

DESTINY MEDIA TECHNOLOGIES INC  
Form 10-K  
November 29, 2012

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

(Mark One)

**FORM 10-K**

Annual Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act Of 1934

For the fiscal year ended **August 31, 2012**

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act Of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER **0-028259**

**DESTINY MEDIA TECHNOLOGIES INC.**

(Name of small business issuer as specified in its charter)

**COLORADO**

(State or other jurisdiction of incorporation or organization)

**84-1516745**

(I.R.S. Employer Identification No.)

**Suite 750, PO Box 11527, 650 West Georgia Street,  
Vancouver, British Columbia, Canada**

(Address of principal executive offices)

**V6B 4N7**

(Zip Code)

**604-609-7736**

Registrant's telephone number

Securities registered under Section 12(b) of the Exchange Act:

**NOT APPLICABLE**

Securities registered under Section 12(g) of the Exchange Act:

**COMMON STOCK, PAR VALUE \$0.001**

**PER SHARE**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Check whether the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

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Yes  No

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

**50,487,577 common shares @ \$0.66<sup>(1)</sup> = \$33,321,800**

(1) Closing price as quoted on the OTC Bulletin Board on February 29, 2012.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

**52,118,572 Shares of \$0.001 par value common stock outstanding as of November 29, 2012.**

**DOCUMENTS INCORPORATED BY REFERENCE**

None

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**PART I**

**FORWARD LOOKING STATEMENTS**

The information in this Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements involve risks and uncertainties, including statements regarding Destiny Media's capital needs, business strategy and expectations. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may", "will", "should", "expect", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential" or "continue", the negative of such terms or other comparable terminology. Actual events or results may differ materially. In evaluating these statements, you should consider various factors, including the risks outlined below, and, from time to time, in other reports Destiny Media files with the SEC. These factors may cause Destiny Media's actual results to differ materially from any forward-looking statements. Destiny Media disclaims any obligation to publicly update these statements, or disclose any difference between its actual results and those reflected in these statements. The information constitutes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

**CURRENCY**

All dollar amounts in this Annual Report on Form 10-K are presented in United States dollars unless otherwise indicated.

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## ITEM 1. BUSINESS

### OVERVIEW AND CORPORATE BACKGROUND

Destiny Media Technologies, Inc. was incorporated in August 1998 under the laws of the State of Colorado. We carry out our business operations through our wholly owned subsidiary, Destiny Software Productions Inc., a British Columbia company that was incorporated in 1992, MPE Distribution, Inc. a Nevada company that was incorporated in 2007 and Sonox Digital Inc incorporated under the Canada Business Corporations Act in 2012. The Company, Destiny or we refers to the consolidated activities of all three companies.

Our principal executive office is located at Suite 750, PO Box 11527, 650 West Georgia Street, Vancouver, British Columbia V6B 4N7. Our telephone number is (604) 609-7736 and our facsimile number is (604) 609-0611.

Our common stock trades on TSX Venture Exchange in Canada under the symbol DSY, on the OTCBB and OTCQX under the symbol DSNY, and on various German exchanges (Frankfurt, Berlin, Stuttgart and Xetra) under the symbol DME, WKN 935 410.

Our corporate website is located at <http://www.dсны.com>.

### OUR PRODUCTS AND SERVICES

Destiny develops and markets services that enable the secure distribution of digital media content over the internet. Destiny services are based around proprietary security, watermarking and playerless streaming media technologies.

Currently, more than 95% of the Company's revenues come from the Play MPE® digital distribution service, which the recording industry uses to distribute new pre-release music and music videos to trusted recipients before that content is generally available for sale to the public.

The remaining 5% of revenue is generated from legacy sales of Clipstream®, a playerless streaming video solution first launched in 1999. The bulk of these revenues are generated by services provided to the market research industry, which has adopted our solution because of the higher play rates and the higher level of security in our offering. Clipstream® powered videos are integrated into video questionnaires for use in market research surveys. The market research industry prefers our solution because the successful view rates are higher and because the security is more mature than other solutions. Videos can be secured to play only from authorized URL's and they actively block screenscraping programs that might try to download the video locally. In addition, videos are watermarked, so the source of unauthorized content can be identified.

This legacy technology relies on a plugin from Oracle to be bundled into the browser and the install rate of this plugin has declined significantly since launch thirteen years ago. This first generation of Clipstream® generally does not work at all on smart phones and other devices.

The introduction of new browsers supporting HTML 5 has created a new opportunity. The Company is actively developing a second generation version of Clipstream®, which works natively on almost all modern browsers. We believe this new technology is disruptive to existing paradigms as streaming video encoded in this format can be hosted from any brand of web page server and it will play directly across desktops, laptops, smart phones, tablets, e-book readers, internet enabled TV's and other devices, including future devices still under development. As the streams are served by HTTP progressive download, they can be reused potentially reducing the bandwidth and hardware infrastructure required at the source. Clipstream® G2 is cross platform which results in savings from the elimination of costs associated with re-encoding videos into multiple formats (transcoding) and costs of the extra storage, power, air conditioning, staff and facility space required by competitive offerings. The solution is playerless and does not rely on third party plug-ins.





## **Play MPE®**

Play MPE® is a digital delivery service for securely moving broadcast quality audio, video, images, promotional information and other digital content securely through the internet. The system is currently used by the recording industry for transferring pre-release broadcast quality music, radio shows, and music videos to trusted recipients such as radio stations, media reviewers, VIP's, DJ's, film and TV personnel, sports stadiums and retailers. The system replaces the physical distribution (mail, courier or hand delivery) of CD's. The financial model is transaction based, where the price per delivery varies with the number of songs and videos in the package.

More than 1,000 record labels, including all four major labels (Universal Music Group, Warner Music Group, EMI and Sony), are regularly using Play MPE® to deliver their content to radio.

Each distribution is initiated by our customers, who "encode" the content and enter the appropriate data. Our software has a tiered permissions based access allowing our clients to assign varying rights, capabilities and responsibilities to different members of their staff. For example, some customer staff may manage assets (album cover imagery, music videos, the raw music, promotional information and other meta data), while others manage hierarchical permission based lists of recipients. Larger labels are normally structured into label groups, each with their own labels with varying access (permissions) to various subsets of the master recipient lists.

The release dates for music can be dependent on the territory and, where administrative settings permit, local promotions staff will generate a localized distribution of the song with modified marketing information in the local language. Local staff will select pre-existing assets from the system and combine them together with local recipient lists to form a "send". Our customers also choose the level of access for the recipients assigned to the release by designating whether the release can be streamed, downloaded, exported into an unlocked digital format or burned to a CD.

While many clients are set up to manage and upload recipient lists, most rely on the proprietary Play MPE® network, which is quickly becoming a valuable asset to the industry. Destiny staff manage lists of recipients in various formats and those lists are available in the encoder to be selected. The Play MPE® system provides Play MPE® staff with the feedback and resources necessary to manage and maintain this network of recipients which is not available with physical distribution or smaller competitors.

Staff who "encode" each release choose the access rights, whether the system should automatically generate a template driven marketing email alert, whether the song should be locked to the recipient computer and which partner sites should have access to the content.

On the impact date, the "send" appears in the "available tracks" section of the user's account. Recipients can access through proprietary iPhone, Mac and Windows based players, through a Direct to Web browser interface supporting playerless streaming and download or through partner sites, including integration into reporting systems such as Mediabase, radio automation systems such as Nexgen or Selector or through custom direct integration into the backend server systems at the radio chains. Destiny's proprietary applications offer popular features, such as the ability to drag and drop to build and burn playlists to CD's for music meetings, the ability to convert and export into a wide variety of formats from the iTunes AAC format to the popular MP3 format and to export meta data automatically into third party applications.

The system generates an unbranded Clipstream® format playerless streaming audio clip for previewing and two broadcast quality versions of the downloadable audio. The recipient can choose to receive a lossless compressed exact copy of the original file at up to four times regular download speed or a variable bitrate compressed version, indistinguishable to the human ear, at up to fifteen times regular download speed. Recipients receive a custom library of available tracks and are able to repeat the download if music is lost.

All exported songs are marked in real time with Destiny's patent pending watermark technology. Songs that appear on the internet are scanned by the International Federation of the Phonographic Industry's ("IFPI") for our watermark. Headquartered in London, UK, the IFPI is the organization that represents the interests of the recording industry worldwide and one of its missions is to safeguard the rights of record producers. IFPI web crawlers visit torrents, peer to peer networks and websites searching for unauthorized content. When problem files are identified, the IFPI software looks for Destiny's watermark in the content to identify the originating source. If a mark is found, Destiny's server and the originating label are automatically contacted so that recipient can be disabled from the system and appropriate action can be taken against the individual to hold that recipient accountable for the unauthorized distribution.

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After the content is released, all activity by the recipient is logged in real time, providing record labels and promotions staff real time detail on which songs are accessed, streamed, downloaded and exported. This contrast directly with physical distribution where they are unsure whether the courier package went to the correct individual or whether it was opened. This information provides invaluable feedback in real time to marketing and promotions staff who can cater their programs appropriately.

Finally, details of the transaction are fed to the billing servers for generation of automated monthly billing summaries for invoicing.

Real time usage statistics for Play MPE® are available at: <http://tinyurl.com/2dyb7ao>

The Play MPE® solution is protected by three granted and seven pending patents.

### **Clipstream® Legacy**

Clipstream® is an innovative "instant play" solution for playback of streaming audio and streaming video. Unlike Flash, Windows Media Player or Quicktime, Clipstream requires no installed player to play back the content. The Clipstream® software suite enables audio or video content to be "streamed" so that the media plays instantly and automatically when the user initiates playback. Creating streaming video content with other technologies can be a complicated process and in many cases, users are required to purchase and maintain streaming servers. With Clipstream®, content owners simply encode the content into the Clipstream® format, then upload to an existing website.

Clipstream® encoded content plays instantly in most cases, without requiring the user to download CODECS or player software. This results in a much higher play rate for site owners and because there is no player executable, users are not exposed to viruses, trojan horses or unstable code that could crash their computer or spy on them.

Market research professionals often use videos and imagery to describe a product or to preview a potential movie trailer or advertisement that may or may not air. Often, the content of the video is sensitive or confidential. Destiny offers a solution that secures the content so that it will only play from an authorized domain, blocks screenscraper programs (programs which are able copy screen displays) and can dynamically watermark the content with the viewer's identity therefore protecting the content from being recorded and leaked by that viewer. Destiny's clips are incorporated into online surveys where the high penetration and play rate ensure the maximum number of high value survey participants are able to view the video.

The Clipstream® survey solution (<http://www.surveyclip.com/>) is well suited to the market research vertical. Market research companies have embraced the technology for internet based video surveys and Destiny has become a long time member and sponsor of CASRO (<http://www.casro.org/>).

### **Clipstream® Generation 2**

During the year, the company released a working prototype of a new disruptive second generation streaming video technology. The Company is continuing development with a goal of launching this product commercially in fiscal 2013.

We launched our first streaming product in 1995 and the first generation of Clipstream® in 1999 and have come to understand the needs of our customers and this solution is expected to address all of those needs. One of the most challenging aspects of serving video is that with streaming servers, each viewer typically gets their own dedicated stream, which uses up hardware and bandwidth resources. Most large providers outsource this hosting to content delivery networks. An Accustream 2012 report estimates current annual spending on content delivery networks at \$3 billion. Another challenge is that there is no standard format for streaming video on the net, so customers are required

to convert the videos (transcode) and store multiple copies of each video. A 2007 report by Frost and Sullivan estimated that the annual transcoding spend would be \$1.6 billion by 2014. A third concern expressed by publishers is that for player based solutions, it is common for up to 15% of the customers to not be able to see the video, because their player plug-ins are configured incorrectly or are not the latest version. Finally, competing solutions, such as HTML 5 video, support only unencrypted video playback, making it difficult for content owners to secure and monetize their content.

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Our new solution addresses all four of these concerns directly, using internet standards:

1. While other solutions can stream content using HTTP progressive download, it is not the typical way of providing video, especially with content that is likely to receive a lot of views. By contrast to a streaming server solution, such as Flash, Clipstream® streams can be reused. Recipient ISP's automatically make local copies of popular content (caching) to save themselves the cost of connecting to the host server for future accesses to that content. Because Clipstream is part of the web page, the streams of popular content are also cached at the local ISP, producing dramatic bandwidth savings at the host ISP. It has been estimated that using Clipstream reduces bandwidth costs by more than 90%. This allows the host to reach up to one hundred times as many viewers with the same infrastructure, while providing a better experience to the audience, because the content is closer in terms of latency. Because of this efficiency, publishers can either host themselves on their own corporate web server or reduce their reliance on content delivery networks.
2. We will provide encoder software which will convert video from any standard input format into our proprietary format. Once converted, the publisher can upload the video to any brand of web server and it will play back directly on web browsers on a wide variety of devices and computers. Our solution eliminates the need for transcoding completely.
3. We provide the publisher with text based player code, which they can cut and paste into their web page. This code directs the browser on how to decode and play back the content. It handles flow control, aspect ratios, bit rates, image quality and frame rate, etc. Because this code is written in the HTML 5 format, it will play on almost any browser that supports the standard properly, achieving a nearly 100% play rate on desktops, laptops, smart phones, tablets, e-book readers and internet enabled TV's. Viewers are not required to download or configure player plug-ins.
4. Our solution will allow publishers to lock video content to only play from authorized source URL s, it will enable watermarking of the content and it will be possible to encrypt streams to only play on authorized computers.

The solution is protected by seven pending US patents, drawing on a priority date of August 2011. The Company intends to file analogous patents in all major jurisdictions.

## **BUSINESS DEVELOPMENT**

In August 2011, the Company received approval for its shares to trade on the OTC market s OTCQX tier.

### **MPE®**

In 2012, annual revenue was \$3,983,789 with over 95% of our revenue from Play MPE®.

At the request of the major record labels, we have been developing a new suite of player software to replace our existing player solutions. A team of developers began development on this major initiative in 2010, with a goal to expand usage. Demand for the new player suite was driven by a need to better accommodate new geographies and new recipient types, such as press. This new suite of players was designed with the cloud concept in mind to reflect the way our users are accessing the system. Whether at their main PC, on the road, at their home office or using one of the Play MPE® mobile apps, their experience will be consistent. Account-wide features like flags, notes, streaming playlist and usage history have been introduced. Some of the other new features are: improved player controls, one-click playback from alert emails and one-step downloading, improved and expanded account settings and the ability to choose themed skins.

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In May 2012, Windows, Mac and browser based software began rolling out to users on an optional basis. Android, Blackberry, tablet, iPhone and iPad versions are under development and are expected to launch beginning this fall. These applications are available in twenty seven languages and the new software is less focused on radio. We expect that when the roll out is complete in the new year, we will be able to increase usage to new geographies and to new recipient types.

We have also customized the way the system works to be compatible with German privacy and spam laws and we have modernized the player interface to appeal to journalists and other recipients who prefer a quicker one click experience over the extensive features in a player application. Non-radio markets are much larger than radio and will be a focus for future growth. The new system also integrates more closely with back end solutions, such as with the labels' video repositories.

We have also started R&D with an experimental service to enable consumers to access pre-release content prior to that content being made available for sale. We have been in discussions with certain labels about the viability of launching this concept commercially.

Some highlights for the year include:

September 7-9, 2011 Christian Music Broadcasters Momentum Conference in Orlando, Fla.

September 9-12, 2011 Canadian Country Music Association Industry Awards, Toronto, Ontario

October 19-22, 2011 CMJ Music Marathon, New York, NY

February 21-25, 2012 Country Radio Seminars in Nashville, Tennessee

March 9-18, 2012 South by Southwest Music and Media Conference in Austin, Texas.

March 21-25, 2012 Canadian Music Week in Toronto, Canada

April 27-28, 2012 Worldwide Radio Summit, Los Angeles, California

July 18-20, 2012 Midwest Conclave Learning Conference, Minneapolis, Minnesota

August 7-10, 2012 FMQB Triple A Convention, Boulder Colorado

### **Clipstream® Legacy**

The sales focus for Clipstream® was to manage legacy license sales and to focus on expanding usage in the market research niche where the product has become a standard for secure video questionnaires. Because of the cost of acquisition of a survey participant and the sensitivity of the content, the high play rate and security of the Clipstream® solution is critical.

The Company continues to invest only minimally into sales and marketing until the new disruptive second generation Clipstream® technology is ready to launch.

