



18 March 2010

The Manager
Company Announcements Office
ASX Ltd
Level 4
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

MEMORANDUM OF UNDERSTANDING WITH QVT

TZ Limited (ASX Code: TZL) announces that it has today entered into a binding Memorandum of Understanding ("**MOU**") with QVT Fund LP and Quintessence Fund L.P. (collectively "**QVT**") pursuant to which QVT and TZL have agreed the terms of a proposed issue of senior unsecured convertible notes to QVT to enable TZL to raise \$1,200,000 (the "**Proposed Transaction**"). Although the MOU is binding, it is subject to a number of conditions (the "**Conditions**") which are outlined in item 3 below.

The material terms of the MOU are as follows:

1. TZL and QVT have agreed as follows:
 - (a) On the first date on which all of the Conditions are fulfilled:
 - (i) QVT (or an affiliate) will subscribe for 1,200 senior unsecured convertible notes with a Face Value of \$1,000 per convertible note ("**Series III Convertible Notes**") and pay \$1,200,000 to TZL and TZL will issue 1,200 Series III Convertible Notes to QVT; and
 - (ii) TZL will issue up to an additional 400 Series III Convertible Notes ("**Additional Series III Convertible Notes**") in an amount equal to the aggregate of QVT's costs and expenses paid or payable in connection with the Proposed Transaction, relating to TZL's annual general meeting held on 26 February 2010 ("**2009 AGM**") and TZL's default under the Convertible Note and Option Deed dated 24 December 2007 between TZL and QVT ("**Series I Note Deed**"), which costs and expenses are not satisfied by way of the issue of TZL shares to QVT approved under resolution 9(e) passed at the 2009 AGM.
 - (b) The \$1,200,000 to be raised by the issue of the 1,200 Series III Convertible Notes will be used for working capital expenses and to expand TZL's current operations and fund new business initiatives.
 - (c) The key terms of the Series III Convertible Notes to be reflected in the document referred to in the condition described in item 3(d) below will be as follows:
 - Interest will accrue on each Series III Convertible Note at 10% per annum, payable on 31 December each year.



- The Series III Convertible Notes will be required to be repaid on the fifth anniversary of the date of their issue (the “**Maturity Date**”), unless converted into ordinary shares in the Company.
 - The Series III Convertible Notes will be convertible into fully paid ordinary shares in TZL and the conversion price for each Series III Convertible Note will be the lesser of: (i) \$1.00; and (ii) the lowest price at which ordinary shares may be issued by TZL after the date of the MOU and on or before the date the 1,200 Series III Convertible Notes are issued (excluding any ordinary shares that may be issued to Moon Corporation Pty Limited as a consequence of the exercise of the 1,000,000 options issued to it on June 2009 (the “**Moon Options**”)).
 - The Series III Convertible Notes may be converted during the period commencing on the earlier of: (i) the date on which shareholder approval of the issue of the Series III Convertible Notes under ASX Listing Rule 7.4 and the issue of shares on their conversion is obtained; and (ii) 31 December 2010, up to and including the Maturity Date.
 - The Series III Convertible Notes will rank equally with all present and future senior unsecured liabilities of TZL.
 - The Series III Convertible Notes must be on terms no less favourable to QVT than the terms of the convertible notes issued to QVT under the Series I Note Deed.
2. The terms of the 3,000,000 options issued to QVT under the Series I Note Deed are to be restructured so that the exercise price applying to the options will be changed from \$4.00 to the lesser of: (i) \$1.00; or (ii) the lowest price at which ordinary shares may be issued by TZL after the date of the MOU and prior to the issue date of the Series III Convertible Notes (excluding any ordinary shares issued as a consequence of the exercise of the Moon Options). Under the terms of the MOU, TZL is required to obtain all necessary approvals to the extent required to give effect to the proposed restructuring of the options which will include obtaining a waiver of ASX Listing Rule 6.23.3 as well as any necessary shareholder approvals that may be required by the ASX as a condition of obtaining the waiver.
3. QVT’s obligations described in item 1 above are conditional on and subject to the following conditions being satisfied:
- (a) no material adverse event, event of default or claim that could reasonably be expected to constitute a material adverse event occurring under the terms of the Series I Note Deed;
 - (b) satisfaction of the conditions precedent in clause 2 of the Series I Note Deed as if those conditions applied to the Proposed Transaction except shareholder approval for the issue of shares upon any conversion of Series III Convertible Notes and shareholder approval needed for the proposed restructure of the 3,000,000 options can be obtained after the issue of the Series III Convertible Notes provided the shareholder approval is sought at TZL’s annual general meeting to be held in respect of the financial year ending 30 June 2010, which meeting is expected to be held in November 2010. The material conditions from clause 2 of the Series I Note Deed as they apply to the Proposed Transaction are as follows:



- (i) the Company obtaining all shareholder, regulatory or other third party approvals or consents in relation to the issue of the Series III Convertible Notes (except as set out above);
 - (ii) TZL providing a certificate confirming satisfaction with customary undertakings and the accuracy of customary warranties; and
 - (iii) the waiver of any pre-emptive rights and anti-dilution rights in connection with TZL's shares on issue.
- (c) TZL's Australian legal advisers delivering a legal opinion to QVT in relation to the enforceability of the documents needed for the Proposed Transaction; and
- (d) entry into of a document setting out the terms of issue of the Series III Convertible Notes.
4. On the issue of the 1,200 Series III Convertible Notes, TZL must release from escrow 1,200,000 ordinary shares in TZL held by QVT that were to be the subject of a voluntary escrow arrangement agreed by QVT and TZL and announced to ASX on 28 January 2010. That voluntary escrow arrangement required the shares in TZL to be issued to QVT as a result of the passing of resolutions 9(a), (b), (c) and (d) at the 2009 AGM to be subject to a 12 month escrow. However, as a result of the MOU, 1,200,000 of the shares to be issued to QVT will no longer be subject to a 12 month escrow.
5. The issue of 4,613,333 shares in TZL to QVT as a result of the passing of resolutions 9(c) and (d) at the 2009 AGM is to be delayed until no later than 30 September 2010. (It is expected the issue of 12,000,000 shares to QVT as a result of the passing of resolution 9(a) at the 2009 AGM will occur in the week commencing 22 March 2010. It is from these 12,000,000 shares that 1,200,000 shares are to be released early from the 12 month voluntary escrow under item 4 above.)

It is expected that the Conditions in item 3 above will be satisfied and the 1,200 Series III Convertible Notes issued to QVT, by 1 April 2010. If this date is to materially alter then TZL will update the market accordingly.

Yours sincerely,

A handwritten signature in black ink that reads 'Mark Bouris'.

Mark Bouris
Chairman
TZ Limited (ASX code: TZL)