



11 November 2011

LETTER TO SHAREHOLDERS FROM INDEPENDENT DIRECTORS

Dear Pyne Gould Corporation Shareholder,

AUSTRALASIAN EQUITY PARTNERS FUND No. 1 LP (AEP) TAKEOVER OFFER.

On 10 October 2011 Pyne Gould Corporation Ltd (PGC) received notice from AEP of its intention to make a full takeover offer for all of the ordinary shares in PGC. Subsequently on 3 November 2011 AEP made its offer by sending PGC shareholders an offer to purchase all the ordinary shares in PGC for **33 cents per share**. The offer is conditional, among other things, upon AEP receiving acceptances for shares representing at least 90% of the voting rights in PGC, although AEP has reserved the right to waive this condition, in which case the offer will be conditional on AEP receiving acceptances for shares representing more than 50% of the voting rights in PGC.

A committee of independent directors (Committee), Bryan Mogridge and Bruce Irvine, has been established to prepare a Target Company Statement, consider the merits of this offer and make a recommendation to shareholders.

The Committee appointed an independent advisor, Grant Samuel & Associates Ltd (Grant Samuel), to prepare an independent report on the value of PGC and the merits of the AEP offer. This report is included with this package which also includes the Target Company Statement.

Independent Advisor's Report:

The Grant Samuel report is a thorough analysis of PGC's current value and it is recommended that shareholders read this report in its entirety before making any decisions about their shareholdings in PGC.

Grant Samuel has assessed the value of PGC to be within a range of **49 cents to 57 cents per share**. The AEP offer is therefore at a 33% to 42% discount to the valuation range provided by Grant Samuel.

Grant Samuel go on to say: “The valuation represents the estimated full underlying value of PGC assuming 100% of the company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect PGC shares to trade on the NZSX in the absence of a takeover offer or proposal similar in nature to the AEP offer.”

Comments on the Grant Samuel Report:

The valuation range of 49 cents to 57 cents per share as assessed by Grant Samuel is well above the offer from AEP of 33 cents per share, and in section 5 of the report Grant Samuel evaluates the merits of the AEP offer. Section 5 of the report is essential reading for all shareholders in evaluating their decision as to their own shares.

Within section 5 Grant Samuel says: “In some takeovers there are factors that suggest that even if an offer price is below the underlying value of the company, shareholders should consider accepting the offer. For example, there may be reasons to accept an offer below the full underlying value of \$0.49 to \$0.57 per share, as the share price is unlikely to trade at these levels for some time.

However in this instance there does not appear to be any compelling reason for shareholders to accept.”

However, Grant Samuel does mention a number of salient points that shareholders may want to consider that could support accepting AEP’s offer. Those points are:

1. “In Grant Samuel’s opinion there is a very low likelihood of a party not associated with George Kerr making an alternative and higher offer than the AEP Offer”. Grant Samuel goes on to suggest 3 reasons why they believe this to be so.
2. “To achieve the 50.01% minimum AEP requires holders of 20% of the shares not associated with the lock up arrangements to accept the AEP Offer. This is a relatively low threshold. To achieve acceptances of 90% AEP needs holders of 84% of the shares not associated with the lock up arrangements to accept its Offer. This is a high threshold.” The implication of this observation is that the chance of AEP getting to 50.01% is reasonable to high.
3. “The PGC share price has traded around the AEP Offer price since the Offer was announced. In the absence of actual and potential takeover speculation, the PGC share price is likely to be lower than the current share price.”

Independent Directors’ Recommendations:

The Committee is of the view that it is inappropriate to make a straightforward “Sell or Don’t Sell” recommendation, as a shareholder's decision will depend considerably upon the individual

shareholder's appetite for long term growth versus the need for a dividend flow and liquidity, and for this reason the Independent Committee is not making a recommendation of that nature.

Given the makeup of PGC and the points above, it seems likely that AEP will get to 50.01% of PGC and, as AEP has said in its offer document, dividends are then unlikely to be paid in the foreseeable future and extra capital may be required by PGC. These comments may be designed to encourage some shareholders to sell, but taken on their face they represent a statement as to what AEP believes is the future for PGC.

Despite the 33 cent offer being 22% above the previous closing price for PGC shares before the intention to make a takeover offer was given by AEP, the 33 cents is some 33%-42% below the value range Grant Samuel has assessed.

As a consequence of all this information the independent directors recommend the following:

1. If you are a shareholder who has an appetite for long term growth and does not require a dividend or immediate liquidity, and believes that AEP will bring value adding strategies to PGC, then you SHOULD NOT SELL. The independent directors will NOT be selling their shares.
2. If you are a shareholder who does require a dividend or immediate liquidity, or does not have an appetite for long term growth, or does not believe that AEP will bring value adding strategies to PGC, then you should discuss this with your advisor and CONSIDER SELLING all or some of your shares to AEP.

Despite our recommendation, it is very important to state that it is for individual shareholders to form their own conclusions from reading the Target Company Statement and the Independent Advisor's report before acting upon the offer from AEP. Shareholders should consult their financial advisor about the merits of AEP's offer and in particular the context of their decision against the backdrop of the global financial unrest, emanating from Europe.

Yours Sincerely



Bryan Mogridge
Chairman- Committee of independent directors