Some highlights for the year include:

Nov. 8-9, 2011 Council of American Survey Research Organization Technology Conference, San Diego, California

Nov 7 9, 2011 Streaming Media West, Los Angeles

May 30-31, 2012 Council of American Survey Research Organization Technology Conference, New York, NY

June 4-6, 2012 Marketing Research Association Annual Conference & Expo in San Diego, CA.

**Significant Customers**

During the year ended August 31, 2012 and 2011, revenue earned from three customers represented 64% of our gross revenue.

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## **OUR BUSINESS OPERATIONS**

We lease approximately 5,792 square feet of office space, with the lease expiring in October of 2013, and we currently have twenty-five full time employees and one part time employee. Our employees include our President and Chief Executive Officer, Chief Financial Officer, twelve sales and technical support personnel, and nine software developers. We also employ contractors as needed.

We manage our own server infrastructure and use the services of an external hosting facility. We have racks of server and storage hardware at four physical locations (three in Vancouver, Canada and one in London, England). Servers are highly redundant with RAIDs, custom switches, redundant power supplies and multiple connections to the internet backbone. Access to the network is load balanced across the server locations, providing total bandwidth of 2.2 gigabits per second and continued access to users if a facility ever failed.

Proprietary server software at each location monitors programs running at the other locations. This software is able to remotely diagnose and reboot applications when that can resolve the problem and notify our staff by text message when it can't. Any one location can fail and the other locations will reliably continue to provide the service.

### **Research and Development**

Total research and development expenditures for the year ended August 31, 2012 were \$1,889,450 (2011: \$1,563,690).

## **COMPETITION**

### **MPE®**

Play MPE® has the largest market share of a relatively new market and a network effect entrenches the system as it is difficult for any one user to switch to an alternative without the entire industry switching. The nature of digital music distribution favors a monopoly service where there is one location where recipients can access content from labels around the world.

Play MPE® has several advantages over physical distribution (mail, courier or hand delivery) of manufactured CD's. Digital distribution through Play MPE® is faster, less expensive, more reliable, more secure, provides additional real time and more accurate reporting of usage, provides a great deal of added functionality and provides the error free and automatic transmission of "meta data". Meta data includes International Standard Recording Codes (ISRC) – which is a standard code for uniquely identifying sound recordings and music video recordings - song and artist names, beats per minute, release and impact dates, etc. The automatic transmission of this meta data reduces the time required for manual data entry into radio automation software on the receiving side and eliminates inaccuracies in royalty reporting.

Play MPE® provides extensive functionality, security and audio quality and while significant savings are realized over physical delivery, lower cost digital options exist. No digital delivery competitors have as extensive a recipient network or global presence as Play MPE®. The Company expects that competition will be strongest where audio quality, security, recipient network, and reporting are not as important as cost.

The Company has entered into strategic alliances to ensure that Play MPE® is an integrated part of the music industry. With an agreement with RCS (<http://www.rcsworks.com>), we are launching a Play MPE® powered site branded as Musicpoint, which will provide instant access to over 9,000 customers across its product lines, RCS is the leading supplier of radio automation and scheduling software, marketed under the brands Selector, GSelector and NexGen Digital.

Play MPE® integrates with Wide Orbit Automation for Radio, Powergold Music Scheduling, various product offerings from OMT and supports Broadcast Electronic's Audio Vault.

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Also, the Company exports directly into a wide variety of back end systems such as Clear Channel's Prophet system, the BBC's internal distribution system and Sirius XM's servers. Mediabase, the dominant supplier of reporting information to the recording industry exclusively links download links wherever a new song appears and these links direct their users to register into our system to access this content.

A tabular comparison is set out below which outlines some of the more significant competitive advantages relative to competing digital solutions or to physical delivery. Competing digital solutions generally show a low investment in technology resulting in less secure and lower quality sound distributions. Direct competitors are often regional, with little global presence.

	<b>Play MPE®</b>	<b>Competing alternatives</b>	<b>Physical Distribution</b>
Speed	Proprietary lossless compression at 4 times download speed or 15 times download speed with inaudible compression loss.	Trade off between slower download speeds or lower quality file.	Dependent on mail courier.
Security	User and machine authentication. Digital locking and Watermark available	Watermarking, password and other access control methods.	Typically no security.
Watermarking	Patent pending proprietary watermark "Methods for Watermarking Media Data" Embeds in real time Uniquely identifies the recipient account, Survives on air broadcast and compression, Inaudible Integrated with the IFPI	Not available or Licensed 3 <sup>rd</sup> party watermarks Range available offers trade off between audio quality and reliability Longer implementation required Does not survive on air broadcast, conversion to new formats, compression or filtering None known to be integrated with the IFPI	Unique individual watermarking not available.
Cost	Estimated to be approximately 80% savings over physical	Unknown range	Costs generally include: mail or courier charges manufacture of CD address label, packaging, list maintenance
Streaming Reporting Player Versions and capabilities	Instant, Clipstream® powered Real time PC Mac and, iPhone player versions including the following proprietary software features: encrypted audio playback, drag and drop play lists, integrated CD burning, export to other formats	3rd party players and codecs. None to real time Required 3rd party players which require correct version and association information.	Not applicable None Labor intensive process to encode into a digital format at radio to integrate into radio automation and reporting software systems

Portability

No Player required Play  
MPE Direct to Web supports  
playerless streaming and  
download from any web  
browser

Websites require installation  
of a third party media player  
and authentication agents

Portable.

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Meta Data	Fingerprinting, photos, video, PDF s, Data (ISRC codes, intro times, beats per minute, etc.) exported into radio automation system/software. Exclusive integration with RCS Sound Software the world s leading radio scheduling software provider.	Artist name, title, label, compatible with only one automation system.	Radio must manually input meta data requiring more labor and leading to errors causing errors in royalty reporting.
Formats	CD, WAV, MP2, MP3, AAC, WMA	MP3, WMA, WAV	CD
Players	Windows, Mac, PC, Browser, Android, iPhone, Blackberry, iPad, tablet	Typically browser based only	CD

**Clipstream®**

Historically, the most common way to get streaming video was through player based solutions, such as Flash, Windows Media Player and Quicktime. Video would be typically hosted on one or more streaming servers, which would be referred to indirectly by the web page on the web server. When the web page loaded, the streaming server that matched the browser and device of the viewer would be used to embed the video into the page.

This had the notable disadvantage that users were required to maintain and update player plug-in software. This could be difficult for novice users and users that didn't have administrative rights and sometimes upgrading the plug-in wasn't possible without also upgrading the operating system. It was common for up to 15% of users to be unable to see the video. For applications such as advertising, those lower play rates meant lower revenues for the site owner running the ads.

The most dominant format in the last few years has been Flash from Adobe, but earlier this year, Adobe announced that they would no longer be supporting Flash for smart phones. In addition, prominent devices, such as the iPhone and iPad do not support Flash.

Web pages are in the hypertext markup language format (HTML) and the latest standard, supported by browsers released in the last few years is HTML 5. It supports a new <video> tag which enables browsers to natively play video without a player plug-in. The issue is that different browsers support different formats. Site owners still have to encode their video in multiple formats to reach all computers and devices (transcoding). They would list the formats that are available in the video tag and the browser would choose one to play back.

As an example, video uploaded to Youtube would be transcoded into H.264, Web M and Flash and three versions of the video in these three separate formats would need to be stored. An HTML 5 compliant browser would choose one of those formats to play back.

By comparison, Clipstream® uses features only available in HTML 5 compliant browsers, but not the <video> tag.

Flash and H.264 are the most widely supported formats, but H.264 is going to be phased out when H.265 launches in 2013. Both H.264 and H.265 are protected by over one hundred patents and use of these formats requires payment of patent fees to the consortium (<http://www.mpegla.com>). Other open source formats, such as Web M and Ogg Theora are likely to become more popular over time.

All of these formats are likely to be used extensively and competitively, but they all have the disadvantage that they are not cross platform. We are not aware of another solution that doesn't require a streaming server or streaming player plug-in, but that plays on all HTML 5 compliant browsers on desktops, laptops, smart phones, tablets and Internet enabled TV's.

We believe that if granted, our seven patents will protect the techniques that we are using, so that no other competitor could offer a similar solution.

The other major concern with HTML 5 video is that it doesn't support digital rights management. The streaming formats that browsers would natively access are unencrypted formats and there is no easy way to stop users from downloading the streaming files that the <video> tag points to. By contrast, Clipstream® content can be locked to only play from authorized URL's and it can be watermarked. Because it can be hosted on the corporate web server rather than third party content delivery networks, the authentication system and the streaming can lie on the same server. Streams can be provided that will only play on the specified, authorized viewer computer that had just been previously authenticated.

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## Clipstream® Advantages

- A Clipstream® powered website does not require that its visitors download and install player software. Clipstream® just plays. Other solutions require intrusive codecs and new versions of their player in the background.
- As Clipstream® is playerless, management estimates that at least 10% more visitors see the rich media content
- Clipstream® playback takes minimal CPU and memory resources, so the viewer's computer is free for other tasks. This means that many Clipstream® objects can appear on the same page. Other solutions often restrict to one piece of content per page.
- The Clipstream® solution is less intrusive and, as a result, safer for users. Alternative solutions control a user's device and can be used by malicious sites to install malware. Clipstream® content will never crash or compromise your machine.
- Clipstream® content is uploaded to any brand of web server and just works. Alternative solutions require that you purchase, install and configure streaming server systems, running on dedicated hardware.
- Clipstream® plays on any JavaScript and HTML 5 enabled device, so playback is not restricted to computers. This cross platform approach means the same object will work for any browser on any brand of computer or device at any bitrate. (An autodetect procedure automatically delivers the highest possible stream quality).
- Because there is no player, Clipstream® encoded media never becomes obsolete and never has to be re-encoded. Content encoded in Clipstream® ten years ago still plays today. Other solutions launch new player software without backwards compatibility.
- Clipstream® media will automatically cache because it is an ordinary web component, just like a graphic or a block of text. This means that Clipstream will save up to 90% on bandwidth cost (over 90% for ads), while providing much more reliable playback. This standards based approach means that there is no limit to simultaneous streams.
- Clipstream® components can be uploaded to the cloud for third party hosting. Player solutions require complicated server farms to handle more than a few thousand simultaneous visitors.
- Clipstream® objects can be embedded into databases for long term storage and easy context sensitive retrieval. Every aspect of the Clipstream® engine can be accessed by web authoring tools to create a customized look and feel
- Dozens of parameters provide functionality not available from any other streaming solution. For example, Clipstream® provides the only technology available to link every pixel or group of pixels in a banner to a different audio stream. This technology can be used for audio navigation of a website or to provide ads that do not require the visitor to leave the host site to listen to an ad.

## GOVERNMENT REGULATION

We are not currently subject to direct regulation by any governmental agency other than laws and regulations generally applicable to businesses. It is possible that a number of laws and regulations may be adopted in both the United States and Canada with particular applicability to the Internet. Governments have and may continue to enact legislation applicable to us in areas such as content distribution, performance and copying, other copyright issues, network security, encryption, the use of key escrow data, privacy protection, caching of content by server products, electronic authentication or digital signatures, illegal or obscene content, access charges and retransmission activities. The applicability to the Internet of existing laws governing issues such as property ownership, content, taxation, defamation and personal privacy is also uncertain. Export or import restrictions, new legislation or regulation or governmental enforcement of existing regulations may limit the growth of the Internet, increase our costs of doing business or increase its legal exposure.

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**ITEM 1A. RISK FACTORS**

We face risks in executing our business plan and achieving revenues. The following risks are material risks that we face. We also face the risks identified elsewhere in this Annual Report, including those risks identified under Item 1 Description of Business, including Competition and Government Regulation, and Item 6 Management Discussion and Analysis or Plan of Operations. If any of these risks occur, our business and our operating results and financial condition could be seriously harmed.

*If revenues decline, then our financial condition and results of operations will be adversely affected.*

Over 95% of our revenue is generated from our Play MPE® distribution service. Competitors may arise and/or customers may not renew distribution contracts. This factor could cause our revenue to decrease with the result that our financial condition and operating results would be adversely affected. Competitors have been small, regionally based, have limited resources, and have yet to capture a material share of the market. If a competitor were to develop a comparable or superior product, our market share could be reduced.

*If we are not able to control our operating expenses, then our financial condition may be adversely affected.*

Operating expenses increased slightly to \$3,264,111 for the year ended August 31, 2012 from \$3,209,630 for the year ended August 31, 2011 while our revenue decreased slightly to \$3,983,789 for the year ended August 31, 2012 from \$4,007,230 for the year ended August 31, 2011. Our ability to maintain profitability is conditional upon our ability to control our operating expenses. While we have been successful in containing our operating expenses, there is a risk that we will have to increase our operating expenses in the future. Factors that could cause our operating expenses to increase include our determination to spend more on sales and marketing in order to increase product sales or our determination that more research and development expenditures are required in order to keep our current software products competitive or in order to develop new products for the market. To the extent that our operating expenses increase without a corresponding increase in revenue, our financial condition would be adversely impacted.

*If we are not successful in legal proceedings against us, then our business and financial condition could be adversely affected.*

We are currently party to a claim against the Company, as described in Item 3 of Part I under the heading Legal Proceedings . If we are not successful in this legal proceeding and are forced to make payments of damages to the plaintiffs, then our business and our financial condition would be adversely affected.

*Our success is dependent, to a large degree, upon the efforts of Mr. Steve Vestergaard, our current executive officer.*

Mr. Vestergaard was the founder of Destiny Software and has been involved in our business operations since our inception. The loss or unavailability of Mr. Vestergaard could have an adverse effect on our business operations and financial condition. We do not maintain key man life insurance policies for Mr. Vestergaard or for any of our other employees. In addition, our continued success is dependent upon our ability to attract and retain qualified personnel in all areas of our business, especially management positions. In the event that we are unable to attract and retain qualified personnel, our business would be adversely affected.

*Our financial results may be adversely impacted by currency fluctuations.*

Our revenues are primarily in United States dollars and Euros while our operating expenses are primarily in Canadian dollars. An increase in the value of the Canadian dollar in relation to the United States dollar and/or Euro could have the effect of increasing our loss from operations. We do not currently hedge our foreign currency exposures.



*If our products are defective or contain errors, we may become subject to product liability claims.*

As a result of their complexity, our software products may contain undetected errors or failures when first introduced or as new versions are released. There can be no assurance that, despite testing we undertake and testing and use by current and potential customers, errors will not be found in new products after commencement of commercial shipments. The occurrence of such errors could result in loss of or delay in market acceptance of our products, which could have a material adverse effect on our business, financial condition and results of operations. Our products also may be vulnerable to break-ins and similar disruptive problems caused by Internet or other users.

Such computer break-ins and other disruptions would jeopardize the security of information stored in and transmitted through the computer systems of our customers, which may result in significant liability to us and deter potential customers. The sale and support of our products may entail the risk of liability claims. A product liability claim brought against us could have a material adverse effect on our business, financial condition and results of operations.

*Our ability to manage growth.*

Should we be successful in the sales and marketing efforts of our software products, we will experience significant growth in operations. If this occurs, management anticipates that additional expansion will be required in order to continue our product development. Any expansion of our business would place further demands on our management, operational capacity and financial resources. We anticipate that we may need to recruit qualified personnel in all areas of its operations, including management, sales, marketing, delivery, and software development. There can be no assurance that we will be effective in attracting and retaining additional qualified personnel, expanding its operational capacity or otherwise managing growth. In addition, there can be no assurance that our current systems, procedures or controls will be adequate to support any expansion of our operations. The failure to manage growth effectively could have a material adverse effect on our business, financial condition and results of operations.

*Risk of system failure and/or security risks.*

Despite the implementation of security measures, our network infrastructure could be vulnerable to unforeseen computer problems. Although we believe we have taken steps to mitigate much of the risk, we may in the future experience interruptions in service as a result of the accidental or intentional actions of Internet users, current and former employees or others. Unknown security risks may result in liability to us and also may deter new customers from purchasing our software and services, and individuals from utilizing it. Although we intend to continue to implement and establish security measures, there can be no assurance that measures implemented by us will not be circumvented in the future, which could have a material adverse effect on our business, financial condition or results of operations.

*Lack of established market for products and services; dependence on internet and intranets as mediums of commerce and communications.*

The market for our streaming media products and services is new and evolving rapidly. It depends on increased use of the Internet and intranets. If the Internet and intranets are not adopted as methods for commerce and communications, or if the adoption rate slows, the market for our products and services may not grow, or may develop more slowly than expected.

