

SOCAN

The background features a large, light blue semi-circle on the left. To its right, a smaller white semi-circle is partially visible. Further right, a large, semi-transparent red circle overlaps the blue one. In the upper right quadrant of the red circle, there is a smaller circle composed of a grid of red dots.

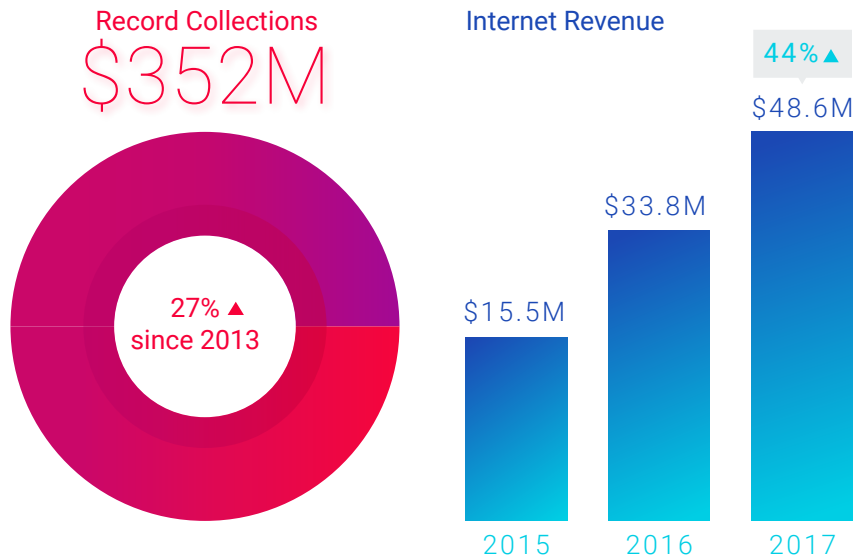
ANNUAL
REPORT
2017

FINANCIAL

Two-thousand-seventeen was another impressive year for SOCAN's performance, continuing our seven-year trajectory of breaking records for revenue and distributions to our members. SOCAN's total revenue was \$352-million, an increase of seven per cent over the previous year. Gross Expenses were \$47.8-million, also a seven per cent increase, commensurate with growth, and lower in constant dollars than they were 10 years ago. Royalty distributions to members were \$295-million, an increase of \$6-million from the previous year.

These achievements maintain SOCAN's position as one of the top music rights organizations in the world. It demonstrates our strength at licensing the performing right, as well as our continued focus on efficient expense management to ensure that more royalties are provided to tens-of-thousands of Canadian songwriters, composers, and music publishers, and the millions of rights holders who we represent in Canada via agreements with 104 societies in 214 countries and dependent territories.

Financial Greatest Hits in 2017:



\$75M
International Revenue for
Canadian-created music

\$295M
Distributed to music
creators and publishers

49B
Performances
processed

REVENUES

Domestic Revenues, inclusive of performing rights and private copying rights, totaled \$262-million in 2017 (2016 - \$263.0-million). Year-over-year variances are shown in Chart 1

Performing Right Revenue

Performing rights collections from licensing the use of the world's repertoire in Canada remained constant at \$261.2-million (2016: \$262.5-million).

In 2017, revenue from traditional sources (TV, Cable & Radio) stabilized at \$166.9-million, representing a 2.8% decline from the previous year (2016 - \$171.8-million).

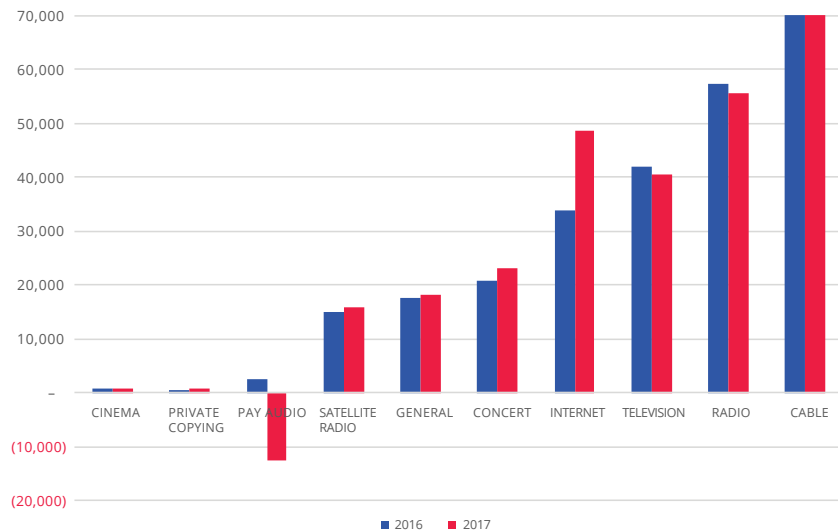
Internet revenue continues to exhibit impressive growth, reaching \$48.6-million (2016: \$33.8-million) due to very strong growth from existing licensees and new service providers entering Canada.

