CANADA MEDIA FUND

Eligible Licence Fees, Thresholds and Other Rights Working Group

Date: November 3rd, 2015

Topics for Discussion

1) Introduction

2) Eligible Licence Fees:
   a. Licence Fee Rights/
   b. Parameters around Other Rights
   c. Equity in Exchange for Licence Fees
   d. Licence Fee Thresholds
   e. Regulatory Issues Affecting Licence Fees and Rights

1. Introduction

When the Performance Envelope ("PE") Program was first introduced in 2004-2005, Program Guidelines included parameters which delineated the rights that broadcasters were permitted to licence from producers ("Eligible Licence Fees" or "ELF") and defined the minimum amounts that broadcasters were required to pay for these rights ("Licence Fee Thresholds" or "LFT"), in order to trigger CMF (then CTF) funding.

Both the definition of Eligible Licence Fee and the Licence Fee Thresholds were based on observation of the market at the time[1], and set pursuant to consultation with industry stakeholders. As the majority of LFT's were set as a percentage of a production's Eligible Costs, the goal was that LFT's could adapt as the market changed.

Since that time, the definition of Eligible Licence Fee has remained essentially the same. Further, while some License Fee Thresholds have been amended over the years, despite the adaptive nature of most LFT's representing a percentage of a project's budget, the majority of LFT's have not changed.

Given the substantial changes in the industry over the last decade - technology, consumption habits, regulation and financing – the CMF considers it necessary to review these issues to ensure that they are aligned with current market realities. As such, this Working Group will concentrate on the following areas: (a) the rights that attach to Eligible Licence Fees; (b) whether any further parameters should be imposed on the non-broadcast rights currently defined as "Other Rights" in the CMF Guidelines, (c) whether Eligible Licence Fees can be in exchange for equity in a production; (d) CMF Licence Fee Thresholds; and (e) the upcoming regulatory changes that could affect the relationship between rights and licence fees.

The CMF has chosen to concentrate discussions in this Working Group on the "Television Component" of "Convergent" projects, and as such this briefing note contains no discussion of the above mentioned issues as pertains to the "Digital Media Component" of Convergent projects.

[1] This observation was based on the dollar amounts evident in the CTF's Equity Investment Program ("EIP"): thresholds were set based on the average paid to projects that had received funding from the EIP, to which 20% was added in order to ensure that projects that had received above-average licences would continue to receive a "fair" licence.

2. Eligible Licence Fees

(a) Licence Fee Rights

Due to the number of changes in the industry noted above, the basket of potential rights that were traditionally licensed by the broadcaster (in contrast to those retained by the producer) has evolved. As such, in order to recalibrate its policies to ensure they are reflective of the current marketplace, the CMF seeks stakeholder feedback on:

- which rights in the production should be in exchange for the Eligible Licence Fee;
- which rights should retain the CMF classification of "Other Rights" and;
- what parameters, if any, the CMF should impose on these Other Rights.

Currently, ELF's from Canadian Broadcasters[2] are in exchange for the Canadian Broadcast or Canadian VOD Right[3]. After discussions with some industry stakeholders, there are certain rights, in addition to the Canadian Broadcast or VOD Right that, due to changes in marketplace consumption habits could lend themselves to naturally attach to the ELF: linear streaming rights, free-to consumer non-linear on-demand exhibition on all platforms and creation and operation of a program website.

While recognizing the dearth of information in connection with Other Rights and their associated value (as outlined below), the CMF seeks stakeholder input on whether the examples noted above, or any Other Rights, including but not limited to those delineated in the CMF Guidelines, should form part of the primary basket of rights that are in exchange for the Canadian Broadcaster's ELF. For ease of reference, the section of the CMF Guidelines that focuses on Other Rights is attached as Appendix A.

In the alternative, should the consensus be that no Other Rights should attach to the ELF, as a result of the repeal of the revisions to the Treatment of Other Rights in the CMF Guidelines (discussed below), the CMF seeks stakeholder input on the valuation of Other Rights.

(b) Parameters around Other Rights

To inform this discussion and provide some context, on March 30th, 2015, the CMF released its 2015-2016 Program Guidelines which included revisions to some of its policies in connection with its "Treatment of Other Rights" section (3.2.TV.5.3). In addition to removing strict definitions that were not sufficiently fluid to adapt to the changes in the marketplace, due to the extremely small amounts paid as "fair market value" for Other Rights (over the period of 2013-2014 to 2014-2015, a total of $1,985,541 for 743, non-Terms of Trade CMF-funded productions or approximately $2,672 per production), the CMF removed the option for broadcasters to pay producers "fair market value" in connection with certain Other Rights delineated in the CMF Guidelines[4]. Going forward, broadcasters would either have to opt for a 50/50 revenue share with the Producer or adopt the CMF's Standard Recoupment Policy (with the broadcaster assuming the role of the distributor for the purposes of that policy)[5].

As a result of this move, the CMF received feedback from several broadcasters which held that the CMF's revisions would directly and negatively impact financing options for Canadian content and called for the revisions to be repealed. Other broadcasters urged the CMF to table this change in the Guidelines until further

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[2] CRTC-licensed traditional, scheduled broadcasters or CRTC-licensed video-on-demand services

[3] Per section 3.2.TV.5 (d) of the Guidelines, the Canadian Broadcast Right is the right of a Canadian Broadcaster to broadcast the Television Component of the Eligible Project on a traditional, scheduled broadcast platform in Canada in the language of that Canadian Broadcaster during the Maximum Term. The Canadian VOD Right is the right of a CRTC-licensed video-on-demand service to make the Television Component of the Eligible Project available on a CRTC-licensed video-on-demand service in Canada in the language of that VOD service during the Maximum Term.

[4] Free and paid internet broadcast/distribution, mobile/wireless distribution and original digital content rights.

[5] For clarity, the CMF confirms that it never contemplated that said revenue share would include broadcasters' advertising revenue.

industry consultation and evaluation could occur. Despite the fact that Other Rights were raised in the 2014-2015 industry consultation, the CMF acknowledged that it did not directly consult on this specific change and after internal discussions, the CMF agreed to suspend the revisions to the Treatment of Other Rights.

In mid-April 2015, the CMF noted that it would undertake to thoroughly evaluate the topic of Other Rights (along with associated definitions of fair market value and respective revenue streams) as part of the Fall 2015 Working Groups and that it would rely on broadcaster support and disclosure in order to fairly amend the Guidelines for 2016-2017.

On July 15th and 16thth, 2015, the CMF sent a selection of broadcasters a formal request for information in connection with business models and revenues derived from certain Other Rights. The CMF asked for the information to be provided by August 17th so it would have time to accurately evaluate the data, assess the market and ensure that the discussions at the Fall 2015 consultation would be as informed as possible. Of the 16 broadcasters that were contacted in both the English and French markets, the CMF received information from 8 broadcasters. None of the large private broadcasters in either market provided data: while some responded that they could not provide revenue data on a per title basis as they did not track information in that way, others did not respond at all.

