AZURN
No More Clouds

Mr James Gerraty
Manager, Issuers (Melbourne)
Australian Securities Exchange
Level 45, Rialto South Tower
525 Collins Street
Melbourne VIC 3000

17 August 2009

Dear James

We refer to your telephone conversation on 10 June with Robert Sultan and Neil McCann of Deacons regarding the application by Azurn International Limited (**Azurn** or the **Company**) for listing on the official list of the Australian Securities Exchange (**ASX**) and subsequent comments from the ASX listing committee (**Listing Committee**) meeting of 10 June. We understand that the Listing Committee asked for information and clarification regarding Azurn's working capital position, revenue and its going concern assumption, in addition to the information contained in the prospectus lodged with the Australian Securities & Investments Commission (**ASIC**) on 3 March (**Prospectus**), supplementary prospectus lodged with ASIC on 16 April (**Supplementary Prospectus**) and second supplementary prospectus lodged with ASIC on 22 May (**Second Supplementary Prospectus**).

We will address each of the Listing Committee's issues in turn.

1. Working Capital

We understand that the Listing Committee noted that the adequacy of working capital statement in section 1.4 of the Prospectus is a negative assurance. We understand that the Listing Committee require the directors of Azurn to make a positive statement regarding Azurn's working capital position.

Also, we understand that the Listing Committee requested that the previously confidential working capital / cash flow forecast for the 2009/10 financial year that was provided to ASX on 24 March (**Cash Flow Forecast**), be publicised by way of pre-quotation disclosure. Azurn is prepared to do so but has provided a revised forecast which is explained more fully in the attached Schedules. The publication of the Cash Flow Forecast would need to be subject to similar qualifications as contained in the "Forecasts" section of the Important Information in the Prospectus.

The directors formally advise the Listing Committee that they believe that Azurn will have adequate working capital to support the stated objectives at completion of the offer in the Prospectus. The directors are prepared to include a positive adequacy of working capital statement in the pre-quotation disclosure referred to above, stating "The Company believes that there will be adequate working capital to support the stated objectives at completion of the Offer".

2. Revenue

Azurn advises that consolidated revenue for Azurn and its subsidiaries for the 10 months from 1 July 2008 to 30 April 2009 is A$5,550,492. As stated in Section 5.4 of the Prospectus, consolidated revenue for the 2006/07 financial year was A$165,859 and for the 2007/08 financial year was A$3,506,889, showing revenue increasing substantially in each financial year.

Azurn's budgeted revenue for the period 1 May to 30 June 2009 and July 2009 to June 2010 is attached as Schedule 1.

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Azurn's publishing revenues come from direct sales and long term relationships with global publishing houses. New revenues from Azurn's collaboration and education businesses come from:

- contracts and agreements with multinational reseller / partners like Intel Corporation (**Intel**) and Hughes Communications India Limited (**Hughes**);
- exclusive distributors such as Langhaven Limited UK (**Langhaven**); and
- direct sales of the Azurn products such as the Merlin and K2K.

It is prudent for Azurn to be as conservative as possible as ASX has specifically requested revenue projections be made public. Details of the specific revenue attributed for each line of business are shown in Schedule 1. ASX can release these quarterly forecasts for FY 2009/2010 to the market as pre-quotation disclosure subject to similar qualifications as contained in the "Forecasts" section of the Important Information in the Prospectus. The budgeted numbers submitted with this document, which can be made public are consequently reduced, for reasons of conservatism, as compared to the earlier submission to ASX on 24 March.

3. Going Concern (section 5.4(1)(13) of the Prospectus)

We understand that the Listing Committee have requested that Azurn expand on the 3 bullet points outlined on page 33 of the Prospectus of why, despite the going concern issue raised in the Investigating Accountant's Report (page 41 of the Prospectus / page 13 of the Second Supplementary Prospectus), the Azurn directors believe that Azurn is a going concern.

