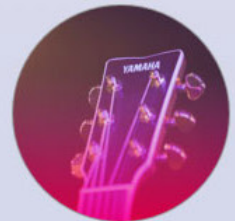




2019

FINANCIAL REPORT



SOCAN

FINANCIAL

Twenty-nineteen was another impressive year for SOCAN collections, as the organization continues to over-achieve in both domestic and international licensing revenue.

SOCAN's total revenue was \$405.6-million, an increase of 8% over the previous year. Gross expenses were \$56.9-million, an increase of 14%, due to several factors, including slightly increased staff costs and higher depreciation associated with prior capital projects.

SOCAN's position as one of the top music rights organizations in the world remains unchallenged. Our strength in licensing the performing right and reproduction right, ensures that more royalties are paid to the more than 160,000 Canadian songwriter, composer, music publisher and visual artist SOCAN members, as well as the millions of rightsholders whom we represent in Canada via agreements with 104 societies in 214 countries and dependent territories.

Financial Greatest Hits in 2019:



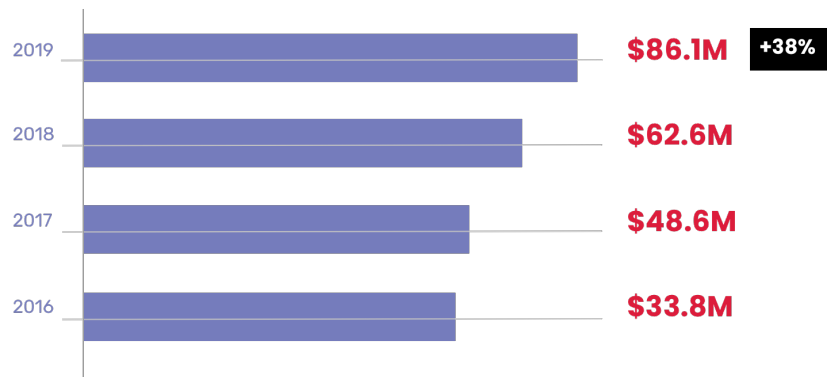
\$405.6M

Collections

↑ 8% (up 32% since 2015)



INTERNET REVENUE



Domestic Revenues, inclusive of performing rights, reproduction rights and private copying, totaled \$315.1-million in 2019 (2018: \$286.5-million). Year-over-year variances are shown in Chart No.1.

Performing Right Revenue

Performing rights collections from licensing the use of the world's repertoire of music in Canada increased by 8% to \$305.0-million (2018: \$282.6-million).

In 2019, revenue from traditional sources (TV, Cable & Radio) was \$161.1-million, representing a slight increase from the previous year (2018: \$160.8-million).

Internet revenue continues to exhibit impressive growth, reaching \$86.1-million (2018: \$62.6-million) due to very strong growth from existing licensed organizations, and new service providers entering Canada.

Satellite Radio has continued to show steady growth, with 2019 revenue at \$16.4-million (2018: \$16.1-million).

General Licensing revenue totaled \$17.0-million (2018: \$18.3-million), resulting in a 7% decline from the prior year.

Concert revenues remained relatively steady with revenues of \$22.8-million (2018: \$23.3-million), as the live music industry remained strong in Canada.

Cinema Revenue has remained stable in 2019 at \$0.8-million (2018: \$0.8-million).

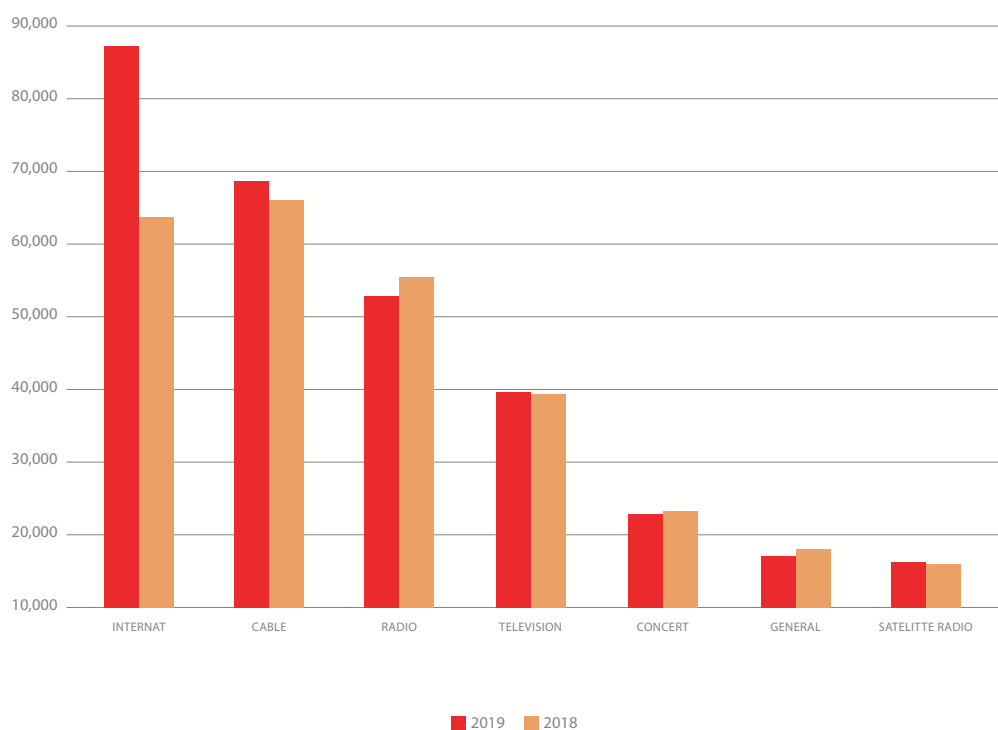


CHART. 1, SOCAN DOMESTIC PERFORMING RIGHTS REVENUES

TOTAL: \$305,029 (2019) TOTAL : \$282,631 (2018)

IN THOUSANDS OF DOLLARS

Reproduction Rights

Domestic Reproduction Rights Revenue totalled \$10.1-million (2018: \$3.8-million), with International Reproduction Rights Revenue totalling \$1.9-million (2018: \$1.3-million).

International Royalties

The year 2019 was a ground-breaking one for performing rights royalties from international affiliated music rights organizations (MROs) at \$88.5-million (2018: \$87.2-million), and they continue to surpass any individual source of domestic revenue. The increase arose from increases in source currency attributed to online revenue growth.

CHART No. 2 shows a breakdown of the international revenue SOCAN received from the Top 10 MROs for the past two years, and a summary total for those outside the Top 10. The top two earning MROs in 2019 for SOCAN members were ASCAP and BMI in the United States, where approximately \$39.4-million in total was collected (2018: \$38.3-million), representing 44.6% of total international royalties.

