



FREQUENTLY ASKED QUESTIONS (FAQ) THE CANADA NEW MEDIA FUND

New information has been added to the Repayment of advances section

GENERAL QUESTIONS

- Why use deadlines?
- What is the two-step application procedure for Product Development and Marketing?
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- Why are producers required to submit a marketing application when applying for product development financing?
- How can producers prepare a market research / prototyping application?
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- Can individuals and non-profit organizations (NPOs) submit applications for financing?
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REPAYMENT OF ADVANCES

June 1, 2006 - New information: Please refer to the most recent FAQs of this section below.

- Why is the repayment calculated on gross revenues?
- How much must I repay for advances received for product development / marketing?
- What do the percentages of 50% for the repayment of online products and 75% for the repayment of offline products mean?
- How is profit participation calculated?

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- Which standard budget template should I use for my marketing expenses?

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GENERAL QUESTIONS

Why use deadlines?

In a significantly over-subscribed environment, deadlines ensure that funding is available for projects throughout the fiscal year.

Deadlines also facilitate a comparative process which helps finance the best projects.

Deadlines for receiving and processing applications also enable Telefilm Canada to more easily plan in areas such as fiscal management, human resources and consultation with the industry.

What is the two-step application procedure for Product Development and Marketing?

Step 1 is an Expression of Interest (EOI) application form for all applicants.

The EOI, not to exceed 5 pages in total, is written in a question-answer format and will serve to identify the best projects in terms of quality of proposed product, capacity of the producer to realize the project and the potential to reach Canadian consumers.

Step 2 consists of a complete file application. Successful applicants at the EOI stage will be invited to submit a full application, including all documents required for a full evaluation of the project.

By simplifying the application procedure, the administrative burden on Canadian companies wishing to access the Fund will be reduced, as only those projects most likely to succeed will be encouraged to move forward to the full application and evaluation stage.

What is the one-step procedure for Market Research and Prototyping?

One-step procedure consists of a Complete File application for all applicants. In addition to the application, Telefilm Canada requires submission of additional documents listed in the Required Document Checklist for Market Research and Prototyping.

Final funding results will be announced within eight weeks following the Full Application deadline.

Why are producers required to submit a marketing application when applying for product development financing?

Formerly, the phases of a project's financing were allocated sequentially. In practice, however, new media marketing activities begin at the same time as the product development phase, with test marketing, focus groups and participation in markets, followed later by the promotion and distribution activities surrounding the actual product launch. Most often, these activities could not be undertaken for lack of adequate funding.

In an effort to ensure the most efficient and effective marketing activities and to plan for the technical and financial resources required to initiate them, applications for product development and marketing assistance will be required concurrently. Therefore, each phase will require a detailed plan, budget and funding structure, with relevant marketing expenditures included in the budgets for each phase.

Producers are thus required to submit a product development/marketing application form detailing the budgets and capital structures for both phases. When a project is approved, a single contractual agreement will be drawn up that will list deliverables, timelines, and disbursements for each phase.

How can producers prepare a market research / prototyping application?

The market research phase is especially useful for a new company or a new activity for an established company, or for creating a new product or line of products. Producers in such business situations should

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first concentrate on these activities and limit themselves to submitting a funding application for this first phase.

A number of activities can be carried out during this phase to analyze and validate the business opportunity under consideration and, depending on the results, make the necessary adjustments. Notable among them are: strategic planning, market analysis and feasibility study, concept definition and creation of a “demo” version of the product in order to test the target audience and ensure optimum positioning for the planned product.

Producers who have market data confirming the opportunity to create the product can then go on to the next phase and submit a prototype development funding application. This project phase includes activities such as scripting, developing a functional prototype to demonstrate the concept and technology, and estimating the budget and timelines for producing, marketing and distributing the product, as well as planning the marketing strategy.

The ultimate goal of all these activities is to initiate the necessary steps to move on to the product development and marketing phases. These include: search for strategic partnerships, assembling the financing needed for the production, and developing distribution channels.

What is the difference between a demo and a prototype?

A demo is a simulation that offers a general idea of how the proposed product will look and feel.

A prototype is an incomplete but functional version of the actual product that does not yet have all the content and characteristics of the final product.

While the demo is primarily a sales tool, the prototype also serves to demonstrate the technical feasibility of the product and allows for the most accurate budget estimate possible.

Can I submit an application for marketing a portfolio of products?

