TZ Limited
ABN 26 073 979 272

24 December 2010

Lodged by ASX Online

The Manager
Company Announcements Office
ASX Ltd.
Level 4, 20 Bridge Street
Sydney, NSW 2000

Dear Sir/Madam

ISSUE OF SERIES IIIB CONVERTIBLE NOTES AND OPTIONS

Issue of Series IIIB Convertible Notes

TZ Limited (the **"Company"**) advises that it has today issued a total of 4,275 secured convertible notes (the **"Series IIIB Convertible Notes"**), each with a face value of $1,000, to QVT Fund LP and Quintessence Fund L.P. (**"QVT Funds"**), as follows:

- 3,847 Series IIIB Convertible Notes to QVT Fund LP; and
- 428 Series IIIB Convertible Notes to Quintessence Fund L.P..

The issue of the Series IIIB Convertible Notes was approved by the Company's shareholders under resolution 5 passed at the 2010 annual general meeting of the Company held on 17 November 2010 (the **"2010 AGM"**). The Series IIIB Convertible Notes were issued in repayment of all outstanding principal and interest owing under the loan facility (the **"Loan Facility"**) between the QVT Funds, the Company and the Company's wholly owned subsidiary, Telezygology Inc. (**"TZ Inc"**) pursuant to which the QVT Funds lent US$4,100,000 to TZ Inc. Accordingly, TZ Inc's obligation to repay all principal and interest owing under the Loan Facility has been fully satisfied by the issue of the Series IIIB Convertible Notes.

The Series IIIB Convertible Notes are secured by the first ranking fixed and floating charge dated 13 July 2010 granted by the Company over all of the assets of the Company (other than the Company's shares in its subsidiaries Product Design Technologies Inc. and PDT Holdings Inc.).

The key terms of the Series IIIB Convertible Notes are as follows:

- The face value of each Series IIIB Convertible Note is $1,000.

- Interest accrues on each Series IIIB Convertible Note at 10% per annum, calculated on the outstanding principal amount and payable annually in arrears on 31 December each year.

- The Series IIIB Convertible Notes must be repaid on 24 December 2015 (the **"Series IIIB Maturity Date"**), unless converted into ordinary fully paid shares in the Company (**"Shares"**).

- The Series IIIB Convertible Notes may be converted during the period commencing on the date of their issue up to and including the Maturity Date (the **"Series IIIB Conversion Period"**).

- The conversion price (the **"Series IIIB Conversion Price"**) for each Series IIIB Convertible Note is the lesser of 42 cents and the lowest price at which Shares may be subsequently issued by the Company while the Series IIIB Convertible Notes remain on issue.

- The QVT Funds may elect to convert any of the Series IIIB Convertible Notes into Shares during the Series IIIB Conversion Period by giving an irrevocable conversion notice. The Company is required to convert each Series IIIB Convertible Note into a specified number of Shares (**"Share Equivalent"**) determined under the formula for calculating the Share Equivalent as set out below. Additionally, the Series IIIB Convertible Notes may be converted into the Share Equivalent on the occurrence of customary events of default (including insolvency events, default by the Company, change of control and certain material adverse events).

- The Share Equivalent is equal to the number of Shares calculated in accordance with the following formula:

$$\text{Number of Shares} = \frac{VN + I}{CP}$$

where:

VN	=	Face Value of the outstanding Series IIIB Convertible Notes
I	=	Interest accrued but unpaid on the outstanding Convertible Notes
CP	=	Series IIIB Conversion Price (which at the date of issue is $0.42)

Issue of Options

The Company further advises that it has today issued 3,000,000 options to subscribe for Shares at an exercise price of $0.42 (the **"Options"**) as follows:

- 2,704,625 Options to QVT Fund LP; and
- 295,375 Options to Quintessence Fund L.P..

The issue of the Options to the QVT Funds was approved by the shareholders of the Company under resolution 6 passed at the 2010 AGM.

The key terms of the Options are as follows:

- Each Option entitles the holder, when exercised, to subscribe for one Share, subject to adjustment as set out below.
- The exercise price to convert each Option into Shares is $0.42 (the **"Option Price"**).
- The Options expire on 19 February 2013 (**"Expiry Date"**).
- The Options are exercisable at any time during the period from their date of issue to the Expiry Date in multiples of one thousand Options by the QVT Funds completing an exercise notice and paying the Option Price.
- The Options will not be listed on the Australian Securities Exchange.
- All Shares issued upon exercise of the Options will rank pari passu with all other Shares in all respects.
- There are no participating rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to shareholders in the Company prior to the Options being exercised through its ownership of the Options other than pursuant to any applicable anti-dilution provision applying to the Options.
- If the Company makes a pro rata issue (except a bonus issue) to the holders of Shares, the Option Price will be reduced in accordance with the formula contained in Listing Rule 6.22.2 and 6.22.2A of the ASX Listing Rules.
- If the Company makes a bonus issue to the holders of Shares, the number of Shares over which each Option is exercisable will be increased in accordance with Listing Rule 6.22.3 of the ASX Listing Rules.