The next top-earning MRO was PRS from the United Kingdom, from which SOCAN collected royalty income of \$10.0-million (2018: \$8.4-million), representing 11.2% of total international royalties. The top 10 MROs accounted for 84.5% of SOCAN's international royalties.

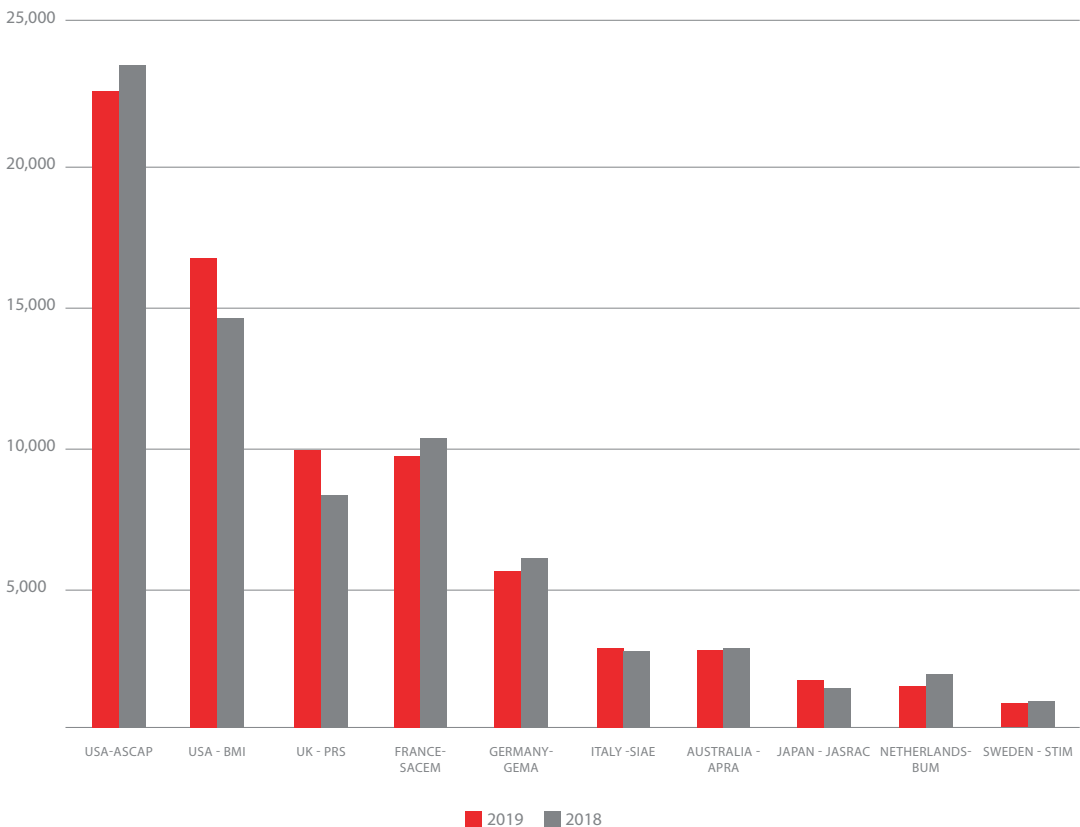


CHART. 2, INTERNATIONAL REVENUE BY COUNTRY

TOTAL: \$88,525 (2019) TOTAL: \$87,213 (2018)

IN THOUSANDS OF DOLLARS

TABLE NO. 1 DETAILS THE INTERNATIONAL REVENUE RECEIVED FROM EACH MRO AND THE DISTRIBUTIONS PAID BY SOCAN TO EACH MRO IN 2019.

TABLE NO. 1 - ROYALTIES FROM AND TO INTERNATIONAL MROs (IN THOUSANDS OF DOLLARS)						
COUNTRY	MRO	REVENUE FROM MRO			REVENUE FROM MRO	
		2019	2018		2019	2018
Argentina	SADAIC	417	504		20	61
Australia	APRA	2,871	2,900		2,251	2,100
Austria	AKM	645	688		36	72
Belarus	NCIP	66	-		2	-
Belgium	SABAM	1,068	1,292		126	173
Brazil	Various	942	976		54	66
Bulgaria	MUSICAUTOR	28	-		-	1
Chile	SCD	222	-		3	7
China	MCSC	62	23		6	8
Colombia	SAYCO	28	97		23	24
Croatia	HDS	-	97		1	3
Czech Republic	OSA	218	112		3	7
Denmark	KODA	1,479	1,548		169	221
Finland	TEOSTO	592	875		67	90
France	SACEM	9,673	10,420		2,985	3,100
Germany	GEMA	5,664	6,117		768	900
Greece	AEPI	-	-		4	6
Hong Kong	CASH	157	120		25	27
Hungary	ARTISJUS	202	192		2	12
Ireland	IMRO	364	512		285	325
Israel	ACUM	514	332		367	10
Italy	SIAE	2,904	2,820		5	7
Jamaica	JACAP	24	20		93	118
Japan	JASRAC	1,754	1,553		226	110
Korea	KOMCA	328	254		1	1
Latvia	AKKA/LAA	35	37		1	1
Lithuania	LATGA-A	-	41		1	3
Malaysia	MACP	62	28		47	53
Mexico	SACM	160	225		305	384
Netherlands	BUMA	1,619	2,019		82	117

TABLE NO. 1 - ROYALTIES FROM AND TO INTERNATIONAL MROs (IN THOUSANDS OF DOLLARS)						
COUNTRY	MRO	REVENUE FROM MRO			REVENUE FROM MRO	
		2019	2018		2019	2018
Norway	TONO	666	566		82	117
Peru	APDAYC	60	14		2	3
Philippines	FILSCAP	60	14		29	26
Poland	ZAIS	347	407		6	12
Portugal	SPA	300	299		6	21
Romania	UCMR	379	310		3	7
Russia	RAO	76	39		8	9
Serbia	SOKOJ	-	45		1	6
Singapore	COMPASS	232	45		2	2
Slovakia	SOZA	58	64		0	1
Slovenia	SAZAS	47	55		0	3
South Africa	SAMRO	187	(3)		35	30
Spain	SGAE	769	195		271	370
Sweden	STIM	961	933		1,318	1,451
Switzerland	SUISA	1,458	1,098		102	156
Taiwan	MUST	72	1,430		3	39
Thailand	MCT	35	47		0	1
Turkey	MESAM	33	26		9	13
Trinidad	COTT	-	22		14	19
United Kingdom	PRS	9,954	-		12,698	14,156
United States	(See below)	40,531	8,350		76,270	78,238
Uruguay	AGADU	3	39,407		2	2
Vietnam	VCPMC	42	8		1	1
Returns	FDR	-	14		-	1
Other*		157	81		2,587	66
Total		88,525	87,213		101,332	103,031
United States	AMRA	659	500		623	617
United States	ASCAP	22,640	23,562		32,885	34,190
United States	BMI	16,805	14,702		36,979	36,149
United States	GMR	-	-		2,104	3,074
United States	SESAC	427	642		3,680	4,208
	Total US	40,531	39,407		76,270	78,238

* Other includes countries under \$100K, such as Lithuania, Barbados, Costa Rica, Cuba, Estonia, Georgia, Guatemala etc.)

