**STRICTLY PRIVATE AND CONFIDENTIAL**

**NOT TO BE DISCLOSED OR**

**DISTRIBUTED TO THIRD PARTIES**

**TERM SHEET: OFFER OF ORDINARY SHARES IN [INSERT COMPANY NAME] LTD PURSUANT TO THE SEED ENTERPRISE INVESTMENT SCHEME**

We, [INSERT NAMES] (“**Founders**”) on behalf of [INSERT NAME] ("**Company**") are pleased to present to potential investors our proposal for an investment in the Company on the following terms:

# Investment

* + 1. *Investment:* The Company is seeking a first round equity investment of £[INSERT AMOUNT] in return for the issue of new ordinary shares in the Company which shall amount to [INSERT FIGURE]% of the Company’s total issued share capital ("**Investment**"). The Investment shall qualify for tax relief pursuant to the Seed Enterprise Investment Scheme (“**SEIS**”) and the Founders shall make an advance assurance application to HMRC. Completion of the Investment shall be conditional on the Company receiving such clearance.
    2. *Shareholdings and Directorships*: Prior to completion, the entire issued share capital of the Company is held by the Founders whereby [INSERT NAME] (“**CEO**”) owns [INSERT NUMBER] ordinary shares, [INSERT NAME] (“**CTO**”) owns [INSERT NUMBER] ordinary shares and [INSERT NAME] (“**CMO**”) owns [INSERT NUMBER] ordinary shares. The CMO’s shareholding is subject to a [INSERT YEARS] vesting period with a [INSERT MONTHS] cliff at the end of the first year. At present the CEO and CTO are the only directors of the Company, although the CMO may also be appointed a director in the future. The investors will receive a total of [INSERT NUMBER] shares pursuant to this round (“**Investor Shares**”).
    3. *Valuation:* The Investment will be at a pre-money valuation of £[INSERT FIGURE]. The Investor Shares shall be issued at a price per share of £[INSERT FIGURE], with a post money valuation of £[INSERT FIGURE], while the post money valuation including the option pool shall be £[INSERT FIGURE]. At completion of the Investment, an employee option pool (in respect of [INSERT NUMBER] ordinary shares) equal to [INSERT FIGURE]% of the equity shares in issue immediately following completion will be created. The Investors will hold no less than [INSERT FIGURE]% of the issued share capital of the Company on a fully diluted basis on completion of the Investment (also taking into account the option pool).
    4. *Draw down:* The Investment will be made in full at completion.
    5. *Use of proceeds:* The proceeds from the Investment shall be used for the Company's working capital requirements in furtherance of the Business Plan*.*
    6. *Completion date*: The estimated completion date is[INSERT DATE].

# Conditions of Investment

The Investment is conditional on:

* + - 1. negotiation of definitive legal documents, including a comprehensive subscription and shareholders’ agreement to be prepared by the Company’s solicitors (“**Investment Agreement**”);
      2. satisfactory completion of due diligence and anti-money laundering checks;
      3. all employees and subcontractors of the Company having entered into agreements containing intellectual property provisions;
      4. receipt of advance SEIS clearance from HM Revenue & Customs; and
      5. receipt of all necessary consents.

# Terms of Investment

* + 1. *Warranties:* The Company will provide the investors with customary warranties including without limitation those set out in appendix 2. The Company will be liable up to the amount of the Investment in respect of the warranties, although where necessary the warranties will also be qualified clearly and accurately in a disclosure letter provided to the investors at completion.
    2. *Investor board observer:* So long as the investors hold at least 20% of the issued shares in the Company the investors will have the right to appoint a non-voting observer (“**Board Observer**”) to attend Board meetings who on behalf of the investors shall be supplied with all relevant financial and operational data in respect of the Company.
    3. *Board:* The Board on completion will consist of the CEO and CTO (the CMO may be appointed at a future date). Board meetings will be held at intervals of not more than 10 weeks and may be held virtually by conference call.
    4. *Important decisions:* The consent of those investors holding at least [INSERT FIGURE]% of the Company’s issued share capital (“**Investor Majority**”), acting through the Board Observer (who shall have the power to bind the investors collectively),will be required for those decisions that are set out in appendix 3.
    5. *Information rights:* The Company will have an obligation to supply normal financial and operational information about the Company to the investors.
    6. *Obligations of the Founders:* The Founders will (a) give customary non-competition, non-solicitation and confidentiality undertakings and (b) give an assignment of intellectual property rights.
    7. *Shares held by the Founders:* Shares in the Company held by the Founders will be subject to the provisions summarised in appendix 4.
    8. *SEIS obligations:* The Company and the Founders will undertake, so far as is reasonably practicable, that they shall not contravene any of the SEIS requirements and thereby prevent the availability of SEIS relief.
    9. *Costs:* The Company and the investors will be responsible for their own fees and expenses incurred in respect of the Investment.

# Confidentiality

* + 1. This term sheet is written on the basis that its contents and existence are confidential and will not be revealed by the Investors, the Company or the Founders to any third party or be the subject of any announcement.
    2. The investors and the Company agree that they will also enter into a separate standard non-disclosure and non-circumvention agreement at the same time as this term sheet (and before the investors may begin any due diligence investigations).

# Applicable law

This letter (and any dispute or claim relating to it or its subject matter (including non‑contractual claims)) is governed by English law and on acceptance of these terms the parties submit to the non-exclusive jurisdiction of the courts of England and Wales.

# Expiry date

The investors are requested to confirm their acceptance of these terms within 14 days of the date of this letter, failing which our proposal will lapse.

