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## **BOND**

### **WITH THE RIGHT TO CONVERT THE DEBT IN TO SHARE CAPITAL PURSUANT TO CHAPTER VI. OF ACT NO. 138/1994 ON LIMITED LIABILITY COMPANIES AND WITH DIRECT ENFORCABILITY**

The undersigned issuer [debtor / applicant] ehf. id. no [ ], [ ] ("**Debtor**"), does hereby acknowledge, unilaterally and unconditionally, to owe [investor] id. no [ ], [ ] (or whoever may later acquire this bond (the "**Creditor**"),

kr. [ ]

[amount in letters]

(the "**Loan Amount**")

and commits to pay the Creditor the entire debt amount with interest and together with all costs relating to the debt amount according to this Bond, according to the following terms:

#### **1 BACKGROUND**

- 1.1 This Bond is issued following the Debtor's application for a matching convertible loan [further reference when information is available], which means that the New Business Venture Fund provides a loan to the Debtor ("**Matching Convertible Loan**") parallel to the fact that the investor/s has either (a) granted a loan to the Debtor ("**Investor Loan**") in accordance with the terms of the Matching Convertible Loan or (b) has participated in the Debtor's share capital increase for an amount of least the amount of this Bond, in both cases, after 1 March 2020.
- 1.2 The Debtor intends to apply for a Matching Convertible Loan. The purpose of the issuing of this Bond is to meet the aforementioned terms of Investor Loan.
- 1.3 This Bond is issued in accordance with the decision of the Debtor's shareholders meeting which was held on [date] 2020.

#### **2 THE LOAN AMOUNT AND PAYMENT**

- 2.1 The Loan Amount [shall] [has been] paid out in one total sum to the Debtor [after the signing of this Bond].<sup>1</sup>
- 2.2 The entire Loan Amount shall be transferred to the Debtor in accordance with his instructions. No arrangement fee or other fees shall be paid upon the disbursement of the Loan Amount.

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<sup>1</sup> The wording in the square brackets depends on whether the Loan amount has already been paid to the Debtor.

### **3 REPAYMENT / DUE DATE**

- 3.1 The Debtor undertakes to repay the Creditor the Loan Amount with one payment plus interest on [up to 36 months from the date of this bond] (the "**Due Date**"), if the debt has not already been converted into share capital in the company according to Art. 5 of this Bond. [Creditor may postpone the Due Date for 12 months at a time, with a written notice to the Debtor, which shall have been delivered to the Debtor at least [ ] months before the Due Date, [but not more often than [ ]].]<sup>2</sup>
- 3.2 The place of payment is at the Creditor. All Debtor's payments according to this Bond shall be undiminished, i.e. without reduction, whether due to tax payments or other payments that the Debtor must pay due to this debt, set-offs or counterclaims.
- 3.3 The Debtor may repay the Loan Amount plus interest, in part or in full, for twelve months from the date of issue of this Bond. After that time, the Debtor is not allowed to pay in advance the Loan Amount or interest, without the consent of the Creditor.

### **4 INTEREST AND INTEREST DUE DATE**

- 4.1 The Loan Amount bears an annual rate of interest which shall be [●]% that calculates on the principal from the date of payment. Interest are calculated annually and is added to the principal every 12 months. Interest shall be paid together with the principal on the Due Date. The calculation of interest shall take into account the total principal and interest according to the above.

### **5 THE RIGHT TO CONVERT THE DEBT INTO SHARE CAPITAL**

- 5.1 Creditor may convert the Loan Amount, in addition to accrued and unpaid interest, into share capital in the Debtor instead of having the Loan Amount repaid in the following cases.
- 5.1.1 A decision of the shareholders to increase share capital, issue debt instruments with conversion rights or subscription rights, or that the Debtor undertakes in any other way to issue new share capital at a certain price during the loan period, such as through a merger ("**Share Capital Decision**"), the Creditor is permitted to convert, in part or in total all of the Loan Amount, together with interest, based on the lowest conversion rate that has been determined according to the aforementioned, but in addition with a **20% discount** from the lowest conversion rate mentioned in the Share Capital Decision (the conversion rate).