Expenses

Gross expenses in 2019 totaled \$56.9-million (2018: \$49.7-million), an increase of \$7.2-million or 14% over the previous year. Gross expenses are SOCAN's administrative expenses before investment income and the financial impact of any subsidiary activities.

SOCAN's three main operational activities of collecting music licenses (Licensing), registering works and analyzing performances (Distribution), and supporting members (Membership) account in total for \$20.6-million of expenses, which is a slight increase from prior year (2018: \$18.6-million). This comprises less than half of our gross expenses.

Infrastructure-type costs, such as Information Technology and Facilities & Administration, which provide critical support for the three activities above, accounted for \$10.4-million of gross expenses. Other key support services such as Finance, Legal, Communications & Marketing, and Human Resources accounted for most of the remaining \$21.3-million in expenses, including \$2.0-million of support provided to The SOCAN Foundation and Canadian Songwriters Hall of Fame.

AS SHOWN IN TABLE NO. 2, SOCAN'S 2019 GROSS EXPENSES WERE \$56.9-MILLION, REPRESENTING A 14.4% INCREASE FROM 2018. LISTED BELOW ARE EXPLANATIONS FOR SOME OF THE VARIANCES BY COST CATEGORY.

TABLE NO. 2 - GROSS EXPENSES BY EXPENSE TYPE: 2019 - \$56,294 (2018 - \$49,741) (IN THOUSANDS OF DOLLARS)					
	Gross Expenses				
	2019	2018	Variances		% of Total 2019 Expenses
	\$	\$	\$	%	%
Staff	28,953	27,927	1,026	3.7%	50.9%
Depreciation	7,337	5,615	1,723	30.7%	12.9%
Legal & Professional	4,731	4,247	484	11.4%	8.3%
Information Technology	4,037	3,227	810	25.1%	7.1%
Accommodation	2,972	2,224	390	21.3%	4.5%
Membership & Communication	2,354	2,334	20	0.9%	4.1%
SOCAN Foundation & CSHF funding	2,044	1,933	112	5.8%	3.6%
Entandem Service Fee	2,056	-	2,056	100.0%	3.6%
Office	1,003	1,008	(5)	-0.5%	1.8%
Other	1,436	1,227	209	17.1%	2.5%
TOTAL GROSS EXPENSES	56,924	49,741	7,182	14.4%	100.0%
Investment and other income	12,611	2,567	10,044	391.3%	
Impairment of advances due from subsidiary	(34,909)	-	(34,909)	100.0%	
Allowance on amounts due from subsidiary	(6,832)	-	(6,832)	100.0%	
Equity investment loss in subsidiary	(24,762)	(9,844)	(14,918)	151.5%	
Net Expenses	110,816	57,018	53,797	94%	
Net Expenses (excluding subsidiary activities)	44,313	47,174			
% of Total Revenue	27.32%	15.21%			
% of Total Revenue (excluding subsidiary activities)	10.93%	12.58%			

Staff

SOCAN's most significant expense lies in human resources – the exceptional people with the experience, expertise, and commitment to achieve these record-breaking results. On average, there were 272 full-time and part-time employees in five offices across Canada and the U.S. in 2019. Staff costs increased by \$1.0-million, primarily due to a decrease in staff capitalization as Phase 4 of our new BEST technology system went live.

Legal & Professional

Legal & Professional costs were \$484k greater than 2018 due to increased costs for Non-IT Consultants and a greater provision for member advances.

Depreciation

This includes all depreciation relating to SOCAN's fixed assets. This cost increased by \$1.7-million in 2019 due to BEST Phase 4 going live.

Information Technology

Expenses related to information technology increased by \$810k from the prior year due to an increased cost in program retrieval and data security. Additionally, less IT consultants were capitalized in 2019, as Best Phase 4 went live.

Accommodation

Expenses for accommodations are \$390k greater than prior year, due primarily to higher costs in the United States resulting from an unfavourable change in exchange rates.

Entandem Service Fee

The \$2.06M service fee to Entandem represents 80% of Entandem's actual gross expenses (i.e., SOCAN's estimated share) for 2019. This fee did not exist in 2018.

SOCAN's net expenses increased to \$110.8-million from \$57.0-million in the previous year. This figure consists of gross expenses of \$56.9-million offset by investment and other income of \$12.6-million, plus a total of \$66.5-million in expenses related to the financial results of the subsidiary company and an impairment of the amount that SOCAN has advanced to the subsidiary. The annual increase in net expenses is almost entirely attributable to extraordinary charges associated with these subsidiary activities, as discussed in further detail below.

Equity Loss on Investment

In 2016, SOCAN through its wholly-owned subsidiary Dataclef Inc., acquired MediaNet, Inc and Audiam, Inc to enable SOCAN to implement the organization & strategic vision to lead the global transformation of music rights. During 2019, the equity investment loss in Dataclef Inc. was \$24.8-million (2018: \$9.8-million) which includes an impairment of the assets of MediaNet, Inc. In addition, a total of \$41.7-million in amounts provided to Dataclef Inc. have been deemed to be impaired. These impairments were required to reflect the difference between the book value and the estimated market value of these assets. The cumulative losses associated with Dataclef have remained unallocated and did not impact SOCAN Member distributions in 2019.

SOCAN Distributions

SOCAN's Performing Rights royalty distributions for 2019 amounted to \$296.0-million, a \$19.2-million or 6% decrease from the previous year (2018: \$315.3-million). While distributions for Internet related uses increased by \$9.3-million, these were offset by decreased distributions in domestic audio-visual uses (Cable & TV) and Concerts, as well as international royalties from international affiliated music rights organizations (MROs). The distribution decreases in these areas were caused by temporary delays resulting from the integration and implementation of SOCAN's new enterprise-wide software platform.

Reproduction Rights distributions amounted to \$5.6-million in 2019, an increase over the \$4.4-million figure in 2018.

Further details of SOCAN distributions in 2019 can be found in TABLE No. 3. Note that the impact of Member advances is not reflected in these figures.