Satellite Radio has continued to show steady growth, with 2017 revenue at \$15.8-million (2016: \$15.1-million).

General & Concert revenues experienced a strong year, reaching \$41.4-million (2016: \$38.4-million), as the live music industry remains strong in Canada.

In 2017, a hearing with the Copyright Board was completed for Pay Audio Tariff for the licensing periods from 2010 to 2016. The licensees have proposed lower rates under this interim tariff. While the decision from the Copyright Board is pending, SOCAN may be required to refund license fees previously paid. As such, SOCAN included \$13.9-million as an accrued liability – a reduction to revenue.

CHART 1 - SOCAN DOMESTIC REVENUES
TOTAL: 2017 - \$262,003 (2016-\$263,029) IN THOUSANDS OF DOLLARS



INTERNATIONAL ROYALTIES

2017 was a ground-breaking year for royalties from international affiliated music rights organizations (MROs), increasing by \$8.6-million to \$75.7-million (2016: \$67.0-million), and surpassing any individual source of domestic revenue. The increase arose from a combination of exceptional member activity abroad and an increasingly pro-active approach in the management of our international relations.

Chart 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 of the Top 10. The top two earning MROs in 2017 for SOCAN members were ASCAP and BMI in the United States, where approximately \$31.7-million in total was collected (2016: \$28.0-million), representing 41.9% of total international royalties.

The next top-earning MRO was PRS for Music in the UK, where SOCAN collected royalty income of \$9.8-million (2016: \$6.4-million), representing 12.9% of total international royalties. The top 10 MROs accounted for 84.1% of SOCAN's international royalties.

CHART 2 - INTERNATIONAL REVENUE BY COUNTRY
TOTAL - 2017: \$75,652 (2016: \$67,013) IN THOUSANDS OF DOLLARS

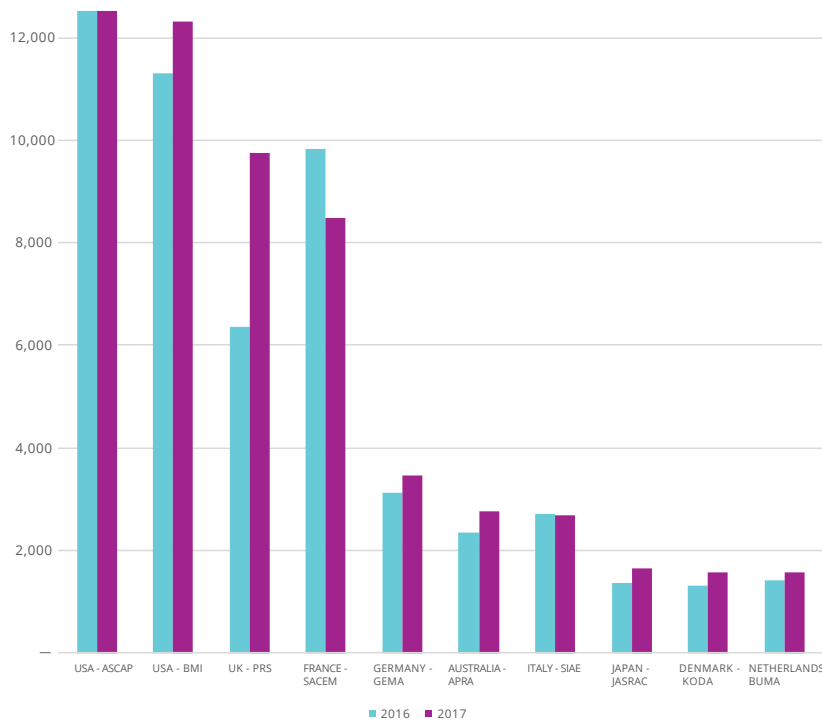


TABLE NO. 1 DETAILS THE INTERNATIONAL REVENUE RECEIVED FROM EACH MRO AND THE DISTRIBUTIONS PAID BY SOCAN TO EACH MRO IN 2017.