The Debtor shall notify the Creditor of the Share Capital Decision in a verifiable manner, without delay, and the Creditor has 14 days from the date which he has received the notification to notify the Debtor of whether he is exercising his authorization.

If the Creditor has requested information from the Debtor, cf. Art.

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<sup>2</sup> The wording in the square brackets is optional. If nothing is selected, the wording in the square brackets is deleted.

7.2.7. of this Bond, within 3 days of the Debtor notifying the Creditor of the Share Capital Decision, the Debtor shall hand over the requested information within 3 days of the request. If that fails, the Debtor shall hand over the requested information as soon as possible but the aforementioned 14-day deadline is extended by as many days as the requested information has been delayed by that time.

- 5.1.2 [If the Debtor ends a share capital increase in such a way that he has received an amount in cash amounting to at least the total sum of the principal of this Bond and the Investor Loan, all the Loan Amount, together with accrued interest, shall be converted into share capital in the Debtor based the lowest conversion rate determined in the share capital increase but also with the discount of that which is higher (a) **20% discount** of the lowest conversion rate referred to in the relevant share capital increase or (b) a **discount** equal to the proportion obtained by dividing [the amount] with the total number of shares in the company but in a way that the total number of shares shall be based on that (1) all debt instruments with conversion rights have been converted into shares, (2) all call-options and subscription rights, for shares in the company, have been exercised and that shares have been issued for them and (3) the number of shares that the Board may issue, other than for this Bond and the Matching Convertible Loan has been issued (conversion rate) (shares shall not counted twice, according to the above).<sup>3</sup>

[OR]

[If the Debtor ends a share capital increase in such a way that he has received an amount in cash amounting to at least the total sum of the principal of this Bond and the Investor Loan, then all of the Loan Amount, together with interest, shall convert into shares based on the lowest conversion rate which has been determined in the share capital increase but also with a **20% discount** of the lowest conversion rate originating from the

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<sup>3</sup> Example:

*Assumptions for the example.* The total share capital of the debtor before the share capital increase is ISK 50.000.000 nominal value and the nominal value of each share is ISK 1. The debtor has issued (1) call-options for 2.000.000 new shares, (2) a convertible bond for ISK 5.000.000, which is convertible into 700.000 new shares and the debtor has authorization to issue 3.000.000 new shares according to its articles of association and this authority includes, *inter alia*, issued call-options and convertible bonds. The debtor completes the share capital increase and receives 100.000 in cash. The share capital increase exchange rate is 10, so the subscribers will receive 10.000.000 new shares. The total sum of the principle and interest on the bond and the investor loan is ISK 70.000.000 (35.000.000 + 35.000.000). The debtor and the investor / investors agree that the amount in the provision, which shall be divided by the total number of shares, shall be ISK 12.000.000. The outcome of the example. Based on the assumptions above, the discount is 22,64% ( $12.000.000 / 50.000.000 + 2.000.000 + 700.000 + 300.000$ ). The total number of shares is therefore 53.000.000, i.e. the total number of shares corresponds to issued share capital (50.000.000), call-options (2.000.000), convertible bonds (700.000) and the authorization of the board (3.000.000 - 2.000.000 - 700.000) (shares shall not be reduplicated, or counted twice). That discount is higher than the discount according to clause (a) and leads to that the (1) conversion rate is 7,74 ( $10 - (0,2264\% * 10)$ ). As a result, 4.521.964 shares ( $35.000.000 / 7,74$ ) would be issued with the conversion of the bond.