TABLE NO. 3 – DISTRIBUTION BY POOL, BY MEMBER TYPE AND INTERNATIONAL AFFILIATION (IN THOUSANDS OF DOLLARS)

	2019				2018			
	Socan	Socan	International	Total	Socan	Socan	International	Total
	Writers	Publishers	Affiliation		Writers	Publishers	Affiliation	
Distributions								
Cable	8,966	21,458	21,456	51,880	10,087	23,547	23,966	57,601
Television	6,295	11,616	10,023	27,934	7,233	13,935	12,623	33,791
Radio – Census	7,559	19,548	18,641	45,749	7,299	19,586	18,171	45,055
Radio – Survey	1,427	2,748	2,925	7,100	1,631	3,326	3,438	8,395
Radio – CBC	2,607	2,323	2,120	7,049	2,531	2,535	2,229	7,295
Total Radio and General	11,593	24,619	23,686	59,898	11,460	25,447	23,838	60,745
Concerts	2,965	7,258	8,088	18,310	3,946	9,238	10,514	23,698
Cinema + Hotel, Motel Services	23.08	647	737.13	1,407	15	487	577	1,079
Pay Audio	36	119	155	310	65	228	291	583
Internet	2,427	15,851	20,857	39,135	1,782	12,474	15,562	29,818
AV Online	555	6,361	7,915	14,831	476	5,611	6,851	12,938
Satellite Radio	974	5,214	7,039	13,228	962	5,303	7,141	13,406
	33,835	93,142	99,956	226,933	36,026	96,270	101,362	233,659
International affiliated societies	62,410	6,633	(5)	69,037	72,248	9,713	(737)	81,224
	96,244	99,775	99,950	295,970	108,274	105,984	100,625	314,883
Distributions in advance of normal payment date	-	-	-	-	-	-	-	-
	96,244	99,775	99,950	295,970	108,274	105,984	100,625	314,883
Private Copying	22	13	11	46	115	98	154	367
Total Distributions	96,266	99,788	99,962	296,016	108,389	106,081	100,780	315,250



Non-Consolidated Financial Statements of

**SOCIETY OF COMPOSERS,
AUTHORS AND MUSIC
PUBLISHERS OF CANADA**

And Independent Auditors' Report thereon

Year ended December 31, 2019



KPMG LLP
Vaughan Metropolitan Centre
100 New Park Place, Suite 1400
Vaughan ON L4K 0J3
Canada
Tel 905-265-5900
Fax 905-265-6390

INDEPENDENT AUDITORS' REPORT

To the Members of Society of Composers, Authors and Music Publishers of Canada

Opinion

We have audited the non-consolidated financial statements of Society of Composers, Authors and Music Publishers of Canada (the Entity), which comprise:

- the non-consolidated statement of financial position as at December 31, 2019
- the non-consolidated statement of operations for the year then ended
- the non-consolidated statement of changes in net assets for the year then ended
- the non-consolidated statement of cash flows for the year then ended
- and notes to the non-consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the non-consolidated financial position of the Entity as at December 31, 2019, and its non-consolidated results of operations and its non-consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

October 5, 2020



SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

Non-Consolidated Statement of Financial Position
(In thousands of dollars)

December 31, 2019, with comparative information for 2018

	2019	2018
Assets		
Current assets:		
Cash	\$ 38,695	\$ 26,573
License fees receivable (note 10(d))	42,666	27,654
Other receivables and assets (note 10)	1,233	6,801
Advances to subsidiary (note 10(a))	16,165	44,174
Investments (note 3)	107,478	100,203
	206,237	205,405
Capital assets (note 4)	57,987	51,543
Intangible assets (note 5)	1,159	1,254
Accrued employee future benefit asset (note 6)	21,745	17,889
	\$ 287,128	\$ 276,091
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and other liabilities (note 7)	\$ 30,040	\$ 29,738
License fees received in advance	9,884	9,857
Equity investment loss in subsidiary (note 10(a))	56,182	31,420
	96,106	71,015
Accrued employee future benefit liability (note 6)	6,486	7,199
Royalties owing to music copyright owners (members and affiliated societies):		
From distributions allocated	13,460	8,300
From distribution fund (note 8)	227,924	190,226
	241,384	198,526
	343,976	276,740
Net assets:		
Internally restricted (note 9(a))	1,100	36,096
Internally restricted - Equity investment in subsidiary (notes 9(b) and 16)	(56,182)	(31,420)
Remeasurements and other items	(1,766)	(5,325)
	(56,848)	(649)
Commitments and contingencies (notes 10(a) and 12)		
Guarantee (note 13)		
Subsequent events (notes 10 and 15)		
	\$ 287,128	\$ 276,091

See accompanying notes to non-consolidated financial statements.

On behalf of the Board:

Director

Director

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

Non-Consolidated Statement of Operations
(In thousands of dollars)

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Fees from Canadian licensees	\$ 305,029	\$ 282,268
Royalties received from international affiliated societies	88,525	87,213
Reproduction rights collections	12,022	5,134
Private copying royalties	—	363
	405,576	374,978
Expenses and other income:		
Administrative expenses	(56,924)	(49,741)
Investment and other income (note 11)	12,611	2,567
Impairment of advances due from subsidiary (note 10(a))	(34,909)	—
Allowance on amounts due from subsidiary (note 10(a))	(6,832)	—
Equity investment loss in subsidiary (note 10(a))	(24,762)	(9,844)
	(110,816)	(57,018)
Total distributable income	294,760	317,960
Allocated to royalties owing to music copyright owners (note 8)	354,518	329,202
Unallocated loss	\$ (59,758)	\$ (11,242)

See accompanying notes to non-consolidated financial statements.

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

Non-Consolidated Statement of Changes in Net Assets
(In thousands of dollars)

Year ended December 31, 2019, with comparative information for 2018

	2019				2018			
	Internally restricted	Internally restricted - Equity investment in subsidiary	Remeasure- ments and other items	Total	Internally restricted	Internally restricted - Equity investment in subsidiary	Remeasure- ments and other items	Total
	(note 9(a))	(notes 9(b) and 16)			(note 9(a))	(notes 9(b) and 16)		
Net assets, beginning of year	\$ 36,096	\$ (31,420)	\$ (5,325)	\$ (649)	\$ 37,494	\$ (21,576)	\$ 276	\$ 16,194
Unallocated loss	(34,996)	(24,762)	—	(59,758)	(1,398)	(9,844)	—	(11,242)
Remeasurements and other items (note 6)	—	—	3,559	3,559	—	—	(5,601)	(5,601)
Net assets, end of year	\$ 1,100	\$ (56,182)	\$ (1,766)	\$ (56,848)	\$ 36,096	\$ (31,420)	\$ (5,325)	\$ (649)

See accompanying notes to non-consolidated financial statements.

