



14 October 2011

Dear Shareholder

Shareholder Update

Further to my letter of 25 May 2011, I am pleased to provide you with an update of the Company's recent activities.

1. Key Company Milestones and Timing

As set out in my previous letter the current key milestones for the Company are:

- To continue to develop its iron ore assets and interests both as an explorer and a future producer;
- To continue to progress with its "pathway to port" infrastructure program;
- To secure a strategic investor; and,
- To undertake an initial public offering (IPO) process and be admitted to the Australian Securities Exchange.

2. Iron Ore Interests

As reported in my previous letter, the initial hematite exploration program resulted in two JORC compliant indicated resources being identified totalling 18.6 million tonnes of detrital iron deposits

A further exploration program that commenced in June 2011 has been completed and we have recently received a report from our independent geologists which confirms a further JORC compliant indicated resource being approximately 23.4 million tonnes. This now gives us a total hematite detrital resource of approximately 42 million tonnes.

Importantly, the recent exploration program has identified significant widespread occurrences of potential detrital iron deposits that warrant further extensive exploration.

Completion of a bankable feasibility study (BFS) will follow the further drilling and is expected to be completed in Q1 2012.

3. Infrastructure Program

Pursuant to the Framework Agreement held by the Company with Esperance Ports Sea and Land, a multi-disciplinary engineering team managed by ProMet Engineers has been working on completion of the definitive feasibility study of the expansion of Esperance Port for a multi-user iron-ore export facility. The report is to be delivered next week, in accordance with the timing required under the Framework Agreement.

4. Strategic Investor

As previously advised, the Company has been conducting a strategic investor process as it believes it is important to attract and secure a strategic investor (or number of investors) to ensure the project is developed in a manner that maximises opportunities to create shareholder value. It is the Company's desire that the investor (or investors) being sought contributes funds, enter into offtake commitments or adds to infrastructure capability.

Whilst no acceptable non-binding bids were received by the end of July 2011 (as provided for in the Information Memorandum issued to investors) this process is continuing with several potential strategic investors actively engaged in discussions and negotiations with the Company. The Company has an expectation that these negotiations will come to a conclusion prior to the end of this calendar year.



5. IPO

The Company has been working with a national stock broking firm and has been engaged in a number of institutional and investor presentations as a prelude to committing to proceed with an IPO.

Notwithstanding the very turbulent state of global stock markets, the feedback on the Company has been positive. A final decision on the commitment to an IPO is expected to be made in November 2011, with the decision also taking into account the status at that time of discussions and negotiations with potential cornerstone investors.

As mentioned on page 1 of this letter, a key milestone of the Company is to effect an IPO and enable shareholders to have liquidity in the stock. There can of course be no assurance that this will occur, particularly in light of the very difficult prevailing market conditions.

6. Moving Forward and AGM

The board is very aware of the need for the Company to continue achieving its stated milestones and appreciates your continued support.

You will shortly be receiving a Notice of Annual General Meeting. It is proposed that this will be held in the last week of November. We will provide a further update at the AGM. If developments between now and the AGM warrant an additional interim report, we will provide that to you

In the meantime, you are welcome to contact either myself or David Hendrie, our Managing Director, at any time.

Yours faithfully,

Cashmere Iron Limited

Derek La Ferla
Chairman