The electronic commerce market is relatively new and evolving. Sales of our products depend in large part on the development of the Internet as a viable commercial marketplace. There are now substantially more users and much more "traffic" over the Internet than ever before, use of the Internet is growing faster than anticipated, and the technological infrastructure of the Internet may be unable to support the demands placed on it by continued growth. Delays in development or adoption of new technological standards and protocols, or increased government regulation, could also affect Internet use. In addition, issues related to use of the Internet and intranets, such as security,

reliability, cost, ease of use and quality of service, remain unresolved and may affect the amount of business that is conducted over the Internet and intranets.

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*Product delays and errors.*

We have experienced development delays and cost overruns associated with its product development. We may encounter such problems in the future. Delays and cost overruns could affect our ability to respond to technological changes, evolving industry standards, competitive developments or customer requirements. Our products also may contain undetected errors that could cause adverse publicity, reduced market acceptance of the products, or lawsuits by customers.

*Online commerce security risks.*

Online commerce and communications depend on the ability to transmit confidential information securely over public networks. Any compromise of our ability to transmit confidential information securely, and costs associated with the prevention or elimination of such problems, could have a material adverse effect on our business.

*International operations.*

We market and sell our products in the United States, Canada, Europe, Asia, South America, Africa and Australia. As such, we are subject to the normal risks of doing business abroad. Risks include unexpected changes in regulatory requirements, export and import restrictions, tariffs and trade barriers, difficulties in staffing and managing foreign operations, longer payment cycles, problems in collecting accounts receivable, potential adverse tax consequences, exchange rate fluctuations, increased risks of piracy, limits on the our ability to enforce our intellectual property rights, discontinuity of our infrastructures, limitations on fund transfers and other legal and political risks. Such limitations and interruptions could have a material adverse effect on our business.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None

**ITEM 2. PROPERTIES**

Our head office is located in leased premises at Suite 750, 650 Georgia Street, Vancouver, British Columbia, Canada V6B 4N7. Our principal business operations are carried out from head office. Our leased premises consist of approximately 5,792 square feet. We pay rent of approximately \$19,780 Canadian (equal to approximately \$20,000 US) per month. The lease expires October 30, 2013. We consider our leased premises adequate for our current business purposes.

The Company owns proprietary algorithms, source code, web domain addresses, patents, trademarks and other intellectual property.

**Patents**

**1. Digital Locking "Digital Media Distribution Method and System"  
(US Patent No. 7466823)**

This patent provides a method of locking digital content which prevents play back on unauthorized machines and devices. Claims include separating security from the content, so that content files can be shared securely over peer to peer networks. This is one of the earliest patents for securing peer to peer distributed content.

[http://www.dsny.com/v7/pdfs/Digital\\_media\\_distribution\\_method\\_and\\_sy.pdf](http://www.dsny.com/v7/pdfs/Digital_media_distribution_method_and_sy.pdf)

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One of the more important claims in this patent is the ability to uniquely recognize a particular computer. Uniquely identifying a person's computer is a common issue which is usually approached by saving cookies or beacons to the user's computer or by tracking IP addresses. These are not reliable solutions as cookies are easily deleted and IP addresses easily changed. Destiny's propriety hash code process creates a serial number that can be used to recognize the user on subsequent visits without ever saving anything to that user's computer.

**2. Watermarking "Methods for Watermarking Media Data"**

- a. **US Patent No. 7983441**
- b. **Japanese patent application No. 2009-532655 approved and pending grant.**
- c. **Pending Canada, Europe**

Destiny has developed a watermarking technology which can uniquely identify the individual who originally accessed a particular song. Our watermark is unique as it can be embedded and identified rapidly, it is inaudible, it survives on air broadcast, compression and conversion to other formats and is virtually impossible to remove.

Our watermarking technology is used in the Play MPE® distribution system when songs are exported or when streaming a track.

Other watermarking technologies are slow and provide a trade off between a destruction of audio quality and the ease that they can be filtered out.

[http://www.dsny.com/v7/pdfs/METHODS\\_FOR\\_WATERMARKING\\_MEDIA\\_DATA.pdf](http://www.dsny.com/v7/pdfs/METHODS_FOR_WATERMARKING_MEDIA_DATA.pdf)

**3. Watermarking "Methods for Watermarking Media Data"**

- a. **US Patent No. 8300885**

**4. Cross Platform Streaming Video Script Based Video Rendering (pending USA, International)**

There are seven US patent applications surrounding this technology. This solution enables publishers to serve streaming video from their web site without the need for a separate streaming server. The solution will play instantly in all recent browsers, including mobile devices, without the need for a separate video player.

**Registered Trademarks**

Clipstream®

Granted: USA, Canada, Japan, Israel, European Community, China

Pending: Australia

Play MPE®

Granted: Japan, USA, Canada, European Community, China

Pending: Australia

MPE®

Granted: Japan, USA, Canada, European Community

Pending: Australia

Sonox Digital®

Granted: Japan, China, European Community

Pending: Canada, USA

**Domain Names**

Destiny owns a large number of domain names, including many valuable four letter (dice.net, dsny.com) and URL's featuring common words (radio-play.com, streamingaudio.com, pirateradio.com and many others.)



## Trade Secrets

As an innovative software development company, the Company has a wide range of proprietary algorithms and software libraries which form the core of its offerings.

### ITEM 3. LEGAL PROCEEDINGS

- a) On June 10, 2011, the Company commenced proceedings in the Federal Court of Australia against Shooting Star Picture Company Pty Ltd, Peter Skillman and D-Star Music Delivery Pty Ltd. (collectively the respondents). The Company alleged various claims against the respondents including, breach of contract, misleading and deceptive conduct, breach of fiduciary duties, and breach of confidence.

On March 5, 2012, the Company reached a settlement with the respondents whereby the respondents will pay \$825,000 AUD (US \$858,194) to the Company over the course of 72 months. The unpaid balance will attract interest of 10.25% per annum compounded monthly for total payments of approximately \$1,083,000 AUD (US \$1,118,000). The respondents are mutually and severally liable and the payments are secured by a registered charge against real estate located in Australia. Additionally, the respondents have agreed not to approach various clients of the Company.

The settlement amount receivable has been accrued in the financial statements as of August 31, 2012.

- b) On August 12, 2009 the Company received a statement of claim for wrongful dismissal for approximately \$181,000 (\$180,000 CDN) plus an award of stock options and unspecified damages. On April 16, 2012, the Supreme Court of British Columbia dismissed the claim in its entirety and awarded costs to the Company. The Company recovered approximately CDN\$30,000 in costs from the plaintiff and recorded this amount as a recovery to general and administrative expenditures during the year ended August 31, 2012.
- c) On November 8, 2011, the Company was served with a Notice of Civil Claim in the Supreme Court of British Columbia from Noramco Capital Corporation for \$100,000 plus interest. The claim asserts that the Company has repudiated a subscription agreement entered into in, or around, August 2000. Management believes the claim is without merit and that the likelihood that the outcome of this matter will have a material adverse impact on its result of operations, cash flows and financial condition of the Company is remote. The Company has filed a counterclaim for damages arising from a proposed private placement in 2000 which did not close. The Company alleges that the beneficial owner of Noramco was a partner in the firm that was leading the proposed financing.
- d) Destiny had commenced two outstanding Canadian lawsuits (Federal Court of Canada Court File No. T- 413-06 and Ontario Superior Court Ontario Court File No. 07-CV-38068 as a result of certain activities undertaken by Yangaroo Inc., a Canadian competitor ( Yangaroo ). Destiny was a defendant by counterclaim. A third lawsuit was launched in the United States (US District Court for the Eastern District of Wisconsin Green Bay Division Case No. 1:09-CV-00462), in which Destiny was defendant. The US District Court lawsuit had previously dismissed Yangaroo's claim in its entirety with the dismissal upheld on appeal during 2011.

On June 17, 2011 Destiny entered into a settlement agreement (the Settlement Agreement) with Yangaroo to settle all outstanding litigation. Pursuant to the Settlement Agreement, Yangaroo paid Destiny a lump sum amount totaling \$606,540 (\$600,000 Canadian Funds). The settlement payment was received and recorded during the year and has been credited against legal fees included in general and administrative expenses during the year ended August 31, 2011.

As part of the settlement Destiny also acquired a cost and royalty free, non-exclusive, worldwide, irrevocable, license to two patents held by Yangaroo (US Patent No. 7,529,712 and Canadian Patent No. 2,407,774). No

value was assigned or recorded to the licenses to Yangaroo's patents. Each party has agreed not to make any claim for costs against the other party.

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**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable

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**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.****Market Information**

Our shares are currently trading on the OTC Bulletin Board under the stock symbol DSNY. The first day on which the Company's shares were traded under the stock symbol DSNY was June 26, 2000. On August 18, 2011, Destiny Media began trading on the OTC market's tier OTCQX. The high and the low trading prices for our shares for each quarter of the last two fiscal years were:

<b>QUARTER</b>	<b>HIGH (\$)</b>	<b>LOW (\$)</b>
1 <sup>st</sup> Quarter 2011	\$0.47	\$0.32
2 <sup>nd</sup> Quarter 2011	\$0.45	\$0.30
3 <sup>rd</sup> Quarter 2011	\$0.42	\$0.30
4 <sup>th</sup> Quarter 2011	\$0.47	\$0.30
1 <sup>st</sup> Quarter 2012	\$0.49	\$0.33
2 <sup>nd</sup> Quarter 2012	\$0.85	\$0.37
3 <sup>rd</sup> Quarter 2012	\$0.96	\$0.53
4 <sup>th</sup> Quarter 2012	\$1.06	\$0.70

The trades reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions.

Our shares have traded on the TSX Venture Exchange under the symbol DSY since October 12, 2010.

**Holders of Common Stock**

As of November 29, 2012 our shareholders' list for our common stock showed 71 registered stockholders and 52,118,572 shares of our common stock outstanding.

**Dividends**

We have neither declared nor paid any cash dividends on our capital stock and do not anticipate paying cash dividends in the foreseeable future. Our current policy is to retain any earnings in order to finance the expansion of our operations. Our Board of Directors will determine future declaration and payment of dividends, if any, in light of the then-current conditions they deem relevant and in accordance with applicable corporate law.

**Recent Sales of Unregistered Securities**

During the year ended August 31, 2012, 557,500 common shares were issued for a cash exercise of 557,500 warrants at \$0.50 for proceeds of \$278,750. Also, 5,249,750 warrants exercisable at \$0.50, 352,118 warrants exercisable at \$0.40, 330,000 warrants exercisable at \$0.70 and 350,000 warrants exercisable at \$0.22 were cashless exercised resulting in the issuance of 1,021,702 common shares.

During the year ended August 31, 2012, 110,000 share purchase options exercisable at \$0.50 were cashless exercised resulting in the issuance of 51,793 common shares. Of this total, 24,225 were issued during at August 31, 2012 and 27,568 were issued subsequent to August 31, 2012.

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

On June 28, 2011, the board of directors authorized a second program to repurchase up to 2,500,000 shares of the Company's common stock at a maximum share purchase price of \$0.80 per share. The Company did not repurchase any shares during the fourth quarter of fiscal 2012. The board approved stock repurchase program ran through until June 30th, 2012.

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**OTHER INFORMATION**

None.

**ITEM 6. SELECTED FINANCIAL DATA**

	<b>Fiscal</b>				
	<b>Year</b>				
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(Expressed in US dollars, except per share amounts)</b>				
<b>Continuing Operations:</b>					
Service revenue	\$ 3,983,789	\$ 4,007,230	\$ 3,771,382	\$ 2,560,447	\$ 1,578,888
Income (loss) from continuing operations	719,678	797,600	689,062	44,781	(2,404,933)
Net income (loss)	563,003	638,508	1,686,073	610,831	(2,293,178)
Net income (loss) per common share, basic and diluted	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.01	\$ (0.05)

**Balance Sheet:**

Working capital	\$ 1,641,032	\$ 1,354,115	\$ 976,139	\$ 658,673	\$ (192,772)
Total assets	3,793,002	3,058,137	2,578,817	1,425,944	661,437
Long-term liabilities	-	-	3,745	13,987	100,000
Stockholders' equity (deficit)	3,280,935	2,405,865	2,059,369	790,934	(132,609)

The selected financial data should be read in conjunction with the Consolidated Financial Statements and Notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

The following discussion of our results of operations and financial condition should be read together with the consolidated financial statements and related notes that are included later in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors.

**RESULTS OF OPERATIONS FOR THE YEAR ENDED AUGUST 31, 2012****Revenue**

Total revenue for the year declined slightly from fiscal 2011 to \$3,983,789 (2011 - \$4,007,230), a decrease of less than 1%. Fourth quarter revenue increased to \$941,426 (fourth quarter fiscal 2011 - \$933,047).

Revenue from the Play MPE® system currently represents 96% of our total revenues. Play MPE® access fee revenue was \$3,819,576 (2011 - \$3,831,025) for the year ended August 31, 2012. This decrease was largely attributable to the application of a one-time minimum annual fee applied during the comparative period to one customer, offset by a 20% growth in revenue from independent labels in the United States and a growth in revenues from Europe. European revenue is currently concentrated in the United Kingdom and the Scandinavian countries.

Approximately 42% of our Play MPE® revenue is denominated in Euros for the year ended August 31, 2012. Play MPE® revenue from Europe for the year ended August 31, 2012 reached \$1,617,015 (2011 - \$1,415,797) representing an increase of 14%. Approximately 54% of Play MPE® revenue is denominated in US Dollars and 4% of Play MPE® revenue is denominated in Australia Dollars for the year ended August 31, 2012.



Play MPE® is the world leader in an evolving business which is transforming the way record labels distribute pre-release music. We have seen the transition from traditional distribution methods to Play MPE® begin gradually and the growth seen in prior years has continued into 2012 through existing clients, and through new clients in new geographic areas and includes; a 20% increase in North American independent record label revenue and 14% growth in European revenue, of which 3% is attributable to independent record labels and the remainder is attributable to growth from our major record label clients in Europe.

While the digital distribution of pre-release music is still at an early stage, the value propositions of the Play MPE® system are both compelling and numerous and we have found we compete well against traditional and alternative methods of distribution in the market. Our product provides significant advantages such as reducing the costs and lead times, providing feedback on usage to the record labels, and enhanced global security, with the added appeal of reducing the impact on the environment. Play MPE® provides many significant advantages over competing solutions such superior sound quality, superior security, advantageous partner relationships, a network of regular users and countless added functions of the player software and total service offering.

The majority of our revenue is generated from digital media distribution service. The service is billed on usage which is based on the volume and size of distributions provided on a monthly basis ( sends ) A send is a song, bundle of songs, album, box set, or video, authorized to be sent to a particular recipient. The revenue associated with each send will be on a sliding scale depending on the size of the particular send (song length for example). The system provides each label under contract to manage their own lists of recipients and directly encode and distribute their songs. This added ability provided to our clients substantially eliminates the strain on our own internal resources that can be seen in competing solutions and allows for high growth potential. All such revenues are recognized on a monthly basis as the services are delivered to customers, except where extended payment terms exist. Such revenues are only recognized when the extended payment term expires.

For customers where it is not appropriate to enter into a formal contract we provide access to the Play MPE® system through [www.myplaympe.com](http://www.myplaympe.com) or through our staff quoting system.

Real time usage statistics for Play MPE® are available at: <http://www.plaympe.com/v4/company/plaympestats.php>

Approximately 4% of our revenues are derived from sales of our Clipstream® software which declined from the previous year by 6%. This reflects a management strategy of focusing sales, marketing and support resources on MPE® until the new automated system for Clipstream® is available.

Radio Destiny sales represents less than 0.1% of our total revenue.

## **Operating Expenses**

### **Overview**

As our technologies and products are developed and maintained in-house, the majority of our expenditures is on salaries and wages and associated expenses; office space, supplies and benefits. Our operations are primarily conducted in Canada. The majority of our costs are incurred in Canadian dollars while the majority of our revenue is in Euros and US dollars. Thus, operating expenses and the results of operations are impacted, to the extent they are not hedged, by the rise and fall of the relative values of Canadian dollar to these currencies. During the year, the rise in the value of the Canadian dollar relative to the US dollar had an adverse impact on the Company.

Our total operating expenses for the year increased by 2% to \$3,264,111 from \$3,209,630. The majority of this increase was due to higher salaries and wages, which is due in part to additional staff for research and development, technical support, and salary adjustments.