Yes, a producer can submit an application for the marketing of a portfolio of eligible existing products as well as submit an application in conjunction with a product development application for the creation of a new product.

ELIGIBILITY REQUIREMENTS

Can individuals and non-profit organizations (NPOs) submit applications for financing?

In order to be eligible to apply for funding from the Canada New Media Fund, individuals must either incorporate a new company or partner with an eligible production company. The Fund supports Canadian production companies from the private sector although NPOs may enter into co-production agreements with producers in order to develop their content. In these partnerships, producers must retain majority copyright ownership and exercise creative and financial control of the project in order to be eligible to the Fund.

Does my company have to be incorporated?

Yes, not only does your company have to be incorporated, it must be Canadian-owned and controlled. Also, eligible companies must operate and be headquartered in Canada.

Why must I legally demonstrate the Canadian status of my company?

Telefilm Canada must ensure that it allocates public funds to Canadian-owned and controlled companies. Therefore, Telefilm Canada may require applicants to legally demonstrate their Canadian status in conformity with the *Investment Canada Act*.

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How do I determine if my project is eligible?

Telefilm Canada, as a cultural investor in film, television, new media and music, has a mandate to support the creation of high-quality cultural content destined for the Canadian public. With regards to the Canada New Media Fund, eligible projects must be highly interactive, entertaining and/or educational (in the broad sense of the term) and reach a large audience. Audiences are generally segmented into age groups—children, teenagers and adults—to ensure that the product best reflects the main interests of the target audience. For that reason, projects that are only directed at special interest groups or that only address professional and/or corporate needs are not eligible.

PROJECT FINANCING

Does the Canada New Media Fund provide grants for product financing?

No, the Canada New Media Fund does not provide grants. Product financing takes the form of conditionally repayable advances. In general, advances are to be reimbursed out of project revenue streams with profit participation built in.

Is the financing an investment?

Not as such, since conditionally repayable advances do not imply the notion of proprietary rights. However, as is the case with investments, Telefilm Canada intends to recoup its advances by applying a reimbursement percentage on revenues.

What is the difference between the market research / prototyping advance and the product development / marketing advance?

The market research / prototyping advance becomes due in totality on the first day of production or if the rights are sold, assigned or transferred. The product development/marketing advance is repayable out of product revenues or if the rights are sold, assigned or transferred.

If my project enters the product development stage, how will I repay the market research / prototyping advance received from Telefilm Canada?

According to the Canada New Media Fund Guidelines, the market research / prototyping advance becomes due in totality on the first day of production or when rights are sold, assigned or transferred.

Under exceptional circumstances in relation to financing of the product development phase, Telefilm, *at its sole discretion*, may issue an amendment agreement that allows repayment of all or a portion of advance(s) received for market research / prototyping to be paid from production revenue.

What is Telefilm Canada's maximum level of participation?

Telefilm Canada can provide financing for up to 50% of eligible expenditures, at all phases of a project, with funding caps at each phase. Surpluses cannot be transferred to a subsequent phase.

What are the funding caps for each project phase?

A project can receive financial assistance for an amount that may not exceed the lesser of the following:

- 50% of market research / prototyping budget or \$100,000
- 50% of product development budget or \$250,000
- 50% of marketing budget or \$200,000

for a maximum of 50% of the total budget or \$550,000 in financial assistance for all phases of a project.

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REPAYMENT OF ADVANCES

NEW

FAQ 1)a) Section 4.1.7 of the guidelines, referring to the terms of repayment of Market Research and Prototyping phase advances, has been clarified such that, in cases where Telefilm has agreed to be repaid this advance from exploitation of the Product, it no longer expects to receive a preferred position.

What is Telefilm Canada's current repayment position?

Telefilm Canada now expects to be repaid in the same position as Telefilm's financing for the Product Development and Marketing phases as described in that same section of the guidelines.

FAQ 1)b) What if I already signed a contract with Telefilm under the old rule?

We welcome you to contact Telefilm to have your contract revised and restated to comply with the above. Note that these should only be contracts signed in fiscal 2005-2006. Prior to that year Market Research and Prototyping advance repayments were handled differently.

FAQ 1)c) What if I have not come to Telefilm for financing of the Product Development phase or Telefilm has decided not to finance it?

If you inform Telefilm in advance of triggering the repayment obligation and are able to effectively demonstrate the need to delay full repayment due to cash flow constraints, Telefilm may allow you to delay repayment as requested. In such cases the amount will be repayable from revenues generated from the exploitation of the Product on the same basis as Telefilm's recoupment policy for of Product Development and Marketing financing as more fully described in section 4.1.7 of the main guidelines.

