Scottish Enterprise (“SE”), supported by the Scottish Government, is making additional funding available to start-up and early stage growth companies that require bridge funding to overcome the short-term impacts of COVID-19. The funding which is available is a combination of grant and convertible loan funding (the “Funding”) and this document sets out the draft headline terms for the Funding. The Funding is being provided under the European Commission Temporary Framework for state aid measures to support the economy in the current COVID-19 outbreak (adopted on 19 March 2020 and amended on 3 April 2020 and 8 May 2020) (the “Temporary Framework”).

These terms do not represent an offer of funding or a binding commitment to provide funding to any company.

<table>
<thead>
<tr>
<th>ELIGIBILITY</th>
<th>The proposed recipient of the Funding (the “Recipient”) must satisfy SE’s eligibility criteria (the “Eligibility Criteria”). The Eligibility Criteria is set out at the following page: Early Stage Growth Challenge Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SE will also need to be satisfied that any funding that the Recipient receives from the Early Stage Growth Challenge Fund will not exceed the Temporary Framework limit of €800,000 (€120,000 for companies active in the fishery and aquaculture sector or €100,000 for companies active in the primary production of agricultural products) when combined with any other COVID-19 support received by the Recipient.</td>
</tr>
<tr>
<td>AMOUNT OF FUNDING</td>
<td>The maximum amount of Funding provided by SE will be £300,000. The Funding shall be provided by way of (a) loan, or (b) a combination of grant and loan, based on the Recipient’s application.</td>
</tr>
<tr>
<td>LOAN SIZE</td>
<td>The minimum amount of the loan provided by SE will be £50,000 and the maximum amount will be £300,000.</td>
</tr>
<tr>
<td>GRANT SIZE</td>
<td>The minimum amount of the grant provided by SE will be £0.00 and the maximum amount will be £60,000. The grant will make up a maximum of 20% of the total Funding.</td>
</tr>
<tr>
<td>PURPOSE OF THE FUNDING</td>
<td>The Loan is to be used in relation to the Recipient’s ongoing business in line with the cashflows and any other information submitted in the Recipient’s application for the Funding and supporting documents. The Grant is to be used for eligible costs (being salary costs, overheads, materials, consultants and subcontractors, fees for trials and testing, technical manuals, intellectual property</td>
</tr>
</tbody>
</table>
costs, market assessment, training costs, travel costs and expenses, accountancy fees, equipment costs, equipment expenditure and leased equipment, in relation to research & development activities as outlined in the Recipient’s business plan and supporting information) as set out in the application guidance and for no other costs whatsoever.

COSTS THAT FUNDING CANNOT BE USED FOR

The Funding cannot be used to:

• pay any personal costs or any costs unrelated to the Recipient;
• repay any financial indebtedness (including, but not limited to, bank borrowings, venture debt funding and any director, shareholder or other related party loans) other than in the ordinary course of business;
• make any dividends, other distributions or transfer of funds to shareholders or associated companies, make any bonus or other discretionary payment, whether via an advisory or bonus fee, to any employee, consultant, contractor or director of the Recipient other than in accordance with any of its contractual obligations in effect prior to the date of the application and in the ordinary course of business;
• pay for acquisitions other than assets in the normal course of business; or
• pay advisory fees, placement fees or bonuses to any corporate finance entity, investment bank or similar service in connection with the Funding.

CONVERSION OF THE LOAN

SE will have the right (but shall not be obliged) to convert all or part of the Loan (and all accrued interest) into shares in the following circumstances:

a) on a Funding Round, share sale or listing (each a “Conversion Event”), at a conversion discount of 15% (the “Discount Rate”) to the price set by any Funding Round, share sale or listing prior to repayment of the loan;

b) on an asset sale or at any time during the term of the loan (including, for the avoidance of doubt, on maturity), either (i) at the Discount Rate to the lowest price set by any Funding Round during the term of the loan; or (ii) in the event there has been no Funding Round at the point at which SE elects to convert its loan or at the date of the asset sale, the parties will in good faith seek to agree a “fair value” valuation to which the Discount Rate will be applied, failing which a valuation shall be carried out by an independent expert. The costs of the independent expert shall be borne by the Recipient unless, following its determination SE decides not to proceed with the conversion.
In the case of a Conversion Event following upon a Funding Round, the capital and interest shall convert, at SE’s discretion, into either (i) the class of shares issued under that Funding Round; or (ii) the most senior class of shares in the capital of the Recipient in respect of capital and dividends from time to time (“Senior Shares”).

