

CANADA MEDIA FUND

EXPERIMENTAL STREAM – WORKING GROUP

Date: October 3rd, 2019

Introduction

The topics for the 2019-2020 Experimental Stream Working Group are as follows:

- 1. Summary of Recent Changes**
- 2. Games vs. Other Content Types**
- 3. Representation**
- 4. Web Series Program**
- 5. Accelerator Partnership Program (“A2P”) Summary**

1. Summary of Recent Changes

Commercial Projects Program (“C2P”) Recoupment

The C2P was introduced in 2016-2017 partly in response to the needs and requests of digital media stakeholders and partly as a response to DCH’s November 2015 Program Evaluation Report which noted the competing tension between the innovative and commercial objectives in the Experimental Stream.

While DCH agreed to the CMF’s request to introduce a more commercially-focused Experimental Stream Program, the Department requested that the CMF require that such commercially-minded projects still exhibit some form of innovation.

In the years since the introduction of the C2P, despite ongoing calibration to ensure the Programs remained distinct, the CMF has heard a significant amount of feedback on the lack of differentiation between this Program and the Experimental Stream’s Innovation Program. Therefore, instead of moving ahead with its original intention of implementing a new recoupment policy for all its Experimental interactive Programs, the CMF adopted an approach to both incentivize increased demand in the C2P and integrate a new approach to recoupment that aims to be easier to understand, more predictable for applicants and that will prevent long negotiations between CMF applicants (and their publishers/distributors).

In 2019-2020, the CMF abandoned its previous C2P standard recoupment policy which allowed applicants to deduct a range of fees, commissions and enhancement costs before the CMF was

able to begin to recoup its investment. In its place, the CMF installed a simpler and more streamlined policy to both enable applicants to have a clearer picture of the CMF's involvement and ensure the CMF receives a uniform, predictable and automatic share of all project revenue (and profit).

Specifically, the new recoupment policy allows the CMF to receive 15% of all project gross revenues, including at the profit stage, before any deductions.

This approach also aims to prevent all the negotiations around the deductible expenses-enhancements since the amount owed to CMF would be calculated from gross revenues and eliminate the current administratively onerous and unpredictable process for both the producers and the CMF (including CMFPA) tracking and verifying all the various unique processes for each separate project.

At this juncture, it is too early to report on any results in connection with the revised C2P recoupment policy.

Introduction of Conceptualization and Prototyping Programs

Previously to 2019-2020, the CMF divided the financing of a project between the Prototyping, Production and Marketing stages in its Innovation Program and between the Production and Marketing stages in the C2P. While this approach has served the industry well, there is now an increased emphasis on devoting resources to a project early in the development process. This allows for the conceptualization and development of the project from the ground up and when there is the most flexibility with regards to timelines, deliverables and tangible output.

Further, with more resources at the preliminary stages of a project, producers and studios will have more assistance to better align their projects for support at further funding stages in the Experimental Stream.

In light of the above, the CMF created a "Conceptualization" funding stage in 2019-2020 and made its funding support at the Prototyping stage its own distinct Program accessible to both innovative and commercially-driven projects.

The Conceptualization Program awards funding to projects on a first-come/first-served basis (up to a maximum of \$15K), there is a simplified application process, a cap of one application per applicant and focus on new applicant producers who have never received funding in the Experimental Stream.

Combining Marketing and Production

At the opposite end of the project, the CMF has always awarded funding separately for projects at the Marketing and Promotion stage.

The CMF heard from a variety of stakeholders that marketing funding should form part of a project's production strategy and the requirement to evaluate a project's marketing plan is vital at the production stage as a key measure of the potential success of the project. Further, stakeholders stressed the importance of building an audience and interest around the project as early as possible in the production process.

Beginning in 2019-2020, Applicants who apply for production-stage funding must present a dedicated percentage of marketing & promotion costs within their production budget.

In the immediate term, the CMF retained the existing singular Marketing funding stage to ensure that projects that had previously been supported at the Production funding stage continue to be able to access Marketing funding. This singular Marketing pillar will be gradually phased out over the next few years.