<b>General and administrative</b>	<b>31-Aug 2012</b>	<b>31-Aug 2011</b>	<b>\$ Change</b>	<b>% Change</b>
	(12 months)	(12 months)		
Wages and benefits	\$ 382,467	\$ 365,960	16,507	4.5%
Rent	36,414	40,601	(4,187)	(10.3%)
Telecommunications	18,136	18,757	(621)	(3.3%)
Bad debt	(986)	8,381	(9,367)	(111.8%)
Office and miscellaneous	368,212	221,578	146,634	66.2%

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Professional fees	(216,512)	108,595	(325,107)	(299.4%)
	\$ 587,731	\$ 763,872	(176,141)	(23.1%)

Our general and administrative expenses consist primarily of salaries and related personnel costs including overhead, professional fees, and other general office expenditures.

The increase in office and miscellaneous costs is related to increased expenditures on investor relations activities.

The decrease in Professional fees is described in the following table.

	<b>31-Aug 2012</b>	<b>31-Aug 2011</b>	<b>\$ Change</b>	<b>% Change</b>
	(12 months)	(12 months)		
<b>Professional fees</b>				
Litigation costs	\$ 574,329	\$ 528,086	46,243	8.8%
Other professional fees	87,167	187,049	(99,882)	(53.4%)
Recoveries	(878,008)	(606,540)	(271,468)	44.8%
Sub-total	\$ (216,512)	\$ 108,595	(325,107)	(299.4%)

Our litigation costs primarily consisted of fees associated with an Australian claim against a former marketing representative and a wrongful dismissal claim from a former employee. Both of these legal claims were successfully resolved during the year and we expect our legal costs will dramatically decrease moving forward. Prior year costs were associated with litigation against a competitor in Canada which was also successfully resolved in fiscal 2011.

<b>Sales and marketing</b>	<b>31-Aug 2012</b>	<b>31-Aug 2011</b>	<b>\$ Change</b>	<b>% Change</b>
	(12 months)	(12 months)		
Wages and benefits	\$ 417,907	\$ 404,971	12,936	3.2%
Rent	38,690	43,139	(4,449)	(10.3%)
Telecommunications	19,269	19,929	(660)	(3.3%)
Meals and entertainment	12,914	11,619	1,295	11.1%
Travel	72,957	59,035	13,922	23.6%
Advertising and marketing	135,987	285,036	(149,049)	(52.3)%
	\$ 697,724	\$ 823,729	(126,005)	(15.3)%

Sales and marketing expenses consist primarily of salaries and related personnel costs including overhead, sales commissions, advertising and promotional fees, and travel costs. The decrease in advertising and marketing is mainly due to the termination of partnership with the former marketing representative.

<b>Research and development</b>	<b>31-Aug 2012</b>	<b>31-Aug 2011</b>	<b>\$ Change</b>	<b>% Change</b>
	(12 months)	(12 months)		
Wages and benefits	\$ 1,637,437	\$ 1,340,956	296,481	22.1%
Rent	155,899	148,772	7,127	4.8%
Telecommunications	77,645	68,730	8,915	13.0%
Research and development	18,469	5,232	13,237	253.0%
	\$ 1,889,450	\$ 1,563,690	325,760	20.8%

Research and development costs consist primarily of salaries and related personnel costs including overhead and consulting fees with respect to product development and deployment. The increase is mainly due to increased staffing, increased salaries and wage costs, consulting requirements due to an increased ongoing investment in building out the functionality of our Play MPE® (which accounts for over 95% of our revenue) and the development of our cross platform streaming video prototype.





Costs associated with the above do not meet the criteria for capitalization and, thus, are charged to expense as incurred.

### **Depreciation and Amortization**

Depreciation and amortization expense arose from fixed assets and other assets. Depreciation and amortization increased to \$89,206 for the fiscal year ended August 31, 2012 from \$58,339 for the fiscal year ended August 31, 2011, an increase of \$30,867 or 53% as a result of the development of new Play MPE® applications and applications made for various patents and trademarks.

### **Other earnings and expenses**

Other income increased to \$4,458 for the year ended August 31, 2012 from \$3,091 for the year ended August 31, 2011, an increase of \$1,367.

Interest income increased to \$48,052 for the year ended August 31, 2012 from \$11,508 for the year ended August 31, 2011, an increase of \$36,544. This is a result of interest income earned on the amount receivable pursuant to the litigation settlement.

Interest expense increased to \$1,185 for the year ended August 31, 2012 from \$691 for the year ended August 31, 2011, an increase of \$494.

### **Income Taxes**

Our provision for income tax expense for the year ended August 31, 2012 is \$208,000 compared to \$173,000 in 2011. The Company pays no current income tax as a result of various tax deductions available to the Company.

During the year ended August 31, 2012 the Company recorded income tax expense of \$208,000 to recognize the utilization of these various tax deductions during the year to reduce taxable income. The Company realized a net increase to tax assets of \$172,000 in 2012 mostly relating to the realization of input tax credits related to prior year's scientific research and development returns filed during 2012.

The Company is subject to United States federal and state income taxes at an approximate rate of 34% (2011 - 34%) and to Canadian federal and British Columbia provincial taxes in Canada at an approximate rate of 25.5% (2010-27.3%). The effective tax rate of 27.0% in 2012 is slightly higher than our expected blended tax rate of 26% due to an increase in certain expenses in Canada that are not deductible for Canadian income tax purposes. Our effective tax rate could fluctuate due to the valuation of our deferred tax assets, or by changes in tax laws, regulations, and accounting principles.

As at August 31, 2012 the Company had deferred tax assets of \$947,000 (August 31, 2011 - \$1,155,000) which includes the value of benefits from deductions associated with non-capital losses, depreciable assets, and investment tax credits. The Company will continue to evaluate the realizability of deferred tax assets yearly by assessing the need for and amount of a valuation allowance.

### **Income**

During the year ended August 31, 2012, operating income decreased by 10% to \$719,678 (August 31, 2011 -\$797,600). Net income was \$563,003 (August 31, 2011 -\$638,508). We had a 7% decrease in North American revenues, mostly due the application of a one-time minimum annual fee applied in the prior year to one of our major record label clients. This was mostly offset by a 20% increase in North American independent record label revenue, and a 14% growth in European revenues, including a 3% increase in European independent record label clients.

During the year, there was a net recovery of litigation costs of approximately \$304,000, compared to a net recovery of approximately \$78,000 in 2011.

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Adjusted EBITDA is not defined under generally accepted accounting principles ("GAAP") and it may not be comparable to similarly titled measures reported by other companies. We used Adjusted EBITDA, along with other GAAP measures, as a measure of profitability because Adjusted EBITDA helps us to compare our performance on a consistent basis by removing from our operating results the impact of our capital structure, the effect of operating in different tax jurisdictions, the impact of our asset base, which can differ depending on the book value of assets, the accounting methods used to compute depreciation and amortization, the existence or timing of asset impairments and the effect of non-cash stock-based compensation expense. We believe Adjusted EBITDA is useful to investors as it is a widely used measure of performance and the adjustments we make to Adjusted EBITDA provide further clarity on our profitability. We remove the effect of non-cash stock-based compensation from our earnings which can vary based on share price, share price volatility and expected life of the equity instruments we grant. In addition, this stock-based compensation expense does not result in cash payments by us. Adjusted EBITDA has limitations as a profitability measure in that it does not include the interest expense on our debts, our provisions for income taxes, the effect of our expenditures for capital assets, the effect of non-cash stock-based compensation expense and the effect of asset impairments. The following is a reconciliation of net income from operations to Adjusted EBITDA:

	<b>31-Aug 2012</b>	<b>31-Aug 2011</b>
Net income	\$ 563,003	\$ 638,508
Interest income and expenses	(46,867)	(10,817)
Deferred income tax expense (recovery)	208,000	173,000
Depreciation and amortization	89,206	58,339
Stock based compensation	42,797	8,983
Adjusted EBITDA	\$ 856,139	\$ 868,013

## **LIQUIDITY AND FINANCIAL CONDITION**

We had cash of \$1,275,423 as at August 31, 2012 compared to cash of \$1,238,173 as at August 31, 2011. We had a working capital surplus of \$1,641,032 as at August 31, 2012 compared to \$1,354,115 as at August 31, 2011. The increase in our working capital was mainly due to increased accounts receivable balance and an increase in the current portion of the long term receivable associated with the settlement of litigation during the year.

### **Cash Flows**

Net cash generated in operating activities was \$22,612 for the year ended August 31, 2012, compared to \$1,139,070 for the year ended August 31, 2011. Although our revenue was consistent with 2011, the decrease is mainly due to an increase accounts receivable, a decrease in accounts payable, and an increase in a long term receivable arising from the settlement of litigation during the year, the proceeds of which are being received over a period of several years. As of the date of this report, we have collected approximately 90% of the accounts receivable balance at August 31, 2012.

The cash used in investing activities was \$231,581 for the year ended August 31, 2012, compared to \$63,289 for the year ended August 31, 2011. The increase is attributable to the development of new Play MPE® applications and applications made for various patents and trademarks related to our cross platform streaming video prototype.

Net cash provided by financing activities was \$255,760 for the year ended August 31, 2012 compared to net cash used of \$362,305 for the year ended August 31, 2011. The increase is mainly the result of proceeds received from the exercise of warrants and the halt of the share buyback program in fiscal 2012.

We expect our current cash balance as well as cash expected to be generated from operations during fiscal 2013 will provide sufficient funds during the fiscal year end of August 31, 2013. We are encouraged by our revenue growth in fiscal 2012 relating to independent labels in North America and or revenue growth in Europe as new and existing record label clients incorporate Play MPE® into their work flow.

**MATERIAL OFF-BALANCE SHEET ARRANGEMENTS**

None.

**CRITICAL ACCOUNTING ESTIMATES**

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and make estimates and assumptions that affect our reported amounts of assets, liabilities, revenue and expenses, and the related disclosures of contingent liabilities. We base our estimates on historical experience and other assumptions that we believe are reasonable in the circumstances. Actual results may differ from these estimates.

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The following critical accounting policies affect our more significant estimates and assumptions used in preparing our consolidated financial statements.

### ***Revenue Recognition***

We recognize revenue in accordance with Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 985-605, *Revenue Recognition*. Accordingly, revenue is recognized when there is persuasive evidence of an arrangement, delivery to the customer has occurred, the fee is fixed and determinable, and collectability is considered probable.

The majority of our revenue is generated from digital media distribution service. The service is billed on usage which is based on the volume and size of distributions provided on a monthly basis. All revenues are recognized on a monthly basis as the services are delivered to customers, except where extended payment terms exist. Such revenues are only recognized when the extended payment term expires.

At present, the Company does not have yet have a standard business practice for contracts that contain extended payment terms, and therefore recognizes revenue from such contracts when the payment terms lapse and all other revenue criteria have been met.

Significant management judgments and estimates must be made in connection with determination of the revenue to be recognized in any accounting period. If we made different judgments or utilized different estimates for any period material differences in the amount and timing of revenue recognized could result.

### ***Stock-Based Compensation***

We recognize the costs of employee services received in share-based payment transactions according to the fair value provisions of the current share-based payment guidance. The fair value of employee services received in stock-based payment transactions is estimated at the grant date and recognized over the requisite service period. Determining the appropriate fair value model and calculating the fair value of stock-based awards requires judgment, including estimating stock price volatility, forfeiture rates and expected life.

We selected the Black-Scholes option pricing model as the most appropriate method for determining the estimated fair value of our share-based awards. The Black-Scholes model requires the use of highly subjective and complex assumptions which determine the fair value of share-based awards, including the option's expected term and the price volatility of the underlying stock. Our current estimate of volatility is based on historical and market-based implied volatilities of our stock price. To the extent volatility of our stock price increases in the future, our estimates of the fair value of options granted in the future could increase, thereby increasing stock-based compensation cost recognized in future periods. We derive the expected term assumption primarily based on our historical settlement experience, while giving consideration to options that have not yet completed a full life cycle. Stock-based compensation cost is recognized only for awards ultimately expected to vest. Our estimate of the forfeiture rate is based primarily on our historical experience. To the extent we revise this estimate in the future, our share-based compensation cost could be materially impacted in the quarter of revision, as well as in the following quarters. In the future, as empirical evidence regarding these input estimates is available to provide more directionally predictive results, we may change or refine our approach of deriving these input estimates.

### ***Research and Development Expense for Software Products***

Research and development expense includes costs incurred to develop intellectual property. The costs for the development of new software and substantial enhancements to existing software are expensed as incurred until technological feasibility has been established, at which time any additional costs would be capitalized. We have determined that technological feasibility is established at the time a working model of software is completed. Because

we believe our current process for developing software will be essentially completed concurrently with the establishment of technological feasibility, no costs have been capitalized to date.

Significant management judgments and estimates must be made in connection with determination of any amounts identified for capitalization as software development costs in any accounting period. If we made different judgments or utilized different estimates for any period material differences in the amount and timing of capitalized development costs could occur.

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### ***Accounts Receivable and Allowance for Doubtful Accounts***

We extend credit to our customers based on evaluation of an individual customer's financial condition and collateral is generally not required. Accounts outstanding beyond the contractual payment terms are considered past due. We determine our allowance for doubtful accounts by considering a number of factors, including the length of time accounts receivable are beyond the contractual payment terms, our previous loss history, and a customer's current ability to pay its obligation to us. We write-off accounts receivable when they are identified as uncollectible. All outstanding accounts receivable accounts are periodically reviewed for collectability on an individual basis.

### ***Income Taxes***

Deferred income tax assets and liabilities are computed based on differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values using the enacted income tax rates by tax jurisdiction at each balance sheet date. Deferred income tax assets also result from unused loss carry-forwards and other deductions. The valuation of deferred income tax assets is reviewed annually and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We evaluate all available evidence, such as recent and expected future operating results by tax jurisdiction, and current and enacted tax legislation and other temporary differences between book and tax accounting to determine whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. There is a risk that management estimates for operating results could vary significantly from actual results, which could materially affect the valuation of the future income tax asset. Although the Company has tax loss carry-forwards and other deferred income tax assets, management has determined certain of these deferred tax assets do not meet the more likely than not criteria, and accordingly, these deferred income tax asset amounts have been partially offset by a valuation allowance as disclosed in Note 6 of our consolidated financial statements.

If management's estimates of the cash flows or operating results do not materialize due to errors in estimates or unforeseen changes to the economic conditions affecting the Company, it could result in an impairment adjustment in future periods up to the carrying value of the deferred income tax balance of \$947,000.

### ***Contingencies***

As discussed in Part I, Item 3 of this Form 10-K under the heading "Legal Proceedings" and in Note 9 "Contingencies" in Notes to Consolidated Financial Statements, the Company is subject to various legal proceedings and claims that arise in the ordinary course of business. In accordance with US GAAP, the Company records a liability when it is probable that a loss has been incurred and the amount is reasonably estimable. There is significant judgment required in both the probability determination and as to whether an exposure can be reasonably estimated. In management's opinion, the Company does not have a potential liability related to any current legal proceedings and claims that would individually or in the aggregate materially adversely affect its financial condition or operating results. However, the outcomes of legal proceedings and claims brought against the Company are subject to significant uncertainty. Should the Company fail to prevail in any of these legal matters or should several of these legal matters be resolved against the Company in the same reporting period, the operating results of a particular reporting period could be materially adversely affected.

### ***Impairment of Long-Lived Assets***

We evaluate the recoverability of our long-lived assets including tangible assets in accordance with authoritative guidance. When events or changes in circumstances indicate that the carrying amount of long-lived assets may not be recoverable, we recognize such impairment in the event the carrying amount of such assets exceeds the future undiscounted cash flows attributable to such assets. We have not recorded any impairment losses to date.

**RECENT ACCOUNTING PRONOUNCEMENTS**

In April 2010, the FASB issued Accounting Standards Update 2010-13, "Compensation – Stock Compensation (Topic 718)". The objective of this Update is to address the classification of an employee share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. Specifically, an employee share-based payment award denominated in a currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance or service condition and therefore would not classify the award as a liability if it otherwise qualifies as equity. This guidance became effective for the Company commencing September 1, 2011 and did not have a significant impact on the Company's consolidated financial statements.