TABLE NO. 1 - ROYALTIES FROM AND TO INTERNATIONAL MROs (IN THOUSANDS OF DOLLARS)						
COUNTRY	MRO	REVENUE FROM MRO		DISTRIBUTIONS TO MRO		
		2017	2016	2017	2016	
		Argentina	SADAIC	595	461	32
Australia	APRA	2,749	2,342	2,020	2,187	
Austria	AKM	537	534	83	76	
Belarus	NCIP	-	-	-	-	
Belgium	SABAM	1,275	924	130	188	
Brazil	Various	1,348	793	134	135	
Bulgaria	MUSICAUTOR	40	14	3	3	
Chile	SCD	50	102	11	10	
ChinaM	CSC	72	102	5	10	
Colombia	SAYCO	-	102	35	10	
Croatia	HDS	66	68	3	3	
Czech Republic	OSA	209	168	18	28	
Denmark	KODA	1,571	1,311	257	181	
Finland	TEOSTO	552	655	74	137	
France	SACEM	8,483	9,822	2,987	3,178	
Germany	GEMA	3,449	3,112	850	891	
Greece	AEPI	-	188	22	12	
Hong Kong	CASH	115	144	64	17	
HungaryA	RTISJUS	203	167	22	19	
Ireland	IMRO	357	242	224	213	
Israel	ACUM	307	351	28	20	
Italy	SIAE	2,682	2,711	444	406	
Jamaica	JACAP	15	2,711	7	406	
Japan	JASRAC	1,661	1,352	151	119	
Korea	KOMCA	195	163	49	68	
Latvia	AKKA/LAA	16	24	1	3	
LithuaniaL	ATGA-A	37	33	1	-	
MalaysiaM	ACP	72	69	4	6	
Mexico	SACM	213	132	44	50	
Netherlands	BUMA	1,563	1,406	334	360	
Norway	TONO	457	425	112	74	
Peru	APDAYC	42	34	2	3	
Philippines	FILSCAP	38	4	32	32	
Poland	ZAIS	358	309	36	15	
Portugal	SPA	172	137	16	21	
Romania	UCMR	176	235	9	22	
Russia	RAO	-	1	-	6	
Serbia	SOKOJ	-	18	-	2	
Singapore	COMPASS	126	114	13	9	
Slovakia	SOZA	55	35	1	3	

TABLE NO. 1 - ROYALTIES FROM AND TO INTERNATIONAL MROs (IN THOUSANDS OF DOLLARS)						
COUNTRY	MRO	REVENUE FROM MRO		DISTRIBUTIONS TO MRO		
		2017	2016	2017	2016	
Slovenia	SAZAS	59	54	1	2	
South Africa	SAMRO	242	200	72	62	
Spain	SGAE	743	652	301	317	
Sweden	STIM	1,138	1,395	1,554	1,569	
Switzerland	SUISA	1,202	1,020	155	157	
Taiwan	MUST	214	34	25	6	
Thailand	MCT	14	12	-	1	
Turkey	MESAM	57	63	19	5	
Trinidad	COTT	-	63	11	5	
United Kingdom	PRS	9,755	6,359	12,790	12,719	
United States	(See below)	32,297	28,516	71,746	69,863	
Uruguay	AGADU	-	14	-	5	
Vietnam	VCPMC	36	28	1	-	
ReturnsF	DR	-	-	-	(203)	
*Other		39	64	94	50	
		75,652	69,989	95,027	93,514	
United States	AMRA	139	121	532	482	
United States	ASCAP	19,367	16,670	31,446	31,382	
United States	BMI	12,313	11,295	33,543	32,117	
United States	GMR	-	-	-	2,133	
United States	SESAC	478	430	3,980	3,749	
Total United States		32,297	28,516	69,501	69,863	

* Other includes countries under \$10K, such as Uruguay, Montenegro, Barbados, Ukraine, Panama, Estonia, Guatemala, Ecuador, Indonesia, Algeria, Serbia, etc.)

EXPENSES

SOCAN's net expenses (gross expenses offset by other income, which mainly consists of investment income) increased to \$39.6-million in 2017 from \$38.2-million the previous year, representing a 3.6% increase.