Further, the CMF increased the maximum contribution for Production-stage funding in both the Innovation Program and C2P to \$1.5M for projects in which significant marketing costs are added.

CMF-Shaw Rocket Fund – Digital Kids Partnership

In light of both the migration of kids programming to online platforms and the mandate in the Contribution Agreement that the CMF support Children & Youth Programming, in 2019-2020 the CMF partnered with the Shaw Rocket Fund for a Kids Content Program in its Experimental Stream on a pilot basis.

The approach to this Program is a model the CMF has previously adopted where both parties contribute funding, but the Program was initially administered by Shaw Rocket Fund and they presented the CMF with a list of evaluated projects for final approval.

The initiative aims to create opportunities for Canadian content creators to produce digital animated series for children and encourage the use of new technology. Projects would be awarded funding through a selective process (by representatives from both the CMF and Shaw Rocket Fund) via an evaluation grid.

The initial results of the Program were very positive: 39 projects applied, 7 applications were funded with an average of \$314K per project. 3 projects were from Quebec, 3 from Ontario, and one from BC.

Introduction of the Development Packaging Program with the Independent Production Fund

In order to continue to respond to the fluctuating needs of the short-form web series industry and address the need for additional resources at a project's development stage, the CMF and IPF have agreed to partner together and offer a new funding program, Development Packaging Program, for scripted short-form web series.

While this Program will not open until March 2020 (and use funds from the CMF's 2020/2021 fiscal), in order to promote the Program and ready the industry, the partnership was announced in July 2019.

The end goal of this partnership is to ensure that the quality of projects proceeding through this Program will attract digital platforms, distributors and broadcasters with content that is ready to be fine-tuned to move into production.

More details can be found in the Program's Guidelines.¹

2. Games vs. Other Content Types

The Commercial Projects Program was created in 2016-2017 to reconcile the imbalance between the competing objectives of innovation and commercialization in the Experimental Stream. Despite its emphasis on commercially-focused projects, however, there has always been a requirement that projects in the Program exhibit some form of innovation.

While one of the initial distinctions between the two Programs was that the Innovation Program provided Prototyping, Production, and Marketing & Promotion support and the C2P only supported projects in Production, in 2018-2019 the C2P began to also provide Prototyping and Marketing & Promotion-stage funding². Although the goal of allowing this new funding access was to provide commercial projects with further resources to promote their projects in the marketplace, find an audience, and hopefully, increase the CMF's ROI, a peripheral effect of this policy is that the lines between the two Programs have blurred further.

Additionally, despite the emphasis for potential commercial success in the C2P, there are no distinctions between the eligible content-types for that Program and the Innovation Program. While the CMF believed that more commercially-minded types of projects (e.g., Games) would find a natural home in the C2P, the numbers tell a different story. Although Games have increased to 74% of applications submitted to the C2P program³, they have also comprised 64% of applications submitted to the Innovation Production program in 2018-2019 and 61% of the first round of 2019-2020. However, in June 2019, 9 out of the 10 projects awarded funding were Games.

In the years since the introduction of the C2P, despite ongoing calibration to ensure the Programs remained distinct, demand on the C2P has not kept pace with the application levels in the Innovation Program (see Appendix A, Figure 1). Further, as the evaluation scores of eligible projects in C2P have been less than those in the Innovation Program (see Appendix A, Figure 2), the CMF has often transferred some funds from the C2P (that would have otherwise funded lower-

¹<https://cmf-fmc.ca/en-ca/global-assets/forms/guidelines/cmf-ipf-guidelines>

²As noted earlier, beginning in 2019-2020, the Innovation and Commercial Projects Programs' marketing and promotion support was rolled into both Programs' respective production funding support.

³ In 2018-2019. The deadline for 2019-2020 C2P applications has not passed.

ranking projects) to supplement the Innovation Program (in order to support a greater number of higher-ranking projects).