- If the Company reorganises its capital (including by consolidation, sub-division, reduction, cancellation or return) the Options will be reorganised and the Company's rights will change to the extent necessary to comply with the ASX Listing Rules applying to a reorganisation of capital at the time of the reorganisation.

Appendix 3B

An Appendix 3B is attached in respect of the Series IIIB Convertible Notes and the Options.

Yours faithfully,
TZ LIMITED

Kenneth Ting
Executive Director and Company Secretary

Rule 2.7, 3.10.3, 3.10.4, 3.10.5

Appendix 3B

New issue announcement, application for quotation of additional securities and agreement

Information or documents not available now must be given to ASX as soon as available. Information and documents given to ASX become ASX's property and may be made public.

Introduced 1/7/96. Origin: Appendix 5. Amended 1/7/98, 1/9/99, 1/7/2000, 30/9/2001, 11/3/2002, 1/1/2003, 24/10/2005.

Name of entity

TZ LIMITED

ABN

26 073 979 272

We (the entity) give ASX the following information.

Part 1 - All issues

You must complete the relevant sections (attach sheets if there is not enough space).

1	+Class of +securities issued or to be issued	1. Convertible notes 2. Unlisted options
2	Number of +securities issued or to be issued (if known) or maximum number which may be issued	1. 4,275 convertible notes issued on 24 December 2010 2. 3,000,000 unlisted options issued on 24 December 2010
3	Principal terms of the +securities (eg, if options, exercise price and expiry date; if partly paid +securities, the amount outstanding and due dates for payment; if +convertible securities, the conversion price and dates for conversion)	1. <u>Convertible Notes</u> • The convertible notes bear interest at 10% per annum, payable on 31 December each year. • The convertible notes must be repaid on the fifth anniversary of the date of their issue unless converted into ordinary shares. • Subject to any required shareholder approval being obtained, conversion of each convertible note into ordinary shares occurs at a conversation rate per share equal to $0.42. • The convertible notes may be converted into ordinary shares during the period

		commencing on the date of issue and expiring on 24 December 2015. • The convertible notes are secured by a fixed and floating charge over all of the Company's assets other than the Company's shares in Product Design Technologies, Inc. and PDT Holdings Inc. 2. <u>Options</u> • The exercise price is $0.42. • The options expire on 13 February 2013 and may be exercised at any time from the date of issue to the date of expiry, in multiples of 1,000 options.
4	Do the +securities rank equally in all respects from the date of allotment with an existing +class of quoted +securities? If the additional securities do not rank equally, please state: • the date from which they do • the extent to which they participate for the next dividend, (in the case of a trust, distribution) or interest payment • the extent to which they do not rank equally, other than in relation to the next dividend, distribution or interest payment	1. Not applicable 2. Not applicable
5	Issue price or consideration	1. $1,000 per convertible note 2. Nil
6	Purpose of the issue (If issued as consideration for the acquisition of assets, clearly identify those assets)	1. Issued in repayment of principal and interest due under a US$4,100,000 loan facility between QVT Fund LP and Quintessence Fund L.P., TZ Limited and Telezygology, Inc.. 2. Not applicable

+ See chapter 19 for defined terms.

7	Dates of entering +securities into uncertificated holdings or despatch of certificates	24 December 2010

		Number	+Class
8	Number and +class of all +securities quoted on ASX (*including* the securities in clause 2 if applicable)	114,322,669	Ordinary fully paid shares

		Number	+Class
9	Number and +class of all +securities not quoted on ASX (*including* the securities in clause 2 if applicable)	100,000	Options exercisable at $3.75 and expiring on 18 January 2011
		195,000	Options exercisable at $3.75 and expiring on 19 January 2011
		149,000	Options exercisable at $3.00 and expiring on 20 January 2011
		452,375	Options exercisable at $6,00 and expiring on 31 December 2010
		180,000	Options exercisable at $6.00 and expiring on 30 January 2011
		75,000	Options exercisable at $6.00 and expiring on 7 Feb 2011
		116,666	Options exercisable at $6.00 and expiring on 25 August 2011
		1,045,000	Options exercisable at $2.50 and expiring on 24 October 2011.

3,000,000	CB Options exercisable at $4.00 and expiring on 19 February 2013
3,000,000	Options exercisable at $0.42 and expiring on 19 February 2013.
13,714	Convertible notes at an issue price of $1,000 per convertible note
4,275	Secured convertible notes at an issue price of $1,000 per convertible note
150,000	Options exercisable at $1.00 expiring on 29 March 2011.
1,400,000	Rights under the Company's Director and Executive Equity Plan
1,750,000	Directors options exercisable at $1.00 and expiring on 30 June 2016.
1,750,000	Directors options exercisable at $2.00 and expiring on 30 June 2017.
1,750,000	Directors options exercisable at $3.00 and expiring on 30 June 2018.

