

DRAFT TERM SHEET

Issue:	Series A Convertible Preference Shares.
Valuation:	The investment is based on a pre-financing valuation of A\$7.5 m.
Post-Financing Capitalisation Table (fully diluted):	VC: 40% (Series A Preference) Founders: 55% (Ordinary) ESOP: 5% (Ordinary)
Proceeds / Staged Funding:	The funding shall be staged as follows: i) A\$2.5m on closing; and ii) A\$2.5m following achievement of the performance milestones.
Preference Dividend Rate:	10% cumulative, payable upon the redemption or buy back of the Series A Preference Shares.
Dividend Participation:	Series A Preference Shares will participate in ordinary dividends on an as if converted basis.
Preference Share Rights:	Investors have the right to vote with the ordinary shareholders, on an as if converted basis.
Board Representation:	There will be 5 directors. The holders of the Series A Preference Shares shall be entitled to appoint 2 directors.
Exit Acceleration:	3 years from closing, the Investors have the right to appoint an Exit Committee of directors to develop exit proposals.
Expenses:	Subject to a cap of A\$50,000, Company shall pay the Investors' costs and expenses in relation to the issue.
Conditions Precedent:	Closing is subject to conditions precedent including the following: <ol style="list-style-type: none">(1) minimum committed financing of A\$5,000,000 from Investors and Co-Investors;(2) satisfactory completion of legal, accounting, IP and other due diligence;(3) satisfactory service contracts, non-competes and share restriction agreements with key employees;(4) agreement of a final business plan and projections;(5) conversion into equity or forgiveness of any outstanding loans, performance fees and/or bonuses;(6) receipt of all required investment approvals of each Investor;(7) establishment of ESOP and initial option allocations;(8) satisfactory proprietary information and invention assignment agreements from all officers, consultants and employees.

Liquidation Preference: Should any insolvency related or liquidation event, sale of the assets and undertakings, sale of a controlling stake in the Company, merger with another company, selective buyback of more than 50% of as converted fully diluted shares or other restructuring transaction occur, Series A Shares rank in priority to all ordinary shares until the amount invested by the Investors has been repaid (“the Series A Preference Amount”). Thereafter ordinary shares on issue at closing shall have priority until their paid up capital is repaid. Thereafter, any remaining amounts would be distributed pro rata among the holders of the Series A Shares and ordinary shares on an as-converted basis.

[Option A: No catch up round for ordinary Shareholders]

[Option B: Cap on participation of Series A Shares]

Veto Rights: The Company will not take nor agree to take any of the following actions without the prior written consent of holders of at least 80% of the Series A Shares then outstanding:

- (1) Any sale of all or substantially all the Company’s assets;
- (2) Any authorization or issuance of any new Series A Shares or shares of any class or series ranking senior to or in parity with the Series A Shares in dividend or liquidation rights, including reclassification of existing shares;
- (3) Any change in the size, term, or manner of election of the Board of Directors;
- (4) Payment of dividends to holders of Series A Shares or ordinary shares;
- (5) The appointment or removal of any Chief Executive Officer (“CEO”) or member of the management team;
- (6) Any material variations to the Annual Plan and 3-yr Plan.

Adverse Trading: An adverse trading situation exists if:

- (1) Monthly management accounts for the Company project a negative free cash flow from operations within the following 3 months which cannot be met from existing sources of committed finance; and where the Board has not reached agreement, within 30 days of the first Board meeting at which those management accounts are considered, on a financial and operating plan to redress the situation; or
- (2) The Company fails to meet its budgeted EBITDA projections by an adverse variance which is greater than 50% of plan over a period of 6 months.

In such circumstances Investors may, by unanimous vote, require the Board to terminate the CEO and hire a replacement.

Share Repurchase Option: The Key Executive Shareholders will enter into a side agreement with the Company concerning the repurchase of some or all of their ordinary shares upon cessation of their employment with the Company, based on the period of their service and the circumstances of their departure, on terms acceptable to the Investor.

Representations and Warranties: The Company and the Key Executive Shareholders will jointly and severally provide normal commercial representations and

warranties acceptable to the Investors relating to the disclosure of all relevant information regarding the business. Included would be the absolute knowledge and proper recording of all material liabilities and assets, absolute knowledge of and notification of all contingencies, and absolute knowledge of and complete ownership of intellectual property rights.

The Investors will not provide any warranties.

Advisory Fees:

Total capital raising fees payable in cash by the Company upon investment, to the advisors or any shareholder, investor, director or their affiliates of the Company will be limited to 2% of the amount invested in any tranche under this round of funding by the Investors (this excludes legal, accounting, due diligence or other like costs of the transaction).

This provision should not be seen in any way to restrict the amount of cash that may be paid by existing shareholders to any party in relation to capital raising fees. Any capital raising fees paid in equity by the Company will not dilute the Investors' shareholdings.

Exclusive Period:

From the date of signing of this Term Sheet, for a period of 30 days, none of Company, its shareholders, directors, officers, contractors or employees will conduct any discussions whatsoever with any third party regarding an investment in Company.

Confidentiality:

Subject to the Exclusive Period provision above, the contents of this Term Sheet, or the fact that one has been issued, are not to be disclosed to any third party by Company, its shareholders, directors, officers, contractors or employees.

Binding Nature:

Other than the above provisions regarding Expenses, Exclusive Period, Confidentiality and Governing Law, this term sheet will not be binding upon any party or give rise to any legal obligation of any party.

OTHER PROVISIONS

Investors' Option to Redeem:

In the event of a change in control, a merger, consolidation or other combination by Company, any wind-up, liquidation, dissolution, trade sale, or transfer of all or substantially all of Company's assets, Investors shall have the option to:

- i) convert to ordinary shares and receive their pro rata distribution in connection therewith; or
- ii) receive 100% of the issue price of the Series A Preference Shares, plus accrued but unpaid dividends up to and including the date of such event.

Investors' Option to Convert:

At the Investors' option, at any time prior to redemption, the Series A Preference Shares will be convertible into ordinary shares of Company at the Conversion Price.

Conversion Price:

The Series A Preference Shares shall be converted into ordinary shares of Company at a pre-money, fully diluted valuation of A\$7.5m. That is, they would convert to 40% of ordinary shares if all outstanding securities were exercised/converted immediately following closing.

Anti-Dilution Provisions:

Pre-emptive Rights:

Drag Along:

Tag Along:

Founder Escrow:

For and on behalf of Company

For and on behalf of VC

Note: This model document was taken from the web site of the National Venture Capital Association (www.nvca.org) and an Australian source.

The model documents aim to:

- reflect and in a number of instances, guide and establish industry norms
- be fair, avoid bias toward the VC or the company/entrepreneur
- present a range of potential options, reflecting a variety of financing terms
- include explanatory commentary where necessary or helpful
- anticipate and eliminate traps for the unwary (e.g., unenforceable or unworkable provisions)
- provide a comprehensive set of internally consistent financing documents
- promote consistency among transactions
- reduce transaction costs and time

DISCLAIMER: EACH DOCUMENT IS INTENDED TO SERVE AS A STARTING POINT ONLY, AND SHOULD BE TAILORED TO MEET YOUR SPECIFIC REQUIREMENTS. THE DOCUMENTS SHOULD NOT BE CONSTRUED AS LEGAL ADVICE FOR ANY PARTICULAR FACTS OR CIRCUMSTANCES.