In short, both Programs continue to fund all the same content, support almost the exact same funding activities and, while attempting to resolve the competing tension inherent in the Experimental Stream, a new tension has been created where one Program is clearly favoured by producers over another. The CMF also notes the fact that up until 2019-2020, the Innovation Program's CMF contribution and recoupment policy terms have been preferable over the C2P's, which also factors into this Program's preferred status and increased demand. While it is too early to measure the impacts of these recent changes, the CMF will continue to monitor the results and report on them as soon as it's practicable.

The CMF has adjusted key Program requirements to differentiate them as much as possible over the last few years – most recently with the revisions to the C2P recoupment policy in 2019-2020 – but now seeks stakeholder input on an alternative strategy the CMF could adopt to ensure both Programs serve the dynamic and distinct needs of the digital media industry.

In light of all of the above, should the CMF reconsider its current division of its Experimental Stream (Innovation vs. Commercial) and instead divide the interactive portion of the Stream along the lines of Games vs. Other Content types?

Could another approach be to maintain the Innovation and Commercial Projects Programs but limit access to projects that are Games to a designated percentage in each round for each Program? Or should the CMF revert back to a singular Experimental Stream Program that supports all types of projects?

While carving out a designated allocation for just Games will ensure that projects will compete against like-projects and could provide greater opportunity for other content types to secure funding (and ultimately more balance to the Experimental Stream), what could be some negative impacts to this approach?

In the past 3 years (on average), 65% of the Experimental Stream budget has been provided to Games (Appendix A, Figure 3), with a high of 68% in 2015-2016.

In light of these numbers, if the CMF adopted this new division of the Experimental Stream, what would be a suitable allocated percentage for each?

Provided the CMF's approach had a caveat that any allocation percentages would remain sufficiently flexible if the CMF determined the quality of eligible projects in a designated sub-stream did not warrant the respective defined budget allocation, would reserving roughly 40% of the total Experimental Program budget to projects other than Games and roughly 60% to Games be generally accepted?

Finally, as Experimental Stream projects can occasionally have elements that could fall under a variety of content-type classifications (e.g., VR projects that are Games or have game elements), if the CMF chose to reorganize its Experimental Stream interactive Programs along the lines of “Games” and “Other Interactive Projects”, what should the parameters be to classify a project as a Game?

3. Representation

The CMF’s mandate in its Experimental Stream is “to support the creation of leading-edge non-linear content on applications created exclusively for digital platforms and projects to help the Canadian audio-visual sector”⁴.

Despite this objective to support projects across Canada, the Experimental Stream has seen some regions receive a significantly larger share of funding. In the 5-year period from 2014-2015 to 2018-2019, Appendix A, Figure 4 shows that Quebec, Ontario and British Columbia are the top 3 provinces for approved applications, but with Quebec and Ontario separating themselves significantly from BC. In terms of total funding, Quebec and Ontario also lead the way (Appendix A, Figure 5).

In attempting to improve its policies to ensure that all applicants from across the country view the requirements, expectations and outcomes are standard, uniform and applied equally to all potential applicants – and to ensure that applicants from all regions have fair access to Experimental Stream funding – the CMF is reexamining its policies and processes.

In addition to these two provinces receiving a significant share of all Experimental Stream funding, as noted in Appendix A, Figure 6, over the 3-year span from 2016-2017 to 2018-2019, Montreal (46%) and Toronto (37%) led the rest of Canada (19%) in project approval rates in the Experimental Stream. While an argument can be made that there is a concentration of interactive digital media companies in the two largest cities for each respective language market and this concentration attracts high performing companies due to the level of resources and personnel in those markets, the lack of representation across the rest of Canada is something that needs to be addressed.

In an attempt to determine the root cause of a particular outcome, there are usually a variety of factors that influence a given result. Different tax credit regimes, applicant familiarity with the CMF’s requirements, opportunities to work for non-Canadian companies on non-CMF eligible projects, amongst other variables, could all play a role in the volume of applicants in a particular region and how successful they are in obtaining funding. These factors also apply in the Convergent Stream regarding funding for projects in the regions.