Gross expenses increased by \$3.3-million, offset by an increase in other income of \$1.9-million, which resulted in a net increase of \$1.4-million. As such, net expenses in 2017 represented only 11.7% per cent of total revenues (2016: 11.6% per cent), excluding equity investment loss in subsidiaries.

SOCAN's three main operational activities of collecting license fees (Licensing), registering works and analyzing performances (Distribution), and supporting members (Membership) account in total for \$18.2-million, which remains in line with the prior year. This comprises slightly less than half of our gross expenses.

Infrastructure-type costs, such as Information Technology and Facilities & Administration, which are critical support for the three activities above, accounted for \$15.8-million, comprising slightly less than a third of our gross expenses. Other key support services such as Finance, Legal, Communications & Marketing and Human Resources, accounted for most of the remainder. The SOCAN Foundation and the Canadian Songwriters Hall of Fame were supported with \$1.8-million in 2017.

AS SHOWN IN TABLE NO. 2, SOCAN'S 2017 GROSS EXPENSES WERE \$47.8-MILLION, REPRESENTING A 7.3% INCREASE FROM 2016. LISTED BELOW ARE EXPLANATIONS FOR SOME OF THE VARIANCES BY COST CATEGORY.

TABLE NO. 2 - GROSS EXPENSES BY EXPENSE TYPE: 2017 - \$47,777 (2016 - \$44,526)
(IN THOUSANDS OF DOLLARS)

	Gross Expenses		Variance		of Total 2017 %
	2017	2016			Expenses
	\$	\$	\$	%	%
Staff	28,576	27,948	(628)	-2.2%	59.9%
Depreciation	4,606	3,963	(643)	-16.2%	9.6%
Legal & Professional	3,848	4,259	411	9.7%	8.1%
Information Technology	2,509	2,116	(393)	-18.6%	5.3%
Membership & Communication	2,393	2,015	(378)	-18.8%	5.0%
SOCAN Foundation & CSHF funding	1,848	1,599	(249)	-15.6%	3.9%
Accommodation	1,834	1,634	(200)	-12.2%	3.8%
Office	1,043	1,132	89	7.9%	2.2%
Other	1,121	(140)	(1,261)	900.7%	2.3%
TOTAL GROSS EXPENSES	47,777	44,526	(3,251)	-7.3%	100.0%

EXPENSES

Staff

SOCAN's most significant expense lies in human resources. On average, there were 316 full-time and part-time employees in six offices across the country and the U.S. in 2017. Staff costs increased by \$0.6-million, primarily due to an increase in head count and annual average salary increase.

Legal & Professional

Legal & Professional costs decreased by \$0.4-million in 2017. Higher legal costs associated with Copyright Board hearings in 2016 resulted in inflated numbers for that year.

Depreciation

This includes all depreciation relating to SOCAN's fixed assets. This cost increased by \$0.6-million in 2017 as a result of the second phase of SOCAN's enterprise resource planning (ERP) system going live, as well as the first three phases of Operational Data Store.

Membership & Communication

These costs include sponsorship, advertising, and awards, which were up \$0.4-million from the previous year due mainly to improved SOCAN Award shows and a slight increase in paid advertising.

Other

Other expenses increased by \$1.2-million from the prior year due to a \$1.3-million foreign exchange adjustment in relation to the subsidiary acquisitions that occurred in 2017.

SOCAN Distributions

2017 was a record year for SOCAN's total royalty distributions, which amounted to \$295.0-million, a \$6.0-million or 2.1% increase from the previous year (2016: \$289.0-million). The increase in distributions is in line with the growth in revenue for the year.

Member advances are reflected in these numbers. Further details can be found in TABLE No. 3.

