



1:1 NON RENOUNCEABLE ENTITLEMENT ISSUE

Please find attached a copy of the entitlement offer letter and information document dispatched to shareholders today.

These documents relate the pro rata non-renounceable Entitlement Issue (Entitlement Issue) to raise approximately A\$3.45 million for pieNETWORKS Limited as announced on 13 November 2008.

Yours faithfully

A handwritten signature in black ink, appearing to read "Mark Pitts", written in a cursive style.

MARK PITTS
Company Secretary



24 November 2008

Dear Shareholder

Invitation to Participate in a Non-Renounceable Entitlement Issue

On behalf of the Directors, I am pleased to invite you to participate in a pro rata non-renounceable Entitlement Issue (Entitlement Issue) to raise approximately A\$3.45 million for pieNETWORKS Limited (PIE or the Company).

In the Board's opinion PIE is now progressed beyond the stage of concentrating on the development of a commercially viable product to the point where the requirement for capital is primarily for the ramp up of production and the deployment of units on a profitable scale.

PIE's first generation Webphone Trial in New Zealand derives income from two principle sources: from the public accessing the internet and from the public making phone calls.

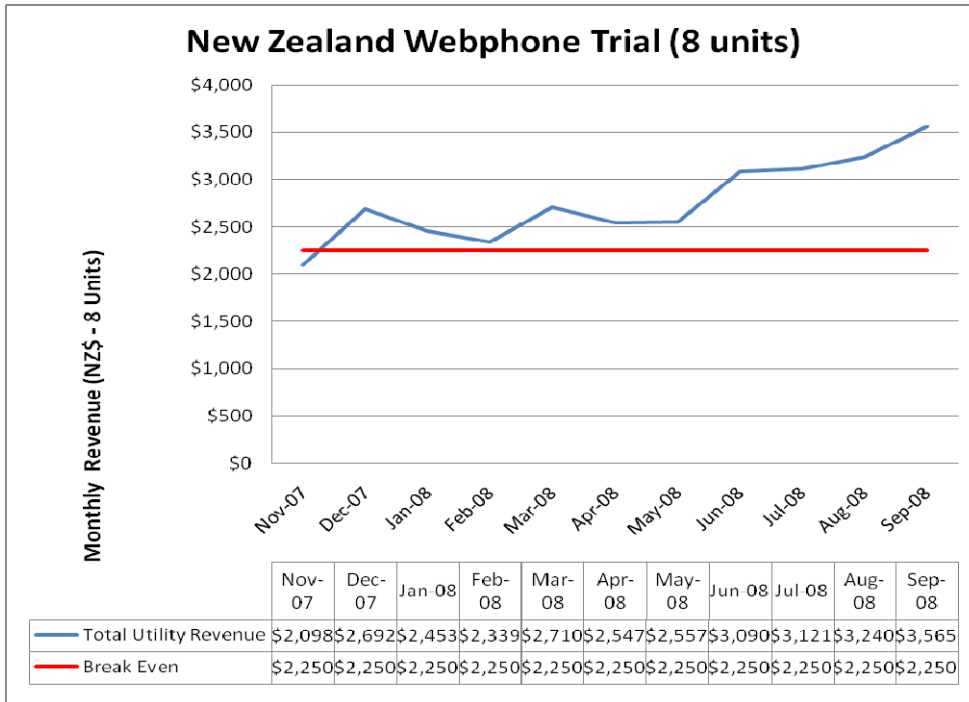
Over the 11 months to the end of September 2008 revenue from the first generation trial Webphones in New Zealand has increased by 70%.

This extrapolates to a capital payback period approaching 18 months and is achieved from only the trial Webphone's 'utility' revenues.

Additional sources of income such as mobile phone top ups and sponsored services will increase this revenue. With the increasing use of 3G networks for mobile phones, PIE's Webphones will also act as signal enhancers as mobile phone users demand, and phone carriers seek, better indoor reception.

Far from competing with personal devices like the mobile phone, in the view of the Board, the relevance of the Webphone is only enhanced by the inexorable growth of the internet and personal devices.

PIE has also engaged the advisory services of an international investment bank, Investec Bank (Australia) Limited, to assist the Company with its funding requirements by identifying strategic investors. Investec Bank (Australia) Limited is not an underwriter or otherwise involved in the Entitlement Issue.