The CMF has recently undertaken a variety of discussions with some regional stakeholders in an attempt to determine strategies to increase more regional representation in the Experimental

⁴*Contribution By the Department of Canadian Heritage to the Canada Media Fund, 2019-2020, page 1, preamble.*

Stream. While some of the received feedback focused on ways the CMF could improve its Guidelines, forms and application process, there was no criticism noted that was exclusive to regional applicants. The CMF hears from stakeholders in all of its Programs (both Experimental and Convergent Streams) that applying to the CMF can be time-consuming, onerous, and confusing and this feedback is always taken into consideration in attempting to craft policies that delineate all of the necessary obligations on applications while attempting to be as streamline and user-friendly as possible. This is a balance the CMF seeks to achieve each year and will continue to face due to the diversity of Programs it offers.

While the CMF will continue to streamline its application process as much as possible, it is seeking stakeholder opinion on any additional factors it should consider from a regional perspective when amending its application requirements?

One strategy to help improve new applicants get their foot in the door is the recently introduced Conceptualization Program (discussed above in section 1). This Program was designed to be less administratively onerous and hopefully provide new applicants with an easier entry point to the Experimental Stream. Additionally, once awarded funding through this Program, applicants are able to further refine their projects to the point where they are more competitive and hopefully able to receive subsequent Experimental Stream funds.

The maximum amount available is \$15K and the Program was offered on a first-come/first-served basis. Looking at the Conceptualization Program results by province (see Appendix A, Figure 7), Quebec companies submitted 14 projects and Ontario companies submitted 18 projects in comparison to the rest of the country which submitted 11 projects combined.

The CMF holds that due to the Conceptualization Program's first-come/first-served selection process, this is a great opportunity for bringing in more regional applicants into the CMF's Experimental Stream ecosystem.

Although these initial steps are important, the CMF recognizes it must address this issue of representation in Experimental Stream funding from a variety of angles and seeks stakeholder opinion on the following:

- **While Experimental Stream Programs are mandated via the CMF's Contribution Agreement with Canadian Heritage to award funds on a selective basis, some stakeholders have suggested that the CMF divide Experimental Stream funding by region or designate maximum caps on the amount of funding any particular province/territory can receive (similar to the CMF's approach with its English Regional Production Bonus⁵).**

⁵For clarity, however, the ERPB is a first-come/first-served Program, whereas any caps in Experimental Stream Programs would (largely) be for selective Programs.

While these strategies could ensure Experimental Stream funding is distributed more evenly across the country, it also acts as an artificial restriction that may result in the CMF funding some projects that rank lower than others.

Would this approach be positively received by stakeholders and what strategies could be implemented to mitigate any possible negative impacts?

- **Should the CMF limit entry into its Conceptualization Program strictly to regional applicants?**
- **What other measures can the CMF adopt in its Experimental Stream Programs to help improve access to underrepresented provinces/territories?**

4. Web Series Program

In addition to the creation of the C2P, in 2016-2017, the CMF also created the Web Series Pilot Program which allowed funding for linear content originally created for the web.

Since its introduction, the CMF has added Documentary and Children's & Youth projects to the eligibility criteria. Children's & Youth projects received 25% of 2018-2019 Web Series and Drama projects received the rest. No Documentary projects were funded in 2018-2019.

To keep up with Program demand, the Web Series Program budget increased from \$2M in 2016-2017 to \$4M in 2019-2020 (see Appendix A, Figure 8).

Based on the demand in the Program to date and the increase in production budget size (see Appendix A, Figure 9), the CMF seeks stakeholder input on whether the CMF should further tighten or loosen any other eligibility criteria?

While the Program has been offered through the Experimental Stream due to the requirement that projects in the Convergent Stream required a licence from a CRTC-licensed broadcaster, the CMF recently expanded its "Canadian Broadcaster" definition to include certain, enumerate online platforms.

While the immediate restriction on platforms will be those owned and operated by broadcasters and BDUs, the CMF believes that the future home of the Web Series Pilot Program may be better aligned with other Programs that fund linear content and continues to discuss Program policy with the Department of Canadian Heritage.

5. A2P Summary

The Accelerator Partnership Program ("**A2P**") was created in 2013-2014 with the objectives of providing digital media projects with better access to mentorship, markets and capital. In this

Program, the CMF seeks to connect domestic and international business accelerators with previous recipients of production funding from the CMF's Experimental Stream.