In all other circumstances, the capital and interest shall convert, at SE’s discretion, into (i) Senior Shares, or (ii) ordinary shares.

| **FUNDING ROUND** | A Funding Round shall take place where the Recipient raises equity investment by arms-length, third party investors. For the avoidance of doubt, this does not include any shares issued pursuant to the conversion of the loan or the exercise of any options or warrants in the share capital of the Recipient. |
| **RIGHTS ON CONVERSION** | If SE converts its loan and accrued interest into equity at a Funding Round, or at a time thereafter, SE will receive the same rights and protections as the investors in that round and the Recipient will undertake to act in good faith to effect this in consultation with SE. |
| **LOAN TERM** | The maturity date of the loan will be 36 months from drawdown (the “Maturity Date”) at which point the Recipient will repay the loan (together with accrued interest) in full in one amount, unless otherwise converted into shares prior to or at the Maturity Date in accordance with the terms of the loan. |
| **PREPAYMENT OF THE LOAN** | The Recipient shall, with SE’s prior consent, be entitled to prepay all (but not part) of the loan (together with accrued interest) prior to the Maturity Date. In the event that there is a subsequent sale or listing within 6 months such that the amount SE was repaid is less than it would have been entitled to on the sale or listing had its loan converted to equity, the Recipient shall pay to SE an amount equal to such shortfall. |
| **LOAN INTEREST** | The loan shall be interest free for the first 12 months following drawdown. Thereafter, the rate of interest payable on the loan shall be 8% per annum. Interest shall roll up and either be converted or repaid (as appropriate) at the same time as the capital. Default interest of 5% may (at SE’s discretion) be charged in the event the loan is not repaid when due under the terms of the loan. |
| **SECURITY** | Unsecured |
| **EVENTS OF DEFAULT** | SE shall be entitled to demand immediate repayment of the grant and/or the loan (and accrued interest thereon) on the occurrence of certain events of default related to: |
  * the sale or listing of the Recipient |
- non-payment
- breach of the terms of the agreement
- misrepresentation
- cross-default
- insolvency events
- the Recipient ceasing or substantially reducing the scale of its operations at its nominated business location or any of its other business premises in Scotland
- requirements under state aid rules

The above list is not exhaustive.

### REPRESENTATIONS AND WARRANTIES

The Recipient shall provide limited representations and warranties which shall broadly be in respect of:

- meeting the eligibility criteria
- the requirement of the loan and the grant
- status, power and authority
- information provided pursuant to the agreement in relation to the Funding
- no litigation or insolvency events
- share capital
- intellectual property rights
- insolvency
- compliance with laws and regulations
- the borrowing facilities of the Recipient

The above list is not exhaustive.

### UNDERTAKINGS

The Recipient shall provide certain undertakings which shall broadly be in respect of:

- provision of information to SE
- access to premises and accounting records
- business review meetings and calls
- KYC checks
- the operation of the Recipient’s business.
- publicity, marketing or other forms of communication in which SE is referenced in connection with the Recipient
- maintaining adequate insurance
- compliance with the contract, laws and regulations
- use of the Funding

The above list is not exhaustive.

### INFORMATION REQUIREMENTS

Throughout the duration of the loan, or whilst SE holds shares in the Recipient following conversion of the loan into equity (as applicable), the Recipient will, as a minimum, provide SE with the following:

- its monthly or quarterly management accounts (as applicable);
- audited accounts or, in the absence of audited accounts, full (unabbreviated) unaudited accounts;
The above list is not exhaustive.

The Recipient shall also supply an annual report, prepared by a firm of accountants, which sets out the purposes for which the Funding has been applied by the Recipient.

**SE OBSERVER RIGHT**

SE will have the right (but not the obligation) to appoint an observer to the board of the Recipient and any group company upon conversion of the loan (or any part of the loan) into shares. The observer will be entitled to receive board pack information, attend board meetings, participate in discussions, but will not be entitled to vote. The appointment of an observer shall be at no cost to the Recipient.

**ASSIGNATION**

SE will have the ability to transfer any of its rights and benefits under the contract to any member of the Scottish Enterprise group at any time. The Recipient may not transfer any of its rights and benefits under the contract without SE’s prior written consent.