PIE is also in advanced negotiations in its own right for the deployment of “industry related” customers. The first of these announcements for the deployment of 50 Webphones to a large New Zealand company was made on 10 November 2008.

I commend this offer to you. The issue price of 1c represents a discount of over 33% to the last trading price on 12 November 2008 and a significant discount to the 12 month high of 13c.

Yours faithfully

PETER GUNZBURG
Chairman



**pieNETWORKS LIMITED PRO RATA NON-RENOUNCEABLE ENTITLEMENT ISSUE
TO RAISE APPROXIMATELY \$3.45M**

Investment highlights

- ✓ Opportunity to acquire New Shares in PIE at 1 cent each, at a discount of over 33% to the last trading price on 12 November 2008.
- ✓ Opportunity to invest in your company as it gets ready to deploy its recently developed second generation Webphone, with the confidence derived from its first generation trial Webphones in New Zealand which showed a 70% increase in revenues over the 11 months to the end of September 2008
- ✓ Funding will enable the ongoing operations of the Company which includes the production of our second generation Webphone for deployment in the Company's own network as well as for the Company's corporate clients. The Company is in negotiations to deploy its own network in New Zealand based on the demonstrated success of the trial undertaken in New Zealand over the past 12 months.
- ✓ Part of the proceeds of the Issue will be utilised in repaying and retiring a short term debt facility between the Company and its Chairman, Mr Peter Gunzburg. As announced to ASX on 12 September 2008 the loan facility was established to provide working capital pending completion of a capital raising. The loan has been drawn to an amount of \$400,000.
- ✓ In addition to this 1 for 1 non-renounceable entitlement offer, the Company has engaged the services of an international investment bank, Investec Bank (Australia) Limited, to assist the Company with its funding requirements. Investec Bank (Australia) Limited is not an underwriter or otherwise involved in the Entitlement Issue
- ✓ Investec Bank (Australia) Limited is in discussions with a number of parties with a view to one or more of them investing in the Company and becoming a strategic partner to PIE. The Directors reserve the right to withdraw the offer in the event of a successful outcome from those activities

Shareholders who appear on the Company's share register as at 5.00pm WST on Friday, 14 November 2008 (Eligible Shareholders) will be entitled to participate in the Entitlement Issue. All Eligible Shareholders will be offered 1 new ordinary share in the Company (New Share) for every 1 Existing Share held by the Eligible Shareholder, at an issue price of A\$0.01 per New Share (Entitlement).

This represents a discount of approximately 33% to the volume weighted average price (VWAP) of Pie's shares for the ten trading days before the announcement (10 day VWAP is 1.50 cents).

pieNETWORKS Limited A.C.N. 078 661 444 A.B.N. 27 078 661 444 ASX Code PIE

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www.pienetworks.com



Your Entitlement to buy New Shares is valuable and the Directors urge you to carefully read this letter, the attached document entitled "The Entitlement Issue and How to Participate" and the Entitlement and Acceptance Form, in conjunction with all publicly available information relating to the Company, before deciding how to deal with your Entitlement.

If there is a shortfall in acceptances under the Entitlement Issue, subject to the terms of any underwriting agreement, the Company reserves the right to place the shortfall at its discretion.

Shareholders should be aware that investment in the Company involves many risks which may be higher than the risks associated with investment in other companies. There are several risks associated with the Company's business, many of which are beyond the control of the Company and its directors and which could delay or adversely affect the Company's activities. Investors should consider the investment in the Company to be speculative and should consult their professional advisers before deciding whether to apply for New Shares.

For further information about the Entitlement Issue, please refer to the announcement made by the Company on 13 November 2008, which can be viewed at www.asx.com.au or at www.pienetworks.com.au.

This invitation to participate in the Entitlement Issue is important and requires your immediate attention. The closing date for acceptances and payment is 5.00pm WST on Tuesday, 9 December 2008.

If you are in doubt as to the course you should follow, you should consult your stockbroker, accountant, solicitor or other professional advisor. Any questions relating to the Existing Shares upon which your Entitlement has been calculated and the processing of your application under the Entitlement Issue can be directed to Mark Pitts at pieNetworks Limited on +61 8 9444 9088.

