



**RECOUPMENT POLICY:  
EXPERIMENTAL STREAM**

In effect as of April 1, 2013

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## 1. INTRODUCTION

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

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

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

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

## 2. PRODUCTION

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### 2.1 NATURE OF FUNDING CONTRIBUTION: RECOUPABLE INVESTMENTS

Successful applicants for production funding will receive funding in the form of a recoupable investment.

### 2.2 LEVEL OF RECOUPMENT AND PROFIT PARTICIPATION

The CMF will apply one of two different recoupment models depending on whether the funded project is a "Finished Product" or a "Live Exploitation Product".

#### 2.2.1 Finished Product

The CMF considers a Finished Product to be a project that is at or near the final state in which it will be primarily exploited when the costs that the CMF have contributed to are mostly expended. In a Finished Product all of the functionalities are available when the project is ready for market launch. No additional elements are scheduled to be produced after the start of the exploitation (besides minor enhancements, debugs and maintenance activities). It is usually expected that revenues for this type of projects will be generated quickly after the launch, with a possible long tail effect if the product is a success.

##### 2.2.1.1 Finished Product Recoupment

For a Finished Product, the CMF will recoup its investment from revenue generated by exploitation of the project:

- a) in a manner no less favourable than pro rata and pari passu with other financial participants who are providing recoupable financing to the project, to a maximum of 50%; and
- b) until the full amount of the CMF's investment is recouped or seven years from the submission to the CMF of the project's first exploitation report, whichever comes first.

For greater clarity, "pro rata and pari passu" includes the concept that the recoupment of the CMF will be proportional to its share of project financing compared to other sources of recoupable financing, subject to the 50% maximum.

For example, for a project costing \$1 million:

- Where the CMF provides an investment of \$500,000 and another investor provides a recoupable investment of \$500,000, the CMF will receive \$0.50 of every dollar of revenue generated by the project (i.e. 50%).
- Where the CMF provides an investment of \$250,000 and another investor provides a recoupable investment of \$750,000, the CMF will receive \$0.25 of every dollar of revenue generated by the project (i.e. 25%).

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

### **2.2.1.2 Finished Product Profit Participation**

Once the CMF has recouped 100% of its investment, the CMF will participate in profits generated by exploitation of a Finished Product in the same manner in which it recouped its investment, except:

- The CMF will forego, in perpetuity, 25% of its profit participation for the benefit of the applicant; and
- Where the CMF recoups 100% of its investment within the first 2 years of exploitation of the project, the CMF will forego, in perpetuity, an additional 25% of its profit participation for the benefit of the applicant, for a total of 50% of the CMF's initial recoupment position in the project.

As with the recoupment of its investment in the project, the CMF will participate in profits for no longer than seven years from the submission to the CMF of the project's first exploitation report.

## **2.2.2 Live Exploitation Product**

The CMF considers a Live Exploitation Product to be a project that materially changes over the life of its exploitation, so that the costs that the CMF have contributed to may result in one of several iterations of the project. Iterations and additional elements are scheduled to be produced and offered to the users after the initial launch. Creation of new material is engendering additional production costs after the initial launch. The revenue model, usually spread over time, progresses as the user base expands.

### **2.2.2.1 Live Exploitation Product Recoupment**

For a Live Exploitation Product, the CMF will recoup its investment from revenue generated by exploitation of the project:

- a) in a manner no less favourable than pro rata and pari passu with other financial participants who are providing recoupable financing to the project, to a maximum of 50%; and
- b) until the full amount of the CMF's investment is recouped, without a time limit.

See section 2.2.1.1 for greater clarity on "pro rata and pari passu".

### **2.2.2.2 Live Exploitation Product Profit Participation**

The CMF will not participate in profits generated by exploitation of a Live Exploitation Product once the CMF has recouped 100% of its investment unless the project is sold, either alone or as an asset in the sale of the applicant company/companies, (or similar transaction) by the applicant(s) to a party unrelated to the applicant. In the case of such a sale, the CMF will receive profit participation in relation to the sale price of the project (or, at the CMF's sole discretion, the value of the project as determined by an independent, third-part valuator) in proportion to the CMF's investment in the project, minus the recoupment already returned to the CMF. For example, where the CMF provides an investment of \$500,000 to a project with total costs of \$1 million (i.e. the CMF provides 50% of the financing), and at the time of sale the value of the project is \$10 million, and the project has returned \$500,000 in recoupment to the CMF, the CMF will receive \$4.5 million in profit participation.

## **2.2.3 Buy-out**

The CMF may consider proposals by the applicant(s) to be "bought out" of its right(s) of recoupment and/or profit participation on a case-by-case basis.

The CMF will not consider proposals to buy out the CMF's investment where the buy-out is primarily intended to extinguish the CMF's right to recoupment or profit participation from revenues generated by the project. As such, the CMF will expect to receive buy-out proposals in which the amount paid to the CMF for the buy-out would be

materially higher than the amount of the CMF's investment in the project. The CMF expects that buy-out proposals will typically come where a sale of the project, either alone or as an asset in the sale of the applicant company/companies, (or similar transaction) by the applicant(s) to a party unrelated to the applicant has been made.

In the event of a buy-out, the CMF may follow the same process as described above in section 2.2.2.2 where the project is sold. Buy-out proposals must involve payment to the CMF in cash or in instruments easily convertible to cash.

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

## **2.3 EXPLOITATION FEES AND EXPENSES, AND ENHANCEMENT COSTS**

Depending on the nature of the project:

- Applicants (or distribution entities) may incur expenses in the course of distributing and/or exploiting the project;
- Distribution entities may take fees/commissions in payment for their distribution services; and/or
- Applicants may incur costs for enhancements or upgrades to the project that are proposed after the start of the exploitation.

Before the CMF recoups its share of revenues, the Applicant is allowed to deduct commissions, fees and expenses related to the exploitation and, if applicable, the enhancements costs of the project up to a maximum of 75% of the gross exploitation revenues. The CMF will determine appropriate deductions on a case by case basis. All deductions must be reasonable, actual and verifiable.

### **3. DEVELOPMENT**

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#### **3.1 NATURE OF FUNDING CONTRIBUTION: REPAYABLE ADVANCES**

Successful applicants for development funding will receive funding in the form of a repayable advance. A repayable advance is an advance that will be repayable to the CMF according to the conditions described, in part, below.

#### **3.2 LEVEL OF RECOUPMENT**

##### **3.2.1 Production of the Project**

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

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

##### **3.2.2 Sale, Transfer, or Other Disposition of the Project**

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

## 4. MARKETING AND PROMOTION

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### 4.1 NATURE OF FUNDING CONTRIBUTION: RECOUPABLE ADVANCES

Successful applicants for marketing and promotion funding will receive funding in the form of a recoupable advance. A recoupable advance must be repaid from revenue generated by exploitation of the project:

- a) in a manner no less favourable than pro rata and pari passu with other financial participants who are providing recoupable financing to the project; and
- b) the following, depending on the type of project:
  - i. for a Finished Product, until the full amount of the CMF's investment is recouped or seven years from the submission to the CMF of the project's first exploitation report, whichever comes first;
  - ii. for a Live Exploitation Product, until the full amount of the CMF's advance is recouped, without a time limit.

The CMF will not participate in profits generated by exploitation of a project in relation to its recoupable advance for marketing and promotion support.

Where the CMF has also provided production funding for the project, the amount of the CMF's marketing and promotion funding will be added to the amount CMF's production funding and both will be recouped together according to the proration provided for in the recoupment structure for the production funding.

See section 2.2.1.1 for greater clarity on "pro rata and pari passu".