respective share capital increase (conversion rate).<sup>4</sup>

- 5.1.3 In the event of a change in Debtor's control from the date of issue of this Bond, the Creditor shall be entitled to choose whether he (a) declares the Bond due (i.e. clausula cassatoria), (b) converts the Loan Amount, together with interest, into shares in the Debtor at the lowest conversion rate determined in the change of control event and also with **20% discount** of the respective lowest conversion rate. A change of control event means a change or changes in the company's shareholders which leads to that a party or parties, that are not in the shareholders group of the company on the date of issue of this Bond, have acquired the majority of the company's share capital or hold a majority of the voting rights at shareholders meetings. If the Creditor has not received sufficient information, within 14 days from its request, about the lowest conversion rate based used in the change of control event according to the above, then the lowest conversion rate shall be [ ] ISK / share.]<sup>5</sup>
- 5.1.4 If the Loan Amount has not been paid in full on the Due Date, the Creditor has not agreed to a change or extension of Due Date, he may, at any time after the Due Date, convert, in part or in total, the Loan Amount together with interest, into shares in the Debtor at the conversion rate of ISK 1 / share (conversion rate).
- 5.1.5 If the authority to declare the Bond due (i.e. clausula cassatoria), cf. Art. 8, has become active then the Creditor may change, in part or in total, the Loan amount together with interest, into shares in the Debtor on the conversion rate ISK 1 / share (conversion rate).
- 5.2 If the Creditor chooses to convert his claim into shares in accordance with the aforementioned, excluding Art. [5.1.3.]<sup>6</sup>, he shall notify the Debtors Board of Directors in writing. The Debtors Board of Directors shall then, as soon as possible and no later than within 30 days from the reception of the notification, issue new shares in the Debtor for the Creditor, free of charge, in order to satisfy the conversion right. [In the case of Art [5.1.2.], the Debtor's Board of Directors shall take part in issuing new shares, as soon as possible.] The final settlement of the claim in this respect, is considered to have taken place when new shares have been issued in the Debtor, in the Creditors name, the Debtor's share registry has been updated in accordance with this, and that the share capital increase has been registered with the Icelandic Company Registry. The Debtor's Board of Directors shall also amend its Articles of Associations in accordance with the share capital increase and notify the change to the Icelandic Company Registry. If the Creditor chooses not to convert its claim into shares, once

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<sup>4</sup> The wording in the square brackets in Art. 5.1.2. is optional and depends on what the Debtor and the investor / investors agree upon in the Bond, incl. the amount in clause (b) except that both clauses can't be used. If nothing is selected, the wording in the square brackets is deleted.

<sup>5</sup> The wording in the square brackets in Art. 5.1.3. is optional. If nothing is selected, the wording in the square brackets is deleted.

<sup>6</sup> The wording in the square bracket depends on whether the Debtor or the investor / investors agree on in the Investor loan of Art. 5.1.3. If such a provision is not used in the Investor loan, then the respective wording is deleted.

or more, the conversion right remains unchanged.

## **6 THE CREDITOR'S LEGAL POSITION**

- 6.1 Regarding the legal position of the Creditors if the share capital is increased, decreased, new convertible bonds are issued or any other subscription rights or if the company is dissolved, incl. a merger, before the claim is converted into shares, reference is made to Art. 5, 7 and 8.
- 6.2 If a Creditor chooses to exercise his conversion right in accordance with Art. 5, he shall be given the opportunity to participate in the Debtor's share capital increase or register for any convertible bonds or subscription rights as if he had already become a shareholder.

## **7 WARRANTIES AND OBLIGATIONS**

- 7.1 By issuing this Bond, the Debtor warrants that:
  - 7.1.1 this Bond is binding for him in full,
  - 7.1.2 this Bond does not violate any agreement or other commitments that the Debtor has made to a third party,
  - 7.1.3 the Loan Amount shall only be used for the purpose of financing the Debtor's general operations and running of the company and shall not be used e.g. for the repayments of other loans,
  - 7.1.4 he, the Debtor, is not involved in any litigations or disputes that can have a material impact or adverse effect on his financial position or his suitability to fulfill his obligations under the provisions of this Bond.
- 7.2 By issuing this Bond, the Debtor undertakes to:
  - 7.2.1 notify the Creditor / Creditors immediately if circumstances arise which could authorize the Creditor to declare the Bond due (i.e. clausula cassatoria), or may authorize the Creditor to convert its claim into shares in the Debtor, and to otherwise fulfill its notification obligations according to this Bond,
  - 7.2.2 not to carry out a Share Capital Decision, cf. Art. 5.1.1., without the Creditor being notified in accordance with Art. 5.1.1. and decision of the Creditor on whether he will exercise his right of conversion within the given time limit,
  - 7.2.3 not to pledge its assets and to ensure that its subsidiaries (as applicable) do not pledge any of their assets.
  - 7.2.4 not to transfer all, or a substantial amount, of its assets, incl. any intellectual property rights, and to ensure that its subsidiaries (as applicable) do not transfer all, or a substantial amount, of their assets, without the consent of the Creditor (the sale of a substantial amount of the assets is considered to be if the sale price or book value of sold assets amounts to a higher proportion than 10% of the total assets according to the annual financial statement),

