



MGM WIRELESS LTD

ABN 93 091 351 530

Chairman's Address to Shareholders

November 27 2009

The 2009 financial year has been a year of consolidation for MGM.

Consolidation in relation to rapidly reviewing every aspect of our business in light of the Global Financial Crisis and consequential challenging economic conditions to ensure the company survived and transitioned to successfully operating in a very different environment to the one that existed only 18 months ago.

At the time of our 2008 Annual General Meeting business confidence had been overshadowed, if not overwhelmed, by the effects of the emerging financial crisis and a very uncertain outlook.

At that time, MGM was, relatively speaking, heavily committed to investing in the second year of expansion of our business in the US, which began to experience significant challenges due to the GFC. Our two targeted geographic markets – Arizona and California – in particular began experiencing unprecedented school funding shortfalls and Government funding cutbacks. Previously inconceivable strategies like the retrenchment of teachers were being reported.

In response, the Board implemented an immediate short term strategy to ensure the company would survive throughout this period, including the immediate steps to reduce our cost base to a level that matched our forward contracted annual income from both software license fees and communication transactions. The Board was keen to simultaneously avoid any significant impediment on the company's capability to continue to grow and acquire new customers.

Because operations at that time were being developed and not profitable, funding came from existing shareholder funds, and because in the current circumstances new capital raisings were an poor option, it was essential that we rapidly reduce our expenses accordingly.

Operations and business processes were streamlined. We made significant progress to close the gap between loss and breakeven, and we worked hard to achieve a breakeven result as quickly as possible.

As the 2009 financial year unfolded it became evident that the decision to temporarily withdraw from the US market was right, as virtually all opportunities in the US evaporated. However, and pleasingly, minimal negative effect from the GFC was being felt by schools in Australia.

However, as the Australian Federal Government announced various new funding programs for IT, Computers and Building programs in schools, many previously non-education IT vendors

began targeting the school sector as a source of revenue given their traditional markets were under pressure.

This resulted in school buyer confusion, delayed purchasing decisions and pressure on margins.

In response to these additional challenges, the company applied its energies to differentiate itself in the market through what it does well – new innovation initiatives to develop new products and business models.

Through these efforts, I am pleased to inform shareholders that the company has successfully built and introduced a new product and future platform for a new market – namely Primary schools – whose communication requirements are quite different from MGM's traditional market of secondary schools.

Outreach™ – a totally web based SaaS, or Software as a Service product – was released in November 2008. Designed specifically to cater for the unique needs of Primary schools, today we have 71 school clients, which has resulted in a new, growing and valuable revenue stream for MGM to service the 6,500 Primary schools in Australia. Pricing for Outreach™ – on a per student basis – is lower than our secondary school attendance communication solutions, but given that the cost of implementation and support is also low, margins are pleasing. The challenge is to sell into this market a sufficient volume of new schools. We are encouraged with the level of the first year's sales and market acceptance, and we believe we can further value add this product and platform to

generate more sales at better margins and at a faster rate in the future.

Secondly, we looked outside the square to devise a totally new way of providing our services to schools that would like to install our solutions - but for lack of funding could not afford our services. Last month we announced the near completion of new and highly innovative technology called msgPool™. This technology allows schools to operate our existing communication technology and services at no ongoing cost to the school – thereby removing the main barrier of costs which can prevent many schools from adopting our services. msgPool allows MGM communication solutions to be funded by Parents incurring a small micro fee on their mobile phone, either when they use the service or as a flat monthly fee. Parents pay the micro fee to their current mobile phone service provider, of which MGM receives a portion.

To lend experience and expertise to build and successfully commercialise msgPool, the Board invited Mr. Shaun Collopy to join the company as Director. Shaun was the founder and major shareholder of Mobile Messenger, whose business is the provision of content technology and mobile billing platforms to support such services. Shaun is a recognised world expert and authority in this area.

msgPool potentially offers several important and significant benefits to the company, namely:

1. It should enable faster take-up by a greater number of schools as the model removes traditional barriers of operational expense which prevents many schools taking up the technology.
2. Modelling suggests that average revenue per user (student) or ARPU will not be negatively affected – in fact we expect the opposite to occur – but this will need to be validated through live installations.
3. MGM will have a unique offering and clear differentiator in the market in which a growing number of new players are entering.
4. This unique product will be able to be legally protected through the patent process – potentially offering MGM a sustained competitive advantage.
5. msgPool potentially offers very exciting opportunities in the USA market where – because of cultural differences – the issue of a user pays mobile phone service is non-existent as all consumers already pay to *receive* an SMS message or phone call.
6. It's likely that MGM will develop a suitable on-line sales delivery model for this service which will further leverage our resources and capability to grow and scale.

Throughout the conceptualisation and development period, MGM worked closely with leading Australian Patent Solicitors and Attorneys to legally protect this invention. World patent applications

were filed in July 2009, and the Board has implemented an ongoing IP protection strategy for msgPool. We hope that this patent will become a valuable company asset.