The directors advise the Listing Committee that the matter of Azurn being a going concern was addressed comprehensively in submissions to, and a meeting with, ASIC. It was addressed by sections 2.4(c) and 2.4(d) of the Second Supplementary Prospectus as considered by ASIC.

In summary, Azurn's working capital requirements are met from:

- Pre-IPO funds: $900,000;
- IPO funds: $1 million;
- Unsecured credit facilities: $3 million ($1.6 million available); and
- Business revenue.

Details of the above are in the Prospectus, Supplementary Prospectus and Second Supplementary Prospectus. Azurn submits that this supports the directors' belief under the first bullet point on page 33 of the Prospectus.

The directors advise that the directors' belief under the second bullet point on page 33 of the Prospectus is supported by item 2 above, by showing that the consolidated revenue of Azurn has increased significantly from its historical position (see item 2 above and section 5.4 of the Prospectus), once the revenue of Value Chain International Limited (**VCIL**) is included. Further with reference to the material contracts discussed in Section 9 of the Prospectus, as these contracts are global in nature, revenue is derived from Azurn's product being sold contemporaneously in multiple countries, accelerating the revenue growth. Each of these contracts will provide Azurn with substantial revenue during the course of 2009/2010. In addition to the contracts referred to in Section 9.2, revenue from existing clients is also growing, as indicated by item 2 above.

Schedule 1 and 2 also provide ASX with an overview of the business plan and revenue model to substantiate the directors' reasons why the Company is a going concern with specific reference to consolidated revenue streams and specific contracts.

The directors refer the Listing Committee to the Cash Flow Forecast (Schedule 3) which shows a significant rise in forecast revenue and cash flow for the 2009/10 financial year. This is predicated on Azurn completing the ASX listing process.

The Company's budgeted revenue model as discussed in Schedules 1 and 2 and the month-by-month cash position is positive at all times after listing.

Further, the directors of Azurn confirm that as at the date of this letter, Azurn is a going concern because of:

- the reasons contained in the Prospectus cited above in item 3;
- the reasons contained in the Second Supplementary Prospectus cited above in item 3;
- the working capital funding cited above at items 1 and 2 and Schedule 3; and
- the revenue referred to in item 2 and Schedule 1.

We trust this addresses the Listing Committee's revenue concerns.

Please do not hesitate to contact us if you any further queries.