# Exclusivity

In consideration of any investors (who have signed this term sheet) expending legal and other fees in progressing this Investment ("**Costs**"), the Founders and the Company agree that they will not directly or indirectly until the earlier of the expiry of 30 days from the date of acceptance of the terms of this proposal or the date that the investors notify the Company of their intention not to proceed with this proposal, solicit, directly or indirectly, further offers for purchase and/or subscription of shares in the Company (or any part thereof) or any material part of the business, assets or undertakings of the Company or enter into or continue to seek negotiations with any party other than the first investors to sign term sheets in respect of the total £[INSERT FIGURE] Investment sought.

# No intention to create legal relations

Except for the provisions of paragraphs 4 to 9 which shall, upon execution, be legally binding obligations between the parties, this term sheet sets out indicative terms only in respect of which an investment in the Company may be made and will not give rise to any contract between us.

# Exclusion of representations and warranties

By accepting this proposal you acknowledge that you have not relied on any representation or warranty on our part or entered into any other agreement with us (other than a non-disclosure and non-circumvention agreement) in connection with the provision of funding.

To confirm your acceptance of the terms of this proposal please sign and date the duplicate copy of this term sheet and return it to us both by email and by post.

…………………………………………………… ……………………………………………

Signed by the CEO for and on Date

behalf of the Company

To: The CEO (on behalf of the Company)

We hereby acknowledge and accept the terms of the above term sheet.

…………………………………………………… Date ………………………………

Investor

………………………………………………… Date ………………………………

Investor

………………………………………………… Date ………………………………

Investor

Rights attaching to Ordinary Shares

*Voting:* The ordinary shares will have one vote per share ("**Ordinary Shares**").

*Dividends:* Any dividends or distributions will be payable to all shareholders on a pro rata basis as a single class.

*Liquidation or a return of capital:* On a liquidation or a return of capital, surplus assets will be paid to all shareholders on a pro rata basis as a single class.

*Sale of assets:* Upon a sale of all or substantially all of the assets of the Company, if any or all of the assets of the Company are distributed by way of a winding up or by way of a dividend, they shall be distributed to all shareholders on a pro rata basis as a single class.

*Sale of shares:* Upon a sale of shares involving a change in control, the holders of Ordinary Shares will receive from the proceeds of sale an amount equalling the valuation of each of their Ordinary Shares held pursuant to the price paid by the acquirer.

*Pre-emption rights on new issues*: Investors will have the right to participate with the holders of Ordinary Shares in any new issue of securities pro rata to their holding of shares including the right to acquire excess securities not accepted by other shareholders of the Company. If this right has not been accepted by existing shareholders within the relevant time period, the Company may then issue shares (at the same valuation and on the same terms as offered to the existing shareholders) to new shareholders.

*Pre-emption rights on transfer*: Subject to customary permitted transfers including transfers by Investors to affiliated funds, all shareholders will have a right of first refusal to acquire any shares of the Company which are proposed to be transferred or sold including the right to acquire any excess shares not accepted by any other shareholder.

*Co-sale:* Investors will have co-sale rights such that if any shareholder has an opportunity to sell any of his shares, Investors must be given the opportunity to sell a pro rata proportion of the number of shares being sold by such shareholder on the same terms and at the same price.

*Drag-along:* If the holders of more than [INSERT FIGURE]% of the Ordinary Shares agree to sell their shares, there will be drag along rights so that all remaining shareholders and option holders will be required to sell their shares to the same purchaser.

Warranties

The Company will warrant the following customary items for the investors:

Share capital

Group structure

Information

Agreements, commitments and liabilities

Intellectual property

Employment and consultancy arrangements

Contracts with connected persons

Assets and debts

Litigation

Taxation

Statutory and legal requirements

Insurance

The above items are not comprehensive and are only intended to provide a guide to the warranties that are likely to be included in the Investment Agreement. The objective of these and other warranties will be to ensure that the Company has provided the investors with accurate information (in the disclosure letter) on matters upon which the investors have based their investment decision, as well as limiting the liability of the Company for what would otherwise be a breach of warranty in the absence of an adequate disclosure in the disclosure letter.

Important decisions

* + 1. Investor Majority

The prior written consent of the Investor Majority will be required to:

* + - * 1. Alter rights attaching to its shares.
        2. Change share capital.
        3. Amend articles of association.
        4. Declare dividends.
        5. Acquire or dispose of any shares of any other company.
        6. Acquire or dispose of the undertaking of any other person or merge with any undertaking.
        7. Wind up the Company.
        8. Adopt a budget and forecast of each financial year.
        9. Incur capital expenditure exceeding £[INSERT FIGURE].
        10. Dispose of any asset with a value greater than £[INSERT FIGURE].
        11. Make any change of trade.
        12. Establish any new branch, agency or business.
        13. Appoint an employee or consultant or vary terms where emoluments and/or commissions or bonuses are likely to exceed £[INSERT FIGURE].
        14. Agree any borrowings, loans, advances or credit outside the ordinary course of business, or in excess of £[INSERT FIGURE].
        15. Create charges.
        16. Enter into or vary any unusual or onerous agreement or any material or major or long term contract.

Materiality and other financial limits for the above to be discussed. The above items are not comprehensive and are only intended to provide a guide to the consent items that are likely to be included in the Investment Agreement.

Rights attaching to shares held by the Founders

*Vesting*: The shares in the Company held by the CMO shall vest in accordance with clause 1.2 of this term sheet and the Company shall provide investors with further details once this term sheet is executed.

*Bad Leaver:* Means a Founder who ceases to be an employee, director or consultant of the Company within a period of 3 years of completion of the Investment by reason of: (a) voluntarily resigning or (b) dismissal by the Company by reason of breach of contract or (c) if he is neither an employee nor a consultant is in material breach of the schedule of actions in Appendix 3 he has agreed to undertake and within one month has not rectified such breach, in which case the Founder’s shares shall be acquired by the Company at the same valuation as achieved at the Company’s last fundraising round.