

DESTINY MEDIA TECHNOLOGIES INC  
Form 10-K  
November 25, 2015

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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, 2015**

**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 **0-28259**

**DESTINY MEDIA TECHNOLOGIES INC.**

(Name of registrant as specified in its charter)

**NEVADA**

(State or other jurisdiction of incorporation or organization)

**84-1516745**

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

**1110 - 885 West Georgia Street,  
Vancouver, British Columbia, Canada**

(Address of principal executive offices)

**V6B 4N7**

(Zip Code)

**604-609-7736**

Registrant's telephone number, including area code

Securities registered under Section 12(b) of the Exchange Act: **NOT APPLICABLE**

Securities registered under Section 12(g) of the Exchange Act: **COMMON STOCK, \$0.001 PAR VALUE 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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Yes  No

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 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.

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Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company)  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

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter was \$12,451,050.

The number of shares outstanding of the registrant's common stock, par value \$0.001, as of November 24, 2015 was 55,013,874.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

None

**DESTINY MEDIA TECHNOLOGIES INC.  
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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 (the Securities Act ), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ). 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 under Item 1A. Risk Factors , 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. Such 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.

## **ITEM 1. BUSINESS.**

### **OVERVIEW AND CORPORATE BACKGROUND**

Destiny Media Technologies, Inc. was incorporated in August 1998 under the laws of the State of Colorado and the corporate jurisdiction was changed to Nevada effective October 8, 2014. 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 Media, Destiny, we or us refers to the consolidated activities of all four companies.

Our principal executive office is located at Suite 1110, 885 West Georgia Street, Vancouver, British Columbia V6C 3E8. 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 OTCQX U.S. (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 instant play streaming media technologies.

The Play MPE® digital distribution service is used commercially by the recording industry to distribute new pre-release music and music videos to trusted recipients such as radio and press before that content is generally available for sale to the public.

Clipstream® is a suite of products and services under development, which are based around the Company's new cross platform Javascript and HTML 5 canvas tag rendering engine. Video is encoded into a proprietary streaming media technology which has been under development since 2010. Provisional patent priority is claimed to August 2011. The Company had another streaming media product with the same brand that launched in 2000 which is only loosely related to this new generation technology.

The unique patented approach in the rendering engine has a large number of advantages over the more typical reliance on video plug-ins, the HTML 5 video tag and dedicated playback applications for mobile.

#### **Clipstream®**

Clipstream® products are based on a technology that provides streaming video through the Internet directly on to most computers, smart phones, tablets and other devices. Clipstream® s encode once, play anywhere vision addresses the breadth and complexity in today s multi-format video environment, reducing the cost and complexity of delivering streaming video. This single format solution can be sold into any industry vertical requiring streaming video.

We are developing several products under the Clipstream® brand, including the core engine technology, a cloud encoding and hosting service, an enhanced security plug-in and variants of these solutions for market research and advertising industry applications. We have realized some initial revenue from market research companies conducting video questionnaire services.

The core rendering engine and encoding solution are not licensed directly. The first solution is a hosting system that enables users to drag video into the cloud where it is encoded into the Clipstream® format, then copied globally to servers in different geographies. Customers are given embed code that enables the display of the video directly within their own web pages. When the video is accessed, reporting and other analytics are provided. A basic commercial version with encoding in the cloud was available in July 2015 and a more substantial release launched subsequent to year end in October 2015.



Subsequent to year end, in November 2015, the company released a second solution for companies that intend to offer Clipstream® functionality within their own services. This offering is a connector that enables the integration of the encoding and rendering engine and the hosting back end into other solutions. An Application Program Interface (API) connects the same encoding and playback infrastructure used by the Company's cloud solution into their own software and web based solutions. There are many niches the Company can target with the API. Examples of potential applications we could target include realtors uploading video to their local real estate site, consumers uploading video to classified and dating sites, enabling online retailers to provide product videos to manufacturers, ISP's offering video to their own hosting customers and many others.

On going development is focused on creating more diverse offerings for the advertising industry, higher definition video quality for movies and other similar content, new security features for high value media and better reporting and analytics. The Company is also building out the feature set based on customer suggestions and demand.

### **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 delivered.

Record labels around the world, including all three major labels (Universal Music Group, Warner Music Group and Sony Music Entertainment), 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 metadata), 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 may generate a localized distribution of the song with modified marketing information in the local language. Local staff may select pre-existing assets from the system and combine them together with a 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. Our staff manages lists of recipients in various formats and those lists are made available to our customers using the Play MPE® system. 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 by smaller competitors.

Staff who encode each release have control over 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 a recipient s account. Recipients can access these tracks 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, radio automation systems, or through custom direct integration. 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 and to export metadata automatically into third party applications and solutions. Metadata is optionally transferred to Shazam where the song's unique fingerprint is matched to the metadata. Shazam is a system that identifies music based on the calculation of that fingerprint.

Destiny's servers also generate a marketing website (<http://daily.plaympe.com>) which promotes new music. The system automatically generates charts of the most popular music on the system. These charts can be syndicated to third parties.

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 watermark technology, which has received three US patents and a number of analogous patents globally. 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.

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 with physical distribution where record labels may be unsure whether the courier package went to the correct individual or whether it was ever opened. This information provides invaluable feedback in real time to marketing and promotions staff who can cater their programs appropriately.

Real time usage statistics for Play MPE® are available at: <http://dsny.com/mpe%20stats>

## **BUSINESS DEVELOPMENT**

### **Play MPE®**

During the year ended August 31, 2015, we generated revenues of \$3,294,825, of which 99% was derived from Play MPE®.

In November 2014, Destiny brought on an interim VP on a seven month fixed contract to re-structure the organizational chart, hire new staff, identify new business opportunities and to pursue high level business development.

In January 2015, the company began rolling out new marketing and advertising initiatives. Of significance was the launch of regular newsletter featuring industry news branded as MPE® Today .

In April 2015, we announced a new music blog marketing service that allows independent record labels to reach over 2,600 of the most influential global music blogs with approximately 4,000 unique recipients. The new service offered labels the ability to accurately target music blog writers in fourteen separate music genres and deliver to recipients music in a broadcast quality digital format. The service also allows for full integration into third party reporting, scheduling and fingerprinting systems such as Shazam. The Company believes that the compelling price point, access to and accuracy of the data, combined with the delivery of broadcast quality music, would appeal to independent and upcoming labels where coverage by trusted reviewers can create instant awareness for songs that are not widely known. Later the Company added over 2,500 music blogs with more than 4,000 influencers to the network of recipients. This gives the labels, promoters and artists even greater reach for their promotional campaigns.