If you have already proceeded to a Product Development phase or Telefilm learns that a Product resulting from the Market Research and Prototyping phase has been produced, and you have not repaid the advance, then Telefilm will place your company in default status and you will be subject to the default mechanisms currently in place with Telefilm Canada.

FAQ 1)d) What if I found myself in the repayment situation you describe above before Telefilm started to allow the flexibility afforded in FAQ 1)c)?

If you have fully repaid the advance then there will be no retroactive adjustment. If you have not fully repaid the advance, Telefilm is open to negotiating the terms of repayment per the above.

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FAQ 2) How do you define “a product”?

In light of the proliferation of new delivery platforms available in the new media environment, Telefilm Canada has updated its definition of a “Product” so that it explicitly reflects the spirit and intent of the CNMF guidelines.

The definition of a “Product”, also described as “Developed Material,” has now been expanded so that program platform and support format is no longer relevant in the description:

"Product" means the new media content described in the Letter Agreement and all versions thereof, notwithstanding their support format, or delivery platform and includes, but is not limited to, all computer elements, programming, applications and software, all wording, content, text, scenarios, dialogue, all visual elements, photographs, graphics, images, videos, animation, computer generated images, sound and music elements thereof, and including elements created or used in producing such content but not incorporated in any final version and all copies in any such medium of such product and elements.

This expanded definition will appear in all new CNMF contracts.

Why is the repayment calculated on gross revenues?

In the administration of the Fund, for both Telefilm Canada and producers, the goal is to simplify the preparation of exploitation reports, the calculation of repayments and, consequently, the follow-up of contracts. The constant fluctuations in the new media sector mean that there is little historical data or market predictability for standardizing the process of calculating net revenues.

Telefilm Canada will provide the producer with a standard report format that takes future statistical requirements (revenue sources, territories, quantities sold, etc.) into account and that will allow the calculation method to be gradually adjusted.

Telefilm Canada aims to recoup all advances made, but its recoupment formula nevertheless provides for a reduced rate, depending on the project type, designed to improve the company's cash position in order to help it cover its operating and marketing expenses.

How much must I repay for advances received for product development / marketing?

Advances received for product development / marketing are to be repaid entirely, with the exception of products developed in both official languages, in which case 90% of the advance must be repaid.

What do the percentages of 50% for the repayment of online products and 75% for the repayment of offline products mean?

These percentages are used to calculate the repayment percentage received by Telefilm Canada from gross revenues. To begin with, Telefilm Canada's repayment percentage is equal to its percentage of participation (TPP) in the total financing of the product.

However, Telefilm Canada agrees to reduce its repayment percentage in order to increase the cash assets of producers.

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These percentages of 50% for online products and 75% for offline products are multiplication factors that are applied to the basic repayment percentage (TPP) and used to calculate the final repayment percentage, which is determined according to the type of project financed. Once the advances have been paid back in full, a third multiplication factor is used to calculate the percentage of participation in profits.

Below are calculation examples that demonstrate how the calculation process works:

How to calculate the percentage of advances that must be repaid				
Telefilm Canada's percentage of participation in the total financing of the product	Repayment percentage for an online product	Repayment percentage for an offline product	Repayment percentage with no reduction factor*	Percentage of participation in profits
	Multiplication Factor used to calculate the repayment percentage			
	50%	75%	100%	25%
20%	10%	15%	20%	5%
35%	17.5%	26.3%	35%	8.8%
50%	25%	37.5%	50%	12.5%

*Note that for projects involving a third party publisher, distributor or web operator, there will be no multiplication factor and Telefilm Canada will recoup from the Producer 100% of its percentage in the Total Financing of the Product.

How is profit participation calculated?

After complete repayment of Telefilm Canada's advance, Telefilm Canada receives 25% of its percentage of participation in the total financing of the product. This amount is capped at 20% of the advance amount. Recoupment is based on gross revenues.

APPLICATION FORMS AND STANDARD BUDGETS

Which standard budget template should I use for my marketing expenses?

Marketing expenses related to market research normally carried out before or during product development—market studies, focus groups, surveys, market tests, pre-marketing, packaging design and production (offline products), launching expenses—should be submitted along with the product development budget. Principal marketing expenses, related to subsequent marketing operations—promotion, participation in markets—should be entered in the marketing budget.