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

	2017				2016			
	SOCAN Writers	SOCAN Publishers	International Affiliation	Total	SOCAN Writers	SOCAN Publishers	International Affiliation	Total
Distributions								
Cable	11,203	24,350	24,085	59,638	11,332	23,758	23,708	58,798
Television	7,705	14,295	12,976	34,976	7,851	15,052	13,387	36,290
Radio - Census	6,925	18,054	16,630	41,609	6,979	18,104	16,897	41,980
Radio - Survey	2,432	5,286	5,511	13,228	2,488	5,664	5,891	14,043
Radio - CBC	2,541	2,531	2,398	7,469	2,529	2,578	2,529	7,636
Total Radio and General	11,898	25,871	24,538	62,306	11,996	26,346	25,317	63,659
Concerts	3,963	7,938	8,465	20,366	4,824	10,390	12,626	27,840
Cinema + Hotel, Motel Services	16	470	518	1,004	32	458	559	1,049
Pay Audio	180	622	864	1,665	259	963	1,381	2,603
Internet	1,195	8,116	10,084	19,394	433	3,148	4,106	7,687
AV Online	363	4,800	6,077	11,241	237	3,332	4,299	7,868
Satellite Radio	1,011	4,960	6,897	12,868	1,123	4,448	6,343	11,914
	37,534	91,423	94,503	223,460	38,087	87,895	91,726	217,708
International affiliated societies	61,409	8,430	960	70,799	56,729	7,049	1,197	64,975
	98,943	99,853	95,463	294,258	94,816	94,944	92,923	282,683
Distributions in advance of normal payment date				-	2,856	2,859	-	5,715
	98,943	99,853	95,463	294,258	97,672	97,803	92,923	288,398
Private Copying	220	157	354	731	240	200	189	629
Total Distributions	99,163	100,010	95,817	294,990	97,912	98,003	93,112	289,027

Equity Investment Loss on Investment

In 2016 SOCAN, through its wholly-owned subsidiary, MINT Services Corporation (“MINT”), acquired MediaNet and Audiam, to enable SOCAN to fulfil its strategic plan vision to lead the global transformation of music rights. During 2017, the equity investment loss in subsidiary was \$20.9-million (2016: \$10.3-million). Management is confident that future years will deliver the benefits that were envisioned in the business cases, and ultimately, will enable that initial loss to be compensated with future profits. The 2017 loss remains within MINT and does not impact SOCAN’s accounts and distributions.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying non-consolidated financial statements of Society of Composers, Authors and Music Publishers of Canada, which comprise the non-consolidated statement of financial position as at December 31, 2017, the non-consolidated statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Non-Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated 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 non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the non-consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements.

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

Opinion

In our opinion, the non-consolidated financial statements present fairly, in all material respects, the non-consolidated financial position of Society of Composers, Authors and Music Publishers of Canada as at December 31, 2017, 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

May 24, 2018
Vaughan, Canada

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

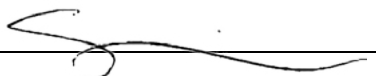
Non-Consolidated Statement of Financial Position
(In thousands of dollars)


December 31, 2017, with comparative information for 2016

	2017	2016
Assets		
Current assets:		
Cash	\$ 18,012	\$ 22,565
License fees receivable	23,022	15,050
Other receivables and assets (note 8)	3,886	2,283
Advances to subsidiary (note 8(a))	28,200	14,469
Investments (note 2)	127,559	138,110
	<u>200,679</u>	<u>192,477</u>
Capital assets (note 3)	38,316	30,973
Accrued employee future benefit asset (note 4)	21,741	19,055
	<u>\$ 260,736</u>	<u>\$ 242,505</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and other liabilities (note 5)	\$ 23,726	\$ 8,585
License fees received in advance	8,007	4,542
Equity investment loss in subsidiary (note 8(a))	21,576	10,533
	<u>53,309</u>	<u>23,660</u>
Accrued employee future benefit liability (note 4)	6,578	6,437
Royalties owing to music copyright owners (members and affiliated societies):		
From distributions allocated	5,061	5,583
From distribution fund (note 6)	179,594	184,913
	<u>184,655</u>	<u>190,496</u>
	244,542	220,593
Net assets:		
Internally restricted (note 7)	15,918	23,005
Remeasurements and other items	276	(1,093)
	<u>16,194</u>	<u>21,912</u>
Commitments and contingencies (notes 8(a) and 10) Guarantee (note 11)		
	<u>\$ 260,736</u>	<u>\$ 242,505</u>

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, 2017, with comparative information for 2016

	2017	2016
Fees from Canadian licensees	\$ 261,255	\$ 262,549
Royalties received from international affiliated societies	75,652	67,013
Private copying royalties	740	480
	<u>337,647</u>	<u>330,042</u>
Expenses and other income:		
Administrative expenses	(47,777)	(44,526)
Investment and other income (note 9)	8,170	6,295
Equity investment loss in subsidiary (note 8(a))	(11,043)	(10,338)
	<u>(50,650)</u>	<u>(48,569)</u>
Total distributable income	286,997	281,473
Allocated to royalties owing to music copyright owners (note 6)	294,084	290,627
Unallocated loss	<u>\$ (7,087)</u>	<u>\$ (9,154)</u>