Yours sincerely

Ananda Rao
Chief Executive & Managing Director
Azurn International Limited

SCHEDULE 1

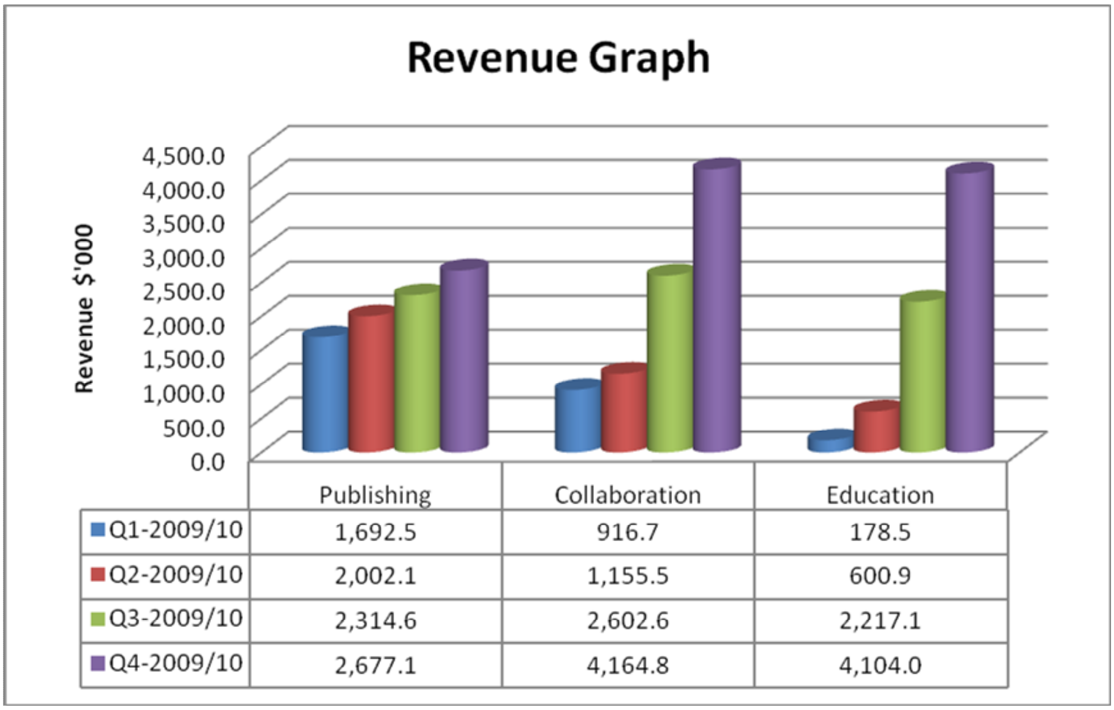
Q1-May-June 2009 Budgeted Revenue

	Budgeted ($,000)	
	May-09	Jun-09
Digital Publishing	462.3	495.2
Collaboration	79.7	123.8
Education	9.2	9.2

Q2-FY2009/10 Budgeted Revenue

Line of Business	Q1-2009/1	Q2-2009/1	Q3-2009/1	Q4-2009/10	
Publishing	1,692.5	2,002.1	2,314.6	2,677.1	8,686.2
Collaboration	916.7	1,155.5	2,602.6	4,164.8	8,839.7
Education	178.5	600.9	2,217.1	4,104.0	7,100.6
TOTAL	**2,787.7**	**3,758.5**	**7,134.4**	**10,945.9**	24,626.5

Numbers are in thousands



Revenue Source 1: Publishing Business

In the publishing business the Company is expanding the current steady business to meet increased demand by increasing its sales presence. The Company has developed a complete set of offerings for publishers to create, convert, distribute and sell digital content as result of our investments in FY 2008/9. Details of recent products developed and new customers acquired in Q3 and Q4 of 2008/9 are set out in Section 5 of the Prospectus.

Revenue Source 2: Collaboration Business

Azurn has completed the development of its current version of the Azurn MERLIN. Azurn has acquired several reference customers and some key contracts during the FY 2008/09 and the revenues from these customers will increase significantly in FY 2009/10 (refer to Schedule 2). Azurn does not need to make any further significant investment in product R&D but will focus on sales and marketing. The rapid acceleration in revenue in Q3 and Q4 is based on the fact that Azurn partners already have a very established customer base to which they are providing the Azurn technology as a core offering which will result in a rapid uptake by customers. As this is a software license sale, the cost to Azurn is limited to sales and customer support.

In addition to Hughes, Azurn has also entered into an exclusive agreement with Langhaven Limited (**Langhaven**) to represent Azurn in the UK and Europe.

In addition to the Channel Partner agreements Azurn also makes direct sales of the Azurn Merlin & Klik2Konnect (**K2K**) solutions which have a prominent role to play across several market segments which include government, finance, retail, utilities and manufacturing. In addition Azurn will always have a small direct sales force to attend to direct and strategic sales opportunities.

Revenue Source 3: Education Business

Education requires rich media content and human interaction and Azurn is well placed to grow its revenue from this sector significantly (as evidenced by the current contracts with Intel Corporation (**Intel**) and others) by providing both collaboration and content solutions. Azurn brings certified content from its existing publishing clients to students and teachers:

- Azurn's revenue increases as more schools adopt the Education Solution (explained in further detail in Schedule 2(2));
- Content revenue is based on reseller commission as a percentage of the list price of the book; and
- Azurn's publishing business already hosts the content created for the educational publishers and is now made available online to schools.