Based on the parties that did participate in the CMF's survey, the value of the delineated Other Rights ranged from approximately $1,000 to approximately $40,000 per title. The CMF, however, acknowledges that conclusions based on such a small sample can be misleading.

It is evident that the CMF did not receive the required information to make a formal proposal for the appropriate definition and/or threshold for "fair market value" in relation to Other Rights. As such, it seeks stakeholder feedback on whether the CMF should retain the fair market value option at all or reintroduce the Guideline changes that mandated that all Other Rights be subject to either a 50/50 revenue share or abide to the terms of the CMF's Standard Recoupment Policy (with the broadcaster acting as distributor for the purposes of that policy).

(c) <u>Equity in Exchange for Licence Fees</u>

The CMF's Licence Fee Threshold is the minimum amount of ELF that a project's Television Component must receive from one or more broadcasters to be eligible for CMF funding. ELF's are defined as cash fees, paid to the CMF Applicant by a Canadian Broadcaster, in exchange for the Canadian Broadcast and/or the Canadian VOD right, all of which are subject to one or more broadcast licence agreement(s).

In addition to providing an Eligible License Fee, a broadcaster may obtain equity and invest in a production in order to be entitled to recoupment.

In discussions with stakeholders over the years - and specifically during the Fall 2014 Recoupment Working Group - some broadcasters stated their view that, as they are making substantial contributions to projects via cash (license fees) or 'in-kind' contributions (creative collaboration, brand development, marketing) and therefore sharing the initial risk on projects, these contributions should be recognized and their Eligible License Fees should (in whole or in part) be considered recoupable.

Other stakeholders however suggested that, if licence fees are to be recognized as recoupable amounts, it should only be for amounts that exceed a certain value (e.g. above the CMF LFT or over a certain % above the LFT, given that broadcasters currently often provide license fees that surpass LFT's without seeking to recoup any portion of these licenses).

However, as the CMF has previously stated, if licenses were to be deemed recoupable (whether in whole or in part), this would automatically dilute the recoupment position of all investors, including the CMF (when the CMF also provides equity to a project).

In light of the above and the related topics of discussion in this Working Group, the CMF seeks stakeholder feedback on this matter.

(d) <u>Licence Fee Thresholds</u>

As stated above, an ELF that meets the LFT is the minimum amount a Canadian Broadcaster must pay in exchange for the Canadian Broadcast or VOD right. There are currently 40 different LFT categories and they are provided for reference as Appendix B.

Of all the different LFT's currently in place, most were set in the 2004-2005 CMF (then CTF) fiscal year. Despite modifications[6] to LFT's that have been made since the CMF's creation in 2010- 2011, the vast majority of LFT's have been in place for approximately a decade. As stated previously, the majority of LFT's are expressed as a percentage of a project's budget, and therefore could be deemed by some stakeholders to be sufficiently adaptive to market conditions.

The CMF notes the potential negative impacts that could occur from such a review. As the CMF has pointed out during its cross-country consultation over the last few weeks, average production budgets in both markets (on a project and hourly basis) have remained relatively flat since 2010-2011 (Appendix D) and raising LFT's could result in increased pressure from broadcasters to reduce production budgets - unless the CMF were to express all LFT's as fixed dollar amounts, as opposed to a % of production budgets.

Notwithstanding this potential downside, the CMF submits that it is timely to revisit LFT's and seeks input from the Working Group on this issue.

While recognizing and acknowledging the differences in the English and French markets, in examining the data in connection with LFT activity over the years (contained in Appendix E, Figures 1, 2 and 3), certain trends can be observed.

With regards to average licence fees for projects funded through the CMF Performance Envelope ("PE") Program in Figure 1, the overall numbers by genre and language category are fairly flat, with a few such categories showing a slight rise or dip. Further, over the past 10 years, average licence fees generally exceeded the applicable LFT in most genre and language categories.

For example, the disparity between the LFT of $315K/hour for English-language Series or One-offs and Historic Average Licence Fees has continued to widen since 2005-2006.

As stated previously, the CMF remains of the view that LFT's that are set as a percentage of production budgets are more adaptive to market changes. Moving to LFT's based on fixed dollar amounts would in CMF's view not be advisable given that:

- LFT's would need to be revised more frequently;
- the initial LFT's per genre and language category would be difficult to set given, amongst other issues, the wide disparity in production budgets.

Accordingly, over the coming week, CMF will continue to examine whether certain LFT's currently expressed as dollar amounts can be eliminated, and generally whether current LFT's expressed as a percentage should be amended to reflect market changes and potential changes to the definition of an ELF.

[6] For a full list, see Appendix C.

In addition to the LFT's on projects funded through the PE Program, Figure 2 reveals the following:

- Francophone Minority Program: Average Licence Fees have consistently exceeded LFT's (above threshold;
- Aboriginal Program: since the introduction of an LFT in l 2012-2013, Average Licence Fees have continued to climb higher above threshold;
- English POV Program: results reveal that more feature-length projects are being produced and the Program funded the highest number of projects overall since 2010-2011. It should be noted that the CMF is examining the merits of having two different LFT's (15% for most projects and 10% for feature –length projects over $750K) and based on its findings, would not oppose a uniform LFT for this Program moving forward; and
- Diverse Languages Program: while an LFT was only introduced in 2014-2015, Average Licence Fees and CMF funding have represented the largest share of production financing for DLP projects. The CMF recently received feedback from the Canadian Ethnic Media Association that the inclusion of the LFT has created a barrier to access for its members.

In addition to examining the varying LFT *amounts*, the CMF also seeks stakeholder input on expanding the options for LFT *contributors*. As stated above, currently, ELF's that contribute to LFT must be from a Canadian Broadcaster. In light of the technological and viewer consumption changes over the last decade, in addition to recent regulatory measures implementing a new hybrid VOD category, the CMF recognizes that increasing the diversity of parties that can contribute to LFT would be aligned with the industry presently and position the CMF's Programs to continue to be adaptive to the market.

Finally, stakeholders have requested the following changes to LFT over the past year:

CMPA Feature Film Proposal

In an effort to help foster greater television broadcaster participation in the financing of Canadian English-language theatrically released feature films, the Canadian Media Production Association ("CMPA") has proposed a three (3) year pilot initiative consisting of a two-prong strategy: (a) a reduced LFT for feature films, reduced to the lesser of $230K or 5% of a project's Eligible Costs and (b) a Feature Film Audience Success Proposal (which was discussed at the September 9th PE Working Group).

The proposal outlines that "the current minimum licence fee threshold applied to English-language theatrical films is significantly higher than the current licence fees being offered in the television market for this type of programming."