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, 2017, with comparative information for 2016

	2017			2016		
	Internally restricted (note 7)	Remeasure- ments and other items	Total	Internally restricted (note 7)	Remeasure- ments and other items	Total
Net assets, beginning of year	\$ 23,005	\$ (1,093)	\$ 21,912	\$ 32,159	\$ 1,821	\$ 33,980
Unallocated loss	(7,087)	–	(7,087)	(9,154)	–	(9,154)
Remeasurements and other items (note 4)	–	1,369	1,369	–	(2,914)	(2,914)
Net assets, end of year	\$ 15,918	\$ 276	\$ 16,194	\$ 23,005	\$ (1,093)	\$ 21,912

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, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Unallocated loss	\$ (7,087)	\$ (9,154)
Increase (decrease) in royalties owing to music copyright owners	(5,841)	2,550
Employer future benefit contributions	(1,674)	(2,390)
Items not involving cash:		
Amortization of capital assets	4,607	3,963
Net realized loss (gain) on sale of investments	1,510	(1,026)
Net unrealized gain on investments	(6,911)	(2,296)
Equity investment loss in subsidiary	11,043	10,338
Employee future benefits expense	498	562
Change in non-cash operating working capital	9,031	(2,976)
	5,176	(429)
Investing activities:		
Advances to subsidiary, net	(13,731)	(14,469)
Purchase of capital assets	(11,950)	(8,278)
Decrease in investments, net	15,952	23,016
	(9,729)	269
Decrease in cash	(4,553)	(160)
Cash, beginning of year	22,565	22,725
Cash, end of year	\$ 18,012	\$ 22,565

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, 2017

Society of Composers, Authors and Music Publishers of Canada ("SOCAN") is a not-for-profit organization, incorporated without share capital. SOCAN was previously incorporated under the Canada Corporations Act and was continued under the Canada Not-for-profit Corporations Act on July 2, 2014. SOCAN, which administers, for copyright-protected musical works, the right to perform in public and to communicate to the public by telecommunication in Canada. SOCAN collects license fees on behalf of music copyright owners pursuant to 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 7), is distributed to members 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 is set up to promote and further the publication, recording, distribution and performance of music generally in Canada. SOCAN has the ability to control the Foundation by virtue of common membership in the Boards of Directors of the two organizations. The Foundation is not consolidated in these financial statements. Refer to note 8(b).

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. CSHF is not consolidated in these financial statements. Refer to note 8(c).

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

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

Year ended December 31, 2017

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) Subsidiaries:

SOCAN accounts for its wholly-owned subsidiary, MINT Services Corporation, using the equity method.

(b) Recognition of fees and royalties:

Fees from Canadian licensees, 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.

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.

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

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

Year ended December 31, 2017

1. Significant accounting policies (continued):

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) Cash:

Cash includes \$17,963 (2016 - \$22,220) of cash on hand that is used for day to day operations and \$49 (2016 - \$345) that is in a high interest bearing cash account that is used specifically for distribution purposes.

(e) Investment income:

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

(f) 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	10.0%

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

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

Year ended December 31, 2017

1. Significant accounting policies (continued):

(g) Impairment of long-lived assets:

Long-lived assets, including capital assets and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

(h) 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. Employees joining SOCAN 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, 2017 funding valuation, extrapolated to December 31, 2017. 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, 2020.

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.

Past service costs arising from plan amendments 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, 2017

1. Significant accounting policies (continued):

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.

(i) 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.

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

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

Year ended December 31, 2017

1. Significant accounting policies (continued):

(j) 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 the carrying amount of capital assets and asset and obligation related to employee future benefits. Actual results could differ from those estimates.

2. Investments:

The fair values of investments are as follows:

	2017	2016
Short-term investments	\$ 661	\$ 516
Domestic equities	6,778	6,064
Pooled funds:		
Fixed income	43,442	61,137
Foreign equities	59,937	53,733
Foreign floating rate bank loan	8,493	8,795
Global infrastructure securities	8,248	7,865
	\$ 127,559	\$ 138,110

Short-term investments consist of short-term bonds and guaranteed investment certificates bearing interest at 0.65% - 0.99% and maturing on January 11, 2018 to March 5, 2018 (2016 - 0.93% - 2.47% and maturing on January 18, 2017 to March 9, 2017).