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In May 2011, the FASB issued Accounting Standards Update 2011-04, “Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS,” or ASU No. 2011-04. ASU No. 2011-04 is the result of the continuing convergence projects between the FASB, and the International Accounting Standards Board to create a common set of high quality global accounting standards. The amendments in ASU No. 2011-04 explain how to measure fair value. They do not require additional fair value measurements and are not intended to establish standards or affect valuation practices outside of financial reporting. This standard became effective for any interim period beginning after December 15, 2011 and the impact of the adoption has been disclosed as Fair Value Measurement in the “summary of significant policies.”

#### *Accounting Standards Not Yet Effective*

In June 2011, the FASB issued Accounting Standards Update 2011-05, Presentation of Comprehensive Income (Topic 220) . The objective of this Update is to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS), the FASB decided to eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders equity, among other amendments in this Update. The amendments require that all nonowner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The amendments in this Update should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company does not expect that the adoption of this standard on September 1, 2012 will have a material impact on its consolidated financial statements.

In December 2011, the FASB issued Accounting Standards Update 2011-12, Comprehensive Income (Topic 220) . The amendments in this Update supersede certain pending paragraphs in Accounting Standards Update 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, to effectively defer only those changes in Update 2011 5 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company does not expect that the adoption of this standard on September 1, 2012 will have a material impact on its consolidated financial statements.

#### **Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

##### **Foreign Exchange Risk**

Our revenues are primarily in United States dollars and Euros while our operating expenses are primarily in Canadian dollars. Thus, operating expenses and the results of operations are impacted to the extent they are not hedged by the rise and fall of the relative values of Canadian dollar to these currencies. During the year, net fluctuations in the value of the Australian dollar and Euro relative to the US dollar compared to 2011 had an adverse impact on the Company and resulted in an approximately \$100,000 decrease in revenues reported. The effect of the weaker Canadian dollar in 2012 had a positive impact on the Company and resulted in an approximately \$60,000 decrease in operating expenses during 2012 compared to 2011.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

Index to Audited Consolidated Financial Statements for the Year Ended August 31, 2012:

1. Report of Independent Registered Public Accounting Firm BDO Canada LLP
  2. Consolidated Balance Sheets as at August 31, 2012 and 2011;
  3. Consolidated Statement of Operations for the Years Ended August 31, 2012 and 2011;
  4. Consolidated Statement of Changes in Stockholders' Equity for the Years Ended August 31, 2012 and 2011;
  5. Consolidated Statement of Cash Flows for the Years Ended August 31, 2012 and 2011;
  6. Notes to Consolidated Financial Statements.
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Consolidated Financial Statements

**Destiny Media Technologies Inc.**

August 31, 2012 and 2011

(Expressed in United States dollars)

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BDO Canada LLP  
600 Cathedral Place  
925 West Georgia Street  
Vancouver BC V6C 3L2 Canada

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Directors and Stockholders  
Destiny Media Technologies Inc.  
Vancouver, Canada**

We have audited the accompanying consolidated balance sheets of Destiny Media Technologies Inc. (the Company) as of August 31, 2012 and 2011, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Destiny Media Technologies Inc. at August 31, 2012 and 2011, and the results of its operations and its cash flows for the years ended August 31, 2012 and 2011, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO CANADA LLP

Chartered Accountants

Vancouver, Canada  
November 28, 2012

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

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## Destiny Media Technologies Inc.

## CONSOLIDATED BALANCE SHEETS

As at August 31

(Expressed in United States dollars)

	2012	2011
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	1,275,423	1,238,173
Accounts receivable, net of allowance for doubtful accounts of \$6,053 [2011 \$23,513]	440,053	385,629
Other receivables	48,508	62,779
Current portion of long term receivable [note 3]	104,056	
Prepaid expenses	27,059	23,583
Deposits		10,223
Deferred tax assets - current portion [note 6]	258,000	286,000
<b>Total current assets</b>	<b>2,153,099</b>	<b>2,006,387</b>
Deposits	37,847	38,349
Long term receivable [note 3]	625,098	
Property and equipment, net [note 4]	287,958	144,401
Deferred tax assets - long term portion [note 6]	689,000	869,000
<b>Total assets</b>	<b>3,793,002</b>	<b>3,058,137</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current</b>		
Accounts payable	199,930	293,552
Accrued liabilities	250,623	311,797
Deferred leasehold inducement	5,843	4,934
Deferred revenue	55,671	37,954
Obligation under capital leases		4,035
<b>Total liabilities</b>	<b>512,067</b>	<b>652,272</b>
Commitments and contingencies [notes 7 and 9]		
<b>Stockholders equity</b>		
Common stock, par value \$0.001 [note 5]		
Authorized: 100,000,000 shares		
Issued and outstanding: 52,091,004 shares		
[2011 issued 50,612,507 and outstanding 50,487,577 shares]	52,091	50,613
Additional paid-in capital	9,008,957	8,758,044
Shares held for cancellation		(50,076)
Accumulated Deficit	(6,013,030)	(6,576,033)
Accumulated other comprehensive income	232,917	223,317
<b>Total stockholders equity</b>	<b>3,280,935</b>	<b>2,405,865</b>
<b>Total liabilities and stockholders equity</b>	<b>3,793,002</b>	<b>3,058,137</b>
See accompanying notes		

## Destiny Media Technologies Inc.

## CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended August 31

(Expressed in United States dollars)

	2012	2011
	\$	\$
<b>Service revenue</b> <i>[note 10]</i>	<b>3,983,789</b>	4,007,230
<b>Operating expenses</b>		
General and administrative <i>[notes 9a and b]</i>	587,731	763,872
Sales and marketing	697,724	823,729
Research and development	1,889,450	1,563,690
Depreciation and amortization	89,206	58,339
	<b>3,264,111</b>	3,209,630
Income from operations	<b>719,678</b>	797,600
<b>Other income (expenses)</b>		
Interest income	48,052	11,508
Other income	4,458	3,091
Interest and other expense	(1,185)	(691)
<b>Income before provision for income taxes</b>	<b>771,003</b>	811,508
Deferred income tax recovery (expense) <i>[note 6]</i>	(208,000)	(173,000)
<b>Net income</b>	<b>563,003</b>	638,508
<b>Net income per common share, basic and diluted</b>	<b>0.01</b>	0.01
<b>Weighted average common shares outstanding:</b>		
<b>Basic</b>	<b>51,237,450</b>	50,552,886
<b>Diluted</b>	<b>51,773,825</b>	50,931,848

*See accompanying notes*

## Destiny Media Technologies Inc.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

Years ended August 31

(Expressed in United States dollars)

	Common stock Shares #	Common stock Amount \$	Additional paid-in capital \$	Shares held for cancellation \$	Accumulated Deficit \$	Accumulated other comprehensive income \$	Total stockholders equity \$
<b>Balance, August 31, 2010</b>	<b>51,143,847</b>	<b>51,145</b>	<b>9,049,308</b>		<b>(7,214,541)</b>	<b>173,457</b>	<b>2,059,369</b>
Net income for the year					638,508		638,508
Foreign currency translation gain						49,860	49,860
Comprehensive income							688,368
Common stock issued on options exercised	450,625	451	99,549				100,000
Common stock repurchased and cancelled	(981,965)	(983)	(399,796)				(400,779)
Common stock repurchased and held for cancellation	(124,930)			(50,076)			(50,076)
Stock compensation - employees			8,983				8,983
<b>Balance, August 31, 2011</b>	<b>50,487,577</b>	<b>50,613</b>	<b>8,758,044</b>	<b>(50,076)</b>	<b>(6,576,033)</b>	<b>223,317</b>	<b>2,405,865</b>
Net income for the year					563,003		563,003
Foreign currency translation gain						9,600	9,600
Comprehensive income							572,603
Common stock issued on options exercised	Note 5	24,225	24	(24)			

Common stock issued on warrants exercised	Note 5	1,579,202	1,579	277,171			278,750
Stock options repurchased and cancelled				(19,080)			(19,080)
Common stock cancelled			(125)	(49,951)	50,076		
Stock compensation	Note 5			42,797			42,797
<b>Balance, August 31, 2012</b>		<b>52,091,004</b>	<b>52,091</b>	<b>9,008,957</b>		<b>(6,013,030)</b>	<b>232,917</b>
<i>See accompanying notes</i>							



## Destiny Media Technologies Inc.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended August 31

(Expressed in United States dollars)

	2012	2011
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net income	563,003	638,508
Items not involving cash:		
Depreciation and amortization	89,206	58,339
Stock-based compensation	42,797	8,983
Deferred leasehold inducement	956	4,880
Deferred income taxes	208,000	173,000
Gain on legal settlement	(858,194)	
Unrealized foreign exchange	20,141	
Changes in non-cash working capital:		
Accounts receivable	(58,405)	196,666
Other receivables	13,205	(13,518)
Prepaid expenses and deposits	6,190	(26,875)
Accounts payable	(88,142)	55,772
Accrued liabilities	(56,085)	32,417
Deferred revenue	17,886	10,898
Long term receivable	122,054	
<b>Net cash provided by operating activities</b>	<b>22,612</b>	<b>1,139,070</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(231,581)	(63,289)
<b>Net cash used in investing activities</b>	<b>(231,581)</b>	<b>(63,289)</b>
<b>FINANCING ACTIVITIES</b>		
Repayments on capital lease obligations	(3,910)	(11,450)
Proceeds from exercise of stock options and warrants	278,750	100,000
Repurchase of stock and options	(19,080)	(450,855)
<b>Net cash provided by (used in) financing activities</b>	<b>255,760</b>	<b>(362,305)</b>
<b>Effect of foreign exchange rate changes on cash</b>	<b>(9,541)</b>	<b>33,685</b>
<b>Net increase in cash during the year</b>	<b>37,250</b>	<b>747,161</b>
Cash, beginning of year	1,238,173	491,012
<b>Cash, end of year</b>	<b>1,275,423</b>	<b>1,238,173</b>
<b>Supplementary disclosure</b>		
Interest paid	1,185	691
Income taxes paid		
<i>See accompanying notes</i>		

**Destiny Media Technologies Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2012 and 2011

**1. ORGANIZATION**

Destiny Media Technologies Inc. (the Company) was incorporated in August 1998 under the laws of the State of Colorado. The Company develops technologies that allow for the distribution over the Internet of digital media files in either a streaming or digital download format. The technologies are proprietary. The Company operates out of Vancouver, BC, Canada and serves customers predominantly located in the United States, Europe and Australia.

The Company's stock is listed for trading under the symbol DSNY on the OTC Bulletin Board in the United States, under the symbol DSY on the TSX Venture Exchange and under the symbol DME on the Berlin, Frankfurt, Xetra and Stuttgart exchanges in Germany.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of the significant accounting policies used in the preparation of these consolidated financial statements:

**Basis of presentation and fiscal year**

These consolidated financial statements and related notes are presented in accordance with accounting principles generally accepted in the United States, and are expressed in US dollars. The Company's fiscal year-end is August 31.

**Principles of consolidation**

The accompanying consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiaries, Destiny Software Productions Inc., MPE Distribution Inc., and Sonox Digital Inc. All inter-company balances and transactions have been eliminated on consolidation.

**Use of estimates**

The preparation of financial statements in accordance with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of net revenue and expenses in the reporting periods. We regularly evaluate estimates and assumptions related to revenue recognition, estimated useful lives for property and equipment, allowances for doubtful accounts, sales returns and allowances, stock-based compensation expense, deferred income tax asset valuation allowances, uncertain tax positions, litigation and other loss contingencies. These estimates and assumptions are based on current facts, historical

**Destiny Media Technologies Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2012 and 2011

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont d.)**

experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the recording of revenue, costs and expenses that are not readily apparent from other sources. The actual results we experience may differ materially and adversely from our original estimates. To the extent there are material differences between the estimates and actual results, our future results of operations will be affected.

**Cash and cash equivalents**

We consider all highly liquid investments that are readily convertible into cash and have an original maturity of three months or less at the time of purchase to be cash equivalents.

**Revenue recognition**

The Company recognizes revenue in accordance with Financial Accounting Standards Board's ( FASB ) Accounting Standards Codification ( ASC ) 985-605, *Revenue Recognition*. Accordingly, revenue is recognized when there is persuasive evidence of an arrangement, delivery to the customer has occurred, the fee is fixed and determinable, and collectability is considered probable.

The majority of the Company's revenue is generated from digital media distribution service. The service is billed on usage which is based on the volume and size of distributions provided on a monthly basis. All revenues are recognized on a monthly basis as the services are delivered to customers, except where extended payment terms exist. Such revenues are only recognized when the extended payment term expires.

Cash received in advance of meeting the revenue recognition criteria is recorded as deferred revenue.

**Destiny Media Technologies Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2012 and 2011

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont d.)**

**Long-lived assets**

Long-lived assets held for use are evaluated for impairment when events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. Impairment is measured by a two step process: Step 1) the carrying amount of the asset is compared with its estimated undiscounted future cash flows expected to result from the use of the assets and its eventual disposition. If the carrying amount is lower than the undiscounted future cash-flows, no impairment loss is recognized. Step 2) If the carrying amount is higher than the undiscounted future cash-flows then an impairment loss is measured as the difference between the carrying amount and fair value which may be based on internally developed discounted cash flow estimates, quoted market prices, when available, or independent appraisals. The determination of whether or not long-lived assets have become impaired involves a significant level of judgment in the assumptions underlying the approach used to determine the estimated future cash flows expected to result from the use of those assets. Changes in the Company's strategy, assumptions and/or market conditions could significantly impact these judgments and require adjustments to recorded amounts of long-lived assets. As of August 31, 2012, there were no impairment indicators present.

**Litigation and settlement costs**

We are involved in disputes, litigation and other legal actions. In accordance with ASC 450, Contingencies, we record a charge equal to at least the minimum estimated liability for a loss contingency when both of the following conditions are met: (i) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements and (ii) the range of loss can be reasonably estimated.

During the year ended August 31, 2012, the Company incurred approximately \$574,000 (2011: \$528,000) in professional legal fees in connection with legal actions against the Company and legal actions initiated by the Company. These costs are expensed as incurred and are recorded as a component of general and administrative expenses.

During the year ended August 31, 2012, the Company recorded gains on settlements of litigation of \$887,915 (2011: \$606,540) which offset the professional fees incurred.

**Destiny Media Technologies Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2012 and 2011

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont d.)****Allowance for doubtful accounts**

The Company establishes an allowance for doubtful accounts through review of open accounts, and historical collection and allowance amounts. The allowance for doubtful accounts is intended to reduce trade accounts receivable to the amount that reasonably approximates their fair value due to their short-term nature. The Company's exposure to credit risk has increased as a result of global market conditions and increased revenue. The amount ultimately realized from trade accounts receivable may differ from the amount estimated in the consolidated financial statements based on collection experience.

**Research and development costs**

Research costs are expensed as incurred. Development costs are subject to capitalization beginning when a product's technological feasibility has been established and ending when a product is available for general release to customers. The Company's products are generally released soon after technological feasibility has been established and therefore costs incurred subsequent to achievement of technological feasibility are not significant and have been expensed as incurred.

**Property and equipment**

Property and equipment are stated at cost. Depreciation and amortization is taken over the estimated useful lives of the assets and is calculated using the declining balance method at the following annual rates, commencing upon utilization of the assets:

Furniture and fixtures	20%
Computer hardware	30%
Computer software	50%
Leasehold improvements	Straight-line over lease term
Patents and trademarks	Straight-line over 3 years

**Destiny Media Technologies Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2012 and 2011

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont d.)**

**Translation of foreign currencies**

The Company's functional currency is the U.S. dollar. Financial statements of foreign operations for which the functional currency is the local currency are translated into U.S. dollars with assets and liabilities translated at the rate of exchange in effect at the balance sheet date and revenue and expense items translated at the average rates for the period. Unrealized gains and losses resulting from the translation of the consolidated financial statements are deferred and accumulated in a separate component of stockholders' equity as a foreign currency translation gain (loss) in accumulated other comprehensive income. Transactions denominated in foreign currencies are translated at the exchange rate in effect on the transaction date. Foreign currency gains and losses are included as a component of general and administrative expenses in the consolidated statements of operations.

The Company operates internationally, which gives rise to the risk that cash flows may be adversely impacted by exchange rate fluctuations. The Company has not entered into contracts for foreign exchange hedges.

**Advertising**

Advertising costs are expensed as incurred and totaled \$53,855 and \$154,258 during the years ended August 31, 2012 and 2011, respectively.