The result of this practice, "… eliminates virtually all Canadian English-language films from qualifying under the CMF" and so, "the current minimum licence fee threshold requirement for English-language feature films needs to be adjusted to more appropriately reflect current market realities".

As illustrated in Appendix F, over the past five years, the CMF has supported a total of twelve (12) feature-length, English-language Dramatic projects. It is important to note that this number does not account for the smaller subset of films with a theatrical release.

As noted in Table 1 below, from 2011-2012 to 2013-2014, private broadcaster licence fees represented a small percentage of overall feature film production financing in the English-language market. Additionally, while the CMPA's proposal seeks to lower the LFT in the English market and make it comparable to the LFT currently applied to French-language films, private broadcaster licence fees in the French-language market have similar production financing shares with lower overall dollar amounts.

Table 1

Exhibit 2-87 Financing of Canadian theatrical feature film production, by language

The growth in the foreign financing of Canadian theatrical feature film production in 2013/14 was entirely due to the financing of English-language feature films. Foreign financing of English-language feature films increased from $72 million to $112 million and was, by far, the largest single source of financing with a 37% share. Public sources continued to play a much larger role in the financing of French-language theatrical feature film production than English-language production in 2013/14. Public sources accounted for 80% of financing in the French-language market vs. 40% in the English-language market.

	English-language						French-language					
	2011/12		2012/13		2013/14		2011/12		2012/13		2013/14	
	%	$ millions	%	$ millions	%	$ millions	%	$ millions	%	$ millions	%	$ millions
Private broadcaster licence fees	<1	2	<1	2	<1	2	<1	<1	<1	<1	<1	<1
Public broadcaster licence fees	<1	1	1	3	<1	<1	<1	<1	1	1	<1	<1
Federal tax credits	8	19	8	21	9	26	4	4	3	2	3	2
Provincial tax credits	22	51	20	54	18	56	22	20	23	20	22	16
Canadian distributor	7	17	10	27	9	27	6	6	8	7	8	6
Foreign	29	68	26	72	37	112	9	9	1	1	1	1
Canada Feature Film Fund	15	34	15	42	12	36	29	26	28	25	33	24
Other public*	4	10	7	19	1	4	16	15	29	25	22	17
Other private**	14	32	12	33	13	39	12	11	7	6	10	8
Total	**100**	**234**	**100**	**273**	**100**	**301**	**100**	**91**	**100**	**88**	**100**	**74**

Source: Estimates based on data obtained from CAVCO and Telefilm Canada.
Note: Some totals may not sum due to rounding.
** Other public includes financing from provincial governments, and other government departments and agencies.*
*** Other private includes financing from production companies (excluding the tax credit contribution), independent production funds, broadcaster equity and other Canadian private investors.*

Source: CMPA Profile 2014

As noted in the PE Working Group, the CMF acknowledges that the CMPA's proposal could lead to increased support by broadcasters for English-language Dramatic feature films and notes that the proposal is supported by Bell Media, CBC, Corus, Rogers Media, Shaw Media and Super Channel. Additionally, there was some feedback from industry stakeholders at the PE Working Group that the Feature Film Proposal could be applied to other genres (Documentary and Children & Youth).

Finally, the CMF also considers that the distinction between features and television is changing, and that in this rapidly changing market, it is important to ensure that content is made available on as many platforms as possible.

Documentary Sector – Reduction in LFT – Foreign Broadcaster Threshold Contribution

Some stakeholders in Canada's Documentary sector have sought to expand eligibility requirements to the CMF's PE Program in two ways: expanding the type of licence fees that can contribute to LFT to include international broadcasters and reducing the LFT.

While there is currently one exception to the CMF rule that "threshold contributable" licence fees must come from Canadian broadcasters (contained in the English POV Program), the CMF is currently evaluating whether any additional flexibility is possible for other CMF Programs in connection with Canadian and international licence fees and seeks stakeholder feedback on this matter and whether the LFT's for Documentary should be lowered.

Maximum Licence Terms and Broadcast Licence Terms and Conditions

The CMF notes that, beyond the issue of LFT's, other provisions apply to ELF's in its Program Guidelines. These provisions include both Maximum License Terms (section 3.2.TV.5.2) and other terms and conditions (section 3.2.TV.5 (e)). The CMF has not received any recent feedback or requests in relation to these provisions, but remains open to discussion should any stakeholders wish to table any concerns or proposals.

(e) Regulatory Issues Affecting Licence Fees and Rights

In the interest of promoting simplification to its policies and ensuring that its Guidelines were aligned with the marketplace, to coincide with the first Terms of Trade Agreement between the private, English-language broadcasters and the CMPA, in 2011, the CMF released the document, "*The CMF approach to projects governed by a Terms of Trade Agreem*ent".[7] In this document, the CMF states that it will adapt its Guidelines "…where there is a Terms of Trade agreement in effect between the CMPA and a Canadian broadcaster…"

Further, the CMF has interpreted the final paragraph of this document ("The CMF will continue to closely follow the…the terms of trade negotiations with other broadcasters. The CMF will determine its approach… depending on these outcomes") in a manner where the same deferential approach would apply to other Terms of Trade agreements. A comprehensive list of such agreements is provided in Appendix H.

As an outcome of the CRTC's *Let's Talk TV* proceeding ("LTTV"), Broadcasting Regulatory Policy CRTC 2015-86 held that broadcasters will be able to apply to remove requirements to adhere to a Terms of Trade agreement, effective April 29, 2016, despite the fact that the earliest expiration of a Terms of Trade Agreement between Canadian producers and broadcasters expires on August 31, 2017.

As a result of the LTTV decision, the CMF considers it necessary to review its Guidelines in advance of the expiration of such agreements and is seeking input from stakeholders now. The CMF will be seeking a balanced approach which will seek neither to integrate the main components of Terms of Trade agreements into its Program Guidelines, nor to allow the advent of a situation whereby the CMF funding model enables the creation of content in which independent producers retain virtually no rights to exploit commercially. The latter scenario would be of particular concern to the CMF where it is also an equity investor.

[7] The entire document can be found in Appendix G.

APPENDIX A

3.2.TV.5.3 Treatment of Other Rights

All Other Rights that a Canadian broadcaster or a Canadian VOD service chooses to acquire or to substantially restrict the Applicant from exploiting must be separately identified and valued from the Canadian Broadcast Right or Canadian VOD Right (as applicable). Other Rights include (but are not limited to) the following:

i) Free Internet broadcast/distribution.

ii) Paid Internet broadcast/distribution.

iii) Mobile/wireless distribution.

iv) Original digital content rights.

v) Electronic sell-through and/or digital rental.

vi) DVD, Blu-ray, or other compact video device distribution.

vii) Theatrical distribution.

viii) Non-theatrical distribution (e.g., educational institutions and airlines).

ix) Merchandising and ancillary rights.