- 7.2.5 not to pay any dividend to its shareholders, to not decrease its share capital, to not purchase its own shares, to not issue any compensation shares or to take any comparable measures that involves distribution to shareholders and the Debtor guarantees that no such measures have been taken from the 1 March 2020,
- 7.2.6 not to sign any merger plan or liquidation plan, cf. chapter XIV. of Act no. 138/1994 on Private Limited Liability Companies, for the Debtor, without the consent of the Creditor.
- 7.2.7 to send its financial statement to Creditor within 5 business days of the Debtor's Annual General Meeting, all notifications and information sent to its shareholders and / or their lenders at the same time as they are sent to such parties and to provide the Creditor with all information requested by the Creditor, incl. the Debtors share registry and other information which the Creditor deems necessary to assess the Debtor's financial position,
- 7.2.8 to ensure full non-discrimination between Creditors and the lender of the Matching Convertible Loan, with regards to this Bond and the Matching Convertible Loan and to make no other arrangements which could favor a creditor beyond the terms and conditions which are provided in the Matching Convertible Loan.

## **8 EVENTS OF DEFAULT**

- 8.1 The Creditor shall be authorized to declare the bond due (i.e. clausula cassatoria), in the following circumstances
  - 8.1.1 if there is default on the payments of the debt and they last longer than 7 days,
  - 8.1.2 if the Debtor defaults or has defaulted on any of its guarantees and commitments, cf. Art 7,
  - 8.1.3 if the Debtor seeks composition or a moratorium, distraint is carried out on its property, unsuccessful distraint is carried out or he is declared bankrupt,
  - 8.1.4 if the Debtor fails to deliver the Creditor new share capital in the Debtor within the given time frame, cf. Art. 5.2.,
  - 8.1.5 if the Matching Convertible Loan, cf. Art. 1.1. is declared due or has defaulted in such a way that the lender is authorized to declare the loan due,
  - 8.1.6 if the Debtor does not pay a claim or a contract payment within 45 days from the due date, however the aforementioned does not apply if the Debtor has taken reasonable actions without undue delay, or
  - 8.1.7 if the Debtor neglects to fulfill any of his other obligations according to this Bond and that neglection lasts for more than 15 days after the Creditor has warned him to fulfill the obligation.
- 8.2 The Debtor obliges to notify the Creditors of the above-mentioned events as soon as he becomes aware of them or should have known that they

would be imminent.

- 8.3 If the Bond falls due, Debtor shall immediately repay the Creditor the overdue debt, together with penalty interest on it from the declaration of the Bond Due Date.
- 8.4 If the Debtor does not meet the payment of the overdue debt, together with penalty interest, after it has been declared due, the Creditor may enforce the debt and the cost of collecting it without a previous judgment or court settlement according to para. 7. of Art. 1. of Act. no. 90/1989 on Direct Enforceability Authorities. In addition, to covering the principal of the debt, this enforcement covers interest, penalty interest, legal costs and / or collection costs, costs of the enforcement itself and expected costs of further enforcement actions.

## **9 OTHER PROVISIONS**

- 9.1 Even if the Creditor has failed, once or more, to resort to declaring the debt due or resort to any other remedies arising from the default of the debtor, the Creditor may nevertheless at any time exercise his remedies and authorities in accordance with the provisions of this Bond.
- 9.2 If a legal dispute or case arises concerning this Bond, it may be brought forward at the District Court of Reykjavík. The case shall be conducted on the grounds of chapter XVII. of Act. no. 91/1991 on Civil Procedures.

In confirmation thereof, the Debtor hereby signs this Bond in the presence of two witnesses.

\_\_\_\_\_  
Place and date

The board of directors of [ ] ehf.

Witnesses for the signature, date and financial capacity of Debtor:

\_\_\_\_\_  
Name, id no.

\_\_\_\_\_  
Name, id no.