



Reskuba Convertible Note Term Sheet

November 2023

A convertible note is a financial instrument typically, where investors provide a loan to a company, which can later be converted into equity shares. This conversion usually occurs during a subsequent funding round, often at a discounted price compared to the valuation set for new investors in that round.

Unlike ASAs, which are direct payments for future shares, convertible notes are structured as loans and accrue interest over time. Upon conversion, both the principal amount and the accrued interest are converted into equity. Convertible notes are often favoured for their simplicity in early-stage financing but do not qualify for tax incentives and protections like those afforded by the EIS Scheme, which are specific to ASAs.

Convertible Note Terms:

- 1. Loan Amount:** Investors agree to extend a loan to the company (minimum amount is £1,000), herein referred to as the 'Principal Amount', subject to the terms and conditions of this note.
- 2. Interest Rate:** The Principal Amount shall accrue interest at an annual rate of 10%, calculated on a 365-day year basis, compounded annually.
- 3. Conversion Event:** The Principal Amount, along with accrued interest, shall be eligible for conversion into equity shares of the company at the occurrence of the company's next equity financing round, anticipated to be "Series A".
- 4. Discount on Valuation:** At the time of conversion, the total amount (Principal plus accrued interest) shall convert into equity at a rate reflecting a 20% discount to the pre-money valuation established in the next funding round, thereby providing note holders with a greater number of shares compared to new investors.
- 5. Valuation Cap:** The conversion rate for the total amount shall be subject to a maximum valuation cap of £8M. Accordingly, if the pre-money valuation of the company in the subsequent funding round exceeds £8M, the conversion rate shall be calculated based on the capped valuation of £8M.

Reskuba Limited

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6. **Repayment or Conversion Period:** The option to convert or seek repayment of the Principal Amount and accrued interest is available for a period of up to 12 months from the issuance date of this note.

7. **Non-Conversion Scenario:** Should the note holder elect not to convert within the specified conversion period, the company shall reserve the right, post-maturity, to repay the total amount (Principal plus accrued interest) at its discretion. The conversion value, if opted for after the initial conversion window, shall be determined based on the valuation at the close of the said window.

8. **Legal and Regulatory Compliance:** This note, and all transactions related hereto, shall be governed by, and construed in accordance with, the laws of England and Wales. The parties hereby agree to adhere strictly to all applicable legal and regulatory requirements in the execution and performance of their obligations under this note.