All of the above-listed Other Rights and any right which is not encompassed by the above, whether currently existing or developed in the future, shall be ascribed the meaning as commonly understood and in accordance with the standards of the television, digital media and communications industries. Broadcasters and producers are free to further delineate separate rights within or in addition to these categories, but the above list represents the minimum degree of distinct rights valuation in an eligible broadcast licence agreement.

All Other Rights acquired by a Canadian broadcaster or Canadian VOD service must be subject to a “use it or lose it” provision that requires the broadcaster/VOD service to exploit the right(s) within 12 months of that broadcaster/VOD service’s first broadcast/premiere of the Television Component, failing which the rights revert to the producer without restriction. For Other Rights not acquired by a Canadian broadcaster or Canadian VOD service, the broadcast licence agreement cannot restrict the Applicant’s ability to exploit the Other Rights for longer than 12 months from that broadcaster/VOD service’s first broadcast/premiere of the Television Component.

Where the CMF provides an equity investment to the Television Component, Other Rights acquired by a Canadian broadcaster or Canadian VOD service must:

a) Be exploited in accordance with the CMF’s Standard Recoupment Policy, with the broadcaster acting as a distributor for the purposes of that policy. For rights under paragraphs i-v above only, the CMF may consider a 50/50 gross revenue sharing arrangement between the producer and the broadcaster (or other arrangement that is no less preferable to the CMF than a 50/50 gross revenue share); or

b) For rights under paragraphs i-iv above only, be paid for at a reasonable, fair-market value.

The CMF will apply this section in an adaptable and purposive manner, with the objectives of promoting transparency in the rights market, maximizing the availability of CMF-funded content on multiple platforms for the benefit of Canadian audiences, and maximizing the CMF's return on investment when the CMF is an equity investor.

APPENDIX B

PERFORMANCE ENVELOPE

DRAMA PROGRAMMING

<table>
<tr><th rowspan="2">LANGUAGE</th><th colspan="3">PROJECT</th></tr>
<tr><th>TYPE</th><th>ELIGIBLE COSTS</th><th>LICENCE FEE THRESHOLD</th></tr>
<tr><td rowspan="6">ENGLISH</td><td>All projects</td><td>Less than $800,000 per hour</td><td>45% of Eligible Costs or $315,000 per hour, whichever is less</td></tr>
<tr><td>Series or one-offs</td><td>$800,000 per hour or more</td><td>$315,000 per hour</td></tr>
<tr><td rowspan="2">Movies of the Week (MOW) and Mini-series</td><td>$800,000 per hour to $1,857,143 per hour</td><td>$235,000 per hour</td></tr>
<tr><td>More than $1,857,143 per hour</td><td>12.5% of Eligible Costs</td></tr>
<tr><td>Half-hour pilots</td><td>More than $700,000 per half-hour</td><td>$205,000 per half-hour</td></tr>
<tr><td>1-hour pilots</td><td>More than $1.75 million per hour</td><td>$525,000 per hour</td></tr>
<tr><td rowspan="5">FRENCH</td><td>All projects (excl. MOWs and mini-series)</td><td>Less than $250,000 per hour</td><td>50% of Eligible Costs</td></tr>
<tr><td>All projects (excl. MOWs and mini-series)</td><td>$250,000 per hour or more but less than $800,000 per hour</td><td>23% of Eligible Costs</td></tr>
<tr><td>All projects (excl. MOWs and mini-series)</td><td>$800,000 per hour or more</td><td>20% of Eligible Costs</td></tr>
<tr><td>Mini-series</td><td>All</td><td>20% of Eligible Costs</td></tr>
<tr><td>Movies of the Week (MOW)</td><td>All</td><td>$150,000 per project</td></tr>
</table>

APPENDIX B (continued)

VARIETY AND PERFORMING ARTS PROGRAMMING

LANGUAGE	PROJECT		
	TYPE	ELIGIBLE COSTS	LICENCE FEE THRESHOLD
ENGLISH	Variety and Performing Arts	Less than $750,000 per hour	40% of Eligible Costs or $240,000 per hour, whichever is less
		$750,000 or more per hour	$240,000 per hour
FRENCH	Variety	Less than $750,000 per hour	50% of Eligible Costs
		$750,000 or more per hour	25% of Eligible Costs
	Performing Arts	All	20% of Eligible Costs

DOCUMENTARY PROGRAMMING

LANGUAGE	PROJECT		
	TYPE	ELIGIBLE COSTS	LICENCE FEE THRESHOLD
ENGLISH	One-offs and mini-series (excluding feature length documentaries)	Less than $400,000 per hour	30% of Eligible Costs or $100,000 per hour, whichever is less
	Series	Less than $400,000 per hour	40% of Eligible Costs or $100,000 per hour, whichever is less
	All projects (excl. feature-length documentaries)	$400,000 to $750,000 per hour	$100,000 per hour
	All projects (excl. feature-length documentaries)	$750,000 per hour or more	10% of Eligible Costs
	Feature-length documentary	All	10% of Eligible Costs
FRENCH	All projects (excl. feature-length documentaries)	Less than $100,000 per hour	35% of Eligible Costs
	All projects (excl. feature-length documentaries)	$100,000 per hour to $400,000 per hour	20% of Eligible Costs
	All projects (excl. feature-length documentaries)	More than $400,000 per hour to $750,000 per hour	15% of Eligible Costs
	All projects (excl. feature-length documentaries)	More than $750,000 per hour	10% of Eligible Costs
	Feature-length documentary	All	10% of Eligible Costs

APPENDIX B (continued)

CHILDREN'S AND YOUTH PROGRAMMING

LANGUAGE	PROJECT		
	TYPE	ELIGIBLE COSTS	LICENCE FEE THRESHOLD
ENGLISH	All Projects	Less than $750,000 per hour	25% of Eligible Costs or $160,000 per hour, whichever is less
ENGLISH	All Projects	$750,000 or more per hour	$160,000 per hour
FRENCH	Live-action projects	less than $750,000 per hour	35% of Eligible Costs
FRENCH	Live-action projects	$750,000 or more per hour	15% of Eligible Costs
FRENCH	Animation		10% of Eligible Costs

ABORIGINAL PROGRAM

3.2.TV.5.1 Licence Fee Thresholds

A "Licence Fee Threshold" is the minimum amount of Eligible Licence Fees that a project must receive from one or more broadcasters to be eligible for CMF funding. The Licence Fee Threshold in the Aboriginal Program is 10% of the Television Component's Eligible Costs.

For audiovisual treaty coproductions, the CMF Licence Fee Threshold will be calculated on the Eligible Costs of the Canadian portion of the production's global budget, as certified by Telefilm Canada's Business Affairs and Certification Department.

DIVERSE LANGUAGES PROGRAM

3.2.TV.5.1 Licence Fee Thresholds

A "Licence Fee Threshold" is the minimum amount of Eligible Licence Fees that a project must receive from one or more broadcasters to be eligible for CMF funding. The Licence Fee Threshold in the Diverse Languages Program is 10% of the Television Component's Eligible Costs.

For audiovisual treaty coproductions, the CMF Licence Fee Threshold will be calculated on the Eligible Costs of the Canadian portion of the production's global budget as certified by Telefilm Canada's Business Affairs and Certification Department.

ENGLISH POV PROGRAM

3.2.TV.5.1 Licence Fee Thresholds

A “Licence Fee Threshold” is the minimum amount of Eligible Licence Fees that a Television Component of an Eligible Project must receive from a broadcaster(s) to be eligible for CMF funding.

For the Television Component of the project, the following Licence Fee Thresholds apply:

Type	Licence Fee Threshold
All projects (with the exception below)	15%
Feature-length documentary with Eligible Costs over $750,000	10%

In this program only, as a pilot initiative, licence fees from foreign, scheduled broadcasters (as opposed to digital distributors or broadcasters offering on-demand content) may be considered Eligible Licence Fees for the purposes of meeting the Licence Fee Threshold, as long as a Canadian broadcaster provides the larger share of the Eligible Licence Fee. Eligibility of foreign broadcaster will be decided by the CMF case-by-case.

For audiovisual treaty coproductions, the CMF Licence Fee Threshold amounts will be calculated on the Eligible Costs of the Canadian portion of the production’s global budget as certified by Telefilm Canada’s Business Affairs and Certification Department.

FRANCOPHONE MINORITY PROGRAM

3.2.TV.5.1 Licence Fee Thresholds

A “Licence Fee Threshold” is the minimum amount of Eligible Licence Fees that a Television Component of an Eligible Project must receive from a broadcaster(s) to be eligible for CMF funding. The Licence Fee Threshold amounts for the Francophone Minority Program are as follows:

Genre	Licence Fee Threshold
Drama	20% of Eligible Costs
Children's and youth	25% of Eligible Costs
Documentary	15% of Eligible Costs
Variety & Performing Arts	30% of Eligible Costs
Animation	10% of Eligible costs

For audiovisual treaty coproductions, the CMF Licence Fee Threshold will be calculated on the Eligible Costs of the Canadian portion of the production’s global budget, as certified by Telefilm Canada’s Business Affairs and Certification Department.

APPENDIX C

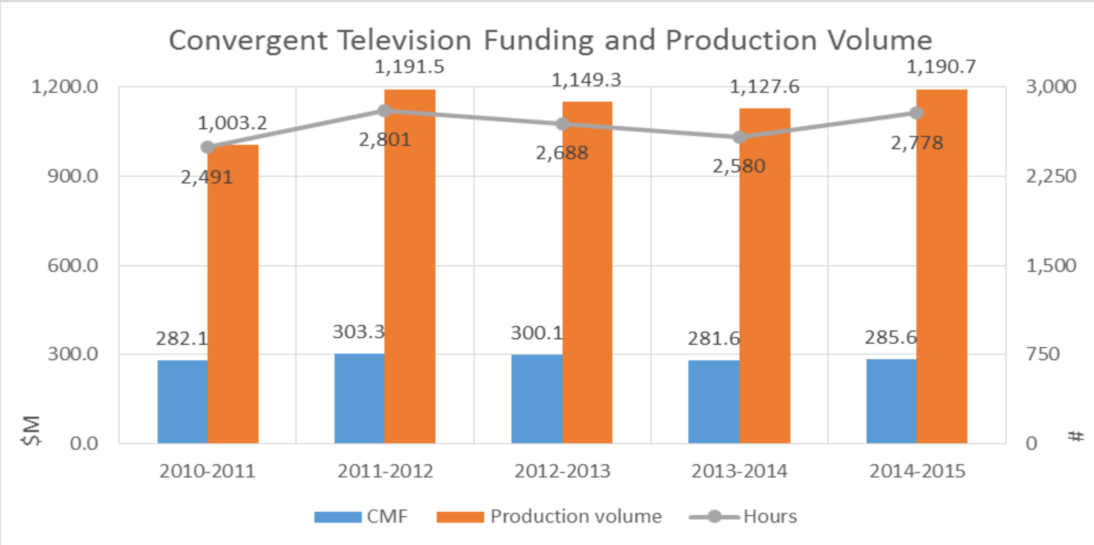
- In 2010-2011, LFT categories for French Drama were clarified by adding a new category for Drama projects excluding MOWs, mini-series, & series with budgets over $800,000 per hour. The LFT for this category was set at 20% of Eligible Costs. Previously, programs of this type did not fit in a CMF LFT category, so the category was created with analogous LFT amounts to fill that gap.

- In 2011-2012, the LFT for the English POV Program was reduced from 20% to 15% of Eligible Costs.

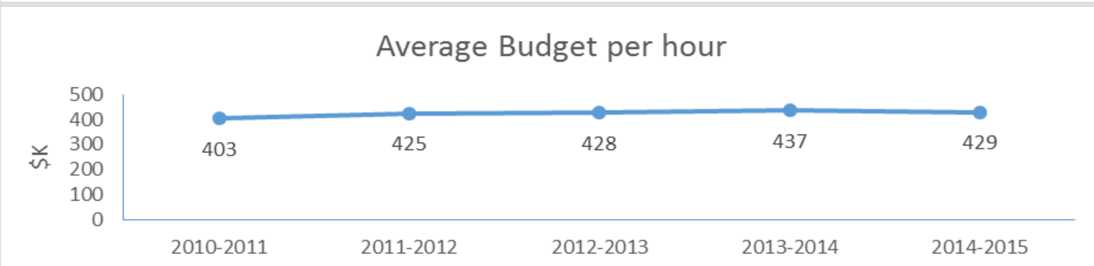
- In 2012-2013:
  - The LFT applicable to French-language Children's & Youth animation was reduced from 15% of Eligible Costs to 10%.
  - A 10% LFT was created for projects in the Aboriginal Program.

- In 2014-2015:
  - A 10% LFT for all English-language feature-length documentaries was created.
  - The 17.5% LFT for English-language MOW's with budgets over $1,857,143/hour was reduced to 12.5% of Eligible Costs.
  - For the Northern Production Incentive, community channels operating out of Nunavut, the Yukon or the Northwest Territories were considered Canadian Broadcasters and no LFT amount was required for such Broadcasters and Projects.
  - For projects receiving funds from both the Performance Envelope and a selective program, the selective program's LFT was applied to the production in lieu of pro-rating the respective contributions from the Performance Envelope and the applicable selective program.
  - For the Francophone Minority Program, the LFT was set at 20% for *all* Drama projects, regardless of the amount of the CMF contribution. Additionally, a separate 10% LFT for Animation projects was introduced.
  - For the Diverse Languages Program, a 10% LFT was introduced into the Program.
  - For the English POV Program, the 15% LFT for all projects was reduced to 10% for feature-length documentaries with Eligible Costs over $750K. Further, ELF's from international broadcasters were allowed to count towards a project's LFT, provided that the Canadian Broadcaster provided the larger share.

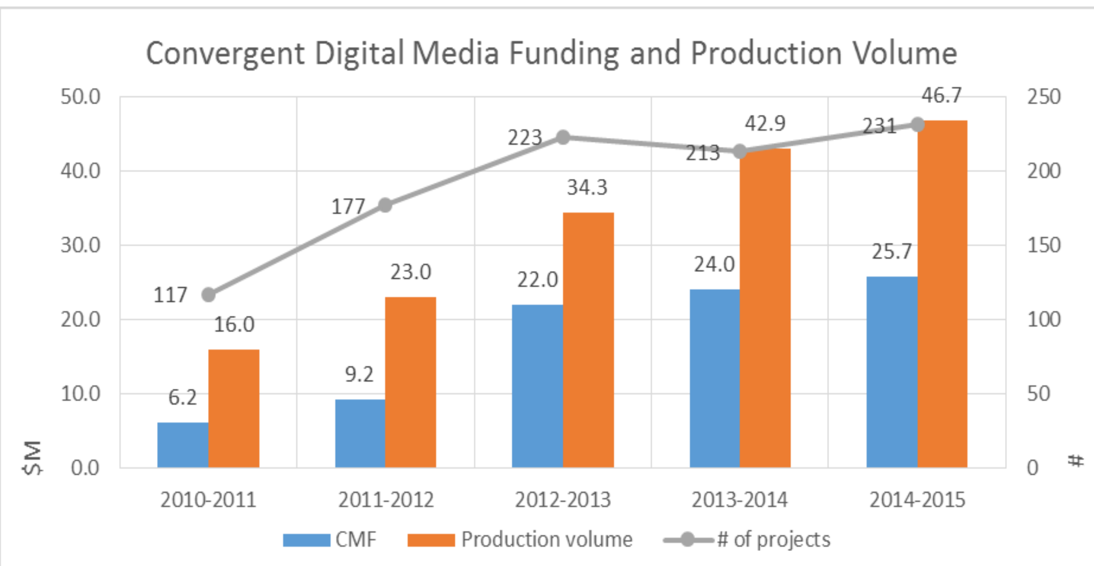
APPENDIX D



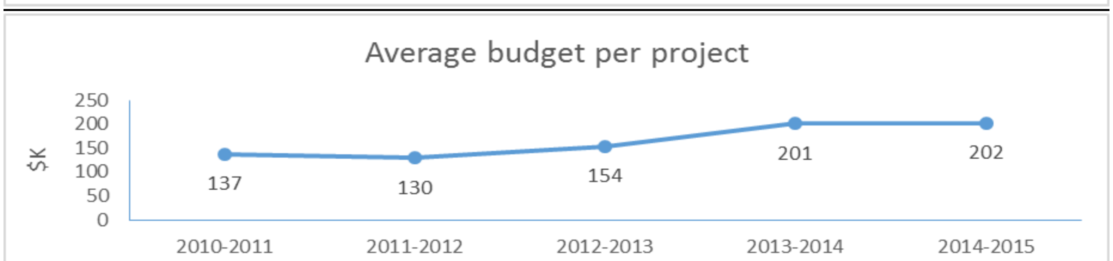
Convergent Television Funding and Production Volume
1,200.0
900.0
600.0
300.0
0.0
$M
3,000
2,250
1,500
750
0
#
1,003.2
1,191.5
1,149.3
1,127.6
1,190.7
2,491
2,801
2,688
2,580
2,778
282.1
303.3
300.1
281.6
285.6
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
CMF
Production volume
Hours



Average Budget per hour
500
400
300
200
100
0
$K
403
425
428
437
429
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015



Convergent Digital Media Funding and Production Volume
50.0
40.0
30.0
20.0
10.0
0.0
$M
250
200
150
100
50
0
#
117
177
223
213
231
6.2
16.0
9.2
23.0
22.0
34.3
24.0
42.9
25.7
46.7
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015
CMF
Production volume
# of projects



Average budget per project
250
200
150
100
50
0
$K
137
130
154
201
202
2010-2011
2011-2012
2012-2013
2013-2014
2014-2015

APPENDIX E

Figure 1: Average Licence Fees, PE Projects

Project Types			*Licence Fee Thresholds*		*Historic Average Licence Fees*				
			% of eligible costs or $K per hour (except as noted)						
2014-2015 Format	*Pre-2014 Format*	*Both Eligible Costs*	*2014-2015*	*Pre-2014*	*2005-2006 to 2007-2008*	*2008-2009 to 2012-2013*	*2013-14, 2014-15 & 2015-2016 to date*	*# of projects (13-14 to 15-16 only)*	*Trend*
Drama									
English									
All projects	or 1-offs	< $800K/hour	45% or $315, whichever is less	same	45%	44%	47%	21	
	1-hour series or 1-offs (incl. MOWs & mini-				45%	45%	N/A	2	Insufficient data
Series or one-offs	New 1/2 hour series or 1-offs	≥ $800K/hour	$315	same	$375	$451	$409	9	
	New 1-hour series or 1-offs (excl. MOWs &				$324	$366	$494	9	
	Returning 1-hour series (excl. mini-				$316	$385	$412	25	
	Returning 1/2-hour series (excl.				$343	$410	$447	17	
MOWs and Mini-series	Movies of the Week (MOW)	$800K/hour - $1857K/hour	$235	$325	$325	$400	N/A	0	Insufficient data
	Mini-series				$325	N/A	N/A	1	Insufficient data
	Movies of the Week (MOW)	> $1857K/hour	12.5%	17.5%	18.5%	24.0%	20.0%	4	
	Mini-series				17.5%	31.3%	N/A	1	Insufficient data
1/2-hour pilots	1/2-hour pilots	> $700K/ 1/2 hour	$205 / 1/2 hour	same	$205 / 1/2 hour	$593 / 1/2 hour	N/A	0	Insufficient data
1-hour pilots	1-hour pilots	$1.75M/hour	$525	same	$525	$722	N/A	0	Insufficient data
French									
All excl. MOWs, mini-series	All excl. MOWs & mini-series	< $250K/hour	50%	same	57%	55%	57%	9	
		$250K/hour - < $800K/hour	23%	same	37%	37%	41%	60	
	series	≥ $800K/hour	20%	same	32%	31%	N/A	2	Insufficient data
Mini-series	Mini-series	All	20%	18%	19%	28%	39%	3	Insufficient data
MOWs	MOWs	project	$150 / project	same	$225 / project	$151 / project	$150 / project	3	Insufficient data
Variety & Performing Arts									
English									
All	All	< $750K/hour	40% or $240, whichever is	same	48%	48%	45%	24	
		≥ $750K/hour	$240	same	$380	$301	$276	7	
French									
Variety	Variety	< $750K/hour	50%	same	53%	55%	58%	54	
		≥ $750K/hour	25%	same	25%	63%	53%	3	Insufficient data
Arts	Performing Arts	All	20%	same	38%	45%	N/A	0	Insufficient data
y									
English									
1-offs & mini-series	≤ 6 eps.	< $400K/hour	30% or $100, whichever is	same	38%	38%	41%	57	
Series	≥ 7 eps	< $400K/hour	40% or $100, whichever is	same	48%	49%	46%	49	
All (except feature-length)	All	≥ $400K/hour	$100	same	$155	$150	$170	100	
		≥ $750K/hour	10%	N/A			15%	5	New type
length		All	10%	N/A			30%	40	New type
French									
All (excl. feature-length	All (excl. feature-length	< $100K/hour	35%	same	45%	42%	44%	28	
		$100K - $400K /hour	20%	same	28%	28%	33%	199	
		> $400K - $750K /hour	15%	same	20%	19%	17%	5	
		> $750K/hour	10%	same	18%	10%	N/A	1	Insufficient data
Feature-length	Feature-length	$100K - $750K	10%	12%	21%	23%	27%	20	
		> $750K		10%	13%	12%	N/A	0	Insufficient data
Youth									
English									
All	All	< $750K/hour	25% or $160, whichever is	same	33%	28%	31%	70	
		≥ $750K/hour	$160	same	$197	$227	$249	21	
French									
Live-action	Live-action	< $750K/hour	35%	same	43%	43%	41%	65	
		≥ $750K/hour	15%	same	15%	N/A	N/A	0	Insufficient data
Animation	Animation	All	10%	same	29%	17%	21%	4	

