

Sample Term Sheet

Summary Terms for Series A Preferred Stock

Company: [Insert: Full Legal Name of the Company] (the “Company”)

Summary: This term sheet summarizes the terms proposed for an investment by [Insert name of Angel Group], a group of investors (the “Investors”), in the Company. It is intended solely as a basis for further discussion and does not constitute a legally binding obligation.

Investors: All Investors are Accredited Investors.

Currency: Canadian Dollars

Closing: On or about [Insert Date] As soon as practicable following the Company’s acceptance of this Term Sheet and satisfaction of the Conditions to Closing (the “Closing”).

Amount: Minimum Investment to close is \$[Insert]

Total Securities Offered: Maximum [Insert] preferred shares

Price: \$[Insert] per preferred share (the “Original Purchase Price”)

Valuation: \$[Insert] pre-money valuation, fully diluted, the total number of shares to include an unallocated employee pool of at least 20% of the total, in addition to founders’ shares.

Use of Proceeds: The Company will use the proceeds from the Financing for the following purposes: [Insert brief description here, include a more detailed table in an Appendix if required]

Dividends: The Series A Preferred will be entitled to an annual per share dividend equal to 10% of the Purchase Price, payable when, as and if declared by the Board of Directors of the Company. Non-cumulative dividends as declared. Series A Preferred Stock to participate in all dividends declared on an “as converted” basis. No dividends payable on Common Stock or any other Class of Preferred without payment of similar and all accrued dividends to the Series A Preferred Stock.

Liquidation Preference: In the event of any liquidation, dissolution or winding up of the Company, the Investors will be entitled to receive for each share of Series A Preferred, prior to any distribution to the holders of Common Stock, an amount equal to 100% of the Original



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Purchase Price plus all accumulated but unpaid dividends thereon. Any remaining proceeds to be shared pro rata among stockholders.

If the Company has insufficient assets to permit payment of the Preference Amount in full to all holders of Series A Preferred, then the assets of the Company will be distributed ratably to the holders of Series A Preferred in proportion to the Preference Amount each such holder otherwise would be entitled to receive.

A merger or consolidation of the Company in which its shareholders do not retain a majority of the voting power in the surviving corporation, or a sale of all or substantially all the Company's assets, each will be deemed to be a liquidation, dissolution or winding up of the Company.

Conversion: Series A Preferred Stock converted on a one-for-one basis into Common Stock unless conversion rate is subject to anti-dilution adjustment. Mandatory conversion of Series A Preferred Stock on closing of underwritten public offering at an initial price to the public at a valuation of at least \$25 million and gross proceeds the Company of at least \$15 million.

Anti-Dilution: Weighted average to any lower price in any subsequent round of financing.

Voting Rights: Equal to common equivalent shares. Investors in Series A Preferred Stock, voting separately, to elect one (1) Director of 5 person Board of Directors.

Board Seat: The Investors shall be entitled to appoint one member as Voting Trustee to the Company's Board of Directors.

Redemption: Required offer of redemption in equal instalments beginning on the fifth anniversary of the Initial Closing at an effective compound rate of return of 10% per annum plus accrued but unpaid dividends. Voting rights to elect majority of Directors and 10% cumulative dividend if failure to redeem.

Information Rights: The Company will deliver to shareholders:

1. Audited financial statements or Reviewed (as determined by investors) for each fiscal year within 90 days after the end of the fiscal year and management-prepared quarterly financial statements for the first three quarters of the year within 30 days after the end of each quarter.
2. Annual budgets at least 30 days prior to the beginning of each fiscal year.
3. Quarterly updates on progress and accomplishments and anticipated progress against target in next period.

4. Notification of any material defaults or litigation; and any other information reasonably requested.
5. The voting trustee also will have standard inspection and visitation rights.

The foregoing rights will expire at the date the Company completes its Qualified IPO and the Company has no outstanding obligations to investors.

Right of First Refusal on Sales by the Company: Investors will have a right to maintain their pro rata interest in the Company on a fully diluted basis in any subsequent offering of securities other than a public offering.

Right of First Refusal on Sales by Founders and Co-Sale Rights: Investors will have a 30 day right of first refusal to purchase a proportional part of shares offered for sale by founders and management of the Company ("Founders"), if management wishes to sell stock before an initial public offering, or if Investors so choose, have the right to sell a proportional part of their holdings along with Founders or management before an initial public offering.

Follow-Along Rights: Investors will have the right to sell a proportional part of their holdings if management sells before initial public offering.

Drag-Along Rights: The holders of the Common or Preferred Stock shall enter into a drag-along agreement whereby if a majority of the holders of Series A Preferred Stock agree to a sale or liquidation of the Company, the holders of the remaining Preferred and Common Stock shall consent to and raise no objections to such sale.

Negative Covenants: Consent of holders of two-thirds of Series A Preferred Stock required for merger, dissolution, sale of substantially all assets, dividends on common stock, amendments to certificate of incorporation and by-laws, etc.

Non-competition and Non-solicitation Agreements: In addition to standard confidentiality/developments agreements, key employees to execute agreements not to compete with or solicit employees of the Company or its subsidiaries, directly or indirectly, for one year after termination of employment.

Vesting: Stock and options issued to employees, independent directors and consultants would be subject to vesting/repurchase over 4 years. At least 75% of each Founder's shares would be subject to 3 years of vesting.

Costs and Expenses: Fees of a single counsel representing all investors of the Angel group participating in this round estimated at \$[Insert], and their reasonable expenses will be borne by the Company unless the transaction is not completed because the Investors withdraw their commitment without cause.



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Agreement: This investment will be made pursuant to a definitive purchase agreement and related documents which will contain customary representations, warranties, covenants and indemnities, which are mutually acceptable. Except for the confidentiality provisions of this term sheet, binding obligations will be created only by the definitive purchase agreement.

Conditions of Closing:

1. Completion of a satisfactory due diligence investigation of the Company and its legal affairs by the Investors.
2. The execution and delivery of definitive documents to include standard disclosure schedules, representations and warranties, in form and substance satisfactory to the Investors and the Company.
3. The absence of any material change in the business of the Company.

Signatures: