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# Canada Music Fund Music Entrepreneur Component Aid to Canadian Sound Recording Firms

Application Guide  
2017-2018





# **Music Entrepreneur Component**

## **Aid to Canadian sound recording firms**

### **Application guide 2017-2018**

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## **1. Introduction and how to apply**

### **What's new:**

- The application form has been streamlined to reduce the burden associated with the application process. For more details, please refer to section 1.4.1 – Introduction.
- The weight given to the various eligible formats have been updated in the funding formula. See changes made in section 6 ‘Definitions’.
- Extended Plays (EPs) have been added as an eligible format.
- Eligible **streams** will count towards the sales minimum. Streams originating from YouTube that generated revenues are eligible for the sales minimum as well as the funding formula.
- The total contribution amount that members of an affiliated group could receive from the New Musical Works and Music Entrepreneur components cannot exceed \$800,000 annually.
- ‘Web related costs’ and ‘association membership costs’ are eligible expenses under overhead.
- ‘Catalogue acquisition costs’ are no longer an eligible expense.
- Three temporary measures for 2017-2018 have been introduced under section 2.3.5 to help plan and adjust to the changes.

### **1.1 Objectives of the Music Entrepreneur Component**

The Music Entrepreneur Component (MEC) is one of four components of the Canada Music Fund (CMF). The CMF aims to increase the creation of and access to a diversity of Canadian music for audiences everywhere by enhancing the sector’s ability to compete in domestic and international markets.

The MEC aims to ensure that Canadian music entrepreneurs build a strong and competitive industry capable of contributing to the Canadian musical experience over the long term through a diverse range of compelling Canadian choices.

The Department of Canadian Heritage administers the MEC. For more information on the CMF and its components, please visit the [Canada Music Fund website](#).

### **1.2 Music Entrepreneur Component—aid to Canadian sound recording firms**

Funding is intended to support the ongoing production and promotion of Canadian sound recordings.

MEC provides assistance on an annual basis to eligible Canadian sound recording firms using a funding formula based on applicants' sales in a reference period. This guide explains the eligibility requirements and the funding mechanism in detail.

### **1.3 New Musical Works component**

The New Musical Works (NMW) component of the CMF also provides funding to Canadian sound recording firms, through FACTOR and Musicaction. However, applicants cannot apply for funding from both components at the same time: those who meet the eligibility requirements detailed in this guide must apply for MEC funding and if they are successful, they will be deemed ineligible for NMW. Those who do not meet MEC eligibility requirements can apply for NMW funding. Information regarding NMW eligibility requirements and how to apply is available from FACTOR and Musicaction.

All applicants may be eligible for funding under other programs administered by FACTOR or Musicaction. Please contact [FACTOR](#) or [Musicaction](#) directly for more information.

### **1.4 Requirements for a complete application**

#### **1.4.1 Introduction**

This guide contains important information that will assist you in submitting a complete application. Words in **bold** are defined in detail in the definitions section of this guide.

For new applicants, the application form, and the sales of eligible sound recordings' template can be obtained by [contacting the Program directly](#). For last year's recipients, the application form and the sales template will be provided electronically and will include some of the information previously submitted. It is the applicant's responsibility to review the accuracy of this information.

The application form has been streamlined to reduce the burden related to the submission of an application. Several pieces of information not directly used to determine eligibility or the amount of the contribution have been removed while some, which remained important, were combined to the sales of eligible sound recordings' table.

The application form must be completely filled out and all supporting documentation provided. The application checklist, which describes the supporting documentation, must also be completed.

#### **1.4.2 Financial statements**

Applicants must submit financial statements for the three most recently completed financial years. The most recently completed financial year and applicable financial statements must end on June 30, 2015 or after.

Applicants who did not receive a MEC contribution in 2016-2017 must submit, at a minimum, financial statements in the form of a notice to reader. However, once a contribution agreement is signed between a recipient and the Department, the recipient is required, for subsequent applications to submit **audited financial statements** (for contributions exceeding \$250,000) or a review engagement report (for contributions equal to or less than \$250,000).