**Income taxes**

The Company utilizes the liability method of accounting for income taxes as set forth in ASC 740, *Income Taxes* (formerly SFAS No. 109, *Accounting for Income Taxes*). Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis that give rise to the differences reverse. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized. In determining the need for valuation allowances we consider projected future taxable income and the availability of tax planning strategies. If in the future we determine that we would not be able to realize our recorded deferred tax assets, an increase in the valuation allowance would be recorded, decreasing earnings in the period in which such determination is made.

**Destiny Media Technologies Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2012 and 2011

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont d.)**

We assess our income tax positions and record tax benefits for all years subject to examination based upon our evaluation of the facts, circumstances and information available at the reporting date. For those tax positions where there is a greater than 50% likelihood that a tax benefit will be sustained, we have recorded the largest amount of tax benefit that may potentially be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where there is 50% or less likelihood that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements.

The Company has concluded that there are no significant uncertain tax positions requiring recognition in the Company's financial statements. The Company's evaluation was performed for the tax years ended August 31, 1999 through August 31, 2012, the tax years which remain subject to examination by major tax jurisdictions. The Company may from time to time be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to the Company's financial results. In the event the Company has received an assessment for interest and/or penalties, it has been classified in the financial statements as selling, general and administrative expense.

**Investment tax credits**

The Company uses the flow through method to account for investment tax credits earned on eligible scientific research and development expenditures. Under this method, the investment tax credits are recognized as a reduction to income tax expense.

**Stock based compensation**

The Company accounts for stock-based compensation arrangements in accordance with ASC 718, Stock Compensation. Under the fair value recognition provisions of ASC 718 stock based compensation cost is estimated at the grant date based on the fair value of the awards expected to vest and recognized as expense ratably over the requisite service period of the award. The Company has used the Black-Scholes option pricing model to estimate fair value of its stock-based awards which requires various judgmental assumptions including estimating stock price volatility and expected life. The Company's computation of expected volatility is based on historical volatility. In addition, the Company considers many factors when estimating expected life, including types of awards and historical experience. If any of the assumptions used in the Black-Scholes valuation model change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period.

**Destiny Media Technologies Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2012 and 2011

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont d.)**

As required under ASC 718-50 Employee Share Purchase Plans, compensation expense is recorded for shares committed to be released to employees based on the fair market value of those shares in the period in which they are purchased by the Company and committed to be released to the employee.

**Earnings per share**

Net income per share basic is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Net income per share (diluted) is calculated by dividing net income for the period by the weighted average number of common shares outstanding during the period, plus the dilutive effect of outstanding common share equivalents. This method requires that the dilutive effect of outstanding options and warrants issued be calculated using the treasury stock method. Under the treasury stock method, all common share equivalents have been exercised at the beginning of the period (or at the time of issuance, if later), and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of common shares during the period, but only if dilutive.

	<b>Year Ended</b>	
	<b>August 31,</b>	August 31,
	<b>2012</b>	2011
	\$	\$
Net income	<b>563,003</b>	638,508
Weighted average common shares outstanding	<b>51,237,450</b>	50,552,886
Effect of dilutive securities   warrants	<b>126,927</b>	136,260
Effect of dilutive securities   options	<b>409,448</b>	242,703
Diluted weighted average common shares outstanding	<b>51,773,825</b>	50,931,848

Weighted average potentially dilutive securities of 43,278 and 3,109,365 shares arising from stock options and share purchase warrants, respectively, were not included as their effect would be anti-dilutive for the year ended August 31, 2012 (2011   2,216,027 and 6,475,954 shares arising from stock options and share purchase warrants, respectively).



**Destiny Media Technologies Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2012 and 2011

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont d.)**

Shares repurchased for cancellation are excluded in the calculation of earnings per share from the date they are repurchased.

**Comprehensive income**

Comprehensive income includes all changes in equity except those resulting from investments by owners and distributions to owners. Accumulated other comprehensive income consists only of accumulated foreign currency translation adjustments for all years presented.

**Fair value measurement**

The book value of cash and cash equivalents, accounts receivable, other receivables, accounts payable and accrued liabilities approximate their fair values due to the short term maturity of those instruments. The book value of the long term receivable approximate its fair value due on the interest rate is comparable to the market rate. The fair value hierarchy under GAAP is based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2 observable inputs other than Level 1, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-derived prices whose inputs are observable or whose significant value drivers are observable; and

Level 3 assets and liabilities whose significant value drivers are unobservable by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company's long term receivable is based on level 2 inputs in the ASC 820 fair value hierarchy.

**Destiny Media Technologies Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2012 and 2011

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont d.)**

**Recently adopted accounting pronouncements**

In April 2010, the FASB issued Accounting Standards Update 2010-13, Compensation - Stock Compensation (Topic 718) . The objective of this Update is to address the classification of an employee share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. Specifically, an employee share-based payment award denominated in a currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance or service condition and therefore would not classify the award as a liability if it otherwise qualifies as equity. This standard was effective for the Company on September 1, 2011. The Company's adoption of this guidance did not have a material impact on its consolidated financial statements.

In May 2011, the FASB issued Accounting Standards Update 2011-04, Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS, or ASU No. 2011-04. ASU No. 2011-04 is the result of the continuing convergence projects between the FASB, and the International Accounting Standards Board to create a common set of high quality global accounting standards. The amendments in ASU No. 2011-04 explain how to measure fair value. The standard was effective for any interim period beginning after December 15, 2011 and the impact of the adoption has been disclosed as Fair Value Measurement in the summary of significant accounting policies .

**Destiny Media Technologies Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2012 and 2011

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont d.)**

*Accounting Standards Not Yet Effective*

In June 2011, the FASB issued Accounting Standards Update 2011-05, Presentation of Comprehensive Income (Topic 220) . The objective of this Update is to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS), the FASB decided to eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity, among other amendments in this Update. The amendments require that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The amendments in this Update should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company does not expect that the adoption of this standard on September 1, 2012 will have a material impact on its consolidated financial statements.

In December 2011, the FASB issued Accounting Standards Update 2011-12, Comprehensive Income (Topic 220) . The amendments in this Update supersede certain pending paragraphs in Accounting Standards Update 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, to effectively defer only those changes in Update 2011-5 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company does not expect that the adoption of this standard on September 1, 2012 will have a material impact on its consolidated financial statements.

## Destiny Media Technologies Inc.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2012 and 2011

**3. LONG TERM RECEIVABLE**

The Company agreed to settle litigation with an unrelated party. Pursuant to a Settlement Deed dated March 5, 2012, the Company became entitled to a settlement sum of \$825,000 Australian dollars ( AUD ) (US \$858,194), receivable in monthly installments over the course of 72 months, beginning on March 31, 2012. The unpaid balance accrues interest of 10.25% per annum compounded monthly. The receivable is secured by a registered charge against real estate located in Australia. As of August 31, 2012, installments of \$156,200AUD and interest of \$37,740AUD have been received, and \$28,100 AUD has been received subsequent to August 31, 2012.

The settlement amount receivable was recorded during the year ended August 31, 2012 as a recovery to general and administrative expenses.

Payments to be received over the next five fiscal years as follows:

	Principal	Interest	Total
2013	104,056	69,940	173,996
2014	115,237	58,759	173,996
2015	127,620	46,376	173,996
2016	141,334	32,662	173,996
2017	156,521	17,475	173,996
Thereafter	84,386	2,539	86,925
	729,154	227,751	956,905

**4. PROPERTY AND EQUIPMENT**

	Cost	Accumulated amortization	Net book value
	\$	\$	\$
<b>2012</b>			
Furniture and fixtures	131,983	107,790	24,193
Computer hardware	470,517	358,813	111,704
Computer software	168,706	96,407	72,299
Patents and trademarks	90,808	11,046	79,762
	862,014	574,056	287,958
<b>2011</b>			
Furniture and fixtures	134,828	103,650	31,178
Computer hardware	432,570	321,720	110,850
Computer software	66,630	64,257	2,373
	634,028	489,627	144,401

**Destiny Media Technologies Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2012 and 2011

**4. PROPERTY AND EQUIPMENT (cont d.)**

August 31, 2012, there were no assets under capital lease. At August 31, 2011 the gross amount of assets related to property and equipment under capital lease was \$33,136 and the accumulated depreciation and amortization related to property and equipment under capital lease was \$17,438.

**5. STOCKHOLDERS EQUITY**

**[a] Common stock issued and authorized**

The Company is authorized to issue up to 100,000,000 shares of common stock, par value \$0.001 per share.

**2012**

During the year ended August 31, 2012, 557,500 common shares were issued for a cash exercise of 557,500 warrants at \$0.50 for proceeds of \$278,750. Also, 5,249,750 warrants exercisable at \$0.50, 352,118 warrants exercisable at \$0.40, 330,000 warrants exercisable at \$0.70 and 350,000 warrants exercisable at \$0.22 were cashless exercised resulting in the issuance of 1,021,702 common shares.

During the year ended August 31, 2012, 110,000 share purchase options exercisable at \$0.50 were cashless exercised resulting in the issuance of 51,793 common shares. Of this total, 24,225 were issued during the year ended August 31, 2012 and 27,568 were issued subsequent to August 31, 2012.

**2011**

During the year ended August 31, 2011, 50,625 shares were issued in a cashless exercise of 135,000 options with an exercise price of \$0.25. 400,000 shares were issued in an exercise of 400,000 options with cash proceeds of \$100,000.

**Destiny Media Technologies Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2012 and 2011

**5. STOCKHOLDERS EQUITY (cont d.)**

**[b] Common stock cancelled**

During the year ended August 31, 2012, the Company cancelled 124,930 common shares which were repurchased during the last quarter of fiscal 2011.

During the year ended August 31, 2011, the Company repurchased 1,106,895 shares at an open market, of which it paid \$400,779 for 981,965 shares and \$50,076 for 124,930 shares. As of August 31, 2011, the 981,965 shares had been cancelled.

**[c] Stock option plans**

The Company has two existing stock option plans (the Plans ), namely the Amended 1999 Stock Option Plan and the 2006 Stock Option Plan, under which up to 3,750,000 and 5,100,000 shares of the common stock, respectively, have been reserved for issuance. A total of 2,169,716 common shares remain eligible for issuance under the plans. The options generally vest over a range of periods from the date of grant, some are immediate, and others are 12 or 24 months. Any options that do not vest as the result of a grantee leaving the Company are forfeited and the common shares underlying them are returned to the reserve. The options generally have a contractual term of five years.

## Destiny Media Technologies Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2012 and 2011

## 5. STOCKHOLDERS EQUITY (cont d.)

*Stock-Based Payment Award Activity*

A summary of option activity under the Plans as of August 31, 2012 and 2011, and changes during the years ended are presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value \$
<b>Outstanding at September 1, 2010</b>	<b>3,225,000</b>	<b>0.47</b>	<b>1.68</b>	<b>117,600</b>
Granted	-	-		
Exercised	(535,000)	0.25		79,250
Expired or forfeited	(400,000)	0.63		
<b>Outstanding at August 31, 2011</b>	<b>2,290,000</b>	<b>0.50</b>	<b>0.99</b>	<b>25,500</b>
Granted	900,000	0.50		
Exercised	(110,000)	0.50		48,995
Repurchased and cancelled	(150,000)	0.50		19,080
Expired or forfeited	(1,130,000)	0.53		
<b>Outstanding at August 31, 2012</b>	<b>1,800,000</b>	<b>0.48</b>	<b>1.57</b>	<b>802,500</b>
Vested and exercisable at August 31, 2012	<b>1,800,000</b>	<b>0.48</b>	<b>1.57</b>	<b>802,500</b>

The following table summarizes information regarding the non-vested stock purchase options outstanding as of August 31, 2012:

	Number of Options
<b>Non-vested options at August 31, 2011</b>	<b>14,583</b>
Granted	900,000
Vested	(914,583)
<b>Non-vested options at August 31, 2012</b>	<b>-</b>

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock for the options that were in-the-money at August 31, 2012.

## Destiny Media Technologies Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2012 and 2011

## 5. STOCKHOLDERS EQUITY (cont d.)

During the year ended August 31, 2012, total stock-based compensation expense related to employees of \$42,797 are reported in the statement of operations as follows:

	2012	2011
	\$	\$
Stock-based compensation		
General and administrative	6,746	3,276
Sales and marketing	7,168	1,969
Research and development	28,883	3,738
Total stock-based compensation	42,797	8,983

*Valuation Assumptions*

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model based on the following assumptions:

	2012	2011
	\$	\$
Expected term of stock options (years)	1.00	0.55
Expected volatility	41-45%	52%
Risk-free interest rate	0.20%	0.06%

## Dividend yields

Expected volatilities are based on historical volatility of the Company's stock. The Company uses historical data to estimate option exercise and employee termination within the valuation model.

The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the options is based on US Treasury bill rates in effect at the time of grant.

During the year ended August 31, 2012, 900,000 options exercisable at \$0.50, previously issued to directors and officers of the Company, expired. 900,000 replacement options, also immediately exercisable at \$0.50, were issued upon expiry for an additional two years. 450,000 options granted to employees, not listed as expired above, were extended by two years with no changes to other terms. The weighted-average grant-date fair value of options granted and extended during the year ended August 31, 2012 was \$0.03. As a result of the extension of the life of the 450,000 options, the Company recorded an incremental value of \$13,519 as part of the total stock based compensation of \$42,797 on the statement of operations during the year ended August 31, 2012.



## Destiny Media Technologies Inc.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2012 and 2011

**5. STOCKHOLDERS EQUITY (cont d.)**

During the year ended August 31, 2011, there were no options granted. 110,000 options were extended for one more year. The weighted-average grant-date fair value of options extended during the year ended August 31, 2011 was \$0.029. As a result of the extension of the life of the 110,000 options, the Company recorded an incremental value of \$3,189 as part of the total stock-based compensation of \$8,983 on the statement of operations during the year ended August 31, 2011.

**[d] Employee Stock Purchase Plan**

The Company's 2011 Employee Stock Purchase Plan (the Plan) became effective on February 22, 2011. Under the Plan, employees of Destiny are able to contribute up to 5% of their annual salary into a pool which is matched equally by Destiny. Independent directors are able to contribute a maximum of \$12,500 each for a combined maximum annual purchase of \$25,000. The maximum annual combined contributions will be \$400,000. All purchases are made through the Toronto Stock Exchange by a third party plan agent. The third party plan agent will also be responsible for the administration of the Plan on behalf of Destiny and the participants.

During the year ended August 31, 2012, the Company recognized compensation expense of \$89,139 (2011: \$61,141) in salaries and wages on the statement of operations in respect of the Plan, representing the Company's employee matching of cash contributions to the plan. The shares were purchased on the open market at an average price of \$0.55 (2011: \$0.36). The shares are held in trust by the Company for a period of one year from the date of purchase.

**[e] Warrants**

As at August 31, 2012, the Company had no common stock warrants outstanding. A summary of common stock warrant activity as of August 31, 2012 and changes during the year ended August 31, 2012 are presented below:

Options	Number of Shares	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Term (years)	Expiry Date
<b>Outstanding at August 31, 2011</b>	<b>7,031,000</b>	<b>0.50</b>		
Exercised	(6,839,368)	0.49		
Expired	(191,632)	0.67		
<b>Outstanding at August 31, 2012</b>				

## Destiny Media Technologies Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2012 and 2011

**5. STOCKHOLDERS EQUITY (cont d.)**

During year ended August 31, 2012, 330,000 warrants exercisable at \$0.70, 5,249,750 warrants exercisable at \$0.50, 352,118 warrants exercisable at \$0.40 and 350,000 warrants exercisable at \$0.22 were cashless exercised. 170,000 warrants exercisable at \$0.70, 12,750 warrants exercisable at \$0.50 and 8,882 warrants exercisable at \$0.40 expired unexercised. 557,500 warrants exercisable at \$0.50 were exercised for gross proceeds of \$278,750.

**6. INCOME TAXES**

The Company is subject to United States federal and state income taxes at an approximate rate of 34.0% and to Canadian federal and British Columbia provincial taxes in Canada at an approximate rate of 25.5% . The reconciliation of the provision (recovery) for income taxes at the United States federal statutory rate compared to the Company's income tax expense is as follows:

	2012	2011
	\$	\$
Tax at U.S. statutory rates	262,000	276,000
Permanent differences	17,000	6,000
Effect of lower foreign tax in Canada	(62,000)	(41,000)
Effect of research tax credits claims filed in respect of prior years	(158,000)	(248,000)
Other adjustments and change to valuation allowance	149,000	180,000
<b>Provision (recovery) for deferred income taxes</b>	<b>208,000</b>	<b>173,000</b>

Included in other adjustments and change in valuation allowance for the year ended August 31, 2012 is \$(4,000) (2011: \$35,000) relating to the effect of changes in statutory tax rates, \$(12,000) (2011: (\$82,000)) for the effect of changes in foreign exchange rates, \$(215,000) (2011: \$Nil) in respect of a change in estimates and provisions and \$380,000 (2011: 227,000) in respect of the change in valuation allowance, which includes the items noted below.