10	Dividend policy (in the case of a trust, distribution policy) on the increased capital (interests)	Not applicable

Part 2 - Bonus issue or pro rata issue

11	Is security holder approval required?	Not applicable

+ See chapter 19 for defined terms.

12	Is the issue renounceable or non-renounceable?	Not applicable
13	Ratio in which the +securities will be offered	Not applicable
14	+Class of +securities to which the offer relates	Not applicable
15	+Record date to determine entitlements	Not applicable
16	Will holdings on different registers (or subregisters) be aggregated for calculating entitlements?	Not applicable
17	Policy for deciding entitlements in relation to fractions	Not applicable
18	Names of countries in which the entity has +security holders who will not be sent new issue documents Note: Security holders must be told how their entitlements are to be dealt with. Cross reference: rule 7.7.	Not applicable
19	Closing date for receipt of acceptances or renunciations	Not applicable
20	Names of any underwriters	Not applicable
21	Amount of any underwriting fee or commission	Not applicable.
22	Names of any brokers to the issue	Not applicable
23	Fee or commission payable to the broker to the issue	Not applicable
24	Amount of any handling fee payable to brokers who lodge acceptances or renunciations on behalf of +security holders	Not applicable
25	If the issue is contingent on +security holders' approval, the date of the meeting	Not applicable

26	Date entitlement and acceptance form and prospectus or Product Disclosure Statement will be sent to persons entitled	Not applicable
27	If the entity has issued options, and the terms entitle option holders to participate on exercise, the date on which notices will be sent to option holders	Not applicable
28	Date rights trading will begin (if applicable)	Not applicable
29	Date rights trading will end (if applicable)	Not applicable
30	How do +security holders sell their entitlements *in full* through a broker?	Not applicable
31	How do +security holders sell *part* of their entitlements through a broker and accept for the balance?	Not applicable
32	How do +security holders dispose of their entitlements (except by sale through a broker)?	Not applicable
33	+Despatch date	Not applicable

Part 3 - Quotation of securities

You need only complete this section if you are applying for quotation of securities

34 Type of securities
(*tick one*)

(a) ☐ Securities described in Part 1

(b) ☐ All other securities

Example: restricted securities at the end of the escrowed period, partly paid securities that become fully paid, employee incentive share securities when restriction ends, securities issued on expiry or conversion of convertible securities

Entities that have ticked box 34(a)

Additional securities forming a new class of securities

+ See chapter 19 for defined terms.

Tick to indicate you are providing the information or documents

35	☐	If the +securities are +equity securities, the names of the 20 largest holders of the additional +securities, and the number and percentage of additional +securities held by those holders
36	☐	If the +securities are +equity securities, a distribution schedule of the additional +securities setting out the number of holders in the categories 1 - 1,000 1,001 - 5,000 5,001 - 10,000 10,001 - 100,000 100,001 and over
37	☐	A copy of any trust deed for the additional +securities

Entities that have ticked box 34(b)

38	Number of securities for which +quotation is sought	N/A
39	Class of +securities for which quotation is sought	N/A
40	Do the +securities rank equally in all respects from the date of allotment with an existing +class of quoted +securities? If the additional securities do not rank equally, please state: • the date from which they do • the extent to which they participate for the next dividend, (in the case of a trust, distribution) or interest payment • the extent to which they do not rank equally, other than in relation to the next dividend, distribution or interest payment	N/A

41	Reason for request for quotation now Example: In the case of restricted securities, end of restriction period (if issued upon conversion of another security, clearly identify that other security)	N/A

		Number	+Class
42	Number and +class of all +securities quoted on ASX (*including* the securities in clause 38)	N/A	

+ See chapter 19 for defined terms.

Quotation agreement

1 +Quotation of our additional +securities is in ASX's absolute discretion. ASX may quote the +securities on any conditions it decides.

2 We warrant the following to ASX.

- The issue of the +securities to be quoted complies with the law and is not for an illegal purpose.

- There is no reason why those +securities should not be granted +quotation.

- An offer of the +securities for sale within 12 months after their issue will not require disclosure under section 707(3) or section 1012C(6) of the Corporations Act.

  Note: An entity may need to obtain appropriate warranties from subscribers for the securities in order to be able to give this warranty

- Section 724 or section 1016E of the Corporations Act does not apply to any applications received by us in relation to any +securities to be quoted and that no-one has any right to return any +securities to be quoted under sections 737, 738 or 1016F of the Corporations Act at the time that we request that the +securities be quoted.

- If we are a trust, we warrant that no person has the right to return the +securities to be quoted under section 1019B of the Corporations Act at the time that we request that the +securities be quoted.

3 We will indemnify ASX to the fullest extent permitted by law in respect of any claim, action or expense arising from or connected with any breach of the warranties in this agreement.

4 We give ASX the information and documents required by this form. If any information or document not available now, will give it to ASX before +quotation of the +securities begins. We acknowledge that ASX is relying on the information and documents. We warrant that they are (will be) true and complete.

Sign here: .... Date:
Director/Company secretary

Print name:

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+ See chapter 19 for defined terms.