MGM plans on launching our first msgPool school implementations in Q3 2009-10, and we look forward to reporting to shareholders results and progress.

I would like to take this opportunity to review, explain and highlight to shareholders and investors some of the strengths of MGM's business model. MGM sells subscriptions to schools for its products and services by way of charging for Annual Software License fees. In addition to this, MGM earns a margin on SMS communication. Typically, agreements are of a 3 year term, and the majority of contracts roll-over and are extended well beyond this initial 3 year period. At any point on time, the company can confidently forecast future revenues from these contracts. Currently this figure is between \$ 4- 6 million spread over a 3-4 year period. This amount or asset does not appear in the company's accounts.

Schools are generally not affected by economic conditions. A primary reason for the Board taking the much more difficult path of operating the company on lower working capital and cash levels than what would normally be desirable is because of the knowledge and confidence it has of receiving this future income.

The company, with a good degree of confidence, can forecast future income flows, and has the capacity to balance and adjust operating costs accordingly. This is a very powerful feature of our

business model – enabling the company to operate on low cash balances. In challenging times, the Board’s and management’s task is to balance this carefully in order to maintain sales growth, R&D and innovation.

Your Board has resisted, unlike many other listed public companies large and small, to undertake significant capital raising in today’s environment of low share prices. The Board has worked hard to manage its cash flows throughout this challenging period and, with the benefit of forward contracts and confidence of its ability to achieve free cash flow, prefers to protect the interests of all existing shareholders by avoiding any significant dilutionary effect to their holdings.

To further support this strategy and avoid dilution, the two company founders and Executive Directors have also made loans totalling \$ 300,000 to the company to assist the company during this period.

Whilst this strategy not to undertake a discounted placement has been appreciated by most shareholders and investors, it has regrettably caused the company to come under negative scrutiny by the media. Despite this, the Board remains of the opinion that the current strategy is appropriate at this point in time and will lead to maximising existing shareholder value in the longer term.

A further challenge the company has been experiencing throughout 2009 is the reclassification of its revenues through the adoption of an accounting standard affecting the recognition of company revenue. By way of example, prior to the current situation, if the

company were to sell a system for say an ongoing license fee of \$ 6,000 pa for a term of 3 years, then the company's accounts would reflect \$ 6000 in revenue at the time of the sale.

Under the current accounting standard, the company, at the time of the sale books revenue of \$ 500 (or one twelfth), and records a current liability of \$ 5,500 as unearned revenue. Over the following eleven months a further \$500 is booked each month and the liability correspondingly reduced. As company sales grow its balance sheet is continuously further weakened due to an ever growing larger current liability. As of June 30th, 2009, the company's balance sheet had a liability of \$367,000 reflecting this ridiculous situation, which clearly is a contributing factor to the company having a current negative net asset position of \$148,000.

The Board is committed to resolving this absurd situation, the shackles it has placed in the company, and we will be reporting to shareholders progress in this area.

The Future

Despite the many challenges of 2009, the company's prospects are sound.

The use of mobile communication solutions is becoming a standard requirement for all schools. MGM continues to grow and remain the market leader. For the 12 months to October 2009, MGM delivered 4.2 million SMS, an increase of 1 mill SMS or 31% for the corresponding period 12 months ago. As of September 2009, we

substantially grew our customer base. MGM remains recognised as the best provider or ‘best of breed’ supplier as it is normally termed.

New market players and competitors are appearing – and disappearing – monthly - with the resulting confusion and disruption to the school market-place, and downward pressures on margins are being experienced. This is to be expected from any growing and maturing market – which is both a negative and a positive. Our challenge shifts from one whereby schools need convincing to adopt this technology to a strategy whereby we need to be the supplier of choice – and not just for elite, well funded and well run schools – but for all schools.

MGM has taken solid steps to not only maintain its leadership position, but through innovation, to strive towards extending leadership and very importantly improve margins to deliver free cash flows, profits and investor returns – a priority for 2010.

When US market conditions improve – and assuming we achieve a positive market response to msgPool – we plan on resuming our US activities and we expect msgPool to play a key part in that.

In Australia – we are placing a dual focus on school number growth and margins. Wherever possible, we will seek to replace low margin business with improved margins – all in order to achieve profitable, free cash flow, address our cash and funding position, and improve shareholder value.

The Board is committed to building a solid, stable and profitable business and revenue stream that continues to financially improve with economies of scale. Our 2009 results reflect a solid progress in this regard – but the task is far from complete. We anticipate performance to further improve.

In closing, I take this opportunity to again thank all of our shareholders for their continuing loyalty and support.

I would also like to take this opportunity to welcome Shaun Collopy to the Board, and thank my fellow existing Directors, John Dawkins and Mark Hurd, for their contributions and efforts, as well as the considerable and tireless efforts of the company's management team.

We look forward to reporting our progress and results to shareholders.

Thank you ladies and gentlemen, for your attention.

I will now take questions from the floor.