A2P recipients have leveraged the Program to progress in the market (acquisition of partners, clients and/or financing), strengthen their business capabilities through mentoring and training, and develop internationally (US, South America, Europe and Asia). Several recipients have secured strategic partnerships with major industry players including Sony, Microsoft, Nickelodeon, Sanrio and Nintendo as a direct result of the program. Although acquisition of financing and revenue remains a weaker point, some A2P recipients have had remarkable success, achieving direct-to-consumer sales in excess of \$1M or securing venture capital investments nearing \$5M for their company.

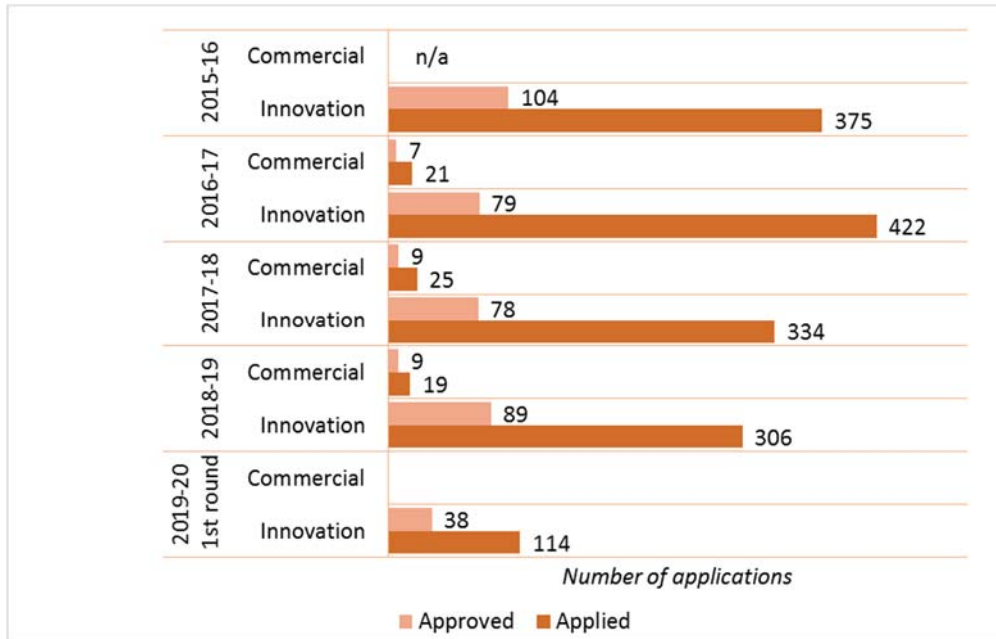
A2P clients currently have access to a network of 36 partner accelerators in five Canadian provinces (BC, MB, ON, QC and PE) and five foreign jurisdictions (US, UK, France, Estonia and India). Through the CMF's partnership with the Canadian Digital Media Network (CDMN), A2P recipients can also access funding and support from the CDMN's Soft Landing Program to further engage in international market development. Moving forward, the CMF will strive to maintain a diverse portfolio of partners to ensure that A2P clients have access to the support they need in their region. Further, the CMF is open to any producer proposals for partnerships with an accelerator that is not yet approved by the CMF.

Appendix A, Figure 10 outlines the results of the Program since its inception in 2013-2014.

Moving forward, the CMF will continue to encourage more education about the Program in the digital media community and will pursue stronger partnerships and more strategic alliances with eligible accelerators in Canada and abroad to open additional new markets and opportunities for CMF-funded projects.