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

Non-Consolidated Statement of Cash Flows
(In thousands of dollars)

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operating activities:		
Unallocated loss	\$ (59,758)	\$ (11,242)
Increase in royalties owing to music copyright owners	42,858	766
Employer future benefit contributions	(1,446)	(1,413)
Decrease in intangible assets	95	—
Items not involving cash:		
Amortization of capital assets	7,337	5,615
Net realized gain on sale of investments	(3,731)	(13,703)
Change in net unrealized loss (gain) on investments	(5,934)	13,751
Impairment of advances due from subsidiary	34,909	—
Equity investment loss in subsidiary	24,762	9,844
Employee future benefits expense	436	285
Change in non-cash operating working capital	(9,115)	(3,989)
	30,413	(86)
Investing activities:		
Acquisition, net of cash acquired	—	1,544
Advances to subsidiary, net	(6,900)	(15,974)
Purchase of capital assets	(13,781)	(18,391)
Decrease in investments, net	2,390	41,468
	(18,291)	8,647
Increase in cash	12,122	8,561
Cash, beginning of year	26,573	18,012
Cash, end of year	\$ 38,695	\$ 26,573

See accompanying notes to non-consolidated financial statements.



SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

Notes to Non-Consolidated Financial Statements
(In thousands of dollars)

Year ended December 31, 2019

Society of Composers, Authors and Music Publishers of Canada ("SOCAN") is a not-for-profit organization, incorporated without share capital. SOCAN was continued under the Canada Not-for-profit Corporations Act on July 2, 2014. SOCAN administers the performing and reproduction rights for songwriter, music publisher, composer, visual artist clients and members. SOCAN collects license fees on behalf of music copyright owners pursuant to agreements, and tariffs proposed by SOCAN, and approved by a quasi-judicial federal tribunal, the Copyright Board. Licensees can and do object to proposed tariffs, and public hearings can be, and are, held at which SOCAN acts to support the rights of its members and international affiliates. SOCAN also has reciprocal contracts of affiliation with similar societies throughout the world, which provide for the exchange of copyright royalties. Total revenue, net of operating expenses and internally restricted amounts (note 9), is distributed to members, clients and to affiliated societies (on account of their members) pursuant to distribution rules approved by the Board of Directors. Amounts generally become distributable upon receipt of the related fees and royalties.

SOCAN is a not-for-profit organization under the Income Tax Act (Canada) and, accordingly, is exempt from income taxes, provided certain requirements of the Income Tax Act (Canada) are met.

SOCAN Foundation - Fondation SOCAN (the "Foundation") is a not-for-profit organization under the Income Tax Act (Canada) and was continued under the Canada Not-for-profit Corporations Act on September 17, 2014. The Foundation has one member, being SOCAN. The Foundation is set up to promote and further the publication, recording, distribution and performance of music generally in Canada.

On December 21, 2011, 7978766 Canada Association was incorporated as a not-for-profit organization without share capital under the Canada Not-for-profit Corporations Act and commenced operations in February 2012. The business name was registered on February 28, 2013 as Canadian Songwriters Hall of Fame ("CSHF"). CSHF has one member, being SOCAN. CSHF's mandate is to honour and celebrate Canadian songwriters and those who have dedicated their lives to the legacy of music, and to educate the public about these achievements.



SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

Notes to Non-Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2019

1. Significant accounting policies:

These non-consolidated financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations. The significant accounting policies are as follows:

(a) Reporting controlled and related entities:

- (i) SOCAN accounts for its wholly-owned subsidiary, Dataclef Inc. (effective May 9, 2019, formerly MINT Services Corporation), using the equity method.
- (ii) Controlled not-for-profit entities include the Foundation and CSHF. SOCAN has elected to not consolidate these entities and provides the required note disclosures.
- (iii) SOCAN accounts for its investment in Entandem Inc. ("Entandem"), a jointly controlled not-for-profit organization, using the equity method. The investment is carried at cost and adjusted for any contributions or withdrawals and its share of the excess of revenue over expenses. The net investment is not material to SOCAN's financial statements.

(b) Recognition of fees and royalties:

Royalties from Canadian licensees for performing rights and reproduction rights, royalties from international affiliated societies and private copy royalties are recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

(c) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. SOCAN has elected to carry all its investments at fair value.



SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

Notes to Non-Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2019

1. Significant accounting policies (continued):

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, SOCAN determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount SOCAN expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(d) Investment income:

Investment income, which is recorded on an accrual basis, includes interest income, dividends, net realized gain (loss) on sale of investments and change in net unrealized gain (loss) on investments.

(e) Capital assets:

Capital assets, other than land and artwork, are carried at cost less accumulated amortization. Land and artwork are carried at cost. Capital assets are amortized on a straight-line basis over their estimated useful lives. Annual amortization rates used are as follows:

Building and building improvements	3.70%
Furniture, fixtures and equipment	20.0% - 33.3%
Computer software	10.0% - 20.0%
Leasehold improvements	Over term of lease

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

Notes to Non-Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2019

1. Significant accounting policies (continued):

(f) Impairment of long-lived assets:

Long-lived assets, including capital assets and intangible assets are written down to fair value or replacement cost to reflect partial impairments when conditions indicate that the assets no longer contribute to an organization's ability to provide goods and services, or that the value of future economic benefits or service potential associated with the long lived assets are less than their net carrying amounts.

(g) Employee future benefits:

SOCAN offers a pension plan with a defined benefit provision and a defined contribution provision, which between them cover substantially all employees of SOCAN and its related entities. Employees joining after January 1, 2009 are not eligible to join the defined benefit provision plan.

The cost of pensions earned by employees is actuarially determined using the projected benefit method prorated on service and best estimates of expected plan investment performance, salary escalation and retirement ages with appropriate margins for adverse deviation. SOCAN accrues its obligations under the defined benefit plan as the employees render the services necessary to earn the pension and other retirement benefits. The actuarial determination of the accrued benefit obligation for the defined benefit plan is based on the January 1, 2019 funding valuation, extrapolated to December 31, 2019. The measurement date of the plan assets and accrued benefit obligation coincides with SOCAN's fiscal year. The next required valuation will be no later than January 1, 2022.

Actuarial gains (losses) on plan assets arising from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period are immediately recognized in the non-consolidated statement of changes in net assets. Actuarial gains (losses) on the accrued benefit obligation arising from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation are immediately recognized in the non-consolidated statement of changes in net assets.

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

Notes to Non-Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2019

1. Significant accounting policies (continued):

Past service costs arising from plan amendments are immediately recognized in the non-consolidated statement of changes in net assets.