In April 2015, we signed a non-exclusive reseller agreement with SGC Media Pty, Ltd. (<http://www.sgcmmedia.com>) to represent the Play MPE® system in the Australian and New Zealand markets. SGC Media is a music marketing company with fifteen years of experience acting as a publicist for some of the biggest independent artists in Australia. As a Play MPE® reseller, SGC Media is involved in direct sales, client services, marketing, list management, training, and customer support. Play MPE® is marketed by SGC through their own label service MusicSend ([www.musicseend.com.au](http://www.musicseend.com.au)) which provides tools to independent labels, publicists and music managers to enhance their business offerings. The Company currently has all the major labels and some of the largest independents in Australia under contract, and the partnership with SGC will further strengthen the Company's position in this important market. We believe that this partnership will create great value for independent labels and artists in Australia and help to further Play MPE®'s continued growth.

In May 2015, we signed an agreement to be the exclusive supplier of digital distribution services to Sony Music Entertainment Norway for promotional delivery of audio content in Norway.

In June 2015, we announced that we would begin syndicating our music download and streaming activity charts, which are available at <http://daily.plaympe.com>. These charts are also sent to nearly 30,000 industry professionals on a monthly basis as part of our new newsletter initiative. We are pursuing a number of outlets to publish our charts, the first of which was Billboard Magazine.

In June 2015, we announced that the initial trial license of fingerprinting and meta data to Shazam Entertainment Limited, the world's leading media engagement company, was expanded into a full commercial license. Under the new three year agreement, we will deliver real time fingerprints and meta data to Shazam from tracks on participating labels in the Play MPE® system. To accomplish this quickly and efficiently, Shazam's fingerprint technology was integrated into the Play MPE® infrastructure, so the whole transfer is completely automated. Shazam refers around 7% of the world's digital downloads, representing \$400 million of sales globally every year. Also, the Shazam charts are used as an important hit barometer by radio and broadcasters, therefore getting music to Shazam faster helps boost sales, awareness and Shazam chart position which benefits our Play MPE® customers. Due to the fact that new tracks in Play MPE® are typically pre-release, automated fingerprint deliveries from Play MPE® are very timely. Further, the Play MPE® integration is a reliable and efficient way to fingerprint large catalogs of fast moving music, automating an otherwise very manual process at both ends of the supply chain.

Play MPE® staff regularly attend various industry conferences including:

September 2-6, 2014	Christian Music Broadcasters Momentum 2014, Lake Buena Vista, FL
February 25-28, 2015	Country Radio Seminars, Nashville, TN
August 5-8, 2015	FMQB Triple A Convention, Boulder, CO

#### **Clipstream®**

In August 2014, just prior to the beginning of the fiscal year, Destiny hired a new VP Clipstream® operations to run the new product unit. This executive was subsequently terminated in June 2015.

In September 2014, Destiny was a key sponsor of the CASRO market research trade show where an early version of Clipstream® for market research was unveiled. A new standalone security plug-in was launched, which blocks operating system functionality such as print screen and cut and paste, which could be used to copy high value video content.

In April 2015, we announced our newest Clipstream® video hosting service. The Clipstream® service includes a number of technology developments allowing for greater consistency in video delivery and quality for businesses requiring ease of use, control, and security in their video hosting needs. Our website [www.clipstream.com](http://www.clipstream.com), has all the updated information and details. This release marks the first in a series of deliverables that would allow us to provide a broad solutions offering across growing video markets around the world. The ease of use, consistent quality, and

security of our Clipstream® video hosting service offers a compelling value proposition for users in nearly all business markets, including those in education, government, corporate training, web-site development and research & survey.

In July 2015, we moved the encoding process for our cross platform streaming video solution from Windows desktop to the cloud. The new system allows users to upload videos from any device instantly, then their queued videos are encoded at high speed with server class cloud machines. Server resources are added or removed in real time to match customer demand, tying our variable expenses to usage and revenues. Latency delays are minimized as the system automatically chooses encoding servers closest to the publisher and recipient servers closest to the viewer. The new version also supports a more robust reporting package. The new cloud-based encoder represents the next milestone in the growth and development of our Clipstream® service. The new encoder makes it easier for all users to upload videos in a more effective and efficient manner across all formats and applications.

In September 2015, subsequent to year end, we announced we have expanded our Clipstream® service to the ad tech industry with the signing of our first agreement for the delivery of rich media mobile advertisements. The advertisements are part of a new digital ad category known as "out-stream advertisements" - video ads that run on text-dominant Web pages. Out-stream ads benefit publishers by allowing them to sell premium video ads inside text content and benefit advertisers by increasing video ad inventory.

The expansion is driven by Clipstream®'s patent pending video streaming technology, which uses the canvas tag instead of the video tag allowing it to power innovative ad-formats not easily reached by other solutions. Overcoming the limitations imposed on the display of video by web browsers, Clipstream® is able to deliver out-stream advertisements on mobile web devices where conventional technology cannot. Clipstream® enables ad industry partners to implement critical advertisements features including trackable click-throughs, displaying graphics alongside the video, and interactivity that cannot be done using other technologies. Our expansion of the Clipstream® service into the ad tech industry is a critical milestone. Digital video advertising is growing rapidly along with the significant growth of mobile device usage. These changes are driving the ad-industry to look for powerful technologies like Clipstream® to give clients complete control over how their ads are delivered.

Some events where Clipstream® was presented this fiscal year include:

September 29 - October 3, 2014 CASRO, Atlanta, GA

October 5-8, 2014 Gartner Symposium, Orlando, FL

November 17-20, 2014 Streaming Media Conference, Los Angeles, CA

#### **Significant Customers**

During the year ended August 31, 2015, we generated 45% of total revenue from one customer (2014 - one customer represented 49%).

#### **OUR BUSINESS OPERATIONS**

We lease approximately 9,106 square feet of office space, with the lease expiring in June of 2017, and we currently have 26 total employees, including 25 full time employees and 1 part time employee. Our employees include our President and Chief Executive Officer, Chief Financial Officer, twelve sales and technical support personnel, and ten software developers. We also employ contractors as needed.

We manage our own server infrastructure with a server room and facilities within our own office and two co-located facilities in North America, one in Europe and one in Australia. We manage our own servers, storage arrays, switches and other equipment at each facility and rely on proprietary server logic software to manage load balancing and mirroring and proprietary product server software to provide our commercial services. Connections to the backbone at our main facility is 1 Gbps and at the other facilities 100 Mbps to 1 Gbps.

In fiscal 2014, the Company began running many Clipstream® services on cloud systems owned by Google and Amazon. Because these services run on the latest hardware, are able to use non standard networking and storage hardware for speed within the facility and because they are managed by dedicated experts in the hosting field, it was

found that the Company could enjoy better performance, security, reliability and lower costs.

In 2015, the Company secured the expertise of an Amazon Web Services (AWS) consulting partner and entered into a series of significant phased contracts to plan new architecture to move Company server services to AWS while maintaining the highest level of security, automation, performance, data warehousing and compliance. Because of the nearly unlimited number of processing and storage servers around the world, it became possible for the Company to re-engineer critical proprietary server processes to become highly parallel and much faster and more reliable, while significantly reducing hardware costs.



As of the end of fiscal 2015, most Clipstream® services are running on AWS. By the end of fiscal 2016, the Company expects MPE® services to have been migrated to AWS and most co-located facilities to be closed.

