

VC Development Inc.
83281 7597 Nova Scotia Inc.
d/b/a/ "VCD Inc"

1250 Grand Lake Road
CS 107 Verschuren Centre,
Cape Breton University
Sydney, Nova Scotia, B1P 6L2

[DATE]

**CONVERTIBLE DEBENTURE FINANCING
TERM SHEET [DATE]**

This term sheet (the "**Term Sheet**") summarizes the principal terms of a proposed \$xx investment in [COMPANY] (the "**Company**") by VC Development Inc., d/b/a/ "VCD Inc.", or together with any of its affiliates or related parties, either individually or as a group (collectively the "**Investors**"). This Term Sheet is for discussion purposes only and, except for the terms in the sections entitled "Confidentiality", "Governing Law", "Termination" and "Non-Solicitation" is not intended to be binding or to create or evidence a binding obligation or agreement. All dollar amounts referred to herein are in Canadian dollars.

Issuer: [COMPANY] (the "**Company**")

Type of Securities: Convertible Debentures (the "**Debentures**")

Investment Amount: Up to \$xx.

Terms of Debentures: The Debentures shall be in a form customary for transactions of this type and reasonably acceptable to the Company and the Investors, and shall contain the following terms:

Interest – The principal amount outstanding from time to time under the Debentures shall bear interest at an annual rate of ten percent (10%), cumulative, compounded monthly (the "**Interest**") until the Obligations (as defined in the Debentures and including any Interest accrued thereon) are satisfied in full by the Company.

Maturity – Earlier of: (i) [DATE] (provided that the Investors shall have the right to extend this date for an additional period of up to 12 months on 3 separate occasions); (ii) the date of the Company's completion of a Qualified Financing; and (iii) the date of the Company's completion of a Sale Transaction.

For purposes hereof:

"Qualified Financing" means an equity financing of the Company pursuant to which equity securities of the Company are issued to an investor or investors and the proceeds received by the Company in connection therewith is not less than \$500,000 (excluding any amounts received upon the conversion of outstanding convertible debentures or convertible securities (including the Debentures)).

"Sale Transaction" means the happening of any of the following events: (i) any transaction pursuant to which (A) the Company goes out

of existence or (B) any person, or any associate or affiliated corporation of such person (as those terms are defined in the *Canada Business Corporations Act* (the “CBCA”), (other than the Company, a subsidiary of the Company or an employee benefit plan of the Company (including any trustee of such plan acting as trustee)) hereafter acquires the direct or indirect “beneficial ownership” (as defined in the CBCA) of securities of the Company representing 50% or more of the aggregate voting power of all of the Company’s then issued and outstanding securities; (ii) the sale of all or substantially all of the Company’s assets to a person other than a person that was an affiliated corporation of the Company; (iii) the dissolution or liquidation of the Company except in connection with the distribution of assets of the Company to one or more persons which were affiliated corporations prior to such event; or (iv) the occurrence of a transaction requiring approval of the Company’s shareholders involving the acquisition of the Company by an entity through purchase of assets, by amalgamation or otherwise.

Conversion – The Debentures will be convertible at the option of the Investors or upon the Company’s completion of a Qualified Financing or a Sale Transaction.

Qualified Financing - Upon the completion of a Qualified Financing, the principal and Interest of the Debentures will be automatically convertible into the class of shares to be issued in connection with the Qualified Financing, at a price per share equal to the lower of: (A) the price at which such shares are issued in connection with the Qualified Financing; and (B) the pre-money price per share of the Company assuming a \$1.0 million pre-money valuation (calculated on a fully diluted basis); in each case, less a discount of twenty five percent (25%).

Sale Transaction – Upon the completion of a Sale Transaction prior to the completion of a Qualified Financing, the Debentures may be converted at the option of the holder into that number of Common Shares of the Company equal to the principal amount of the Debentures, divided by the lower of: (A) the price per common share of the Company in the Sale Transaction; and (B) the pre-money price per common share of the Company assuming a \$1.0 million pre-money valuation (calculated on a fully diluted basis); in each case, less a discount of twenty five percent (25%).

Optional Conversion – The Debentures may be converted at option of the holder at any time into the senior ranking class of shares of the Company at a price per share equal to the lower of:

- A. the price per share paid to the Company for such shares at the last external financing completed after the date of the Debenture; and
- B. the pre-money price per share of the Company assuming a \$1.0 million pre-money valuation (calculated on a fully diluted basis) (if there have been no external financings after the date of the Debenture, then the price per share shall be the pre-money price per share of the Company assuming a \$1.0 million pre-money valuation (calculated on a fully diluted basis)); in each case, less a discount of twenty five (25%).