Investments totalling \$40,000 (2016 - \$60,000) have been guaranteed to the bank as described in note 11.

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

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

Year ended December 31, 2017

3. Capital assets:

			2017	2016
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 3,073	\$ –	\$ 3,073	\$ 3,073
Building and building improvements	15,695	10,718	4,977	5,051
Furniture, fixtures and equipment	12,688	9,603	3,085	2,398
Computer software	21,853	8,009	13,844	14,360
Computer software under development	12,460	–	12,460	5,253
Leasehold improvements	1,046	265	781	742
Artwork	96	–	96	96
	\$ 66,911	\$ 28,595	\$ 38,316	\$ 30,973

Amortization charges included in administrative expenses amounted to \$4,607 (2016 - \$3,963). Disposals include \$19 (2016 - \$36) of fully amortized 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, 2017

4. 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:

				2017	2016
	Pension plan	SERP	Retirement medical benefit plan	Total	Total
Accrued benefit obligations	\$ 47,732	\$ 15,461	\$ 4,476	\$ 67,669	\$ 69,732
Fair value of plan assets	69,473	13,359	–	82,832	82,350
Funded surplus (deficit)	\$ 21,741	\$ (2,102)	\$ (4,476)	\$ 15,163	\$ 12,618

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

				2017	2016
	Pension plan	SERP	Retirement medical benefit plan	Total	Total
Balance, beginning of year	\$ (19,055)	\$ 2,123	\$ 4,314	\$ (12,618)	\$ (13,704)
Benefit expenses	(116)	387	227	498	562
Employer contributions	(1,288)	(215)	(171)	(1,674)	(2,390)
Remeasurements and other items	(1,282)	(193)	106	(1,369)	2,914
Balance, end of year	\$ (21,741)	\$ 2,102	\$ 4,476	\$ (15,163)	\$ (12,618)

During the year, SOCAN settled a portion of its obligation to current pensioners of the pension plan by purchasing annuities in the amount of \$4,953 (2016 - \$6,579). SOCAN incurred a settlement loss of \$1,345 (2016 - \$2,101) which has been recognized in remeasurements and other items in the non-consolidated statement of changes in net assets.

- (b) The contributions paid and expensed by SOCAN under the defined contribution portion of the pension plan for the year amounted to \$356 (2016 - \$292).

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

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

Year ended December 31, 2017

5. Accounts payable and other liabilities:

Included in accounts payable and other liabilities are:

	2017	2016
Government remittances	\$ 1,953	\$ 1,547
General payables and accrued liabilities	6,551	6,622
Licensing fee refunds (note 10(b))	15,222	416
	\$ 23,726	\$ 8,585

6. Royalties owing to music copyright owners:

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

			2017	2016
	Performing rights	Private copying	Total	Total
Balance, beginning of year	\$ 184,622	\$ 291	\$ 184,913	\$ 183,313
Distributable income	293,435	649	294,084	290,627
Distributions	(298,672)	(731)	(299,403)	(289,027)
Balance, end of year	\$ 179,385	\$ 209	\$ 179,594	\$ 184,913

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

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

Year ended December 31, 2017

7. Internally restricted net assets:

SOCAN distributes all of its income to music copyright owners through an allocation (note 6), except for certain items which the Board of Directors has approved to remain unallocated. These items include investment income, net unrealized gain on investments, net realized gain on sale of investments, equity investment loss in subsidiary and certain other items related to pension accounting. The unallocated items described above comprise SOCAN's non-consolidated internally restricted net asset balance.

	2017	2016
Balance, beginning of year	\$ 23,005	\$ 32,159
Net realized gain (loss) on sale of investments	(1,510)	1,026
Net unrealized gain on investments	6,911	2,296
Amortization of internally generated computer software	(1,445)	(1,138)
Investment gains allocated to distribution	–	(1,000)
Equity investment loss in subsidiary	(11,043)	(10,338)
Balance, end of year	\$ 15,918	\$ 23,005

8. Related party transactions and balances:

(a) MINT Services Corporation ("MINT"):

MINT was incorporated under the Ontario Business Corporations Act and commenced operations on February 12, 2013. MINT 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, 2017, assets, liabilities and shareholder's deficiency of MINT were \$67,257, \$89,081 and (\$21,824) (2016 - \$72,537, \$82,898 and (\$10,361)), respectively.