APPENDIX A

1. Innovation and Commercial Projects Programs Demand (all funding activities)



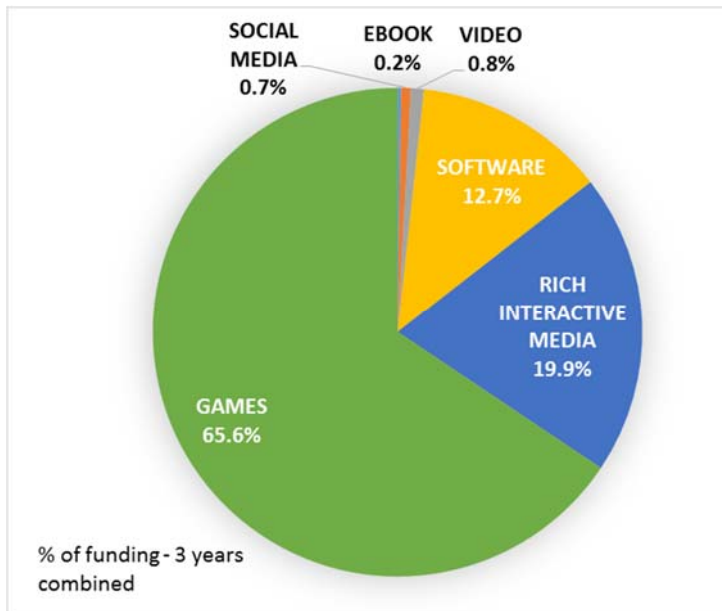
Note: the deadline for 2019-2020 C2P applications has not passed.

2. Innovation and Commercial Projects Programs: minimum scores for funding⁶

<i>Out of 100</i>	<i>2016-2017 Round 1</i>	<i>2016-2017 Round 2</i>	<i>2017-2018 Round 1</i>	<i>2017-2018 Round 2</i>	<i>2018-2019 Round 1</i>	<i>2018-2019 Round 2</i>	<i>2019-2020 Round 1</i>
Innovation Production	78.8	73.0	73.0	74.0	74.7	68.9	76.2
C2P	66.9	N/A	66.1	N/A	66.7	N/A	N/A

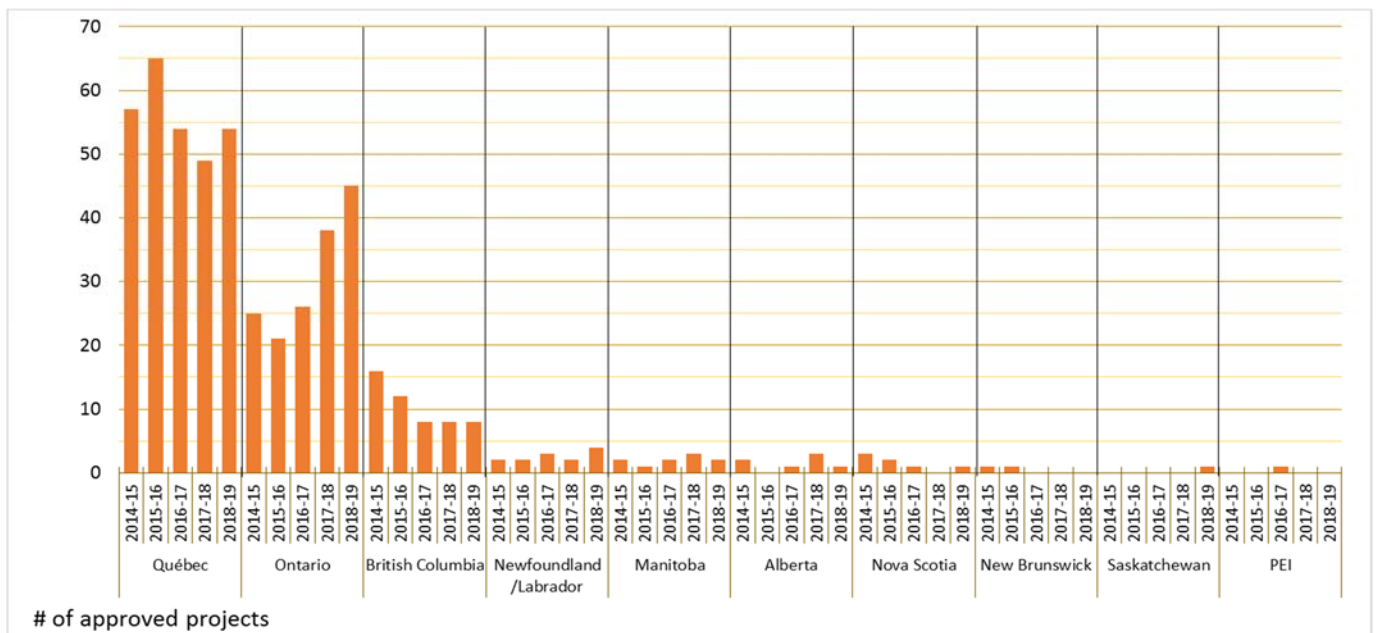
⁶Based on the results of the evaluation and the available amounts.