This new outsourcing to AWS will allow both Clipstream® and MPE® to scale rapidly as customer demand requires it, but then to automatically scale back in real time as demand reduces, matching costs closely to actual transactional usage and revenues

## **Research and Development**

Total research and development expenditures for the year ended August 31, 2015 were \$1,376,386 (2014: \$1,062,668).

## **COMPETITION**

### **Play 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 CDs. 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 metadata. Metadata 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 metadata reduces the time required for manual data entry into radio automation software on the receiving side and eliminates inaccuracies in royalty reporting. Third parties, such as Shazam are able to purchase this metadata from Destiny. This benefits labels who want to be in Shazam's database as the transmission of this data is immediate and reliable.

The Play MPE® system provides our clients with a sophisticated content management tool that includes privilege control, release sharing amongst global territories (saving our clients time and money when conducting global distributions), enhanced email notification and promotions tools, social media announcements, recipient player apps (iPhone, iPad, Android, Android Tablet and Blackberry), with a fully redundant high speed infrastructure that is more sophisticated and has higher functionality than quickly developed lower cost alternatives. The Company expects that competition will be strongest where audio quality, security, recipient network, and reporting are not as important as cost.

Direct competitors are often regional, with little global presence.

### **Clipstream®**

Historically, video was mostly delivered on computers and was accessed by plug-ins downloaded separately to be linked into the web browser. Examples, would include Adobe Flash, Microsoft Windows Media Player, Apple Quicktime and others.

Beginning most significantly by Apple in 2010, when Steve Jobs wrote a letter to the world about why Flash was not appropriate for devices (<http://www.apple.com/ca/hotnews/thoughts-on-flash/>), plug-ins began to be phased out from computers and replaced with dedicated video chips on devices. The formats and idiosyncrasies of the various chips can vary depending on brand and whether it is a cell phone, tablet, TV or other device.



The World Wide Web Consortium (W3C), which spent many years trying to establish a new standard for video and in October 28, 2014, finally published the standard for HTML 5 web pages. Most browsers have been incorporating features from the draft standards for years, but there is variation from one browser to the next on which draft features are included.

Despite the market demand for standardization of video, there was a concern that video formats would improve over time and W3C did not want to lock into any particular proprietary format. Instead, they came out with the <video> tag, which allows the creator of video content to list all of the available formats. The browser would look at the list and choose a format that it understood.

The list of formats available today ([https://en.wikipedia.org/wiki/HTML5\\_video](https://en.wikipedia.org/wiki/HTML5_video)) is small and dominated by H.264 and VP8, but new formats such as H.265 and VP9 continue to be launched over time.

This variety of formats creates some problems for publishers. It takes time for a new format to roll out and in the case of devices that can be a few years and in the interim, old formats have to be supported. There is an ebb and flow where at some points in time, a particular format can be dominant and most people can be reached with just that one format, but then at other points in time, something new comes out and the market fragments again.

In 2010, the Company began development on Clipstream® with the goal of using Javascript decompression of a proprietary, light video CODEC that could be rendered by the browser using the <canvas> tag, which like a painter's canvas, allows Javascript code to draw a picture directly into the browser. It was not possible to make this work with 2010 equipment, but in 2015, the company has a Javascript engine that works well and is getting better as the R&D department continues to make improvements.

With the <video> tag, a new format has to be built into the browser, then the browser has to be widely adopted for that format to have value. With video chips, it is even worse as the format is not upgraded until the consumer purchases a new device. That means it takes a long time for innovations, such as new security techniques or new features to be widely available.

By comparison, Clipstream®'s purely software approach allows innovation to be instantly available to anyone who sees the video as the Javascript playback is understood by all modern browsers as it is part of the new web standard.

Some advantages of the engine include:

1. The content is future proof. As long as browsers honor standards, the video will play well into the future and never need to be re-encoded.
2. As customers request new features, they can be built in and made instantly available to all modern devices that support HTML 5.
3. Plug-ins like Flash are being phased out in favor of the <video> tag, but proprietary APPs. are becoming common. With Clipstream®, there is no APP to download or plug-in to maintain. This eliminates the risk of viruses, browser crashes and spyware as Javascript code is only executed indirectly by the browser and can't access hardware directly.
4. The industry recognized that HTML 5 video needed security and has come out with a new draft standard supported by some browsers, but not all, Encrypted Media Extensions ([https://en.wikipedia.org/wiki/Encrypted\\_Media\\_Extensions](https://en.wikipedia.org/wiki/Encrypted_Media_Extensions)). This proposed standard is controversial as it relies on proprietary technology and the draft standard is only supported on the latest version of some browsers. It is also not a published standard yet. The latest version was released for comment Nov. 5, 2015 and is still draft. By comparison, as a software solution, Clipstream® already supports watermarking, locking of content to domains, blocking of operating system functions that could be used to copy content and it fragments the content into pieces that can only be reconstructed using a licensed version of the Company's rendering engine. Because the Company doesn't have to wait for a standard to be published

and rolled out, new security innovations such as some of the techniques in MPE® can be easily implemented and made widely available.

5. Because Clipstream® is natively cross platform, transcoding becomes unnecessary reducing cost and time.

Because the Clipstream® engine is not offered directly as a product, our competition is other cloud hosting services, not Flash or any of the HTML 5 video tag formats. The Clipstream® cloud service can use the Clipstream® engine, another engine, or a combination. This provides flexibility, features and cost savings not available to other providers.

The Company is well suited for innovations. We have more patents than most of our competitors and invest more heavily in innovation. We are the proven safe and secure choice for the music industry and that trust can be appreciated by video customers. Our engine is much more flexible and will play more widely than other solutions and we think that our scaling technology will make us more efficient with managing hardware and bandwidth resources.

## **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.

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.

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 Patents No. 7983441, 8300885, 9165560
- b. US pending application No. 14/857716
- c. Japan Patent No. 5103479
- d. Canada patent No. 2682926
- e. Europe Patent No. 2082527 (which has now been granted in Switzerland, the UK, the Netherlands, France, Sweden, and Denmark under No. 2082527 and in Germany under DE602007038680.2)

We have 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. When the original patent claims were granted in the US, the Company filed a set of new additional, broader claims in a continuation application in Canada and the US to further protect the technology.