The cost of the defined contribution provision is based on a percentage of the employee's pensionable earnings.

Prior to January 1, 2015, SOCAN sponsored a supplementary non-registered plan ("SERP") for its executives that was actuarially determined using an accounting valuation. The SERP was not previously funded. Effective January 1, 2015, SOCAN elected to pre-fund the SERP benefits for its executives through a Registered Retirement Compensation Arrangement, as defined under the Income Tax Act. The cost of the SERP is actuarially determined using the January 1, 2018 funding valuation which incorporates best estimates of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors, including appropriate margins for adverse deviation. The measurement date of the plan assets and accrued benefit obligation of the SERP coincides with SOCAN's fiscal year. The next required valuation will be no later than January 1, 2021.

Actuarial gains (losses) on plan assets arising from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period are immediately recognized in the non-consolidated statement of changes in net assets. Actuarial gains (losses) on the accrued benefit obligation arising from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation are immediately recognized in the non-consolidated statement of changes in net assets.

SOCAN sponsors a retirement medical benefit plan, which provides certain benefits to retired employees and their dependants. The benefits include medical services and dental. The cost of these benefits is actuarially determined using an accounting valuation, prorated on service and management's best estimate of retirement ages of employees, expected health care costs and discount rate. The retirement medical benefit plan is not funded.

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

Notes to Non-Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2019

1. Significant accounting policies (continued):

(h) Translation of foreign currencies:

SOCAN has investments denominated in foreign currencies which have been translated into Canadian dollars at exchange rates prevailing at the year-end date. Gains and losses have been translated using exchange rates prevailing on the transaction date.

(i) Use of estimates:

The preparation of non-consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the non-consolidated financial statements and the reported amounts of income and expenses during the year. Significant items subject to such estimates and assumptions include recoverability of advances from subsidiary, the useful life of capital assets, certain accrued liabilities and asset and obligation related to employee future benefits. Actual results could differ from those estimates.

2. Acquisition:

On July 1, 2018, SOCAN closed an agreement to purchase certain net assets from SODRAC 2003 Inc. ("SODRAC") for one dollar. The purpose of SODRAC is to receive and distribute reproduction rights.

The assets acquired and liabilities assumed in acquisition are as follows:

Cash	\$	1,544
Other receivables and assets		16
Investments		14,160
Capital assets		451
Intangible assets (note 5)		1,254
Accounts payable and other liabilities		(607)
Due to SPACQ Foundation		(1,254)
Royalties owing to music copyright owners from distributions allocated		(1,276)
Royalties owing to music copyright owners from distribution fund		(11,829)
Residual owing to SPACQ Foundation	\$	2,459

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

Notes to Non-Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2019

3. Investments:

The fair values of investments are as follows:

	2019	2018
Short-term investments	\$ 140	\$ 12,320
Domestic bonds	—	348
Pooled funds:		
Fixed income	60,545	44,101
Foreign equities	46,793	43,434
	\$ 107,478	\$ 100,203

Short-term investments consists of guaranteed investment certificates bearing interest at 0.75% and maturing on February 14, 2020 (2018 - 0.75% - 2.80% and maturing on February 15, 2019 to January 11, 2022).

Investments totalling \$40,000 (2018 - \$40,000) have been guaranteed to the bank as described in note 13.

4. Capital assets:

			2019	2018
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 3,073	\$ —	\$ 3,073	\$ 3,073
Building and building improvements	16,791	12,742	4,049	4,238
Furniture, fixtures and equipment	17,347	12,394	4,953	4,049
Computer software	57,614	15,619	41,995	13,306
Computer software under development	2,366	—	2,366	25,825
Leasehold improvements	2,247	792	1,455	956
Artwork	96	—	96	96
	\$ 99,534	\$ 41,547	\$ 57,987	\$ 51,543

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

Notes to Non-Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2019

4. Capital assets (continued):

Amortization charges included in administrative expenses amounted to \$7,337 (2018 - \$5,615).

5. Intangible assets:

The assets acquired from SODRAC included the right to earn additional commissions in the future associated with various tariffs. These future commissions collected must be remitted to SPACQ Foundation. During the year \$95 was received in commissions, reducing the intangible assets.

6. Employee future benefits:

(a) Information about SOCAN's employee benefit plans (excluding the defined contribution portion of the pension plan), in aggregate, is as follows:

	2019			2018	
	Pension plan	SERP	Retirement medical benefit plan	Total	Total
Accrued benefit obligations	\$ 52,131	\$ 15,674	\$ 4,464	\$ 72,269	\$ 65,069
Fair value of plan assets	73,876	13,652	–	87,528	75,759
Funded surplus (deficit)	\$ 21,745	\$ (2,022)	\$ (4,464)	\$ 15,259	\$ 10,690

Continuity of the accrued benefit liability (asset) is as follows:

	2019			2018	
	Pension plan	SERP	Retirement medical benefit plan	Total	Total
Balance, beginning of year	\$ (17,889)	\$ 2,833	\$ 4,366	\$ (10,690)	\$ (15,163)
Benefit expenses	(120)	400	198	478	285
Employer contributions	(1,062)	(219)	(207)	(1,488)	(1,413)
Remeasurements and other items	(2,674)	(992)	107	(3,559)	5,601
Balance, end of year	\$ (21,745)	\$ 2,022	\$ 4,464	\$ (15,259)	\$ (10,690)

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

Notes to Non-Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2019

6. Employee future benefits (continued):

In 2018, SOCAN settled a portion of its obligation to current pensioners of the pension plan by purchasing annuities in the amount of \$5,066 and incurred a settlement loss of \$1,649 which was recognized in remeasurements and other items in the non-consolidated statement of changes in net assets. There were no settlements in 2019.

- (b) The contributions paid and expensed by SOCAN under the defined contribution portion of the pension plan for the year amounted to \$508 (2018 - \$448).

7. Accounts payable and other liabilities:

Included in accounts payable and other liabilities are:

	2019	2018
Due to SPACQ Foundation	\$ 1,038	\$ 1,399
Government remittances	1,637	2,152
General payables and accrued liabilities	9,830	9,953
Licensing fee refunds (note 12(b))	17,535	16,234
	\$ 30,040	\$ 29,738

8. Royalties owing to music copyright owners:

The availability of funds for distribution for music copyright owners is:

	2019			2018	
	Reproduction rights	Performing rights	Private copying	Total	Total
Balance, beginning of year	\$ 11,864	\$ 178,210	\$ 152	\$ 190,226	\$ 179,594
Acquisition (note 2)	—	—	—	—	11,829
Distributable income	10,646	343,872	—	354,518	329,202
Distributions	(5,579)	(311,195)	(46)	(316,820)	(330,399)
Balance, end of year	\$ 16,931	\$ 210,887	\$ 106	\$ 227,924	\$ 190,226

Included in the Royalties owing to music copyright owners balance are the advances to SOCAN's members for future earnings which amount to \$48,402 (2018 - \$34,018).

