

FRESHTEL BUSINESS UPDATE

Melbourne, Australia, Monday, 10th May 2010:

Sale of Freshtel UK Limited

Freshtel Holdings Limited ("Freshtel") is pleased to announce that it has sold its UK operations for the sum of \$150,000. The directors view this as a positive move for the Company as its UK business has been operating at a significant loss, and would otherwise have been closed down. The disposal of the UK assets, along with its UK tax losses, will reduce the Company's ongoing operating expenses, in line with projections already outlined. The amount raised will be applied as working capital in the business going forward.

The UK operations, as no other offers were received, has been sold to a related party, and the board will seek formal shareholder approval at the next EGM/AGM, however as time was of the essence to preserve tax losses and achieve value, pre-approval was sought and approved from Tesco, UBS and Custodial Capital. Maximum value has been obtained for these assets.

The Australian operations still retains value in the vast majority of tax losses, some \$23.2m of operating losses available to it, as of June 2009.

The directors do not expect the disposal to have a significant impact on the application of funds to be raised under the renounceable rights offer announced to the market on 22 April 2010, as outlined in the rights issue offer document lodged with ASX on 22 April 2010.

This notice is given by Freshtel Holdings Limited under section 708AA(12) of the Corporations Act as modified by Australian Securities and Investments Commission Class Order 08/35 (CO 08/35).

Resolution of dispute

Freshtel announces that the dispute, between Freshtel Holdings Limited and Newport Capital Group Pty Limited, as identified in the recent business update and rights issue announcement, has been resolved on confidential terms. There is no material impact to Freshtel.

Summary

The Directors now feel that with all significant remaining issues resolved, the company can now focus on further refining operational efficiency, reducing cash burn, and potential acquisitions in light of further industry consolidation. Recapitalising the business via the current rights issue is a good first step to position the company ongoing, and to maximize any retained value in its current balance sheet.

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