The above summary highlights Azurn's three main business segments from which revenues are generated. The current contracts are a result of previous investment and expenditure including those in financial year 2008/09. Integral to the FY 2009/10 revenue model are the three signed contracts, namely Hughes, Langhaven and Intel in addition to steady revenues from on-going publishing contracts (eg. Taylor & Francis Group and 20 other publishers).

The focus of the Company in the next four quarters is to manage the increased revenue from existing and new relationships exploiting the value of all previous investments the company has made in R&D, product development and commercialization. Two key points regarding the Company's business model for revenue projections are:

- The sales model leverages existing re-seller channels/partners. The Company also obtains revenues from direct sales; and
- The cost of goods is incurred after the receipt of purchase orders:
    - The MERLIN appliance is assembled only upon receipt of orders; and
    - Software is licensed on order.

SCHEDULE 2

EXISTING CONTRACTS

1. Hughes Business Plan

Hughes is a Global Communication Product and Services company that is a world leader.

Azurn primarily derives its revenue from licensing the Interactive Online Learning Solution (**IOL**) to Hughes. The number of total points of presence (for example a building or place to receive or transmit information, which essentially has an antenna dish) which will be using the Azurn solution is a key revenue driver. Maintenance revenue equivalent to 22% of the annual maintenance fee is also applicable from the second year onwards.

- This solution is also marketable immediately to other network companies who provide equipment and network services using Very Small Aperture Technology (**VSAT**).

Hughes plans to launch the Azurn MERLIN conference solution in India during 2009/2010. This will be sold labelled "as powered by Azurn" as an exclusive Hughes offering.

- The same MERLIN Conferencing solution can now be re-sold through similar partners of Hughes, including Australian and European Telecommunications and Internet Service providers.

The contract with Hughes was signed in October 2008 and the integration of Azurn's and Hughes' infrastructure has been completed. An initial purchase order for the trial license has been received with a major revenue tranche expected in Q1-Q2 of 2009. The expected number of licenses in the first tranche will be progressively rolled out across hundreds of cities in India. Hughes is planning to expand its market to cover 30,000 Education delivery centres (using Azurn on an exclusive basis) in the education sector alone.

- The contract with Hughes has an option to deliver conferencing and collaboration capabilities to nearly 1,500,000 points of presence worldwide covering the USA, Europe, Brazil and Africa over the next few years.

The potential revenue for Azurn, based on the signed agreement with Hughes, is approximately $16 million over the next two years.

2. Education Business Plan

Intel is an exclusive channel partner for US and Europe Kindergarten to Year 12 (**K-12**) Schools to sell associated Knowledge Community (**KC**) / Virtual Learning Environment (**VLE**) Software from Acryn Pty Ltd and Education content (K-12 books). In addition the schools use Azurn's IOL to deliver teacher-student collaboration. Together the KC/VLE portal with online content sharing and IOL using audio, video and data are the **Education Solution**.

The delay in delivery of revenue is a result of the delay in the start of rollout by the State of Oregon in the USA. The initial rollout of 50 schools was used by State of Oregon to stabilise the process (training and feedback from schools) before it rolls out to a larger number of schools. The next phase of 200 schools has been prepared for a planned rollout from July-September 2009. The Intel contract anticipates installation in 1300 schools over two years (300 schools during Year 1 and 1000 schools during Year 2).

The enclosed revenue projections are based on Azurn's Intel installations in the USA Intel contract accounting for a majority of the budgeted education revenue. Whilst the 1300 schools mentioned in the contract primarily cover Oregon, Intel's intention is to rollout the same solution in as many US states as possible.

Education Revenue Model:

However, it must also be noted that Azurn's Education Solution is being sold to other prospects. These revenues are currently not included in the budgeted revenues. All the set-up required to install the technology is done remotely from Azurn's development centre in India to minimise the rollout costs.

3. Langhaven Business Plan

A key contract referred to in section 9 of the Prospectus is with Langhaven, which has been appointed as exclusive distributor of Azurn products in the UK and Europe. Under the contract, the revenue to be earned by Azurn is approximately $20,000,000 in 2009/10. A 120 Channel Azurn MERLIN unit has been installed and configured into the British Telecom Data Centre in London.