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

Notes to Non-Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2019

9. Internally restricted net assets:

SOCAN distributes all of its income to music copyright owners through an allocation (note 8), except for certain items which the Board of Directors has approved to remain unallocated.

- (a) Internally restricted: These items include interest and dividend income, net realized gain (loss) on sale of investments, change in net unrealized gain (loss) on investments, impairment losses, and certain other items related to pension accounting.

	2019	2018
Balance, beginning of year	\$ 36,096	\$ 37,494
Net realized gain on sale of investments	3,731	13,703
Change in net unrealized gain (loss) on investments	5,934	(13,751)
Amortization of internally generated computer software	(2,920)	(1,350)
Impairment of advances due from subsidiary (note 10(a))	(34,909)	—
Allowance on amounts due from subsidiary (note 10(a))	(6,832)	—
Balance, end of year	\$ 1,100	\$ 36,096

- (b) Equity investment in subsidiary (note 10(a)): This includes the equity investment loss in subsidiary.

	2019	2018
Balance, beginning of year	\$ (31,420)	\$ (21,576)
Equity investment loss in subsidiary	(24,762)	(9,844)
Balance, end of year	\$ (56,182)	\$ (31,420)

These unallocated items described above comprise SOCAN's non-consolidated internally restricted net assets balance.

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

Notes to Non-Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2019

10. Related party transactions and balances:

(a) Dataclef Inc. ("Dataclef"):

MINT Services Corporation was incorporated under the Ontario Business Corporations Act, commenced operations on February 12, 2013 and in 2019 changed its name to Dataclef Inc. Dataclef provides back office services and operates music rights administration and fulfilment services through its subsidiary, MINT USA, Inc. ("MINT USA"). MINT USA was incorporated on April 11, 2016.

At December 31, 2019, assets, liabilities and shareholder's deficiency of Dataclef were \$57,755, \$113,700 and (\$55,945) (2018 - \$76,695, \$107,325 and (\$30,630)), respectively.

Revenue for the year ended December 31, 2019 was \$23,064 (2018 - \$13,543) and expenditures for the year were \$47,826 (2018 - \$23,387).

Cash flows from (used in) operating, financing and investing activities were \$4,705, \$3,275 and (\$930), (2018 - (\$10,210), \$22,222 and (\$8,995)), respectively.

SOCAN has a demand promissory note with Dataclef to provide principal funds up to \$53,874 (2018 - \$46,424). At year end, \$51,074 (2018 - \$44,174) was advanced. The funds are unsecured, non-interest bearing and due on demand. During the year, SOCAN recognized an impairment loss of \$34,909 (2018 - nil) on the demand promissory note with Dataclef. In addition, included in cash is \$29 (2018 - \$530) restricted on behalf of Dataclef for a third party.

Management's estimated impairments reflect the excess of the respective carrying amounts over their fair values mainly due to the fact that certain operations of Dataclef require significant restructuring in order to achieve profitability and material uncertainty exists on the ability of Dataclef to be successful in restructuring. SOCAN continues to provide financial support to the subsidiary to ensure third party obligations are met when due. SOCAN has agreed not to demand repayment of the outstanding advance until after December 31, 2020. Management has estimated the most likely outcome will be partial recovery of amounts owing from Dataclef; however, this estimate is dependent on many assumptions outside of management's control. This has led to uncertainty in the measurement of this estimate and therefore, the final result could be materially different than the amount currently estimated.

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

Notes to Non-Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2019

10. Related party transactions and balances (continued):

The equity investment loss in Dataclef of \$56,182 represents the net cumulative loss as at December 31, 2019 (2018 - \$31,420). Included in the equity investment loss for the year ended December 31, 2019 is an impairment charge of \$19,918 (2018 - nil) related to certain assets, intangible assets and goodwill related to Dataclef's wholly-owned subsidiary, and an impairment charge of \$769 (2018 - nil) related to certain assets of Dataclef.

SOCAN provides administrative, support services and facilities to Dataclef in return for a fee. Amounts charged to Dataclef by SOCAN during the year amounted to \$1,874 (2018 - \$2,639) which were offset by amounts charged to SOCAN of \$349 (2018 - \$463). Included in other receivables and assets is \$6,832 (2018 - \$5,327) receivable on account of these fees. These receivables were fully provided for as at year-end. Included in accounts payable and other liabilities is \$478 (2018 - \$498) of amounts owing to Dataclef.

Subsequent to year-end, Dataclef has initiated a significant restructuring of its operations. Dataclef anticipates having sufficient funds to meet its general and administrative expenses through continued financial support from the parent company, SOCAN and through restructuring activities.

(b) SOCAN Foundation:

Included in administrative expenses is \$1,931 (2018 - \$1,820) in funding provided to the Foundation. Included in other receivables and assets is \$22 (2018 - (\$115)) owing to the Foundation.

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

Notes to Non-Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2019

10. Related party transactions and balances (continued):

A summary of the financial information for the Foundation for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
Total assets	\$ 6,125	\$ 5,590
Total liabilities	959	959
Net assets	\$ 5,166	\$ 4,631
Revenue	\$ 2,683	\$ 1,957
Expenses	(2,147)	(2,256)
Excess of revenue over expenses (expenses over revenue)	\$ 536	\$ (299)

(c) Canadian Songwriters Hall of Fame:

Included in administrative expenses is \$113 (2018 - \$113) in funding provided to CSHF. Included in other receivables and assets is \$54 (2018 - nil) owing to CSHF.

A summary of the financial information for CSHF for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
Total assets	\$ 97	\$ 108
Total liabilities	39	31
Net assets	\$ 58	\$ 77
Revenue	\$ 227	\$ 175
Expenses	(246)	(180)
Excess of expenses over revenue	\$ (19)	\$ (5)

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

Notes to Non-Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2019

10. Related party transactions and balances (continued):

(d) Entandem:

During the year, SOCAN invested in a joint venture, Entandem, a jointly controlled not-for-profit organization. The business of Entandem is to centralize the administrative and licensing activities for General Licensing and Concert accounts on behalf of SOCAN and Re:Sound.

Entandem was incorporated under the Canada Not-for-profit Corporations Act on December 7, 2018 and commenced operations on July 1, 2019. SOCAN and Re:Sound are the only joint venturers of Entandem.