APPENDIX E

Figure 2: Average Licence Fees, Selective Programs
(categories with 3 or less projects are not shown for confidentiality reasons)

Francophone Minority

	Threshold	*2010-2011*		*2011-2012*		*2012-2013*		*2013-2014*		*2014-2015*	
		Average %	*#*	*Average %*	*#*	*Average %*	*#*	*Average %*	*#*	*Average %*	*#*
Drama (FM $ ≤ $1.2M)	20%	N/A	2	N/A	2	N/A	0	N/A	0	N/A	2
Drama (FM $ > $1.2M)	23%	N/A	0	N/A	0	N/A	1	N/A	0	N/A	1
Combined Drama	20%	N/A	2	N/A	2	N/A	1	N/A	0	N/A	3
Children's & Youth	25%	N/A	2	N/A	2	N/A	2	N/A	3	N/A	3
Documentary	15%	17%	16	24%	18	18%	22	18%	25	27%	7
Variety & Performing Arts	30%	34%	7	36%	5	33%	7	N/A	2	N/A	2
Animation	10%	N/A	0	N/A	0	N/A	0	N/A	0	N/A	0

Aboriginal

	2010-2011	*2011-2012*	*2012-2013*	*2013-2014*	*2014-2015*
Threshold	0%	0%	10%	10%	10%
Average %	11%	9%	12%	13%	17%
#	15	17	18	14	15

POV

Threshold: 15%	*2010-2011*	*2011-2012*	*2012-2013*	*2013-2014*	*2014-2015*	
Average % (except feature-length in 14-15)	18%	15%	18%	16%	N/A (no projects)	
Feature-length > $750K budget					10%	Threshold
					15%	Average %
#	17	13	13	10	15	

Note: While the CMF English POV Guidelines had a 20% LFT in 2010-2011, in practice, some projects were allowed to meet a 15% LFT.

Diverse

	2010-2011	*2011-2012*	*2012-2013*	*2013-2014*	*2014-2015*
Threshold	0%	0%	0%	0%	10%
Average %	33%	35%	40%	33%	28%
#	6	6	7	8	3

Note: In-house production are excluded from these statistics.

APPENDIX E

Figure 3, Range of Licence Fees (English PE Program Projects 2013-2014 to 2015-2016)

Drama	*Licence fees $K per hour / Number of projects*					
Budget: ≥ $800K/hour	*315 to 316*	*317 to 375*	*376 to 435*	*436 to 494*	*Over 494*	*Total*
1/2 hour series	12	3	4	1	6	26
1-hour series	9	8	5	5	7	34

Documentary	*Licence fees % of budget / Number of projects*				
Budget Type					
1-offs & mini-series	*31% or under*	*32% to 36%*	*37% to 41%*	*Over 41%*	*Total*
< $400K/hour	26	7	3	21	57
Series	*41% or under*	*40% to 46%*	*Over 46%*		*Total*
< $400K/hour	22	8	19		49
	Licence fees $K per hour / Number of projects				
All (except feature-length)	*100 to 101*	*101 to 135*	*136 to 170*	*Over 170*	*Total*
≥ $400Kand <$750K /hour	9	46	16	29	100
Children's & Youth	*Licence fees % of budget / Number of projects*				
Budget Type					
	26% or under	*27% to 31%*	*Over 31%*		*Total*
< $750K/hour	38	14	18		70
	Licence fees $K per hour / Number of projects				
	160 to 161	*162 to 205*	*206 to 249*	*Over 249*	*Total*
≥ $750K/hour	3	5	5	8	21

APPENDIX F

Number of CMF-supported feature-length projects

2010-2011 to 2014-2015

	Drama	*Children's & Youth*	*Documentary*	*Variety & Performing Arts*	*Total*
English	12	2	133	4	151
French	9	5	49	26	89
Aboriginal	2	1	3	0	6
Total	23	8	185	30	246

APPENDIX G

CMF FMC

CMF approach to projects governed by a Terms of Trade Agreement

In April, 2011, the Canadian Media Production Association (CMPA) and Astral Television Networks, Bell Media Inc. Rogers Broadcasting Limited, Shaw Media Inc., and Corus Entertainment Inc. concluded a Terms of Trade Agreement (the "Terms of Trade Agreement" or the "Agreement"). The Agreement governs a number of key aspects of projects produced by English-language Canadian independent television producers and licensed by these broadcasters.