### 3. Cross Platform Streaming Video Script Based Video Rendering

- a. US Patents No. 9143826 and 9137567
- b. South Africa Patent No. 2014/01618
- c. Singapore Patent No. 2014008775
- d. Pending US application No. 13/517571 (publication No. US2013-0044822)
- e. Pending US application No. 13/517574 (publication No. US-2013-0044823)
- f. Pending US application No. 13/528556 (publication No. US-2013-0044802)
- g. Pending US application No. 13/529187 (publication No. US-2013-0044826)
- h. Pending US application No. 13/529253 (publication No. US-2013-0044804)
- i. Pending Canadian patent application No. 2843766
- j. Pending China (Publication No. CN 103891303/Application No. 201280050754.7)
- k. Pending Europe (Publication No. 2745526/Application No. 12824114.8)
- l. Pending Japan (Application No. 2014-525268)
- m. Pending Australia (Application No. 2012297524)
- n. Pending India (Application No. 1961/DELNO/2014)
- o. Pending Israel (Publication No. WO2013/023287/Application No. 230898)
- p. Pending New Zealand (Application No. 622065)
- q. Pending Russian Federation (Application No. 2014110047)

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 and Australia

Play MPE®

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

MPE®

Granted: USA, Canada, Japan, European Community

Pending: Australia

Sonox Digital®

Granted: Japan, China, European Community, Canada

Pending: USA

#### Domain Names

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

#### 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. Business , including Competition and Government Regulation, and Item 7. Management s Discussion and Analysis of Financial Condition and Results 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.*

99% 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 to \$4,120,550 for the year ended August 31, 2015 from \$3,941,159 for the year ended August 31, 2014 while our revenue decreased to \$3,323,537 for the year ended August 31, 2015 from \$3,572,376 for the year ended August 31, 2014. Our ability to achieve profitability is conditional upon our ability to control 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. 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.

*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 1110, 885 Georgia Street, Vancouver, British Columbia, Canada V6C 3E8. Our principal business operations are carried out from our head office. Our leased premises consist of approximately 9,106 square feet. We pay rent of approximately \$29,367 Canadian (equal to approximately \$22,237 US) per month. The lease expires June 29, 2017. We consider our leased premises adequate for our current business purposes.

**ITEM 3. LEGAL PROCEEDINGS.**

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. The claim asserts that the Company has repudiated a subscription agreement entered into in 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 against Noramco and R. A. Bruce McDonald, for damages arising from a proposed private placement in 2000 which did not close.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not Applicable

**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 OTCQX under the stock symbol DSNY. The first day on which the Company's shares were traded under the stock symbol DSNY on the OTC Bulletin Board was June 26, 2000. On August 18, 2011, Destiny Media began trading on 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 2014	\$2.93	\$1.60
2 <sup>nd</sup> Quarter 2014	\$2.82	\$0.80
3 <sup>rd</sup> Quarter 2014	\$1.25	\$0.78
4 <sup>th</sup> Quarter 2014	\$1.05	\$0.65
1 <sup>st</sup> Quarter 2015	\$0.78	\$0.40
2 <sup>nd</sup> Quarter 2015	\$0.49	\$0.28
3 <sup>rd</sup> Quarter 2015	\$0.76	\$0.25
4 <sup>th</sup> Quarter 2015	\$0.40	\$0.15

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 24, 2015 our shareholders' list for our common stock showed 60 registered shareholders and 55,013,874 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**

None.

**OTHER INFORMATION**

None.

See Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters for a description of our securities authorized for issuance under equity compensation plans.

**ITEM 6. SELECTED FINANCIAL DATA.**

	Fiscal Year				
	2015	2014	2013	2012	2011
	(Expressed in US dollars, except per share amounts)				
<b>Continuing Operations:</b>					
Service revenue	\$ 3,323,537	\$ 3,572,376	\$ 3,679,029	\$ 3,983,789	\$ 4,007,230
Income(loss) from continuing operations	\$ (797,013)	\$ (368,783)	\$ 235,879	\$ 719,678	\$ 797,600
Net income(loss)	\$ (1,596,646)	\$ (324,399)	\$ 226,014	\$ 563,003	\$ 638,508
Net income per common share, basic and diluted	\$ (0.03)	\$ (0.01)	\$ 0.00	\$ 0.01	\$ 0.01
<b>Balance Sheet:</b>					
Working capital	\$ 513,472	\$ 1,476,767	\$ 1,842,538	\$ 1,641,032	\$ 1,354,115
Total assets	\$ 1,537,190	\$ 3,401,206	\$ 3,657,656	\$ 3,793,002	\$ 3,058,137
Long-term liabilities	12,071	-	-	-	\$ -
Stockholders equity	\$ 1,102,434	\$ 3,002,647	\$ 3,283,007	\$ 3,280,935	\$ 2,405,865

The selected financial data should be read in conjunction with the Consolidated Financial Statements and Notes thereto, and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations 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 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 YEARS ENDED AUGUST 31, 2015 AND 2014****Revenue**

Led by a decline in the value of the Euro relative to the United States Dollar, total revenue for the year ended August 31, 2015 declined by 7% over the same period in the prior year to \$3,323,537 (2014 \$3,572,376). Eliminating the negative impact of approximately \$331,000 for the effect of foreign exchange rates, total revenue for the year ended August 31, 2015 increased by 2%. This increase is the result of increased sales for Play MPE® services (eliminating negative foreign exchange rate impacts) where Play MPE® saw increased demand in the independent record label segment in the United States and growth in Australian distributions.

Revenue from the Play MPE® system currently represents approximately 99% of our total revenues. Play MPE® continues to show positive revenue growth from various sources. Australian Play MPE® revenue grew by 81% with the addition of Sony Music and the return of several independent label clients. In the United States, Play MPE® continued to see growth in independent label revenue (4%) and in Sony Music (17%), which offset a small decline in revenue of approximately \$36,000 associated with Warner Music. We observed decline in revenue from Europe primarily due to unfavorable exchange rate fluctuations between the Euro and the US dollar. In May 2015 we signed an agreement with Sony Norway. During the last quarter of fiscal 2015, we started to see growth in Europe and we expect this agreement will bring more positive impacts on our European revenues.



Approximately 51% of our Play MPE® revenue is denominated in Euros, 40% is denominated in US Dollars and 8% is denominated in Australia Dollars for the year ended August 31, 2015.

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 based on usage which considers both the volume and size of distributions provided on a monthly basis (each distribution a send ). 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 is on a sliding scale depending on the size of the particular send (song length for example). The system allows 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 our quoting system. Revenue generated from this type of access was approximately \$428,104 for the year ended August 31, 2015 (2014 - \$365,801).

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

Approximately 1% of our revenues are derived from sales of our Clipstream® software. Our management is focused on increasing sales, marketing and support resources on our new Clipstream® generation to increase revenue. As a result, we have signed the first agreement subsequent to year end for the delivery of rich media mobile ads (September 2015). Our expansion of the Clipstream® service into the ad tech industry is a critical milestone. We expect to see more Clipstream® revenue generated within the next fiscal year.

## Operating Expenses

### Overview

As our technologies and products are developed and maintained in-house, the majority of our expenditures are 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 the Canadian dollar to these currencies.

During the year ended August 31, 2015, while exchange rates resulted in adverse impacts to overall revenue, the strengthening of the US dollar relative to the Canadian dollar resulted in a favorable impact on costs. The Company maintains most of its financial reserves in Canadian dollars to mitigate the downside risk of adverse exchange rates.

Total operating costs for the year ended August 31, 2015 increased by 5% to \$4,120,550 (August 31, 2014 - \$3,941,159). The increase is attributable to increased staffing, increased directors compensation and increased cost related to Amazon Web Services to build a strong IT infrastructure platform. The increase is partially offset by the decreased shareholder relation cost and the one time costs associated with the repurchase of options in the comparative period. We incurred costs on the transition to Amazon Web Services of approximately \$61,000.