3. Innovation and Commercial Projects Program funding by content type



4. Regional representation in Experimental Programs

Innovation, Commercial Projects, and Web Series Programs⁷

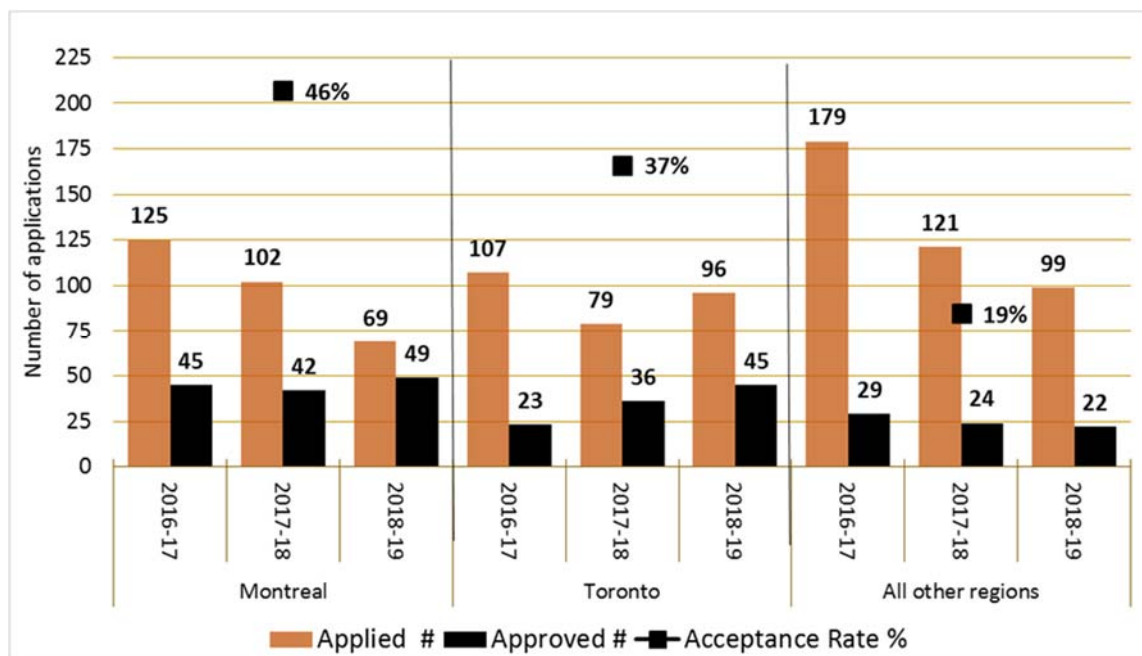


⁷Projects from the Yukon, Northwest Territories and Nunavut were not awarded funding during this timeframe.

5. Experimental funding (\$M)⁸ (all Programs/all funding stages)

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Alberta	0.0	0.7	0.0	0.6	1.0	0.2
British Columbia	7.5	4.9	5.4	4.1	2.1	4.1
Manitoba	0.7	0.3	1.2	1.2	1.1	0.9
New Brunswick	0.0	0.4	0.3	0.0	0.0	0.0
Newfoundland & Labrador	0.0	0.6	1.0	0.0	1.7	1.4
Nova Scotia	0.8	1.0	0.6	0.3	0.0	0.7
Ontario	6.7	10.5	7.7	11.3	15.9	16.9
Prince Edward Island	0.0	0.0	0.0	0.2	0.0	0.0
Quebec	19.3	21.5	26.1	24.0	20.1	18.2
Saskatchewan	0.0	0.0	0.0	0.0	0.0	0.0
Total	35.0	39.8	42.3	41.7	41.9	42.5