SCHEDULE 3: Cashflow for 2009-

AZURN INTERNATIONAL LIMITED - FINANCIAL PROJECTIONS													
CASHFLOW PROJECTIONS													
[In A$'000 unless otherwise indicated]													
	Jun-09	**Jul-09**	**Aug-09**	**Sep-09**	**Oct-09**	**Nov-09**	**Dec-09**	**Jan-10**	**Feb-10**	**Mar-10**	**Apr-10**	**May-10**	**Jun-10**	**2009/10**
Receipts (See Note below)														
Total Revenue	**628.1**	**1,140.3**	**782.5**	**864.8**	**1,112.2**	**1,196.0**	**1,450.3**	**1,916.3**	**2,576.5**	**2,641.5**	**3,262.7**	**3,247.5**	**4,435.7**	**24,626.5**
Total Expenses	**(796.4)**	**(824.3)**	**(855.8)**	**(910.5)**	**(1,019.5)**	**(1,063.6)**	**(1,132.9)**	**(1,685.0)**	**(1,884.6)**	**(1,958.0)**	**(2,049.9)**	**(2,159.2)**	**(2,425.6)**	**(17,968.9)**
Net Operating Cashflow	**(167.6)**	**316.0**	**(73.3)**	**(45.8)**	**92.6**	**132.4**	**317.5**	**231.4**	**691.9**	**683.6**	**1,212.9**	**1,088.3**	**2,010.0**	**6,657.5**
Interest Expense	(17.6)	(14.6)	(14.6)	(19.8)	(22.4)	(23.7)	(25.0)	(26.3)	(27.6)	(21.7)	(18.5)	(8.4)	(0.2)	(222.3)
Net Operating Cashflow after Interest	**(185.1)**	**301.5**	**(87.9)**	**(65.5)**	**70.3**	**108.8**	**292.5**	**205.1**	**664.3**	**661.9**	**1,194.4**	**1,079.9**	**2,009.8**	**6,435.2**
Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Operating Cashflow after Int and Tax	**(185.1)**	**301.5**	**(87.9)**	**(65.5)**	**70.3**	**108.8**	**292.5**	**205.1**	**664.3**	**661.9**	**1,194.4**	**1,079.9**	**2,009.8**	**6,435.2**
Investing Activities														
Total Investing Activities	**560.0**	**748.2**	**398.2**	**163.2**	**178.2**	**178.2**	**278.2**	**378.2**	**228.2**	**378.2**	**378.2**	**428.2**	**478.2**	4,213.4
Financing Activities														
Net Cashflow	**754.9**	**(556.7)**	**(86.1)**	**(28.7)**	**(7.9)**	**30.6**	**114.3**	**(73.1)**	**(13.9)**	**33.7**	**16.2**	**1.7**	**481.6**	**(88.2)**
Cash balance b/f	32.0	786.8	230.1	144.0	115.3	107.4	138.0	252.3	179.2	165.3	199.0	215.2	217.0	
Cash Balance (end of period)	**786.8**	**230.1**	**144.0**	**115.3**	**107.4**	**138.0**	**252.3**	**179.2**	**165.3**	**199.0**	**215.2**	**217.0**	**698.6**	**698.6**
Remaining facility available	**1,600.0**	**1,600.0**	**1,200.0**	**1,000.0**	**900.0**	**800.0**	**700.0**	**600.0**	**1,050.0**	**1,300.0**	**2,000.0**	**2,550.0**	**3,000.0**	
Assumptions														
Opening and Closing Debtors assumed to be at the same level														
Closing creditors reduced by $1.4 million by June 2010														
Provision is made for repayment of Convertible Notes for $110,000														
Loan facility of $3 Millions available. Draw down available as at 31st May,2009 is $1.6 million														
IPO to raise a min of $1 million														
Pre IPO to raise $0.9 million														