES

At 31 December 2010, the consolidated entity has the following contingent liabilities and contingent assets:

	Consolidated	
	31 December 2010	30 June 2010
	$	$
Contingent Assets		
Consideration receivable in relation to the sale of the Cape Lambert Project[1]	**80,000,000**	80,000,000
Consideration receivable in relation to the sale of the Lady Annie Project[2]	**2,500,000**	5,000,000
Contingent Liabilities		
Commission payable in relation to the sale of the Cape Lambert Project[1]	**(7,600,000)**	(7,600,000)

1 During the year ended 30 June 2008, the Company entered into an agreement with Chinese conglomerate China Metallurgical Group Corporation ("MCC") for the sale of the tenements related to the Cape Lambert Iron Ore Project ("Project"). The sale was for total cash consideration of $400,000,000, with $80,000,000 of this amount being contingent upon MCC obtaining the grant of a mining lease and related construction approvals ("Approvals") in respect of the Project, or if MCC has not used its reasonable endeavours to procure the Approvals, or an event occurs outside the control of the Company which results in the Company not being able to satisfy the Approvals, within two years of the settlement date, 6 August 2008.

The Approvals were not obtained within the two year period. The Company has instituted legal proceedings after discussions between MCC and the Company to resolve the non-payment proved unsuccessful. A writ was lodged by the Company with the Supreme Court of Western Australia on 7 September 2010. Given the uncertainty surrounding the receipt of this final payment, the Company has not recognized the final payment owing as a receivable.

If the Company is successful in receiving the remaining $80,000,000 of sale proceeds from MCC pursuant to the MCC sale agreement, an obligation for the Company to pay an additional $7,600,000 in commission fees would be triggered.

2 During the year ended 30 June 2010, the Company disposed of 100% of its interest in Cape Lambert Lady Annie Exploration Pty Ltd, the holder of the Lady Annie Project, to China Sci-Tech Holdings Limited, a Hong Kong listed Company, for $135 million. The purchase consideration includes two deferred payments of $2.5 million each, which are payable once certain production and reserve related milestones are achieved. The Company has recognised the first deferred payment of $2.5 million as a receivable as at 31 December 2010 however given that it is not certain that the remaining production and reserve related milestones will be achieved, the Company has not recognized the final deferred payment as a receivable.

There are no other material contingent liabilities to be disclosed.

13. EVENTS SUBSEQUENT TO REPORTING DATE

The following significant events and transactions have taken place subsequent to 31 December 2010:

- On 10 January 2011, the Company completed the sale of wholly owned subsidiary DMC Mining Limited to African Iron Limited ("African Iron"). The Company received $47 million in cash and 120 million African Iron shares which equates to a 25% interest in African Iron. In addition, Cape Lambert will receive a production royalty of $1 per tonne of iron ore shipped. Cape Lambert expects to recognise a gain on disposal of DMC Mining Limited of approximately $27 million.
- On 4 February 2011, the Company entered into an in principle agreement to sell its 25% interest in the Lady Loretta project in Queensland to Noranda Pacific Pty Ltd, a wholly owned subsidiary of Xstrata plc ("Xstrata"), for a total consideration of $30 million payable in cash on completion. The remaining 75% interest in Lady Loretta is held by Xstrata. A formal sale agreement with Noranda Pacific Pty Ltd was signed in March 2011.
- On 18 February 2011, the Company advised that it had disposed of its entire stake in Speewah Metals Limited (formerly NiPlats Australia Limited) generating total cash proceeds of approximately $13.6 million of which $2.7 million was received subsequent to 31 December 2010.
- The Company continued the on market buy-back of up to 10% of the Company's fully paid ordinary shares (54,059,653 shares) within 12 months from 7 October 2010. Shares that have been bought back by the Company have been cancelled. On 21 February 2011, the Company completed the buy back. A total amount of $31,924,485 was paid to buy back 54,059,653 ordinary shares. Of this total, $25,771,596 was paid subsequent to 31 December 2010.
- The Company has acquired a further 12 million shares in Pinnacle Group Assets Limited ("Pinnacle") for $13 million, which has increased the Company's interest in Pinnacle to 46.11%.

14. RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF FINANCIAL POSITION

		31 December 2010 $
Cash and cash equivalents at end of period per consolidated statement of cash flows		31,592,004
Less: cash and cash equivalents classified as held for sale	11	(290,133)
Cash and cash equivalents per consolidated statement of financial position		31,301,871

CAPE LAMBERT RESOURCES LIMITED
ABN 71 095 047 920
AND ITS CONTROLLED ENTITIES

INTERIM FINANCIAL REPORT
For the Half-Year Ended 31 December 2010

DIRECTORS' DECLARATION

In the opinion of the directors:

(a) The financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

(ii) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements.

(b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Timothy Turner
Director

Dated this 10th day of March 2011

Independent auditor's review report to the members of Cape Lambert Resources Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Cape Lambert Resources Limited, which comprises the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Cape Lambert Resources Limited Group (the consolidated group). The consolidated entity comprises both Cape Lambert Resources Limited (the company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Cape Lambert Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

Independent auditor's review report to the members of Cape Lambert Resources Limited (continued)

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Cape Lambert Resources Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*

PricewaterhouseCoopers

PricewaterhouseCoopers

Nick Henry
Partner

Perth
10 March 2011