



RECOUPMENT POLICY: EXPERIMENTAL STREAM

IN EFFECT AS OF JUNE 18, 2010

1. INTRODUCTION

This policy applies to all projects receiving funding through the CMF's Experimental Stream. This policy describes:

- The nature of the CMF's equity investment in the Experimental Stream
- The CMF's expectations for repayment of its investment and, where applicable, its level of participation in profits
- Details related to recoupment and reporting of revenues.

The CMF expects to fund a variety of different projects through the Experimental Stream, many of which may face different marketplace realities relating to recoupment. As such, the CMF has determined to take a case-by-case approach to recoupment in this stream, subject to the principles described in this policy. Details of project recoupment not covered in this policy will be negotiated between successful applicants and the CMF.

The CMF may fund production, development, or marketing and promotion activities, and a project may apply for funding for any of these activities alone. The CMF has determined that different approaches to recoupment are necessary for each type of activity. As such, this policy is divided into sections dealing with each activity in turn.

2. PRODUCTION

2.1 NATURE OF FUNDING CONTRIBUTION: EQUITY INVESTMENTS

Successful applicants for production funding will receive funding in the form of an equity investment.

In the CMF's Experimental Stream, an equity investment is an ownership interest in the intellectual property rights of the project funded by the CMF. Much like the CMF's approach in television financing, the CMF will take an undivided ownership interest in the intellectual property of the project. In return for the ownership interest assignment in the project, the CMF will assign back to the applicant all of the CMF's interest in the distribution and exploitation rights relating to the project. As a result, the applicant will be free to negotiate its own agreements regarding any sales, distribution or licensing of the project, subject to the requirement to report and pay revenues to the CMF in accordance with the agreed upon recoupment schedule.

For greater clarity, a CMF equity investment is not an investment in the share capital of the applicant company or companies.

2.1.1 Purpose of Equity Investment

The CMF takes an equity investment in production projects it funds solely to secure its interests in recoupment and profit participation in revenue generated by the project. The CMF will not seek to exercise any financial or creative control over the project, or the applicant company or companies, beyond the rights of recoupment and profit participation described in this policy and negotiated between the applicant and the CMF.

2.1.2 Scope of Equity Investment

The CMF will only take an ownership interest in the intellectual property rights of the funded project itself. The CMF will not take an ownership interest in the intellectual property rights of projects or properties derived from the CMF-funded project.

2.1.3 Level of Ownership Interest

The CMF's ownership interest will be proportional to its financial participation in the project, up to a maximum of 50%. For example, if the CMF funds 25% of the costs of a project, it will take a 25% undivided ownership interest in the intellectual property rights of the project. If the CMF funds 50% of the costs of a project, it will take a 50% undivided ownership interest in the project. However, if the CMF funds 51% of a project (or more), the CMF's ownership interest will remain at 50%.

2.1.4 Buy-out

The CMF may consider proposals by the applicant(s) to be “bought out” of its ownership interest in CMF-funded projects on a case-by-case basis.

The CMF will not consider proposals to buy out the CMF’s ownership interest where the buy-out is primarily intended to extinguish the CMF’s right to recoupment or profit participation from revenues generated by the project. As such, the CMF will expect to receive buy-out proposals in which the amount paid to the CMF for the buy-out would be materially higher than the amount of the CMF’s investment in the project. The CMF expects that buy-out proposals will typically come where a sale of the project, either alone or as an asset in the sale of the applicant company/companies, (or similar transaction) by the applicant(s) to a party unrelated to the applicant has been made.

Buy-out proposals must involve payment to the CMF in cash or in instruments easily convertible to cash.

Where a sale of the project (or similar transaction) results in an ongoing revenue stream to the applicant(s), the CMF will expect to also participate in those revenues in a proportion consistent with the level of recoupment and profit participation described below.