The joint venturers reimburse Entandem for their share of operating costs annually. Further all license fees collected by Entandem are distributed to the respective joint venturer such that in effect all accounts receivable is offset by accounts payable to the joint venturers and vice versa. Net assets of Entandem represent the unamortized capital assets which are not material to these financial statements.

SOCAN contributed a total of \$756 to fund expenses and capital expenditures, which is 50% of the initial start-up costs. SOCAN's share of the operating costs for 2019 were \$2,056 which is included in the accrued liabilities (note 7) at year end. Also included in accrued liabilities is \$1,357 owing to Entandem for license fees collected on their behalf. In 2019, Entandem invoiced licensees, on behalf of SOCAN, \$21,216 in connection with 2019 license fees. At year end, these license fees are owing from Entandem and included in the license fees receivable and fees from Canadian licensees.

11. Investment and other income:

	2019	2018
Interest income	\$ 2,202	\$ 1,815
Dividend income	747	901
Miscellaneous income	186	123
Net realized gain on sale of investments	3,731	13,703
Change in net unrealized gain (loss) on investments	5,934	(13,751)
Brokerage and investment consulting fees	(189)	(224)
	\$ 12,611	\$ 2,567

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

Notes to Non-Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2019

12. Commitments and contingencies:

- (a) SOCAN has various operating lease commitments for branch office premises, vehicles and office equipment. The future minimum lease payments, inclusive of maintenance costs and realty taxes, for years subsequent to December 31, 2019, are as follows:

2020	\$	486
2021		458
2022		458
2023		433
2024		424
Thereafter		946
	\$	3,205

- (b) SOCAN is party to legal actions arising in the normal course of operations. While it is not feasible to predict the outcome of these actions, it is the opinion of management that the resolution of these matters will not have a material adverse effect on operations.

In addition, the Copyright Board does not always have certified tariffs for current years. If SOCAN files proposed tariffs in accordance with the Copyright Act, then the last certified tariff continues to operate on an interim basis and SOCAN may collect license fees in accordance with the previous tariff until the proposed tariff is approved. The certified tariff may be different from the interim tariffs and could cause an adjustment to fees from licensees. This adjustment, if any, will be recorded in the year in which the tariff decision is published or if management is of the opinion that it is likely than an adjustment will result before it is published.

In 2017, a hearing before the Copyright Board was held for the Pay Audio Tariff for the period from 2010 to 2016. The licensees argued for lower rates and a lower rate base for this period. A decision from the Copyright Board is pending; however, SOCAN could be required to refund license fees previously paid. As such a provision is included in accounts payable and other liabilities (note 7) for \$15,037 (2018 - \$14,549).

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

Notes to Non-Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2019

12. Commitments and contingencies (continued):

In 2017, the Copyright Board certified Tariff 22.A (internet) for the licensing periods from 2011 to 2013 which resulted in lower rates. Included in accounts payable and other liabilities (note 7) is \$437 (2018 - \$437) of license fees to be refunded. The judicial review was heard in November 2018 and a decision was released subsequent to year end. There is no impact to the liability recorded.

- (c) SOCAN has a Retirement Compensation Arrangement Trust Agreement with CIBC Mellon Trust Company to secure all or a portion of the payments required under the pension plan by letters of credit totalling \$3,200 (2018 - \$3,400). In addition, in 2019 SOCAN issued an Irrevocable Standby Letter of Credit in the amount of \$450 USD on behalf of a subsidiary company of Dataclef.

13. Guarantees:

On September 14, 2016, MINT USA, Inc., a subsidiary company of Dataclef, entered into a credit facility agreement. Amendments to the agreement were signed on February 24, 2017 and July 30, 2018. Under the terms of the credit facility agreement, SOCAN is required to provide an unlimited guarantee and postponement of claim supported by the following:

- (a) a general security agreement constituting a security interest in all personal property of SOCAN;
- (b) pledge agreements with respect to the investment portfolio of securities held in the accounts maintained with a financial institution; and
- (c) a portfolio monitoring and securities control agreement signed by the bank, SOCAN and the investment custodian pursuant to which the investment custodian agrees, inter alia, that it will not accept instructions from SOCAN with respect to any removal of funds from the investment accounts (note 3) that would reduce the balance to less than \$40,000 (2018 - \$40,000) unless such instructions are co-signed by the bank. The amount will be reviewed annually by the bank and adjusted downwards to reflect the principal payments made against the borrowings as of the date of each review.

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

Notes to Non-Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2019

13. Guarantees (continued):

The subsidiary company is required to comply with various financial and non-financial covenants with their credit facility. As at December 31, 2019, the subsidiary company was in compliance with all covenants.

Subsequent to year end, the subsidiary company was not in compliance with a non-financial covenant to submit audited financial statements by 180 days after year-end. On September 22, 2020, the Company obtained a tolerance letter from the bank indicating that it will tolerate the default.

14. Financial risk and concentration risk:

Financial risk relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to interest rate, market price and foreign currency risks. SOCAN has formal policies and procedures that establish target asset mix. SOCAN's policies also require diversification of investments within categories, and set limits on exposure to individual investments. Other than as disclosed in note 15, there have been no changes in the financial instrument risks as compared to the prior year.

(a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. SOCAN is exposed to credit risk with respect to license fees receivable. SOCAN assess, on a continuous basis, license fees receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts.

(b) Interest rate risk:

SOCAN is exposed to interest rate risk on its fixed interest rate financial instruments.

(c) Market price risk:

Market price risk arises as a result of trading in equity securities and fixed income securities. Fluctuations in the market expose SOCAN to a risk of loss. SOCAN mitigates this risk through controls to monitor and limit concentration levels.

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

Notes to Non-Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2019

14. Financial risk and concentration risk (continued):

(d) Foreign currency risk:

SOCAN is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. Foreign currency risk arises from gains and losses due to fluctuations in foreign currency exchange rates on SOCAN's foreign equity securities. SOCAN does not currently enter into forward contracts to mitigate this risk.

15. Subsequent events:

Since December 31, 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada and the United States, businesses were forced to cease or limit operations for long periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

In March 2020, SOCAN was required to close its offices in order to adhere to government-imposed social distancing protocols in order to contain the spread of COVID-19. SOCAN has adopted a work-from home model with minimal disruptions to its operations. Additionally, SOCAN has implemented measures to support its members during the COVID-19 Pandemic.

SOCAN has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as at and for the year ended December 31, 2019, have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time.

SOCAN believes that the most significant impact on operations will be related to domestic and international fees derived from general licensing and concerts and volatility of the fair value of investments and investment earnings. SOCAN is monitoring this activity closely and will adjust operations as appropriate.



SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

Notes to Non-Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended December 31, 2019

16. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.