In order to address the current inconsistencies or conflicts between the Terms of Trade Agreement and the CMF programs, the CMF is announcing the following changes to its Guidelines for all production programs[1] in the Convergent Stream, effective from the beginning of the CMF's 2011-2012 fiscal year, where there is a Terms of Trade Agreement in effect between the CMPA and a Canadian broadcaster which governs the Television Component of an Eligible Project applying to the CMF:

- The CMF will deem a fair market value licence fee under the Agreement to be an Eligible Licence Fee under the CMF Guidelines, notwithstanding anything to the contrary in section 3.2.TV.5 or any of its subsections, with the exception that section 3.2.TV.5(e)(i) will continue to apply to all CMF-funded Convergent production projects, including those subject to the Terms of Trade Agreement. The consequences of this approach include the following:
    - Broadcast licence agreements governed by the Terms of Trade Agreement will no longer need to comply with section 3.2.TV.5.3, which sets out rules related to the separate valuation of various "Other Rights" such as Internet, mobile, original digital content rights, and more "traditional" distribution rights. The treatment of these rights in CMF-funded projects will now generally be determined under the Terms of Trade Agreement. (But see below regarding the CMF's Standard Recoupment Policy.)
    - The CMF's Maximum Terms at section 3.2.TV.5.2 of the Guidelines will no longer apply to broadcast licence agreements governed by the Agreement. The licence term limits described in the Terms of Trade Agreement will now apply.
    - Section 3.2.TV.5(e)(i) will continue to apply to all CMF-funded projects, whether a Terms of Trade Agreement governs the project or not. Section 3.2.TV.5(e)(i) requires that the Television Component be broadcast closed captioned, in peak viewing hours, within 18 months of completion and delivery of the production and, in some CMF production programs, that it be broadcast in the specified language of production.

[1] I.e. the Performance Envelope Program, the Francophone Minority Program, the Aboriginal Program, the English POV Program, and the Diverse Languages Program.

CMF FMC

- CMF Licence Fee Thresholds at section 2.4 of the Guidelines will continue to apply to all CMF-funded projects. Where a broadcaster has signed the Terms of Trade Agreement, the "fair market value licence fee" under the Agreement will be counted towards meeting the Licence Fee Threshold, rather than the CMF-defined "Eligible Licence Fee".
  - *Note that the CMF's primary goal regarding the changes described in this document is to facilitate the implementation of the Agreement, harmonizing to the greatest extent possible the Agreement and the CMF's programs. The Terms of Trade Agreement creates a bundle of rights at article 6(a) that a broadcaster can acquire for a single, undifferentiated fair market value licence fee. The CMF's deeming of this fair market value licence fee to be an Eligible Licence Fee should not be interpreted as a valuation of the rights in the "6.a) bundle", either in relation to the Licence Fee Threshold or otherwise. The CMF encourages broadcasters and producers to negotiate the fair market value of all rights.*
- The 10% minimum broadcaster financing requirement for the CMF to fund a Digital Media Component, as described at section 3.2.DM.4, will continue to apply as a separate and distinct requirement. Notwithstanding that the Terms of Trade Agreement bundles "program website" rights within the fair market value licence fee under clause 6.a), the same, undifferentiated fair market value licence fee amount cannot be used to meet both the CMF's Licence Fee Threshold and the 10% minimum financing requirement at the same time.
- Broadcast licence agreements with Canadian broadcasters who have not signed the Terms of Trade Agreement with the CMPA will continue to be subject to section 3.2.TV.5 and all its subsections.

- CRTC-licensed VOD can be used to meet the "2nd platform" requirement of 3.2(2) of the applicable CMF Guidelines. Section 3.2 describes the CMF's convergence requirements, and states in part: "Where fees for the Canadian VOD Right are included within the Eligible Licence Fee, the VOD exploitation associated with those fees is considered part of the Television Component under 1)b above, and therefore cannot be used to meet the requirements of 2) above." Under the Terms of Trade Agreement, certain VOD rights are included within the "fair market value licence fee". As such, where the Terms of Trade Agreement applies, the above-quoted passage from section 3.2 will not apply; VOD can be used to meet the "2nd platform" requirement described in 3.2(2) notwithstanding the fact that the fees associated with them are included within the "fair market value licence fee"/Eligible Licence Fee.

- The CMF's Treatment of Tax Credits Policy will not apply to projects governed by the Agreement. The primary consequence of this change is that for the CMF's selective programs in the Convergent Stream[2], projects need not include 90% of the estimated federal and provincial tax credits in their financial structures as is otherwise required by the Policy. However, the CMF will take into consideration the amount of tax credits included in financial structures when it calculates its contribution to a project.

- The section on "Reduction or Deferral of PFCO" in the CMF's Producer Fees and Corporate Overhead (PFCO) Policy will not apply.

[2] I.e. the Francophone Minority Program, the Aboriginal Program, the English POV Program, and the Diverse Languages Program

APPENDIX G (continued)

CMF FMC

The approach described above will be implemented where the Terms of Trade Agreement applies to a project seeking funding from by CMF. While the CMF will effectively defer to the Agreement as described above, the CMF is not adopting the terms of the Agreement as its own Guidelines. As such, any dispute over the interpretation of, or compliance with, the Terms of Trade Agreement will be a matter for the parties to the Agreement, and not the CMF. The CMF will not enforce any of the terms of the Agreement, nor will it determine whether a broadcast licence agreement is in conformity with the Terms of Trade Agreement. The CMF notes that the Terms of Trade Agreement contains a "Dispute Resolution Provision" which parties may avail themselves of in the event of a disagreement.

Notwithstanding the Terms of Trade Agreement, the CMF's Standard Recoupment Policy will continue to apply to all CMF-funded projects receiving an equity investment from the CMF. The CMF has determined that the Standard Recoupment Policy remains important to implementing its mandate and must be maintained in its current form for all projects with a CMF equity investment. As a result, in the event that there is a conflict between the Agreement and the Standard Recoupment Policy, the CMF will require that applicants nevertheless conform with the Standard Recoupment Policy. This includes provisions regarding deduction of distributor fees and/or revenue sharing percentages; where there is a CMF equity investment the CMF will not accept revenue sharing arrangements that are less favourable to the CMF than a 50/50 gross revenue share between broadcaster and producer, unless otherwise specifically permitted by the Standard Recoupment Policy. In case of conflict, compliance may involve two separate recoupment structures for applicants to meet the terms of both the Terms of Trade Agreement and the CMF's policies.

The CMF's determinations in this document are based on the details of the specific Terms of Trade Agreement between the CMPA and the above-mentioned broadcasters. The CMF will continue to closely follow both the impact of the current changes to the program Guidelines and the terms of trade negotiations with other broadcasters. The CMF will determine its approach for the 2012-2013 programs depending on these outcomes.

APPENDIX H

Terms of Trade Expiration Dates

- Terms of Trade between the CMPA and private, English-language broadcasters: *August 31, 2017.*
- Terms of Trade between AAMP and APTN: *August 31, 2018.*
- Terms of Trade between the AQPM and Bell Media Inc.: *December 3rd, 2018.*
- Terms of Trade between AQPM and Corus Entertainment Inc.: *January 20, 2019.*
- Terms of Trade between APFC and Bell Media Inc.: *May 25, 2019.*