General and administrative	31-Aug	31-Aug	\$	%
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	<b>2015</b>	<b>2014</b>	<b>Change</b>	<b>Change</b>
	(12 months)	(12 months)		
	\$	\$		
Wages and benefits	611,373	730,039	(118,666)	(16.3%)
Rent	47,052	42,696	4,356	10.2%
Telecommunications	26,237	16,537	9,700	58.7%
Bad debt	1,659	(3,329)	4,988	(149.8%)
Office and miscellaneous	296,225	354,173	(57,948)	(16.4%)
Professional fees	136,922	211,875	(74,953)	(35.4%)
	1,119,468	1,351,991	(232,523)	(17.2%)

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

The decrease in wages and benefits is mainly due to the additional expense associated with the stock option in comparative period, partially offset by the increased director's compensation for the year ended August 31, 2015. The decrease in professional fees is mainly due to nonrecurring legal costs associated with a NASDAQ listing application and various associated United States securities issues, and legal costs related to the claim described in Item 3. *Legal Proceedings* in comparative period. The decrease in office and miscellaneous is mainly due to the higher costs related to shareholder relations consulting services in comparative period.

<b>Sales and marketing</b>	<b>31-Aug 2015</b>	<b>31-Aug 2014</b>	<b>\$ Change</b>	<b>% Change</b>
	(12 months)	(12 months)		
	\$	\$		
Wages and benefits	1,067,831	1,000,376	67,455	6.7%
Rent	110,100	117,599	(7,499)	(6.4%)
Telecommunications	61,395	45,549	15,846	34.8%
Meals and entertainment	-	14,003	(14,003)	(100.0%)
Travel	51,080	80,207	(29,127)	(36.3%)
Advertising and marketing	151,427	120,601	30,826	25.6%
	1,441,833	1,378,335	63,498	4.6%

Sales and marketing costs consist primarily of salaries and related personnel costs including overhead, sales commissions, advertising and promotional fees, and travel costs. The increase in wages and benefits is mainly due to an increased marketing staff. The increase in advertising and marketing is mainly the result of marketing Play MPE® and Clipstream® internationally. Travel costs decreased compared to the prior year mostly due to the timing of staff attendance at various events and client meetings.

<b>Research and development</b>	<b>31-Aug 2015</b>	<b>31-Aug 2014</b>	<b>\$ Change</b>	<b>% Change</b>
	(12 months)	(12 months)		
	\$	\$		
Wages and benefits	1,158,311	911,451	246,860	27.1%
Rent	132,765	108,372	24,393	22.5%
Telecommunications	74,033	41,975	32,058	76.4%
Research and development	11,277	870	10,407	1196.2%
	1,376,386	1,062,668	313,718	29.5%

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 in wages and benefits is primarily due to increased staffing on engineering related to the Clipstream® business. The increase in telecommunications is mainly due to increased cost related to the transition to Amazon Web Services.

## Depreciation and Amortization

Depreciation and amortization expense arose from fixed assets and other assets. Depreciation and amortization increased to \$182,863 for the fiscal year ended August 31, 2015 from \$148,165 for the fiscal year ended August 31, 2014, an increase of \$34,698 or 23% as a result of capitalized leasehold improvements for our new office and software testing service purchased to improve product quality.

## Other earnings and expenses

Interest income decreased to \$42,787 for the year ended August 31, 2015 from \$61,366 for the year ended August 31, 2014, a decrease of \$18,579. The interest income is derived from the amount receivable pursuant to our previous litigation settlement. The decrease in interest income is the result of a lower settlement receivable balance from the settlement receivable being paid down during the year, as well as foreign currency exchange fluctuations.

## Income Taxes

During the year ended August 31, 2015 the Company recorded income tax expense of \$842,000 (August 31, 2014 - \$17,000) to reduce our deferred tax assets. The Company currently pays no current income tax as a result of realizing no taxable income.

As at August 31, 2015 the Company had deferred tax assets of \$Nil (August 31, 2014 - \$842,000) after recognizing a valuation allowance for the deferred tax assets for which realization is not more likely than not to occur. The Company will continue to evaluate whether deferred tax assets are realizable on an annual basis.

## Net Loss

During the year ended August 31, 2015, loss from operations increased to \$797,013 (August 31, 2014 - a loss of \$368,783). Net loss increased to \$1,596,646 (August 31, 2014 - a loss of \$324,399). The increase in net loss is primarily due to the costs related to increased staffing and increased deferred income tax expense as a result of recognizing a valuation allowance against deferred tax assets.

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, these stock-based compensation expenses do not result in cash payments by the Company. Adjusted EBITDA has limitations as a profitability measure in that it does not include interest expense on our debt, our provisions for income taxes and amortization, the effect of deferred leasehold inducement, the effect of non-cash stock-based compensation expense and the effect of asset impairment. The following is a reconciliation of net income from operations to Adjusted EBITDA:

	<b>31-Aug 2015</b>	<b>31-Aug 2014</b>
Net loss	\$ (1,596,646)	\$ (324,399)
Interest income and expenses	(42,787)	(61,366)

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Deferred income tax expense	842,000	17,000
Depreciation and amortization	182,863	148,165
Stock based compensation and deferred leasehold inducement	130,051	32,948
Adjusted EBITDA	\$ (484,519)	\$ (187,652)

## **LIQUIDITY AND FINANCIAL CONDITION**

We had cash of \$387,316 as at August 31, 2015 compared to cash of \$990,007 as at August 31, 2014. We had working capital of \$513,472 as at August 31, 2015 compared to \$1,476,767 as at August 31, 2014. The decrease in our working capital was due to a decrease in our cash balance resulting from cash used in operations and investment in capital assets.

We had \$366,277 in cash held outside of the United States, and there is no intent to repatriate this cash at this time. Should we decide to repatriate in the future, taxes may need to be accrued and paid.

### **Cash Flows**

Net cash used in operating activities was \$69,562 for the year ended August 31, 2015, compared to net cash used of \$336,823 for the year ended August 31, 2014. As of the date of this report, we have collected approximately 90% of the accounts receivable balance at August 31, 2015.

The cash used in investing activities was \$338,091 for the year ended August 31, 2015, compared to \$236,871 for the year ended August 31, 2014. The increase in net cash used in investing activities was largely attributable to the leasehold improvements for our new office in current period.

The cash used in financing activities was \$2,240 for the year ended August 31, 2015 compared to net cash provided of \$100,005 for the year ended August 31, 2014. The change was the result of a private placement and cash exercise of options, offset by the repurchase of stock options in comparative period.

## **CAPITAL RESOURCES**

The Company does not have any material commitments for capital expenditures and the Company is able to meet current and expected growth and increase in growth in revenue with current capital investments.

## **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.

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 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.

### ***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 completely 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.