### **1.4.3 Application submission**

All applicants must complete and submit their application form and the table for sales of eligible sound recordings by [e-mail](#). They also have to send a printed and signed copy to the following mailing address:

MEC–Aid to Canadian Sound Recording Firms  
Department of Canadian Heritage  
25 Eddy Street, 8<sup>th</sup> floor, 25-8-T  
Gatineau, Quebec K1A 0M5

For more information about MEC–Aid to Canadian Sound Recording Firms, please contact the Program at 1-866-811-0055 (toll-free) or by [e-mail](#).

### **1.5 Deadline**

The Program considers your application to be filed on time if a printed and signed version of the application form, accompanied by all supporting documentation, is sent via mail or courier and is postmarked January 10, 2017 or earlier. The Program will also consider that your application has been filed on time if the electronic version of the complete application form and the templates for sales of eligible sound recordings and artists on roster are received before midnight on the deadline date, provided that it is immediately followed by the printed and signed version accompanied by all supporting documentation.

Applicants should take into account any extra time that may be required for the preparation of financial statements or other documents by third parties.

Applications received after the deadline will not be accepted.

### **1.6 Service standards**

For Program's Service Delivery Standards, please refer to the [Department of Canadian Heritage's website](#) at or [contact the Program](#).

## **2. Eligibility criteria**

### **2.1 Introduction**

MEC–Aid to Canadian Sound Recording Firms will support the eligible activities of Canadian sound recording firms in the year beginning April 1<sup>st</sup>, 2017 and ending March 31<sup>st</sup>, 2018. Funding is calculated using a formula based on eligible sales in a reference period.

### **2.2 Reference period**

This is the timeframe upon which a qualified applicant’s contribution is based.

The reference period for an applicant's unit sales is three (3) years, from July 1, 2013 to June 30, 2016.

Wherever the term “reference period” is used in this guide, it refers to the timeframe stated above.

### **2.3 Eligible Canadian sound recording firms**

To be eligible for funding, applicants must meet the following eligibility criteria:

#### **2.3.1 Number of years in operation**

At the date of application, the applicant must have completed a minimum of three (3) years of continuous operations as a Canadian sound recording firm. Applicants who have completed between three (3) and five (5) years of continuous operations and who meet all the eligibility requirements detailed in this guide can choose whether to apply for MEC or New Musical Works (NMW) funding. Applicants who have 5 or more years of continuous operations have no choice but to apply to MEC rather than to NMW.

#### **2.3.2 Organizational requirements**

From the time of application to the end of term of any **contribution agreement** between the Department of Canadian Heritage and a sound recording firm, the applicant, whose principal business relates to the creation, publishing, production, distribution or marketing, including touring-related activities, of Canadian music, must:

- be a **Canadian-owned and controlled firm**;
- have its company headquarters based in Canada;
- have key management personnel who are Canadian citizens or permanent residents in Canada. Key management personnel may include the Chairperson, directors, and officers as well as all other senior employees who may exercise financial control over the company;
- be able to demonstrate financial viability. The Program will determine viability based on the Canadian sound recording firms’ application form, business plan,

- and financial statements, as needed;
- own Canadian copyright for the Canadian sound recordings it produces and releases, co-produces and releases or hold an exclusive license assigned to it by the Canadian copyright owner to release the Canadian sound recordings in the Canadian market; and
- have fulfilled all contractual obligations with respect to artist royalty payments.

A Canadian sound recording firm is not eligible if revenues derived from the sale of sound recordings are in excess of \$20 million annually in each of the applicant's last three financial years or if the earnings before interest, taxes, depreciation, and amortization (EBITDA) margin for the last three financial years was 15% or greater.

MEC recipients must immediately inform the Program of any change of ownership. The Department of Canadian Heritage will review a change of ownership to determine whether the eligibility requirements continue to be met.

### 2.3.3 Roster

On the last day of the reference period (defined in section 2.2 of this guide), applicants must have an active **roster** of at least 4 **Canadian artists** (solo, group, or collective).

### 2.3.4 New releases

During the reference period, applicants must have released a minimum of 6 eligible Canadian sound recordings (full-length albums), with at least 1 eligible release (full-length album) in the most recent year of the reference period. See Section 2.4 for the complete definition of eligible Canadian sound recordings.