Eligible Directors intend to take up all or part of their Entitlements depending on their particular circumstances. The Directors consider the Entitlement Issue to be an important step in ongoing development of the Company and commend it to Shareholders.

For further information on your entitlement please contact your stockbroker or PIE's share registrar:

Computershare Investor Services Pty Limited:

Telephone: 1300 726 403 (within Australia) and +61 3 9415 4668 (outside Australia)
Facsimile: (08) 9323 2033 (within Australia) or +61 8 9323 2033 (outside Australia)



THE ENTITLEMENT ISSUE AND HOW TO PARTICIPATE

Who to call if you have questions

If you have any questions about the Entitlement Issue, please call Company's share registry, Computershare Investor Services Pty Ltd, on 1300 726 403 (within Australia) or +61 3 9415 4668 (outside Australia) or Company Secretary Mark Pitts on +61 8 9444 9088.

The Entitlement Issue and Use of Funds

The non renounceable pro rata Entitlement Issue offers up to 345,411,692 New Shares at a an issue price of 1 cent each on the basis of 1 New Share for every 1 Share held at the Record Date, to raise up to \$3,454,117. The pricing has been set at 1 cent to provide an incentive for all Shareholders to participate in the capital raising.

The Entitlement Issue is partially underwritten to a minimum amount of \$1,055,000. In addition, the Directors have reserved the right to place the balance of any non underwritten shortfall to ensure the Company has the maximum amount of cash available when it is considering its operations in early 2009.

Over the last 12 months the main objective of the Company's Directors has been to commercialise the Company's second generation 'Hotspot Webphone', associated products and public internet access services which have been under development.

The Offer is being undertaken to raise the necessary capital to fund the production and deployment of the second generation Webphone for corporate clients and to provide for the construction of the Company's own network. In addition, funds raised will be applied to repay and retire a short term debt facility of \$400,000 owing to Mr Peter Gunzburg, the Company's Chairman and major shareholder.

1 Details of the Entitlement Issue

The company is offering for issue approximately 345,411,692 fully paid New Shares at an issue price of \$0.01 for each New Share. The issue price is payable by applicants in full on applying to take up New Shares. From the date of issue, the New Shares will rank equally in all respects with Existing Shares.

The number of New Shares to which you are entitled is shown on the accompanying Entitlement and Acceptance Form.

Fractional entitlements to New Shares are rounded down to the nearest whole number of New Shares. For this purpose, shareholdings in the same name are aggregated for calculation of entitlements.

Where the Company considers that shareholdings have been split in order to take advantage of this rounding, the Company reserves the right to aggregate shareholdings held by associated Shareholders for the purpose of calculating entitlements.

Your Entitlement is personal and cannot be traded, transferred assigned or otherwise dealt with.

2 Underwriting of the Entitlement Issue

The Company has reached agreement for the underwriting of part of the Entitlement Issue with a number of its major shareholders to a minimum amount of \$1,055,000 (105,500,000 New Shares), including an amount of \$500,000 (50,000,000 New Shares) agreed to be underwritten by the Company's Chairman, Mr Peter Gunzburg.

Each underwriter has agreed to underwrite all or part of their entitlement as Shareholders and some underwriters have agreed to an additional underwriting commitment in relation to any shortfall. The Company has agreed to pay a 5% underwriting fee which is to be calculated as a percentage of the final underwritten amount and paid within seven days of the issue of shares under the Entitlement Issue.

3 Shortfall under the Entitlement Issue

If there is a shortfall in acceptances under the Entitlement Issue, the Company reserves the absolute discretion to place it, subject to the terms of the underwriting agreements.

4 Key Dates

The Company will accept applications until 5.00pm WST on Tuesday, 9 December 2008 or any other date the Directors in their absolute discretion determine, subject to the requirements of the Corporations Act, the ASX Listing Rules and other applicable law.

An indicative timetable for the Entitlement Issue is as follows:

Event	Date
Announcement of Entitlement Issue and lodgement of Appendix 3B	13 November 2008
Record date for determining Entitlements to New Shares	21 November 2008
Invitation to participate and Entitlement and Acceptance Form despatched to Shareholders and despatch announced to ASX	25 November 2008
Closing time and date for acceptances and payment in full for new Shares (5.00pm WST)	9 December 2008
Issue of New Shares and despatch of Holding statement to Shareholders	12 December 2008
Trading of New Shares on normal settlement basis on ASX	12 December 2008

The Dates set out are subject to change. The Company reserves the right, subject to the Corporations Act, the ASX Listing Rules and other applicable law, to amend this timetable without notifying you.