During the year ended August 31, 2011, the Company recorded an adjustment to future income tax assets of \$486,000 in respect of amendments to prior years' tax return filings, as approved by Canada Revenue Agency, to capitalize software development costs and eliminate the expiration of losses. As a result, the cumulative tax benefit increased. The Company has also increased the valuation allowance against these benefits and the investment tax credits approved.

## Destiny Media Technologies Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2012 and 2011

## 6. INCOME TAXES (cont d.)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company has recognized a valuation allowance for those deferred tax assets for which realization is not more likely than not to occur.

During the year ended August 31, 2011, the Company decreased future income tax assets by \$159,000 in respect of a provision for cross border tax issues. During the year ended August 31, 2012, this provision was reversed due to the resolution of these issues.

Significant components of the Company's deferred tax assets as of August 31 are as follows:

	2012	2011
	\$	\$
<b>Deferred tax assets:</b>		
Net operating loss carryforwards	1,198,000	1,001,000
Excess of book over tax depreciation	694,000	985,000
Tax Credits carryforward	837,000	571,000
Total deferred tax asset	2,729,000	2,557,000
Valuation allowance	(1,782,000)	(1,402,000)
<b>Net deferred tax asset</b>	<b>947,000</b>	<b>1,155,000</b>
<b>Less: current portion</b>	<b>258,000</b>	<b>286,000</b>
<b>Non-current</b>	<b>689,000</b>	<b>869,000</b>

Net income (loss) before income tax by geographic region is as follows:

	2012	2011
	\$	\$
United States	43,167	208,945
Canada	727,836	602,563
	<b>771,003</b>	811,508

If not utilized to reduce future taxable income, the Company's net operating loss carryforwards will expire as follows:

	Canada	United States
	\$	\$
2020 and thereafter		3,524,000
		<b>3,524,000</b>

**Destiny Media Technologies Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2012 and 2011

**7. COMMITMENTS**

The Company entered into a sub-lease agreement for its premises on September 15, 2010. It commenced on October 22, 2010 and will expire on October 30, 2013. The Company is committed to payments as followed:

\$

2013	244,338
2014	40,885

During the year ended August 31, 2012 the Company incurred rent expense of \$231,003 (2011: \$232,512) which has been allocated between general and administrative expenses, research and development and sales and marketing on the statement of operations.

By a credit facilities agreement dated April 8, 2010 and amended June 17, 2011, the Company arranged for credit facilities with the Royal Bank of Canada which allows the Company to draw up to \$454,000 (\$450,000 CDN). These credit facilities consist of a revolving facility of \$403,560 (\$400,000 CDN) bearing interest at prime plus 3.5% and a commercial credit card facility to \$50,440 (\$50,000 CDN). Borrowings under the facilities are repayable on demand. As of August 31, 2012, no amount had been drawn on the line of credit (2011: \$Nil) and the Company had available credit of \$403,560 (\$400,000 CDN) (2011: \$396,675 (\$400,000 CDN)) on the line of credit. Previously, the Company had issued a \$103,230 (\$100,000 AUD) letter of guarantee associated with the litigation described in Note 9(a), which was cancelled during the year ended August 31, 2012.

**8. RELATED PARTY TRANSACTIONS**

The Company entered into a consulting agreement with a Director effective October 1, 2010. The Company will pay \$2,000 per month, plus authorized expenses. The Director will receive a 10% commission if related new businesses are successfully closed. During the year ended August 31, 2012, the Company paid \$24,000 (2011: \$22,000) consulting fees.

**Destiny Media Technologies Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2012 and 2011

**9. CONTINGENCIES**

- a) On June 10, 2011, the Company commenced proceedings in the Federal Court of Australia against Shooting Star Picture Company Pty Ltd, Peter Skillman and D-Star Music Delivery Pty Ltd. (collectively the respondents ). The Company alleged various claims against the respondents including, breach of contract, misleading and deceptive conduct, breach of fiduciary duties, and breach of confidence.

On March 5, 2012, the Company reached a settlement with the respondents whereby the respondents will pay \$825,000 AUD (US \$858,194) to the Company over the course of 72 months. The unpaid balance will attract interest of 10.25% per annum compounded monthly for total payments of approximately \$1,083,000 AUD (US \$1,118,000). The respondents are mutually and severally liable and the payments are secured by a registered charge against real estate located in Australia. Additionally, the respondents have agreed not to approach various clients of the Company.

The settlement amount receivable has been accrued in these financial statements as of August 31, 2012 [*note 3*].

- b) On August 12, 2009 the Company received a statement of claim for wrongful dismissal for approximately \$181,000 (\$180,000 CDN) plus an award of stock options and unspecified damages. On April 16, 2012, the Supreme Court of British Columbia dismissed the claim in its entirety and awarded costs to the Company. The Company recovered approximately CDN\$30,000 in costs from the plaintiff and recorded this amount as a recovery to general and administrative expenditures during the year ended August 31, 2012

**Destiny Media Technologies Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2012 and 2011

**9. CONTINGENCIES (cont d)**

- c) On November 8, 2011, the Company was served with a Notice of Civil Claim in the Supreme Court of British Columbia from Noramco Capital Corporation for \$100,000 plus interest. The claim asserts that the Company has repudiated a subscription agreement entered into in, or around, August 2000. Management believes the claim is without merit and that the likelihood that the outcome of this matter will have a material adverse impact on its result of operations, cash flows and financial condition of the Company is remote. The Company has filed a counterclaim for damages arising from a proposed private placement in 2000 which did not close. The Company alleges that the beneficial owner of Noramco was a partner in the firm that was leading the proposed financing.
  
- d) Destiny had commenced two outstanding Canadian lawsuits (Federal Court of Canada Court File No. T-413-06 and Ontario Superior Court Ontario Court File No. 07-CV- 38068 as a result of certain activities undertaken by Yangaroo Inc., a Canadian competitor ( Yangaroo ). Destiny was a defendant by counterclaim. A third lawsuit was launched in the United States (US District Court for the Eastern District of Wisconsin Green Bay Division Case No. 1:09-CV-00462), in which Destiny was defendant. The US District Court lawsuit dismissed Yangaroo s claim in its entirety with the dismissal upheld on appeal during 2011.

On June 17, 2011 Destiny entered into a settlement agreement (the Settlement Agreement ) with Yangaroo to settle all outstanding litigation. Pursuant to the Settlement Agreement, Yangaroo paid Destiny a lump sum amount totaling \$606,540 (\$600,000 Canadian Funds). The settlement payment was received and recorded during the year and has been credited against legal fees included in general and administrative expenses on the statements of operations for the year ended August 31, 2011.

As part of the settlement Destiny also acquired a cost and royalty free, non-exclusive, worldwide, irrevocable, license to two patents held by Yangaroo (US Patent No. 7,529,712 and Canadian Patent No. 2,407,774). No value was assigned or recorded to the licenses to Yangaroo s patents. Each party has agreed not to make any claim for costs against the other party.

## Destiny Media Technologies Inc.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2012 and 2011

**10. CONCENTRATIONS AND ECONOMIC DEPENDENCE**

The Company operates solely in the digital media software segment and all revenue from its products and services are made in this segment.

Revenue from external customers, by product and location of customer, is as follows:

	<b>2012</b>	<b>2011</b>
	\$	\$
<b>MPE®</b>		
United States	<b>2,055,727</b>	2,200,306
Europe*	<b>1,617,015</b>	1,415,797
Australia	<b>146,834</b>	214,922
<b>Total MPE® Revenue</b>	<b>3,819,576</b>	3,831,025
<b>Clipstream ® and Radio Destiny</b>		
United States	<b>164,213</b>	176,205
<b>Total Clipstream ® &amp; Radio Destiny Revenue</b>	<b>164,213</b>	176,205
<b>Total Revenue</b>	<b>3,983,789</b>	4,007,230

\*Of this total, \$1,461,375 (2011: \$1,265,617) was derived from the United Kingdom during the year ended August 31, 2012.

During the year ended August 31, 2012, three customers represented 64% of the total revenue balance [2011 - three customers represented 64%].

As at August 31, 2012, two customers represented \$296,295 (68%) of the trade receivables balance [2012 two customers represented 56%].

The Company has substantially all its assets in Canada and its current and planned future operations are, and will be, located in Canada.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

The Chief Executive Officer and Chief Financial Officer of the Company are responsible for evaluating the effectiveness of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act of 1934, as of August 31, 2012.

Based on their evaluation, our management, with the participation of our principal executive officer and principal financial officer concluded that as of August 31, 2012, our disclosure controls and procedures were not effective due to the existence of material weaknesses described below.

### **Internal Controls Over Financial Reporting**

The Chief Executive Officer and the Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act of 1934, or causing them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Using the framework provided by the Committee of Sponsoring Organizations ( COSO ), the Company conducted an evaluation of the effectiveness of the internal controls over financial reporting as at August 31, 2012 and concluded that there are material weaknesses in internal controls over financial reporting, which are discussed below. A material weakness is a control deficiency, or combination of control deficiencies, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

- Due to the limited number of staff resources, the Company believes there are instances where a lack of segregation of duties exist to provide effective controls;
- Our audit committee does not have a financial expert and is not independent; and
- Due to the limited number of staff resources, the Company may not have the necessary in- house knowledge to address complex accounting and tax issues that may arise.

As a result of these weaknesses, the Company's internal controls over financial reporting are not effective. The weaknesses and their related risks are not uncommon in a company the size of Destiny Media because of limitations in size and number of staff. The Company believes it has taken initial steps to mitigate these risks by consulting outside advisors and involving the Audit Committee and Board of Directors in reviews and consultations where necessary. The Company believes that it must take additional steps to further mitigate these risks by consulting outside advisors on a more regular and timely basis.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to the rules of the SEC that permit the Company to provide only management's report in this annual report.

### **Changes in Internal Control Over Financial Reporting**



During the most recent fiscal quarter covered by this annual report, there have been no changes in the Company's internal controls over financial reporting that occurred that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

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**PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

The following table sets forth the names, positions and ages of our executive officers and directors. All our directors serve until the next annual meeting of shareholders or until their successors are elected and qualify. The Board of Directors elects officers and their terms of office are, except to the extent governed by employment contract, at the discretion of the Board of Directors.

<b>Name</b>	<b>Position Held with the Company</b>	<b>Age</b>	<b>Date First Elected or Appointed</b>
Steven Vestergaard <sup>(1)</sup>	<i>Chief Executive Officer and Director</i>	46	<i>January 1999</i>
Frederick Vandenberg	<i>Chief Financial Officer and Corporate Secretary</i>	44	<i>July 2007</i>
Edward Kolic <sup>(1)</sup>	<i>Director</i>	51	<i>February 1999</i>
Lawrence J. Langs	<i>Director</i>	51	<i>November 2000</i>
Yoshitaro Kumagai <sup>(1)</sup>	<i>Director</i>	66	<i>August 2001</i>

(1) Members of our Audit Committee

Set forth below is a brief description of the background and business experience of each of our executive officers and directors for the past five years:

**Steven Vestergaard.** Mr. Vestergaard has been our President, Chief Executive Officer, Chairman and a Director since 1999. Mr. Vestergaard's responsibilities include strategic planning and coordinating strategic planning, marketing and product development. Mr. Vestergaard obtained a B.Sc. from the University of British Columbia in 1989. He founded Tronic Software in 1981 and Destiny Software in 1991, both as video game development companies. In 1995, Destiny changed its focus to internet technologies, going public in 1999 with streaming video and media security technology.

**Fred Vandenberg, B. Comm. MBA, CA.** Mr. Vandenberg has been our Chief Financial Officer and Corporate Secretary since July 2007. Mr. Vandenberg's core responsibilities include leading the accounting, treasury, strategic planning, financial controls and financial reporting functions of the Company. Mr. Vandenberg has over 17 years of public accounting experience in tax advisory services, mergers and acquisitions, and financial reporting. Mr. Vandenberg completed the Canadian Institute of Chartered Accountant's "In-depth" taxation program while with Ernst & Young in 1998. Mr. Vandenberg obtained a Bachelor of Commerce from McMaster University in 1991 and a Master of Business Administration (Finance) from McMaster University in 1993. In 1996, Mr. Vandenberg was designated as a Chartered Accountant in Ontario.

**Edward Kolic.** Mr. Kolic has been a director of the Company since February 1999. Previously, Mr. Kolic acted as our Chief Operating Officer from February 1999 to October 2001 during which time he was responsible for the Company's overall product strategy and development of its core technologies. Mr. Kolic was the president of WonderFall Productions Inc., a computer game development company founded by Mr. Kolic, which Destiny purchased in June 1999. Prior to founding Wonderfall Productions, he was as a principal partner and vice-president of marketing for Jacqueline Conoir Designs. From 1988 until 1995, Mr. Kolic was partner and president of Target Canada Production Ltd., a company engaged in the production of documentary television, educational and information programming for the Canadian Educational Television Networks, large screen interactive presentation media and a range of communication programs for corporate, government and institutional clients. Mr. Kolic is currently the founder of Eighth Avenue Development group, which undertakes development projects in the luxury home market,

multi-family residential and land development.

**Lawrence J. Langs.** Mr. Langs has been a director of the Company since August 2000. Currently, Mr. Langs is an attorney at Feldman LLP and practices in the areas of intellectual property, entertainment and corporate law. Since January 1991, Mr. Langs has also served as managing director of iBusiness Partners, a private company primarily engaged in providing venture capital advice for small to mid sized digital companies. Previously, Mr. Langs served EVP of Sale & Business Development at ACD Systems International Inc., a company formerly listed on the TSX, from July 2004 to April 2005. Mr. Langs has also served as an officer of a number of private entities, including as EVP at Musician.com for Guitar Center, SVP of business development at MP3.com, VP of business development for Sybase New Media, Investment Banker for JPMorgan/Chase/Chemical Bank in New York, and Senior Consultant for Arthur D. Little in Boston. Mr. Langs obtained a Master of Science from MIT in 1986 and a Juris Doctorate of Law from Boston University in 1986. Mr. Langs has been a member of the New York bar since 1989.

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**Yoshitaro Kumagai.** Since 1981, Mr. Kumagai has held positions with Singer, the Imaging Division of Mead Corporation, and IDEC Corporation, where he was responsible for Japanese and US sales and operations. Subsequently, he served as President of DPA Technology and as Chairman and CEO of Vivitar Corporation, a major distributor of various camera and computer peripheral devices. Mr. Kumagai currently serves as SVP/Business Development for GestureTek, a company providing camera-enabled gesture-recognition software for presentation and entertainment systems. Mr. Kumagai holds a BS in Mechanical Engineering from Hosei University and a BS in Information Systems and Mathematics from Georgia State University.

## **ELECTION OF DIRECTORS AND OFFICERS**

Our directors are elected by our shareholders at our annual general meetings. Each director holds office until our next annual general meeting or until the director resigns or is removed in accordance with our bylaws. We do not have a classified Board of Directors.

Our officers serve at the discretion of our Board of Directors.

## **AUDIT COMMITTEE**

Our audit committee consists of Mr. Steven Vestergaard, our Chief Executive Officer, Mr. Edward Kolic and Mr. Yoshitaro Kumagai, two of which are independent. Our board of directors has determined that it does not have an audit committee member that qualifies as an "audit committee financial expert" as defined in Item 407(d)(5)(ii) of Regulation S-K. We believe that the audit committee members are collectively capable of analyzing and evaluating our financial statements and understanding internal controls and procedures for financial reporting. In addition, we believe that retaining an independent director who would qualify as an "audit committee financial expert" would be overly costly and burdensome and is not warranted in our circumstances.

## **FAMILY RELATIONSHIPS**

There are no family relationships among our officers and directors.

## **COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT**

Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who beneficially own more than ten percent of our equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and greater than ten percent shareholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file. Based on its review of the copies of such forms received by us, we believe that during the fiscal year ended August 31, 2011 all such filing requirements applicable to our officers and directors were complied with.