### 2.3.5 Sales

In the reference period, the applicant must have sales of eligible **Canadian sound recordings** (which can be validated by distribution reports):

- of at least 200,000 **units** including **EPs, streams, free goods** and net of credits for returns. Units that are given free of charge (such as for promotional purposes) do not count towards the sales minimum. The Program will use the values detailed in the definition of a **unit** to determine if the minimum level of unit sales has been met;
- written or performed by artists who are also shareholders or owners of the firm not in excess of 25% of total units sold.

Notes:

A Canadian sound recording firm is not eligible if the sales of its top selling Canadian artist exceed 75% of its domestic sales of eligible Canadian sound recordings for the three consecutive years of the reference period (not calculated as an average but on an annual basis).



Unit sales of **Canadian sound recordings** that received production funding from the CMF's NMW Component (administered by FACTOR and Musicaction) during the time the Canadian sound recording firm was a MEC recipient must be counted as 0.7 of the **unit** value. The applicant must adjust these units in the application. See Section 11 of the application form for detailed information on how to interpret this element or contact the Program.

- Temporary measures for 2017-2018: MEC recipients (2016-2017) that do not meet the sales minimum criterion (200,000 units) but meet all other program criteria, will be deemed eligible for 2017-2018.
- Applicants that meet all eligibility criteria, including the sales minimum criterion will be allocated a minimum contribution of \$200,000.
- For MEC recipients (2016-2017), the reduction of contribution amounts will not exceed 20%.

## **2.4 Eligible Canadian sound recordings**

### **2.4.1 Eligible**

A sound recording that:

- is a **Canadian sound recording**;
- is a **single or extended play (EPs)** (CD, downloads, **streams**, vinyl or other format recognized by the Program), **full-length album** (CD, download, vinyl or other format recognized by the Program) or DVD Video;
- is clearly and publicly attributed to the artist (solo, group or collective);
- has complied with **legal deposit** requirements.

### **2.4.2 Singles and Extended Plays (EPs)**

Sales of **singles** (either CD, downloads, **streams**, vinyl or other format recognized by the Program) and **EPs** count towards the applicant's minimum level of sales (200,000 units) and the total eligible unit sales used in the calculation of the formula. However, singles and **EPs** will not count towards an applicant's new releases to meet the eligibility criterion listed in Section 2.3.4 of this guide.

### **2.4.3 Compilations and re-issues of previously released material (including greatest hits)**

Sales of **compilations** and **re-issues** count towards the applicant's minimum level of sales (200,000 units) and its total eligible unit sales used in the calculation of the formula. However, compilations and re-issues will not count towards an applicant's new releases to meet the eligibility criterion described in Section 2.3.4 of this guide. An album of newly recorded versions of songs that were previously released by the same artist or different artists count towards an applicant's new releases (see section 2.3.4 of this guide).

#### **2.4.4 Live sound recordings**

Sales of **live sound recordings** count towards the applicant's minimum level of sales (200,000 units) and the total eligible unit sales used in the calculation of the formula. They are considered new releases to meet the eligibility criterion listed in Section 2.3.4 only if they are released no less than twelve (12) months after the previous release, and contain at least two new tracks.

#### **2.4.5 Multiple formats**

For the purposes of the new releases eligibility criterion, releases on multiple formats are counted as one release.

#### **2.4.6 Ineligible**

Sound recordings that do not meet the eligibility criteria and are any of the following:

- **Demos;**
- promotional units;
- sound recordings being created as a fundraising, advertising or promotional project;
- sound recordings that are made for instructional use;
- sound recordings that, in the opinion of the Department of Canadian Heritage, consist of:
  - material that is hate propaganda, obscene or child pornography, or any other illegal material, as defined in the Criminal Code;
  - pornography or other material having significant sexual content unless it can be demonstrated that there is an overriding educational or other similar purpose;
  - material that contains excessive or gratuitous violence;
  - material that is denigrating to an identifiable group;
  - any other similarly offensive material.

### 3. Funding Level

#### 3.1 Formula

Funding is based on a qualified applicant's **unit** sales of eligible **Canadian sound recordings** in the reference period. A qualified applicant's funding is determined by using its factored sales (in **units**) in relation to the factored sales (in **units**) of all qualified applicants receiving MEC funding during the same funding period. Factored sales are calculated by multiplying a qualified applicant's **unit** sales of eligible **Canadian sound recordings** by the appropriate sales coefficient.