5 What you may do – choices available

You may take any of the following actions:

- take up all of your Entitlement;
- take up part of your Entitlement; or
- do nothing.

5.1 If you wish to take up all or part of your Entitlement

If you are an Eligible Shareholder and you wish to take up all or part of your Entitlement, complete the accompanying personalised Entitlement and Acceptance Form in accordance with the instructions set out on that form. If you have not received a personalised Entitlement and Acceptance Form, please contact Computershare Investor Services Pty Limited on 1300 726 403 (within Australia) or +61 3 9415 4668 (outside Australia).

You should then forward the completed Entitlement and Acceptance Form, together with your cheque or bank draft for the issue price, to reach one of the following addresses:

In person: Computershare Investor Services Pty Ltd Level 2, 45 St Georges Terrace, Perth WA 6000	By post: Computershare Investor Services Pty Ltd GPO Box D182 Perth WA 6840
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By no later than 5.00pm WST on Tuesday, 9 December 2008

A reply paid envelope is enclosed for your convenience. If mailed in Australia, no postage stamp is required.

5.2 Entitlement not taken up – if you do nothing

If you:

- decide not to take up all or part of your New Shares before 5.00pm WST on Tuesday 9 December 2008; or
- do nothing,

then you will not receive any New Shares under the Entitlement Issue and your Entitlement will lapse as of 5.00pm WST on Tuesday, 9 December 2008.

If you do nothing, although you will continue to own the same number of Existing Shares, your shareholding in the Company will be diluted as a result of the Entitlement Issue.

6 Payment

The issue price for the New Shares is payable in full on application by a payment of \$0.01 per New Share. Entitlement and Acceptance Forms must be accompanied by a cheque or bank draft for the application monies. Cheques or bank drafts must be in Australian currency, made payable to "pieNetworks Share Issue Account" and crossed "Not Negotiable". Applicants must *not* forward cash. Receipts for application monies will not be issued.

Alternatively, payment can be made by BPay in accordance with the instructions on the Entitlement and Acceptance Form.

Please note that the BPay facility closes at **4.00pm WST on Tuesday, 9 December 2008.**

Until the New Shares are issued, the Company will hold the application monies in a bank account.

The account will be kept solely for the purpose of depositing application monies and retaining those funds for as long as required under the Corporations Act.

No interest will be paid to you on any application monies returned to you, whether or not New Shares are issued. Any interest earned on application monies will be, and will remain, the property of the Company.

If quotation of the New Shares is not granted by ASX, the New Shares will not be issued and application monies will be refunded to applicants without interest.

Applicants for Additional Shares will be bound to accept a lesser number of Additional Shares issued to them than applied for, in which case applications will be bound to accept a refund of money in respect of the number of Additional Shares applied for but not issued to them. No interest will be paid on any money refunded to applicants in these circumstances.

7 Treatment of Shareholders resident outside Australian and New Zealand

7.1 General

This letter and the accompanying Entitlement and Acceptance Form do not constitute an offer in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer.

Eligible Shareholders resident outside Australia and New Zealand should consult their professional advisers as to whether, in order to enable them to accept their entitlement, any governmental or other consents are required or other formalities need to be observed.

Eligible Shareholders holding Existing Shares on behalf of persons who are resident overseas are responsible for ensuring that taking up an Entitlement under the Entitlement Issue does not breach regulations in the relevant overseas jurisdiction.

Return of a duly completed Entitlement and Acceptance Form will be taken by the Company to constitute a representation that there has been no breach of such regulations. Shareholders who are nominees are therefore advised to seek independent advice as to how they should proceed.

7.2 Non-Qualifying Foreign Shareholders

The Company is of the view that it is unreasonable to extend the Entitlement Issue to Shareholders who are resident outside Australia and New Zealand (Non-Qualifying Foreign Shareholders), having regard to:

- the number of Non-Qualifying Foreign Shareholders;
- the number and value of the New Shares which would be offered to Non-Qualifying Foreign Shareholders; and
- the cost of complying with the legal requirements and requirements of the regulatory authorities, in the respective overseas jurisdictions.