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

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

Year ended December 31, 2017

8. Related party transactions and balances (continued):

Revenue for the year ended December 31, 2017 was \$13,695 (2016 - \$7,855) and expenditures for the year were \$24,737 (2016 - \$18,193).

Cash flows from (used in) operating, financing and investing activities were (\$6,064), \$11,572 and (\$2,346) (2016 - (\$10,872), \$51,614 and (\$34,865)), respectively.

SOCAN has a demand promissory note with MINT to provide principal funds up to \$28,200 (2016 - \$23,000). At year end, \$28,200 (2016 - \$14,469) was advanced. The funds are unsecured, non-interest bearing and due on demand. At December 31, 2017, SOCAN has agreed to provide continued 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, 2018.

The equity investment loss in MINT of \$21,576 (2016 - \$10,533) represents the net cumulative loss as at December 31, 2017.

SOCAN provides administrative, support services and facilities to MINT in return for a fee. Amounts charged to MINT by SOCAN during the year amounted to \$1,740 (2016 - \$564) which were offset by amounts charged to SOCAN of \$35 (2016 - nil). In addition, SOCAN pays certain expenses on MINT's behalf which are reimbursed. Included in other receivables and assets is \$2,688 (2016 - \$947) that remains collectible at year end. Included in accounts payable and other liabilities is \$35 (2016 - nil) of amounts owing to MINT.

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

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

Year ended December 31, 2017

8. Related party transactions and balances (continued):

(b) SOCAN Foundation:

Included in administrative expenses is \$1,683 (2016 - \$1,549) in funding provided to the Foundation. Included in other receivables and assets is \$1 (2016 - \$7) owing from the Foundation.

A summary of the financial information for the Foundation for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Total assets	\$ 5,724	\$ 5,688
Total liabilities	789	696
Net assets	\$ 4,935	\$ 4,992
Revenue	\$ 2,001	\$ 1,737
Expenses	(2,058)	(1,884)
Excess of expenses over revenue	\$ (57)	\$ (147)

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

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

Year ended December 31, 2017

8. Related party transactions and balances (continued):

(c) Canadian Songwriters Hall of Fame:

Included in administrative expenses is \$165 (2016- \$90) in funding provided to CSHF. Included in other receivables and assets is \$6 (2016- nil) owing from CSHF.

A summary of the financial information for CSHF for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Total assets	\$ 115	\$ 61
Total liabilities	33	20
Net assets	\$ 82	\$ 41
Revenue	\$ 821	\$ 90
Expenses	780	76
Excess of revenue over expense	\$ 41	\$ 14

9. Investment and other income:

	2017	2016
Interest income	\$ 1,025	\$ 1,249
Dividend income	1,832	1,139
Miscellaneous income	121	804
Net realized gain (loss) on sale of investments	(1,510)	1,026
Net unrealized gain on investments	6,911	2,296
Brokerage and investment consulting fees	(209)	(219)
	\$ 8,170	\$ 6,295

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

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

Year ended December 31, 2017

10. 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, 2017, are as follows:

2018	\$ 403
2019	400
2020	297
2021	263
2022	262
Thereafter	799
	\$ 2,424

- (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 Canadian 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 with the Copyright Board was completed for Pay Audio Tariff for the licensing periods from 2010 to 2016. The licensees have proposed lower rates under this interim tariff. 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 5) for \$13,855.

SOCIETY OF COMPOSERS, AUTHORS AND MUSIC PUBLISHERS OF CANADA

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

Year ended December 31, 2017

10. 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 5) is \$437 of license fees to be refunded. This decision is currently under judicial review with a hearing likely in the fall of 2018.

- (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 \$3,500 (2016 - \$3,100).

11. Guarantee:

On September 14, 2016, MINT USA, Inc., a subsidiary company of MINT, entered into a credit facility agreement. An amendment to the agreement was signed on February 24, 2017. 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 custodian pursuant to which the custodian agrees, inter alia, that it will not permit the amounts to be removed from the investment accounts if the result of such removal would be to reduce the aggregate market value of the qualifying investments held in the investment accounts to less than \$40,000 (2016 - \$60,000). 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, 2017

12. 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. There has been no change in risk exposure from 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.

(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.



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