6. Experimental Applications – Toronto & Montreal vs. Rest of Canada

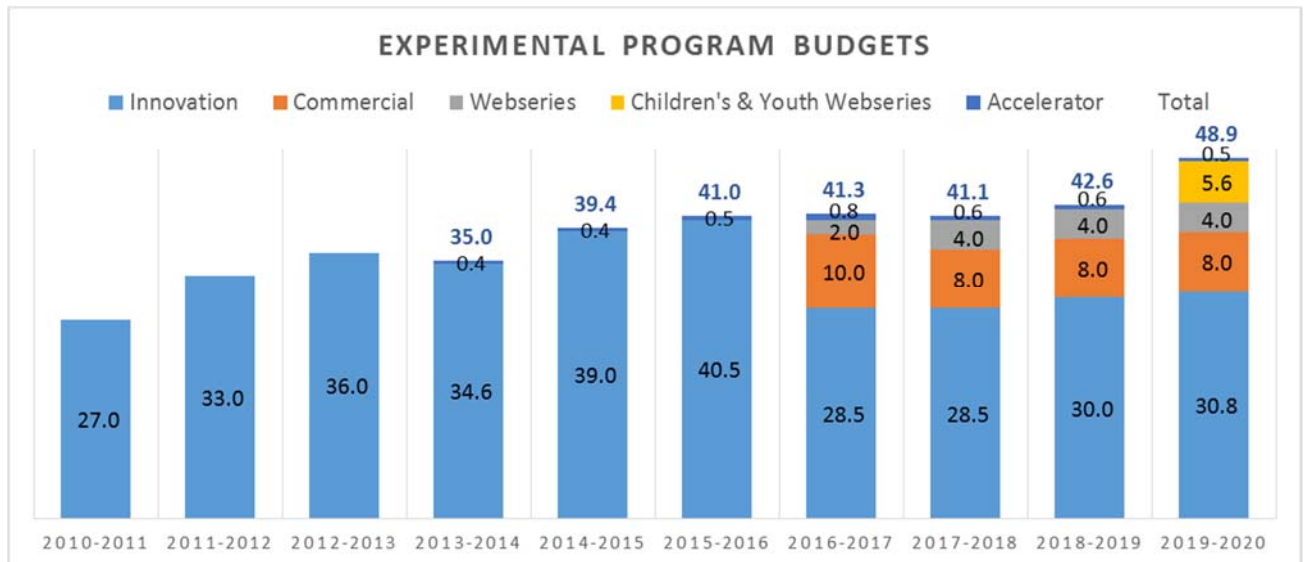


⁸Projects from the Yukon, Northwest Territories and Nunavut were not awarded funding during this timeframe.

7. Initial Conceptualization Program results by province⁹

	# of applications	%
Québec	18	41.9%
Ontario	14	32.6%
British Columbia	5	11.6%
Alberta	3	7.0%
Manitoba	1	2.3%
New Brunswick	1	2.3%
Saskatchewan	1	2.3%
Newfoundland /Labrador	0	0.0%
Nova Scotia	0	0.0%
PEI	0	0.0%
Total	43	100.0%

8. Experimental Stream Program Budgets (2010-2011 to 2019-2020)



⁹ Projects from the Yukon, Northwest Territories and Nunavut were not awarded funding.

9. Web Series averages

	<i>2015-2016</i>	<i>2016-2017</i>	<i>2017-2018</i>	<i>2018-2019</i>
Average contribution \$K	n/a	200	221	216
Average budget \$K	n/a	428	474	679
Average contribution %	n/a	47%	47%	32%

10. A2P results

	<i>2013-2014</i>	<i>2014-2015</i>	<i>2015-2016</i>	<i>2016-2017</i>	<i>2017-2018</i>	<i>2018-2019</i>
# of projects funded	12	12	16	21	15	16
# of Accelerator partners involved in projects	9	10	11	11	11	10