Other Debt Financings. In the event of any new debt financings, the Investors shall have the right, but not the obligation, to convert the Debentures into new debentures (or other debt securities) issued by the Company having the same terms as the debt securities issued pursuant to such new debt financing.

Security – at the option of the Investors, the Debentures shall be secured by a general security interest over all of the Company’s assets (including intellectual property).

Use of Funds:

Ordinary working capital purposes, subject to certain restrictions/approvals in favour of the Investors to be provided for in the Debentures.

Observer Rights:

The Investors shall be entitled to appoint one observer who shall have the right to attend all meetings of the Board of Directors of the Company (the “**Board**”) and any committee thereof and to receive all information provided to the Board or any committee thereof, which information shall be provided concurrently with the provision of such information to the Board or the applicable committee.

Information Rights:

The Investors shall be entitled to receive certain financial information of the Company as the Investors may reasonably request, including, without limitation, annual and quarterly financial statements or reports, and monthly bank and customer reports.

Participation Rights:

The Investors shall have the right (but not the obligation) to participate (based on their percentage equity ownership of the Company on a fully diluted and as-if converted basis) in all subsequent financings of the Company.

Confidentiality:

The Investors, and the Company on its own behalf and on behalf of its representatives, employees and agents, agree to keep confidential the contents of this Term Sheet and the discussions and negotiations related thereto. Any press release or other public statement issued by the Company relating to this Term Sheet or the transactions contemplated hereby shall be approved in advance by the Investors.

Purchase Agreement:

This investment shall be made pursuant to a Subscription Agreement in a form customary for transactions of this nature, in such form as is reasonably acceptable to the Company and the Investors, which shall include, among other things, appropriate representations and warranties of the Company.

Conditions Precedent to Closing:

The closing shall be subject to the following conditions: (i) the Investors have completed and are satisfied, in their sole discretion, with their technical, legal and financial due diligence review of the Company; (ii) completion of customary legal documentation satisfactory to the Company and the Investors; (iii) no material adverse change in the Company’s business prospects shall have occurred between the signing of this Term Sheet and the closing; and (iv) all founders, employees, consultants, advisors and any other person involved in the development of the Company’s intellectual property shall have signed assignment agreement in favour of the Company; (v) all employees and consultants of the Company shall have entered into employment and/or consulting agreements with the Company; (vi) all shareholders of the Company

shall have entered into a shareholders agreement (vii) the Company shall, prior to the closing, establish an employee stock option pool and the number of options available to be granted pursuant to such plan shall be equal to ten (10%) of the issued and outstanding common shares of the Company, inclusive of any option granted to date; and (vii) satisfaction of other customary closing conditions.

Governing Law:

This Term Sheet is, and the definitive agreements will be, governed by and will be construed in accordance with the laws of the Province of Nova Scotia and the laws of Canada applicable therein.

Termination:

This Term Sheet will expire at 5:00 p.m. (AST) on [DATE], unless executed and returned by the Company to the Investors prior to such time and date.

Non-Solicitation:

Between the date hereof and the execution of the definitive agreements, the Investors will incur significant costs and expenses in connection with the proposed transaction. In consideration for the foregoing, during the period beginning on the date the Company has executed this Term Sheet and ending on the closing date of the transactions contemplated by this Term Sheet, without the prior consent of the Investors, neither the Company nor any of its directors, officers, employees, shareholders, agents or representatives will solicit, encourage or entertain proposals from or enter into negotiations with or furnish any nonpublic information to any other person or entity regarding any financing involving the Company or any of its affiliates, including the possible sale or acquisition of any of the Company's capital stock or any other equity interest in the Company or any of its affiliates, or a merger, amalgamation, consolidation or business combination involving the Company or any of its affiliates, or a sale of all, substantially all or a substantial part of the assets of the Company or any of its affiliates, or any similar transaction.

Closing:

To close in one or more installments, with the first closing to occur on or about [DATE].

Sincerely,

Name
Secretary, VC Development Inc.
d/b/a/ "VCD Inc."
I have authority to bind the Investors

As of this _____ day of _____, 20_____, the undersigned hereby acknowledges that the proposed terms presented in this Term Sheet are acceptable as a basis for negotiating an investment by the Investors in the Company and agrees to be legally bound by those terms under the heading “Confidentiality”, “Governing Law”, “Termination” and “Non-Solicitation”.

[COMPANY]

By: _____
Authorized Signatory

SIGNATURE PAGE TO CONVERTIBLE DEBENTURE TERM SHEET