**TERM SHEET**

**THE OFFERING**

**Issuer:**

\_\_\_\_\_\_\_, a corporation incorporated under the laws of [insert Canada or Ontario] (the “Corporation”)

**Securities:**

Class A Preferred Shares (the **“Preferred”**)

**Amount of the offering:**

$\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Price per share:**

$\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ per share (the “**Initial Price**”), based on a pre-money valuation of

$\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and the attached capitalization table (Appendix A).

**Investor(s):**

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and other accredited investors, acceptable to the Corporation.

**Closing date:**

Initial closing on or before \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**TERMS OF THE PREFERRED**

**Liquidation preference:**

Preferred will have the right to receive one times the Initial Price from proceeds on a liquidation of the Corporation with balance of proceeds paid to holders of

Common Shares. A sale of the Corporation’s assets, merger, reorganization or similar transaction will be treated as a liquidation of the Corporation.

**Conversion**

The Preferred may be converted at any time, at the option of the holder, into

Common Shares. The conversion rate will initially be 1:1, subject to customary

adjustments for stock splits, stock dividends, etc.

**Automatic conversion:**

Each share of Preferred will automatically convert into common shares, at the then

applicable conversion rate, upon (i) the closing of a firmly underwritten initial public

offering of common shares (“IPO”), or (ii) the consent the holders of at least a

majority of the then outstanding shares of Preferred.

**General voting rights:**

Each share of Preferred votes together with the Common Shares on all matters on

an as converted basis, except as specifically noted herein or required by law.

**SHAREHOLDERS AGREEMENT**

**Information rights:**

The Corporation will provide to each holder of at least \_\_\_\_\_\_\_\_\_\_\_\_\_\_% of Preferred

(“Major Investors”), (i) unaudited annual financial statements and (ii) unaudited

quarterly financial statements and an annual business plan. This right will terminate

immediately prior to the Corporation’s IPO or completion of a Sale Transaction (as

defined below).

**Protective provisions:**

So long as any of the Preferred are outstanding, consent of majority of the then-

outstanding Preferred will be required for any action that

(i) amends the Articles of

the Corporation if it would adversely alter the rights, preferences, privileges or

powers of Preferred;

(ii) changes the number of directors from current number; or

(iii) approves any merger, asset sale, liquidation or other corporate reorganization or acquisition.

**Pre-emptive rights (to maintain proportionate ownership):**

Each of the Major Investors will have a right to purchase its pro rata share of any

offering of new securities by the Corporation, subject to customary exceptions. This

right will terminate immediately prior to the Corporation’s IPO, a Sale Transaction or

\_\_\_\_\_\_\_\_\_\_years after the date of Shareholders Agreement executed upon Closing.

**Co-Sale Rights:**

In the event that any shareholder (“Selling Party”) proposes to sell their shares to a

third party (“Third Party”), the Selling Party agrees not to make the sale unless Third

Party includes an offer to purchase the shares of the Investors on the same terms. If

Third Party has specified a maximum number of shares that they are willing to buy,

then the Selling Party and interested Investors may sell their pro-rata share of the

amount to be purchased by Third Party.

**Election of directors:**

Provision agreeing to elect the following individuals to the board

(i) one representative designated by the holders of Preferred \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_(the “**Investor Nominee**”);

(ii) one representative designated by the Founders; and

(iii) one representative designated by Common shareholders acceptable to the Investor

Nominee and Founders.

**Sale Transaction:**

A “**Sale Transaction**” shall mean

(i) any merger, amalgamation, reorganization,

consolidation or other transaction involving the Corporation and any other

corporation or other entity or person in which the persons who were the

shareholders of the Corporation immediately prior to such merger, amalgamation,

reorganization, consolidation or other transaction own less than fifty percent (50%)

of the outstanding voting shares of the surviving or continuing entity after such

merger, amalgamation, reorganization, consolidation or other transaction;

 (ii) the sale, exchange or transfer by the Corporation’s shareholders, in a single

transactionor series of related transactions, of all of the voting shares of the

Corporation; or

(iii) the sale of all or substantially all of the assets of the Corporation.

**OTHER MATTERS**

**Option pool:**

The number of Common Shares reserved for issuance under the Corporation’s stock

option plan will be increased to equal \_\_\_\_\_\_\_\_%shares outstanding after issuance

of the Preferred to Investors.

**Share purchase agreement:**

The Corporation and Investors will enter into a share purchase agreement

containing standard representations and warranties, with survival period of \_\_\_\_\_\_

years.

**Founder matters:**

Each Founder shall have transferred all relevant intellectual property to the

Corporation, entered into an employment agreement with the Corporation and

signed agreements with respect to voting and vesting their Founders shares over an

agreed term of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_years, the terms of such agreements satisfactory to

Investors prior to Closing Date. The vesting agreement will provide for full

acceleration of vesting for all shares held by the Founders on the completion of an

IPO or Sale Transaction.

**Expenses and fees:**

The Corporation will reimburse counsel to Investors for legal fees and disbursements,

up to a maximum cap of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

**Expiration date:**

These terms are valid until, and will expire on, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Binding Terms:**

For a period of thirty days, the Corporation agrees not to solicit offers from other

parties for any financing. Without the consent of Investors, the Company will not

disclose these terms to anyone other than officers, directors, key service providers,

and other potential Investors in this financing.

This Term Sheet may be executed in counterparts, which together will constitute one document. Electronic signatures shall have the same legal effect as original signatures.

**[Insert CORPORATION NAME] [Insert NAME OF INVESTOR(s)]**

Signature Signature

Print name Print name

Print title Print title

Date Date

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Appendix A – Capitalization Table**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Shareholder Name** | **Common Shares** | **Options** | **Preferred Shares** | **Fully Diluted Shares** | **Pro-forma Fully Diluted Ownership %** |
| Name Founder1 |  | - | - |  |  |
| Name Founder2 |  | - | - |  |  |
| **Subtotal –****Current Holdings** |  |  |  |  |  |
| Investors |  |  |  |  |  |
| Option pool |  |  |  |  |  |
| **Total – Proforma****Holdings** |  |  |  |  |  |