### *Contingencies*

As discussed under Item 3. 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**

### *Accounting Standards Not Yet Effective*

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 201409, "Revenue from Contracts with Customers," which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry specific guidance. ASU 201409 requires an entity to recognize revenue depicting the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 201409 will also result in enhanced revenue related disclosures.

ASU 201409 is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2016. We are currently evaluating the impact of the adoption of this new standard on our consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period ( ASU 2014-12 ). ASU 2014-12 requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. We are currently evaluating the impact of the adoption of this new standard on our consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ( ASU 2014-15 ). ASU 2014-15 will explicitly require management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosure in certain circumstances. The new standard will be effective for all entities in the first annual period ending after December 15, 2016. We are currently evaluating the impact of the adoption of this new standard on our 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 the Canadian dollar to these currencies. During the year, as a result of fluctuations in the Euro, and the Australian, Canadian, and US dollars, the Company realized an overall small positive impact on net income through favorable impacts on expenses outweighing negative impacts on total revenue.

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

Index to Audited Consolidated Financial Statements for the Years Ended August 31, 2015 and 2014:

1. Report of Independent Registered Public Accounting Firm - BDO Canada LLP;
2. Consolidated Balance Sheets as at August 31, 2015 and 2014;
3. Consolidated Statement of Comprehensive Income for the Years Ended August 31, 2015 and 2014;
4. Consolidated Statement of Changes in Stockholders' Equity for the Years Ended August 31, 2015 and 2014;
5. Consolidated Statement of Cash Flows for the Years Ended August 31, 2015 and 2014;
6. Notes to Consolidated Financial Statements.

Consolidated Financial Statements

**Destiny Media Technologies Inc.**

August 31, 2015 and 2014

(Expressed in United States dollars)

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**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, 2015 and 2014, and the related consolidated statements of comprehensive loss, 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, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO CANADA LLP

Chartered Professional Accountants

Vancouver, Canada  
November 20, 2015

## Destiny Media Technologies Inc.

## CONSOLIDATED BALANCE SHEETS

As at August 31

(Expressed in United States dollars)

	2015	2014
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	387,316	990,007
Accounts receivable, net of allowance for doubtful accounts of \$6,058 [2014 \$5,513]	399,148	544,609
Other receivables	15,471	78,040
Current portion of long term receivable <i>[note 3]</i>	98,180	115,464
Prepaid expenses	36,042	147,206
<b>Total current assets</b>	<b>936,157</b>	<b>1,875,326</b>
Deposits	32,222	22,870
Long term receivable <i>[note 3]</i>	167,350	345,830
Property and equipment, net <i>[note 4]</i>	401,461	315,180
Deferred tax assets – long term portion <i>[note 6]</i>		842,000
<b>Total assets</b>	<b>1,537,190</b>	<b>3,401,206</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current</b>		
Accounts payable	139,879	172,617
Accrued liabilities	189,672	203,353
Deferred leasehold inducement	63,217	
Deferred revenue	24,712	22,589
Obligation under capital lease – current portion <i>[note 7]</i>	5,205	
<b>Total current liabilities</b>	<b>422,685</b>	<b>398,559</b>
Obligation under capital lease – long term portion <i>[note 7]</i>	12,071	
<b>Total liabilities</b>	<b>434,756</b>	<b>398,559</b>
Commitments and contingencies <i>[notes 7 and 9]</i>		
<b>Stockholders equity</b>		
Common stock, par value \$0.001 <i>[note 5]</i>		
Authorized: 100,000,000 shares		
Issued and outstanding: 52,993,874 shares		
[2014 issued and outstanding 52,993,874 shares]	52,994	52,994
Additional paid-in capital	9,122,132	9,061,325
Accumulated deficit	(7,708,061)	(6,111,415)
Accumulated other comprehensive loss	(364,631)	(257)
<b>Total stockholders equity</b>	<b>1,102,434</b>	<b>3,002,647</b>
<b>Total liabilities and stockholders equity</b>	<b>1,537,190</b>	<b>3,401,206</b>

See accompanying notes





## Destiny Media Technologies Inc.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)

Years ended August 31

(Expressed in United States dollars)

	2015 \$	2014 \$
<b>Service revenue</b> <i>[note 10]</i>	<b>3,323,537</b>	3,572,376
<b>Operating expenses</b>		
General and administrative	1,119,468	1,351,991
Sales and marketing	1,441,833	1,378,335
Research and development	1,376,386	1,062,668
Depreciation and amortization	182,863	148,165
	<b>4,120,550</b>	3,941,159
Loss from operations	<b>(797,013)</b>	(368,783)
<b>Other income (expenses)</b>		
Interest income	42,787	61,366
Other income (expenses)	(420)	18
<b>Loss before provision for income taxes</b>	<b>(754,646)</b>	(307,399)
Income tax expense - deferred <i>[note 6]</i>	<b>(842,000)</b>	(17,000)
<b>Net loss</b>	<b>(1,596,646)</b>	(324,399)
Foreign currency translation adjustments	<b>(364,374)</b>	(88,914)
<b>Total comprehensive loss</b>	<b>(1,961,020)</b>	(413,313)
<b>Net loss per common share, basic and diluted</b>	<b>(0.03)</b>	(0.01)
<b>Weighted average common shares outstanding:</b>		
Basic	52,993,874	52,486,401
Diluted	52,993,874	52,486,401

*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		Additional	Accumulated	Accumulated	Total
	Shares	Amount	paid-in	Deficit	other	stockholders
	#	\$	capital	\$	comprehensive	equity
			\$	\$	Income (loss)	\$
					\$	
<b>Balance, August 31, 2013</b>	<b>51,981,964</b>	<b>51,982</b>	<b>8,929,384</b>	<b>(5,787,016)</b>	<b>88,657</b>	<b>3,283,007</b>
Total comprehensive loss				(324,399)	(88,914)	(413,313)
Common stock issued on private placement	128,701	129	111,841			111,970
Common stock issued on options exercised	883,209	883	100,367			101,250
Repurchase of options			(113,215)			(113,215)
Stock compensation			32,948			32,948
<b>Balance, August 31, 2014</b>	<b>52,993,874</b>	<b>52,994</b>	<b>9,061,325</b>	<b>(6,111,415)</b>	<b>(257)</b>	<b>3,002,647</b>
Total comprehensive loss				(1,596,646)	(364,374)	(1,961,020)
Stock compensation Note 5			60,807			60,807
<b>Balance, August 31, 2015</b>	<b>52,993,874</b>	<b>52,994</b>	<b>9,122,132</b>	<b>(7,708,061)</b>	<b>(364,631)</b>	<b>1,102,434</b>
<i>See accompanying notes</i>						

## Destiny Media Technologies Inc.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended August 31

(Expressed in United States dollars)