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**CODE OF ETHICS**

The Company's code of ethics is available on our website at <http://www.dsnyc.com/investor/>

**ITEM 11. EXECUTIVE COMPENSATION**

The particulars of compensation paid to the following persons:

(a) our principal executive officer;

(b) each of our two most highly compensated executive officers who were serving as executive officers at the end of the year ended August 31, 2012; and

(c) up to two additional individuals for whom disclosure would have been provided under (b) but for the fact that the individual was not serving as our executive officer at the end of the year ended August 31, 2012,

who we will collectively refer to as our named executive officers, of our company for the years ended August 31, 2012 and 2011, are set out in the following summary compensation table, except that no disclosure is provided for any named executive officer, other than our principal executive officer, whose total compensation does not exceed \$100,000 for the respective fiscal year:

<b>Name and Principal Position</b>	<b>Year</b>	<b>Salary (\$)</b>	<b>Bonus (\$)</b>	<b>Stock Awards (\$)</b>	<b>Option Awards (\$)<sup>(1)</sup></b>	<b>Other Annual Compensation (\$)<sup>(2)</sup></b>	<b>Total (\$)</b>
Steven Vestergaard <sup>(3)</sup> President, Chief Executive Officer and Director	2012	257,582	Nil	Nil	8,731	Nil	266,313
	2011	265,798	Nil	Nil	Nil	13,290	279,088
Frederick Vandenberg <sup>(4)</sup> Chief Financial Officer, Treasurer and Secretary	2012	208,047	Nil	Nil	4,366	10,402	222,815
	2011	214,683	Nil	Nil	Nil	10,734	225,417

- (1) For a description of the methodology and assumptions used in valuing the option awards granted to our named executive officers and directors during the year ended August 31, 2012, please review Note 5 to the financial statements included herein.
- (2) The value of perquisites and other personal benefits, securities and property for the individuals included in the summary compensation table that does not exceed \$10,000 is not reported herein. Other compensation for Mr. Vestergaard and Mr. Vandenberg includes participation in the employee share purchase plan described below under long term incentive plans.
- (3) All salaries paid to Mr. Vestergaard are paid in Canadian dollars.
- (4) All salaries paid to Mr. Vandenberg are paid in Canadian dollars.
- (5) Compensation is stated in United States dollars. Where compensation was provided in Canadian dollars, compensation is based on an exchange rate of 0.9907 US dollars for each 1.00 Canadian dollar during the 2012 fiscal year. Compensation is stated in United States dollars and is based on an exchange rate of 1.0023 US dollars for each 1.00 Canadian dollar during the 2011 fiscal year.

**EMPLOYMENT AGREEMENT WITH OUR NAMED EXECUTIVE OFFICERS**

We are not party to any written employment agreement or change in control arrangements with Mr. Vestergaard. We do not have any agreements with Mr. Vestergaard regarding the payments of bonus or other performance incentives. Mr. Vestergaard is eligible to receive stock options as and when approved by our Board of Directors.

We are not party to any written employment agreement or change in control arrangements with Mr. Vandenberg. We do not have any agreements with Mr. Vandenberg regarding the payments of bonus or other performance incentives. Mr. Vandenberg is eligible to receive stock options as and when approved by our Board of Directors.

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**OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END**

The following table summarizes equity awards granted to our named executive officers that were outstanding as of August 31, 2012.

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Exercisable Options (#)	Number of Securities Underlying Unexercisable Options (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Units of Stock that have not Vested (#)	Market Value of Shares or Units of Stock that have not Vested (\$)	Equity Incentive Plan Awards: Number of Shares, Units or Rights that have not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Shares, Units or Rights that have not Vested (\$)
Steven Vestergaard	300,000	0	N/A	0.50	Jan 19/2014	N/A	N/A	N/A	N/A
Frederick Vandenberg	150,000	0	N/A	0.50	Jan 31/2015	N/A	N/A	N/A	N/A
	150,000	0		0.25	Jan 19/2014				
					Jun 02/2014				

**LONG-TERM INCENTIVE PLANS**

Employees of the Company are able to contribute up to 5% of their annual salary into a pool which is matched equally by Destiny. Independent directors are able to contribute a maximum of \$12,500 each for a combined maximum annual purchase of \$25,000. The maximum annual combined contributions will be \$400,000. Money in the pool will be used to purchase shares out of the market on a biweekly basis. All purchases will be made through the Exchange by a third party plan agent and no purchases will be made on the OTC or German exchanges. The third party plan agent will also be responsible for the administration of the Plan on behalf of Destiny and the participants. Additionally, we have registered stock option plans.

**COMPENSATION OF DIRECTORS**

Our directors are reimbursed for reasonable out-of-pocket expenses in connection with attendance at Board of Director and committee meetings. In addition, our directors are eligible for grants of options to purchase shares of our common stock at the discretion of our Board of Directors.

The following table summarizes compensation paid to all of our directors:

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Other Annual Compensation (\$) <sup>(1)</sup>	Total (\$)

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Yoshitaro Kumagai	24,000	Nil	4,366	12,384	40,750
Larry Langs	Nil	Nil	4,366	12,384	16,750
Ed Kolic	Nil	Nil	4,366	Nil	4,366

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- (1) Other annual compensation for Mr. Kumagai and Mr. Langs includes participation in the employee share purchase plan described above under long term incentive plans.
- (2) Compensation is stated in United States dollars. Where compensation was provided in Canadian dollars, compensation is based on an exchange rate of 0.9907 US dollars for each 1.00 Canadian dollar during the 2012 fiscal year. Compensation based on an exchange rate of 1.0023 US dollars for each 1.00 Canadian dollar during the 2011 fiscal year.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

The following table sets forth certain information concerning the number of shares of our common stock owned beneficially as of November 29, 2012 by: (i) each person (including any group) known to us to own more than five percent (5%) of any class of our voting securities, (ii) each of our directors and each of our named executive officers, and (iii) officers and directors as a group. Unless otherwise indicated, the shareholders listed possess sole voting and investment power with respect to the shares shown.

Title of class	Name and address of beneficial owner	Number of Shares of Common Stock	Percentage of Common Stock <sup>(1)</sup>
<b>DIRECTORS AND OFFICERS:</b>			
Common Stock	Steven Vestergaard President, Chief Executive Officer c/o 800-570 Granville St. Vancouver, BC, V6C 3P1	11,519,455(6)	21.98%
Common Stock	Frederick Vandenberg Chief Financial Officer and Corporate Secretary c/o 800-570 Granville St. Vancouver, BC, V6C 3P1	966,910(2)	1.84%
Common Stock	Edward Kolic Director c/o 800-570 Granville St. Vancouver, BC, V6C 3P1	371,300 (3)	0.71%
Common Stock	Lawrence J. Langs Director c/o 800-570 Granville St. Vancouver, BC, V6C 3P1	416,689 (4)	0.80%
Common Stock	Yoshitaro Kumagai Director c/o 800-570 Granville St. Vancouver, BC, V6C 3P1	591,350 (5)	1.13%
Common Stock	All Officers and Directors as a Group (5 persons)	13,865,704	26.01%

- (1) Under Rule 13d-3 of the Securities Exchange Act of 1934, a beneficial owner of a security includes any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares: (i) voting power, which includes the power to vote, or to direct the voting of

shares; and (ii) investment power, which includes the power to dispose or direct the disposition of shares. Certain shares may be deemed to be beneficially owned by more than one person (if, for example, persons share the power to vote or the power to dispose of the shares). In addition, shares are deemed to be beneficially owned by a person if the person has the right to acquire the shares (for example, upon exercise of an option) within 60 days of the date as of which the information is provided. In computing the percentage ownership of any person, the amount of shares outstanding is deemed to include the amount of shares beneficially owned by such person (and only such person) by reason of these acquisition rights. As a result, the percentage of outstanding shares of any person as shown in this table does not necessarily reflect the person's actual ownership or voting power with respect to the number of shares of common stock actually outstanding on November 29, 2012. As of November 29, 2012, there were 52,118,572 shares of our common stock issued and outstanding.

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- (2) Consists of 516,910 shares held by Mr. Vandenberg and 450,000 shares that are immediately acquirable upon the exercise of stock options held by Mr. Vandenberg within 60 days of November 29, 2012.
  - (3) Consists of 221,300 shares held by Mr. Kolic and 150,000 shares that are immediately acquirable upon the exercise of stock options held by Mr. Kolic within 60 days of November 29, 2012.
  - (4) Consists of 266,689 shares held by Mr. Langs and 150,000 shares that are immediately acquirable upon the exercise of stock options held by Mr. Langs within 60 days of November 29, 2012.
  - (5) Consists of 441,350 shares held by Mr. Kumagai and 150,000 shares that are immediately acquirable upon the exercise of stock options held by Mr. Kumagai within 60 days of November 29, 2012.
  - (6) Consists of 11,219,455 shares held by Mr. Vestergaard and 300,000 shares that are immediately acquirable upon the exercise of stock options held by Mr. Vestergaard within 60 days of November 29, 2012.
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**EQUITY COMPENSATION PLAN INFORMATION**

We have two equity compensation plans, namely our Amended 1999 Stock Option Plan and our Amended 2006 Stock Option Plan, under which up to 3,750,000 and 5,100,000 shares of our common stock, respectively, have been authorized for issuance to our officers, directors, employees and consultants. Our plans have been approved by the Company's stockholders. The following summary information is presented for our plans on an aggregate basis as of August 31, 2011.

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in column (a))
Plan Category	(a)	(b)	(c)
Equity Compensation Plans Approved By Security Holders	1,800,000 Shares of Common Stock	\$0.48 per Share	2,169,716 Shares of Common Stock
Equity Compensation Plans Not Approved By Security Holders	Not Applicable	Not Applicable	Not Applicable

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.**

Except as described under Item 12 and under the title of executive compensation, and under note 5 of the financial statements, none of the following persons has any direct or indirect material interest in any transaction to which we were or are a party during the past two years, or in any proposed transaction to which the Company proposes to be a party:

- (A) any director or officer;
- (B) any proposed nominee for election as a director;
- (C) any person who beneficially owns, directly or indirectly, shares carrying more than 5% of the voting rights attached to our common stock; or
- (D) any relative or spouse of any of the foregoing persons, or any relative of such spouse, who has the same house as such person or who is a director or officer of any parent or subsidiary.

**SHARE ISSUANCES**

None

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES***Audit Fees*

Our current sole principle independent registered public accountant BDO Canada LLP, provided audit and other services during the year ended August 31, 2011 and the year ended August 31, 2010 as follows:

**BDO Canada LLP**

		<b>2011</b>		<b>2010</b>
<b>Audit Fees</b>	\$	97,047	\$	96,389
<b>Audit Related Fees</b>		-		-
<b>Tax Fees</b>		9,094		4,617
<b>All Other Fees</b>		-		-
<b>Total Fees</b>	\$	106,141	\$	101,006

*Audit Fees.* This category includes the fees for the audit of our consolidated financial statements and the quarterly reviews of interim financial statements. This category also includes advice on audit and accounting matters that arose during or as a result of the audit or the review of interim financial statements and services in connection with SEC filings.

*Audit Related Fees.* There were no audited related fees paid to BDO Canada LLP.

*Tax Fees.* This category includes the fees for professional services rendered for tax compliance, tax advice and tax planning.

*All Other Fees.* There were no other fees paid to BDO Canada LLP.

Effective May 6, 2003, the Securities and Exchange Commission adopted rules that require that before BDO Canada LLP is engaged by the Company or its subsidiaries to render any auditing or permitted non-audit related service, the engagement be:

- approved by the Company's audit committee; or

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- entered into pursuant to pre-approval policies and procedures established by the audit committee, provided the policies and procedures are detailed as to the particular service, the audit committee is informed of each service, and such policies and procedures do not include delegation of the audit committee's responsibilities to management.

The audit committee requires advance approval of all audit, audit-related, tax, and other services performed by the independent auditor. Unless the specific service has been previously pre-approved with respect to that year, the audit committee must approve the permitted service before the independent auditor is engaged to perform it. The audit committee has delegated to the chair of the audit committee authority to approve permitted services provided that the chair reports any decisions to the committee at its next scheduled meeting.

The audit committee has considered the nature and amount of the fees billed by BDO Canada LLP, and believes that the provision of the services for activities unrelated to the audit is compatible with maintaining BDO Canada LLP's independence.

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

#### LIST OF DOCUMENTS FILED AS PART OF THE REPORT

The following documents are filed as part of this report:

##### (a)(1) Financial Statements:

1. Report of Independent Registered Public Accounting Firm BDO Canada LLP;
2. Consolidated Balance Sheets;
3. Consolidated Statements of Operations and Comprehensive Loss;
4. Consolidated Statements of Cash Flows;
5. Consolidated Statement of Changes in Stockholders Equity; and
6. Notes to the Consolidated Financial Statements.

##### (a)(2) Financial Statement Schedules:

None.

##### (a)(3) Exhibits:

- 3.1 Amended Articles Of Incorporation (incorporated by reference from our Registration statement on Form 10SB12G filed on November 23, 1999).
- 3.2 Bylaws (incorporated by reference from our Registration Statement on Form 10SB12G filed on November 23, 1999)
- 4.1 1999 Stock Option Plan (Incorporated by reference from our Registration Statement on Form S-8 filed on November 17, 2000).
- 4.2

Amended 1999 Stock Option Plan (Incorporated by reference from our Registration Statement on Form S-8 filed on April 27, 2004).

4.3 2006 Stock Option Plan (Incorporated by reference from our Registration Statement on Form S-8 filed on April 26, 2006)

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- 4.4 2006 Amended And Restated Stock Option Plan (Incorporated by reference from our Registration Statement on Form S-8 filed on May 18, 2007)
- 10.1 Stock Purchase Agreement among Steve Vestergaard And Euro Industries Ltd. And Destiny Software Productions Inc. dated on June 15, 1999(incorporated by reference from our Registration Statement on Form 10SB12G filed on November 23, 1999).
- 10.2 Consulting Agreement dated August 26, 2002 between Destiny Media Technologies Inc. and Charles Van Musscher (Incorporated by reference from our Registration Statement on Form S-8 filed on September 27, 2002).
- 10.3 Rule 506 Subscription Agreement dated February 24, 2006 between Destiny Media Technologies Inc. and Global Equity Trading & Finance Ltd. (Incorporated by reference from our Current Report on Form 8-K filed on March 3, 2006
- 10.4 Rule 506 Subscription Agreement dated February 3, 2006 between Destiny Media Technologies Inc. and Global Equity Trading & Finance Ltd. (Incorporated by reference from our Current Report on Form 8-K filed on March 3, 2006)
- 10.5 Unregistered Sales of Equity Securities with various investors dated on February 26, 2007 (Incorporated by reference from our Current Report on Form 8-K filed on March 1, 2007)
- 14.1 Code of Ethics (Incorporated by reference from our Annual Report on Form 10-KSB filed on November 30, 2006)
- 21.1 Subsidiaries of Destiny Media Technologies Inc.
- Destiny Software Productions Inc. (incorporated in the Province of British Columbia, Canada) MPE Distribution, Inc. (incorporated in Nevada, United States)
- 23.2 Consent of Independent Registered Public Accounting Firm - BDO CANADA LLP (filed herewith)
- 31.1 Section 302 Certification of Chief Executive Officer (filed herewith)
- 31.2 Section 302 Certification of Chief Financial Officer (filed herewith)
- 32.1 Section 906 Certification of Chief Executive Officer (filed herewith)
- 32.2 Section 906 Certification of Chief Financial Officer (filed herewith)
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**SIGNATURES**

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**DESTINY MEDIA TECHNOLOGIES, INC.**

By: /s/Steven Vestergaard  
Steven Vestergaard, President  
Chief Executive Officer  
Director  
Date: November 29, 2012

/s/Frederick Vandenberg  
Frederick Vandenberg, Chief Financial Officer  
Date: November 29, 2012

In accordance with the Securities Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/Steven Vestergaard  
Steven Vestergaard, President  
Chief Executive Officer  
(Principal Executive Officer)  
Director  
Date: November 29, 2012

By: /s/Frederick Vandenberg  
Frederick Vandenberg, Chief Financial Officer  
(Principal Financial Officer and Principal  
Accounting Officer)  
Date: November 29, 2011

By: /s/Edward Kolic  
Edward Kolic  
Director  
Date: November 29, 2012

By: /s/Yoshi Kumagai  
Yoshi Kumagai  
Director  
Date: November 29, 2012