Accordingly, the Entitlement Issue is not being extended to any Shareholder whose registered address is outside Australia or New Zealand.

The New Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state of the United States, and may not be offered or sold in the United States or to, or for the account or benefit of a US Person (as defined in Regulation S of the US Securities Act), except in a transaction exempt from the registration requirements of the US Securities Act and applicable United States state securities laws.

8 **ASX quotation**

All contracts formed on acceptable of Entitlement and Acceptance Forms will be conditional on ASX agreeing to quote the New Shares on ASX. Trading of the New Shares on ASX is expected to commence on a normal settlement basis on or about Friday 12th December 2008.

9 **Governing law**

This letter and the contracts formed on acceptance of Entitlement and Application Forms are governed by the law applicable in Western Australia, and each applicant submits to the non-exclusive jurisdiction of the courts of Western Australia.

10 **Privacy**

As an existing Shareholder, the Company and the Company's share registry, Computershare Investor Services Pty Limited (**Registry**) have already collected certain personal information from you. If you apply for New Shares, the Company and the Registry may update that personal information or collect additional personal information. Such information will be used to assess your application for New Shares, service your needs as a Shareholder, provide facilities and services that you request and carry out appropriate administration.

The Company and the Registry may disclose your personal information for purposes related to your application and shareholding to their agents and service providers, including to printers and mailing houses for the purposes of preparation and distribution of shareholder information and for handling of mail, or as otherwise authorised under the *Privacy Act 1988* (Cth). Under the Privacy Act, you may request access to your personal information held by (or on behalf of) the Company by contacting the Registry on 1300 726 403 (within Australia) or +61 3 9415 4668 (outside Australia) or the Company. If the Registry's record of your personal information is incorrect or out of date, then it is important that you contact the Registry or the Company so that your records can be corrected.

11. **Risk factors**

Potential investors in the Company should be aware that subscribing for Shares involves a number of risks. The risk factors outlined in this Section should be carefully considered by investors when evaluating an investment in the Company. In addition, investors should appreciate that the value of Shares and Options on the ASX may rise or fall depending on a range of factors beyond the control of the Company.

Any of the factors set out in this Section may materially affect the financial performance of the Company and the market price of the Shares. To that extent the Shares carry no guarantee with respect to the payment of dividends, return on capital or the price at which those Shares will trade on the ASX.

The Directors consider that an investment in the Company should be considered speculative due to:

- (a) the recent volatility in publicly listed entities on world stock markets generally, and of technology companies in particular; and
- (b) the speculative nature of the Company's activities.

While the Company plans to take prudent measures to safeguard from, or mitigate its exposure to these risks, many of the risks are outside of the Company's control.

There are a number of risk factors that investors should consider before deciding whether or not to invest in the New Shares. The principal risk factors include, but are not limited to, the following:

Risks Specific to the Company

- (a) *General Operating Risks*
The operations of the Company may be affected by various factors, including operational and technical difficulties encountered in technology; difficulties in manufacturing components and operating plant and equipment; mechanical failure or plant breakdown; industrial disputes; and unexpected shortages or increases in the costs of labour, consumables, spare parts, plant and equipment.
- (b) *Exchange Rate Risks*
If the Company achieves success leading to international operations, the revenue it will derive through the sale of products and services exposes the potential income of the Company to exchange rate risks. Exchange rates fluctuate and are affected by many factors beyond the control of the Company.
- (c) *Technical and Managerial Personnel*
The Company's success depends to a significant extent, on retaining its key management personnel. The loss of services of certain such personnel could have a material adverse effect on the Company's future. Similarly, the ability of the Company to attract and retain technical personnel could have a material effect on the Company's future. As the Company's business activity grows, it will require additional staff. Although the Company believes that it will be successful in attracting and retaining qualified personnel, there can be no assurance of such success.
- (d) *Financial Risk*
The Company's capital requirements will depend on numerous factors. Depending on the Company's ability to generate income from its operations and other acquisition opportunities, the Company will most likely require further financing in addition to amounts raised under this capital raising. If the Company is unable to obtain additional funding as needed, it may be required to reduce the scope of its operations or scale back its marketing programmes, as the case may be.