	2015	2014
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss	(1,596,646)	(324,399)
Items not involving cash:		
Depreciation and amortization	182,863	148,165
Stock-based compensation	60,807	32,948
Deferred leasehold inducement	69,244	(2,829)
Deferred income taxes	842,000	17,000
Unrealized foreign exchange	26,247	(38,631)
Changes in non-cash working capital:		
Accounts receivable	54,412	(139,888)
Other receivables	53,500	(62,607)
Prepaid expenses and deposits	89,339	(106,892)
Accounts payable	18,497	96,580
Accrued liabilities	24,185	(11,390)
Deferred revenue	6,676	(46,055)
Long term receivable	99,314	101,175
<b>Net cash used in operating activities</b>	<b>(69,562)</b>	<b>(336,823)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(338,091)	(236,871)
<b>Net cash used in investing activities</b>	<b>(338,091)</b>	<b>(236,871)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from exercise of stock options and warrants		101,250
Repurchase of stock and options		(113,215)
Common stock issued on private placement		111,970
Payments under capital lease obligations	(2,240)	
<b>Net cash provided by financing activities</b>	<b>(2,240)</b>	<b>100,005</b>
<b>Effect of foreign exchange rate changes on cash</b>	<b>(192,798)</b>	<b>(57,856)</b>
<b>Net decrease in cash and cash equivalents during the year</b>	<b>(602,691)</b>	<b>(531,545)</b>
Cash and cash equivalents, beginning of year	990,007	1,521,552
<b>Cash and cash equivalents, end of year</b>	<b>387,316</b>	<b>990,007</b>
<b>Supplementary disclosure</b>		
Interest paid		
Income taxes paid		
<b>Equipment acquired through capital lease obligations</b>	<b>21,150</b>	
<i>See accompanying notes</i>		



**Destiny Media Technologies Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2015 and 2014

**1. ORGANIZATION**

Destiny Media Technologies Inc. (the Company) was incorporated in August 1998 under the laws of the State of Colorado and the corporate jurisdiction was changed to Nevada effective October 8, 2014. 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 OTCQX U.S. 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, 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, 2015 and 2014

**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 payments from customers become due.

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, 2015 and 2014

**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, 2015, 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 has 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, 2015, the Company incurred approximately \$8,000 (2014: \$36,000) 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.



**Destiny Media Technologies Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2015 and 2014

**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 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 following rates, and methods, 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, 2015 and 2014

**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 (loss).

Transactions denominated in foreign currencies are translated at the exchange rate in effect on the transaction date. These 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 \$94,346 and \$69,464 during the years ended August 31, 2015 and 2014, 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, 2015 and 2014

**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, 2015, 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. Compensation expense for unvested options to non-employees is revalued at each balance sheet date and is being amortized over the vesting period of the options. 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, 2015 and 2014

**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 (loss) per share basic is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Net income (loss) 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>2015</b>	2014
	\$	\$
Net income (loss)	<b>(1,596,646)</b>	(324,399)
Weighted average common shares outstanding	<b>52,993,874</b>	52,486,401
Diluted weighted average common shares outstanding	<b>52,993,874</b>	52,486,401

**Destiny Media Technologies Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2015 and 2014

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

At August 31, 2015, the Company had 1,220,000 outstanding options, which consisted of 1,100,000 share purchase options exercisable at \$0.40, 120,000 share purchase options exercisable at \$1.70. Those outstanding options were not included in the computation of diluted EPS because to do so would have been anti-dilutive due to a loss from operations.

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

**Comprehensive income (loss)**

Comprehensive income (loss) includes all changes in equity except those resulting from investments by owners and distributions to owners. Accumulated other comprehensive income (deficit) 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 approximates its fair value as 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, 2015 and 2014

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

*Recently adopted accounting pronouncements*

In March 2013, the FASB issued Accounting Standards Update 2013-05, Foreign Currency Matters (Topic 830). The objective of this Update is to resolve the diversity in practice about whether Subtopic 810-10, Consolidation Overall, or Subtopic 830-30, Foreign Currency Matters Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. This accounting standard update is effective prospectively for annual and interim periods beginning after December 31, 2013. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

*Accounting Standards Not Yet Effective*

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers," which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 requires an entity to recognize revenue depicting the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 will also result in enhanced revenue related disclosures. On August 12, 2015 ASU 2015-14 was released to defer the effective date of ASU 2014-09 to be effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2017. The Company has not yet evaluated the impact of the adoption of this new standard.

**3. LONG TERM RECEIVABLE**

In a prior year, 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 and ending on February 28, 2018. The balance is due to be paid in equal monthly installments of \$14,050AUD until the end of the obligation. 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, 2015, installments of US\$620,824, including interest of US\$195,487, have been received (\$662,000AUD and \$207,387AUD, respectively).

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

August 31, 2015 and 2014

**3. LONG TERM RECEIVABLE (cont d.)**

The following table summarizes the changes regarding the carrying value of the remaining receivable balance during the year ended August 31, 2015 covering the period of September 1, 2014 to August 31, 2015:

	<b>2015</b>	2014
	\$	\$
<b>Beginning balance</b>	<b>461,294</b>	540,538
Gross installments received	<b>(135,403)</b>	(155,466)
Interest included in above	<b>36,089</b>	52,501
Foreign exchange impact	<b>(96,450)</b>	23,721
<b>Ending balance</b>	<b>265,530</b>	461,294

The foreign exchange impact in the above table is partially allocated into other comprehensive income (loss) and partially allocated into exchange gain (loss) on income statement.

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

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
	\$	\$	\$
2016	98,180	22,689	120,869
2017	108,730	12,139	120,869
2018	58,620	1,764	60,384
	<b>265,530</b>	<b>36,592</b>	<b>302,122</b>

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

August 31, 2015 and 2014

**4. PROPERTY AND EQUIPMENT**

	Cost	Accumulated amortization	Net book value
	\$	\$	\$
<b>2015</b>			
Furniture and fixtures	159,507	96,870	62,637
Computer hardware	449,547	369,826	79,721
Computer software	211,229	130,063	81,166
Patents and trademarks	279,415	154,737	124,678
Leasehold improvement	67,781	14,522	53,259
	<b>1,167,479</b>	<b>766,018</b>	<b>401,461</b>
<b>2014</b>			
Furniture and fixtures	120,370	106,160	14,210
Computer hardware	528,912	409,017	119,895
Computer software	157,449	110,673	46,776
Patents and trademarks	235,375	101,076	134,299
	1,042,106	726,926	315,180

**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.

**2015**

During the year ended August 31, 2015, no shares were issued.

**2014**

During the year ended August 31, 2014, 733,209 shares were issued pursuant to the cashless exercise of 875,000 share purchase options exercisable at \$0.50 and 150,000 share purchase options exercisable at \$0.25. 150,000 shares were issued pursuant to the cash exercise of 75,000 share purchase options exercisable at \$0.50 and 75,000 share purchase options exercisable at \$0.85.

On May 23, 2014, the Company announced director compensation for the period from June 1, 2014 to May 31, 2015 in the amount of \$48,000 for each Director (Lawrence Langs, Steve Vestergaard, Yoshitaro Kumagai and Edward Kolic) payable in a lump sum if the Director chose to take part in a private placement of the Company or as monthly payments in the alternative. Immediately following the compensation announcement, three Directors took part in the private





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

August 31, 2015 and 2014

**5. STOCKHOLDERS EQUITY (cont d.)** placement resulting in the Company issuing 128,701 shares at \$0.87 per share for gross proceeds of \$111,970.