#### 3.2 Current / Catalogue

Sales of recent eligible **Canadian sound recordings** will be given a greater weight in the formula compared to older releases. Within each year of the reference period, a "Current" release will be defined as an eligible Canadian sound recording that was released no earlier than three years prior to the start of that year. The weights will be applied by the program as follows:

- For sales between July 1, 2013 and June 30, 2014 (Year 1 of the Reference Period) – eligible Canadian sound recordings released after June 30, 2010 will be given a value of 1 for each unit, whereas sales of albums released on or before June 30, 2010 will be given a weight of 0.5.
- For sales between July 1, 2014 and June 30, 2015 (Year 2 of the Reference Period) – eligible Canadian sound recordings released after June 30, 2011 will be given a value of 1 for each unit, whereas sales of albums released on or before June 30, 2011 will be given a weight of 0.5.
- For sales between July 1, 2015 and June 30, 2016 (Year 3 of the Reference Period) – eligible Canadian sound recordings released after June 30, 2012 will be given a value of 1 for each unit, whereas sales of albums released on or before June 30, 2012 will be given a weight of 0.5.

Examples:

- for an eligible sound recording that was released on September 1, 2010, its unit sales in Year 1 of the Reference Period would be given a value of 1, while its sales in Year 2 and Year 3 of the Reference Period would be given a value of 0.5.
- for an eligible sound recording that was released on September 1, 2011, its unit sales in Year 1 and Year 2 of the Reference Period would be given a value of 1, while its sales in Year 3 of the Reference Period would be given a weight of 0.5.
- for an eligible sound recording that was released on September 1, 2012, all reported unit sales would be given a value of 1 in the Reference Period.

Include the actual unit sales in the application form. See section 11 of the MEC application form for further information.

### 3.3 Sales coefficients and maximum annual contribution

**Table 1. MEC sales coefficients for Canadian sound recordings**

Eligible sales up to 150,000 <b>units</b>	Coefficient: 3
Eligible sales between 150,001 – 300,000 <b>units</b>	Coefficient: 2
Eligible sales > 300,000 <b>units</b>	Coefficient: 1

Please refer to the definition of a **unit** for an explanation on how different formats are treated.

The maximum annual contribution is the lesser of **\$550,000** or 50% towards the eligible expenditures incurred by the Recipient.

For example, if a qualified applicant's factored sales were 5% of the total factored sales, it would receive 5% of the total MEC budget up to the maximum annual contribution. If a qualified applicant's funding is less than the maximum, its contribution would rise above 5% if at least one other qualified applicant receives the maximum annual contribution, since it would receive a portion of the funds redistributed from the qualified applicant which had attained the maximum. This system ensures that the entire MEC budget is distributed each year.

### 3.4 How affiliated groups are treated under the formula

Members of an **affiliated group** will be subject separately to the maximum contribution. However, the total contribution amount that members of an affiliated group could receive from the New Musical Works and Music Entrepreneur components cannot exceed \$800,000 annually.

## **4. Use of Funds**

### **4.1 Eligible expenses**

MEC contributions must be directed toward the production and promotion of **Canadian sound recordings** from April 1, 2017 to March 31, 2018. Eligible expenditures under this component include:

- costs related to production and manufacturing;
- costs related to the marketing and promotional activities;
- costs related to distribution;
- costs related to royalties paid to the artists;
- costs related to mechanical rights;;
- Canadian artists and songwriters development initiatives costs;
- touring costs (domestic and international), including transportation and accommodations for artists and tour organizers and that comply with what is authorized by the Government of Canada's *Travel Directive*. They shall not include per diem (meal allowances);
- costs related to the improvement of copyright management, royalty tracking or payment system;
- costs related to the development of digital technologies and e-distribution capability;
- costs related to the improvement of business processes;
- salaries and benefits related to eligible expenses;
- overhead: Recipients may allocate a maximum of 15% of their MEC contribution to overhead expenses.

but exclude:

- dividends, bonuses, or other extraordinary compensation to company shareholders or proprietors;
- per diem (meal allowances).