Specific industry risks

- (e) *Technology Development Risks*
Companies involved in the development of technology are generally considered high-risk enterprises, only occasionally providing high rewards. In addition to the normal competition, factors such as demand for products and services, stock market fluctuations affecting access to new capital, environmental issues, labour disruption, project financing difficulties, foreign currency fluctuations and

technical problems all affect the ability of a company to profit from any technological development.

There is no assurance that any tangible or intangible assets owned or developed by the Company, or any other projects that may be acquired in the future, can be profitably exploited.

(f) *Operational Risks*

The operations of the Company may be disrupted by a variety of risks and hazards which are beyond the control of the Company, including environmental hazards, industrial accidents, technical failures, labour disputes, fire, explosions and other incidents beyond the control of the Company.

These risks and hazards could also result in damage to, or destruction of, production facilities, personal injury, environmental damage, business interruption, monetary losses and possible legal liability. While the Company currently intends to maintain insurance within ranges of coverage consistent with industry practice, no assurance can be given that the Company will be able to obtain such insurance coverage at reasonable rates (or at all), or that any coverage it obtains will be adequate and available to cover any such claims.

(g) *Competition*

The Company's current core business is competitive and is subject to the introduction of new or improved products and services into the market on a regular basis. Whilst the Directors have no reason to believe that any of the products and services supplied by the Company will become obsolete in the short term, investors should be aware of the pace at which technological change in the telecommunications industry can be made and implemented. If there are new or improved products or services that are superior, or perceived by the market to be superior to those of the Company, then this may impact adversely on the Company's ability to compete in the market.

(h) *Joint Venture Risk*

Where a joint venture partner does not act in the best commercial interest of a joint venture, it could have a material adverse effect on the interests of the Company.

Furthermore, the Directors are unable to predict the risk of:

- financial failure, non compliance with obligations or default by a participant in any joint venture to which the Company is, or may become, a party; or
- insolvency or other managerial failure by any of the contractors used by the Company in its activities; or
- insolvency or other managerial failure by any of the other service providers used by the Company for any activity.

(i) *Policies and Legislation*

Any material adverse changes in government policies or legislation of Australia, or anywhere else the Company may operate, may affect the viability and profitability of the Company.

General Risks

(j) *Securities Investment*

Applicants should be aware that there are risks associated with any securities investment. The prices at which the Company's Shares trade may be above or below the Offer price, and may fluctuate in response to a number of factors.

Further, the stock market has experienced price and volume fluctuations. There can be no guarantee that these trading prices and volumes will be sustained. These factors may materially affect the market price of the Shares, regardless of the Company's operational performance.

(k) *Share Market Conditions*

The market price of the Shares may fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company.

Share market conditions are affected by many factors such as:

- general economic outlook;
- interest rates and inflation rates;
- currency fluctuations;
- changes in investor sentiment towards particular market sectors;
- the demand for, and supply of, capital; and
- terrorism or other hostilities.

(l) *Economic Risk*

Changes in the general economic climate in which the Company operates may adversely affect the financial performance of the Company and have an adverse effect on the Company's activities, as well as on its ability to fund those activities. Factors that may contribute to that general economic climate include the level of direct and indirect competition against the Company, industrial disruption, the rate of growth of Australia's gross domestic product, interest rates and the rate of inflation.

(m) *Future Capital Needs and Additional Funding*

The future capital requirements of the Company will depend on many factors including its business development activities. The Company believes its available cash and the net proceeds of this Offer should be adequate to fund its business development activities and other Company objectives in the short term.

Should the Company require additional funding there can be no assurance that additional financing will be available on acceptable terms, or at all. Any inability to obtain additional finance, if required, would have a material adverse effect on the Company's business and its financial condition and performance.

- (n) *Policies and Legislation*
Any material adverse changes in Federal or State government policies or legislation of Australia or any other country that the Company has economic interests may affect the viability and profitability of the Company.

- (o) *Tax Reform*
The Australian Government has indicated that it may introduce further tax reform. The introduction and scope of this further tax reform is uncertain. Until the precise nature of this reform is determined, the Company is not able to give any assurance as to the impact on its operating and financial performance.