2.2 LEVEL OF RECOUPMENT AND PROFIT PARTICIPATION

The CMF will recoup its investment and participate in profits from revenue generated by exploitation of the project in a manner no less favourable than pro rata and pari passu with other financial participants who are providing recoupable financing to the project, to a maximum of 50%.

For greater clarity, “pro rata and pari passu” includes the concept that the recoupment and profit participation of the CMF will be proportional to its share of project financing compared to other sources of recoupable financing, subject to the 50% maximum. For example, for a project costing \$1 million:

- Where the CMF provides an investment of \$500,000 and another investor provides a recoupable investment of \$500,000, the CMF will receive \$0.50 of every dollar of revenue generated by the project (i.e. 50%).
- Where the CMF provides an investment of \$250,000 and another investor provides a recoupable investment of \$750,000, the CMF will receive \$0.25 of every dollar of revenue generated by the project (i.e. 25%).
- Where the CMF provides an investment of \$250,000, another investor provides a recoupable investment of \$250,000, and the project receives a \$500,000 non-recoupable contribution (such as a grant), the CMF will again receive \$0.50 of every dollar of revenue generated by the project (i.e. 50%).
- Since the CMF will cap its recoupment and profit participation at 50%, where the CMF provides an investment of \$750,000 and another investor provides a recoupable investment of \$250,000, the CMF will receive \$0.50 of every dollar of revenue generated by the project (i.e. 50%).

2.3 DISTRIBUTION/EXPLOITATION FEES AND EXPENSES

Depending on the nature of the project:

- Applicants (or distribution entities on behalf of applicants) may incur expenses in the course of distributing and/or exploiting the project; and/or
- Distribution entities may take fees/commissions in payment for their distribution services.

These fees/commissions and expenses may be deducted from the revenues subject to CMF recoupment where the applicant and the CMF negotiate such deductions. The CMF will determine appropriate deductions on a case-by-case basis, and in any event all deductions must be reasonable and, in the case of expenses, be actual and verifiable.

2.3.1 Enhancement Costs

The CMF may consider reasonable, actual, and verifiable costs for enhancements or upgrades to the project that are proposed after the CMF’s application file has closed to be costs that can be deducted from exploitation revenue. The CMF will make this determination on a case-by-case basis.

3. DEVELOPMENT

3.1 NATURE OF FUNDING CONTRIBUTION: REPAYABLE ADVANCES

Successful applicants for development funding will receive funding in the form of a repayable advance.

A repayable advance is an advance that will be repayable to the CMF according to the conditions described, in part, below. The CMF will not take an ownership interest in the intellectual property of the project via such an advance, unless it is converted into production financing, as described at 3.2.1 below.

3.2 LEVEL OF RECOUPMENT

3.2.1 Production of the Project

If the project developed with CMF financial support goes into production (i.e. is developed into a project capable of being commercialized) and the CMF:

- Does provide production funding to the project, the development costs will become part of the project's production costs, the CMF development advance will form part of the production financing, and as such the development advance will be converted into an equity investment in the production and treated as such as per section 2 above.
- Does not provide production funding to the project, the entire development advance must be repaid no later than the first day of the start of production of the project that will be commercialized.

3.2.2 Sale, Transfer, or Other Disposition of the Project

If the project materials or intellectual property developed with CMF financial support is sold, transferred or otherwise disposed of to an entity unrelated to the applicant(s), the entire CMF contribution must be repaid immediately upon the sale, transfer, or disposition.

4. MARKETING AND PROMOTION

4.1 NATURE OF FUNDING CONTRIBUTION: NON-INTEREST-BEARING LOAN

Successful applicants for marketing and promotion funding will receive funding in the form of a non-interest-bearing loan.

A non-interest-bearing loan is a loan that must be repaid to the CMF according to the conditions described, in part, below. The CMF will not take an ownership interest in the intellectual property of the project via such a loan, and will not charge interest in consideration for the loan.

4.2 TERMS OF REPAYMENT

The CMF will require repayment of its loan upon within 6 months following commencement of commercialization of the project.