The specific conditions relating to the use of funds will be detailed in a **contribution agreement** between each recipient and the Department of Canadian Heritage.

### **4.2 Expenses incurred prior to funding approval**

The Department will assume no responsibility for any contractual commitments entered into by the applicant prior to confirmation of financial support from the Department.

### **4.3 Payments and reporting**

The schedule of payments will be described in the **contribution agreement** between the recipient and the Department of Canadian Heritage.

Recipients will be required to report on the use and results of their contributions. This requirement will be described in the **contribution agreement** between them and the Department of Canadian Heritage.

#### **4.4 Audit**

The Department of Canadian Heritage reserves the right to conduct audits of funding recipients. In such cases, recipients must make available any records, documents or other information (for example, distribution reports and artists' contracts) that may be required to perform the audit.

## **5. Government assistance: general conditions**

### **5.1 Public acknowledgement of financial assistance**

All funding recipients must publicly acknowledge, in English and in French, the financial support received from the Government of Canada in all communication materials and promotional activities related to the funding agreement, such as advertising, promotional and program materials, public announcements, speeches, websites, social media, etc. The Department's requirements for public acknowledgement of financial assistance are part of the funding agreements.

The Department's [guide on the public acknowledgement of financial support](#) will assist funding recipients in complying with the requirements described in the funding agreement.

### **5.2 Limits on government assistance**

The maximum level (stacking limit) of **total government assistance** (federal, provincial/territorial and municipal assistance) cannot exceed 50% of the total eligible expenditures. This includes investment tax credits. The Recipient will have to repay the federal portion of excess assistance granted pursuant to a prorated calculation.

### **5.3 Repayment of government assistance**

MEC recipients must repay their contributions if the contribution is equal to or greater than \$100,000 and if the recipient's EBITDA margin—excluding MEC funding—is more than 15% for the recipient's financial year in which the contribution was received and its two previous years.

### **5.4 Minister's discretion and decisions**

Eligibility criteria and guidelines will not restrict the discretionary power of the Minister of Canadian Heritage or a representative to refuse a request for financial assistance.

The Minister, or a duly authorized representative, at their own discretion, may decide to accept or refuse, in whole or in part, any application submitted. The decision made by the Minister or representative is conclusive.

## 6. Definitions

### Affiliated group

A group of companies in which the same person, group of persons, or entity holds the majority of shares with full voting rights or has control in fact of these companies.

### Audited financial statements

Financial statements prepared according to Canadian Generally Accepted Accounting Principles (GAAP) and audited according to Canadian Auditing Standards (CAS).

### Canadian

Means:

- a) a citizen within the meaning of the *Citizenship Act*;
- b) a permanent resident within the meaning of the *Immigration and Refugee Protection Act*; or
- c) a Canadian business.

### Canadian artist

Means:

- a) a solo artist which meets the definition of **Canadian**
- b) a group or collective comprising either a majority of **Canadians** or whose principal artist is **Canadian**. In the case of an orchestral recording featuring no principal artist, the orchestra must be based in Canada.

### Canadian-owned and controlled firm

A firm:

- a) that is a sole proprietorship, partnership, cooperative or corporation established under the laws of Canada or a province;
- b) whose activities are based primarily in Canada;
- c) whose firm headquarters is based in Canada;
- d) whose chairperson or presiding officer and more than half of whose directors and other similar officers are **Canadian**;
- e) if a corporation with share capital, of which **Canadians** beneficially own or control, other than by way of shares held only as security, directly or indirectly, in the aggregate at least 50% plus 1 of all the issued and outstanding votes;
- f) if a corporation without share capital, of which **Canadians** beneficially own or control, directly or indirectly, interests representing in monetary value at least 50% plus 1 of the total value of the assets;
- g) if a partnership, trust or joint venture, of which a **Canadian** or Canadian corporation



or any combination of the two, beneficially own or control, directly or indirectly, interests representing in value at least 50% plus 1 of the total value of the assets of the partnership, trust or joint venture, as the case may be, and of which the Chairperson or other presiding officers and more than half of the directors or other similar officers are **Canadian**.

If at any time one or more persons that are not **Canadian** have any direct or indirect influence through a trust, an agreement, an arrangement or otherwise that, if exercised, would result in control in fact of the firm, the firm is deemed not to be **Canadian**-owned and-controlled.

### **Canadian sound recording**

- A Canadian sound recording means that:
  - all tracks of the master must be performed by a **Canadian artist**. (See exception for a tribute/compilation album);
  - a minimum of 50% of the total number of tracks of the master must have music composed and lyrics (or an equivalent combination) written by a **Canadian**. (See exception for a tribute/compilation album; a classical music, world music or **traditional jazz/blues music** album).
- Tribute/compilation album:
  - a minimum of 75% of the tracks of the master must be performed by a **Canadian artist**;
  - 100% of the total number of tracks of the master must have music composed and lyrics written by a **Canadian**.
- Classical music, world music or **traditional jazz/blues music** albums:
  - all tracks of the master, not composed by **Canadians**, must be performed by a **Canadian artist**.

### **Compilations**

A compilation is an album that is compiled from various pieces of music, all or most of which were previously released. The pieces may be from different artists or from previously released material from the same artist.

### **Contribution agreement**

A signed agreement between a qualified applicant and the Department of Canadian Heritage that describes the obligations of both parties. Among other provisions, the contribution agreement includes: the purpose of the contribution and the expected results to be achieved from the contribution; the duration of the agreement; the reporting requirements expected; and

the financial and/or non-financial conditions attached to the contribution and the consequences of failing to adhere to these conditions.

### **Demo**

A demonstration recording of music recorded by an artist or group to promote its material and display its talent to potential publishers, agents, labels, etc.

### **Employee**

Full- and part-time paid staff working directly for the firm. Owners are considered employees unless they have no active role in the firm. Independent contractors are not considered employees.

### **Extended play**

An «extended play» (EP) is a recording medium (vinyl record, download, CD) that has a minimum of 3 tracks and less than 30 minutes of recorded music.

### **Free Goods**

Free goods are units of sound recordings that are sold at retail but reported as “free of charge” in distributor reports. Firms do not derive any revenue from the sale of these units. Not to be confused with goods given free of charge for promotional purposes.

### **Full-length album**

A full-length album has a minimum of 10 tracks, or at least 30 minutes of recorded music.

### **Legal deposit**

Legal deposit is the means by which a comprehensive national collection is gathered together as a record of the nation’s published heritage and development. Recipients are required, in compliance with the Legal deposit provisions of the Library and Archives of Canada Act, to send a copy of the sound recordings they produce to Library and Archives Canada. For further information, visit the [Library and Archives Canada website](#).

### **Live sound recording**

A live sound recording is a musical recording that contains a concert performance.

### **Re-issues**

Re-issues are albums that have been previously released but whose recording has been remastered for subsequent release.

### **Roster**

A roster is the sound recording firm’s list of artists (solo, group or collective) under contract on the last day of the reference period.

### **Single**

A single is a recording format (CD, downloads, **streams**, vinyl record or other formats recognized by the Program) that does not meet the definition of a **full-length album or an extended play (EP)**.

### **Stream, streaming**

An audio transmission in real time over the Internet. Unlike downloads, streamed files are not stored permanently in the destination computer or other device. To be eligible as a sale under MEC, a digital stream must generate revenue and be supported by a distribution report. Streams originating from the applicant's website are not eligible. Streams originating from YouTube that generated revenues are eligible for the sales minimum as well as the funding formula.

### **Traditional jazz/blues music**

Jazz and blues works that were copyrighted prior 1955.

### **Total government assistance**

All federal, provincial, territorial and municipal assistance provided towards total eligible expenditures.

### **Unit**

A unit is a full-length-equivalent sound recording. For comparative purposes:

<b>Format</b>	<b>Unit value</b>
1 full-length album (CD)	1 unit
1 full-length download album	1 unit
1 full-length album – other (vinyl, SACD, DVD-A)	2 units
1 DVD Video	2 units
1 single – streaming	0.0006667 unit (0.0007) (or 1,500 streams = 1 unit)
1 single - download	0.1 unit
1 single – CD, vinyl or other physical	0.1 unit
1 Extended Play (EP) (download or CD, vinyl or other physical)	0.5 unit