**[b] Stock option plans**

The Company has two existing stock option plans (the Plan ), namely the 2006 Stock Option Plan and the 2015 Stock Option Plan, under which up to 7,750,000 shares of the common stock, has been reserved for issuance. A total of 1,783,181 common shares remain eligible for issuance under the plan. 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.

*Stock-Based Payment Award Activity*

A summary of option activity under the Plans as of August 31, 2015 and 2014, and changes during the years ended are presented below:

<b>Options</b>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value \$</b>
<b>Outstanding at September 1, 2013</b>	<b>1,850,000</b>	<b>0.49</b>	<b>0.56</b>	<b>3,119,250</b>
Granted	320,000	1.26		
Exercised	(1,175,000)	0.49		1,110,500
Repurchased and cancelled	(450,000)	0.50		447,750
<b>Outstanding at August 31, 2014</b>	<b>545,000</b>	<b>0.95</b>	<b>2.55</b>	<b>67,500</b>
Granted	1,100,000	0.40		
Expired	(425,000)	0.74		
<b>Outstanding at August 31, 2015</b>	<b>1,220,000</b>	<b>0.53</b>	<b>2.38</b>	
<b>Exercisable at August 31, 2015</b>	<b>483,750</b>	<b>0.51</b>	<b>1.81</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, 2015.

The following table summarizes information regarding the non-vested stock purchase options outstanding as of August 31, 2015:

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

August 31, 2015 and 2014

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

	Number of Options	Weighted Average Grant Date Fair Value \$
<b>Non-vested options at August 31, 2013</b>	<b>40,625</b>	<b>0.02</b>
Granted	320,000	0.23
Vested	(40,625)	0.02
<b>Non-vested options at August 31, 2014</b>	<b>320,000</b>	<b>0.23</b>
Granted	1,100,000	0.08
Forfeited	(200,000)	0.22
Vested	(483,750)	0.08
<b>Non-vested options at August 31, 2015</b>	<b>736,250</b>	<b>0.09</b>

As of August 31, 2015, there was \$86,819 of total unrecognized compensation cost related to non-vested share-based compensation awards. The unrecognized compensation cost is expected to be recognized over a weighted average period of 1.73 years.

During the year ended August 31, 2015, the total stock-based compensation expense of \$60,807 is reported in the statement of comprehensive loss as follows:

	2015 \$	2014 \$
Stock-based compensation		
General and administrative	45,387	367,484
Sales and marketing	12,849	
Research and development	2,571	
Total stock-based compensation	60,807	367,484

During the year ended August 31, 2014, 450,000 options at an exercise price of \$0.50 per share were repurchased by the Company for consideration of \$447,750 based on the open market price on the date of repurchase. The difference between the fair value of options at the repurchase date and the fair market value at grant date was charged to expense resulting in additional compensation of \$334,536 recorded in general and administrative expenses. Stock-based compensation for options vested during the year ended August 31, 2014 was \$32,948.

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

August 31, 2015 and 2014

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

	2015	2014
	\$	\$
Expected term of stock options (years)	<b>1.0-1.96</b>	<b>1.5-2.5</b>
Expected volatility	<b>88-97%</b>	<b>69-74%</b>
Risk-free interest rate	<b>0.29%-0.66%</b>	<b>0.24%-0.70%</b>
Dividend yields		
Weighted average grant date fair value	<b>\$ 0.08</b>	<b>\$ 0.23</b>

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.

**[c] 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, 2015, the Company recognized compensation expense of \$93,569 (2014: \$117,266) 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 \$0.37 (2014: \$1.46). The shares are held in trust by the Company for a period of one year from the date of purchase.

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

August 31, 2015 and 2014

**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 26%. 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:

	2015	2014
	\$	\$
Tax at U.S. statutory rates	(257,000)	(108,000)
Permanent differences	2,000	1,000
Stock option compensation	21,000	125,000
Effect of lower foreign tax in Canada	46,000	(1,000)
Effect of research tax credits claims filed in respect of prior years	(175,000)	(338,000)
Foreign exchange and other adjustments	365,000	124,000
Change in valuation allowance	840,000	214,000
<b>Provision for deferred income taxes</b>	<b>842,000</b>	<b>17,000</b>

Included in other adjustments and change in valuation allowance for the year ended August 31, 2015 is \$341,000 (2014: \$53,000) for the effect of changes in foreign exchange rates and \$24,000 (2014: \$71,000) in respect of a change in estimates and provisions.

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.

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

August 31, 2015 and 2014

**6. INCOME TAXES (cont d.)**

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

	<b>2015</b>	<b>2014</b>
	\$	\$
<b>Deferred tax assets:</b>		
Net operating loss carryforwards	<b>1,251,000</b>	1,064,000
Excess of book over tax depreciation	<b>437,000</b>	558,000
Tax Credits carryforward	<b>1,319,000</b>	1,387,000
Total deferred tax asset	<b>3,007,000</b>	3,009,000
Valuation allowance	<b>(3,007,000)</b>	(2,167,000)
<b>Net deferred tax asset</b>		842,000
<b>Less: current portion</b>		
<b>Non-current</b>		842,000

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

	<b>2015</b>	<b>2014</b>
	\$	\$
United States	<b>(143,538)</b>	(37,979)
Canada	<b>(611,108)</b>	(269,420)
	<b>(754,646)</b>	(307,399)

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

	<b>Canada</b>	<b>United States</b>
	\$	\$
2021 and thereafter	386,487	3,410,509
	<b>386,487</b>	<b>3,410,509</b>

If not utilized to reduce future taxable payable, the Company's investment tax credit carryforwards will expire as follows:

	<b>Canada</b>	<b>United States</b>
	\$	\$
2028 and thereafter	1,319,000	
	<b>1,319,000</b>	

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

August 31, 2015 and 2014

**7. COMMITMENTS**

In December 2014, the Company entered into a sublease agreement commencing May 1, 2015 and expiring June 29, 2017 for a new premise with free occupation from February 2015 to April 2015. In February 2015 the sublease agreement was amended to include one extra month free occupation for May 2015 with rent payment starting June 1, 2015. The Company has fiscal year payments committed as follows:

\$

2016	266,839
2017	222,366

During the year ended August 31, 2015 the Company incurred rent expense of \$289,917 (2014 - \$268,667) which has been allocated between general and administrative expenses, research and development and sales and marketing on the consolidated statement of operations and comprehensive income (loss). The rent expense during the year ended August 31, 2015 has included the allocation of rental payments for our new office into the period starting from the sublease commencement date on a straight-line basis up to August 31, 2015.

In February 2015, the Company entered into a capital lease. The Company is committed to make payments under its capital leases for the remaining terms of the leases as follows:

	\$
2016	6,440
2017	6,440
2018	6,656
Total lease payments	19,536
Less: Amounts representing interest	(2,260)
Balance of obligation	17,276
Less: Current portion	(5,205)
Long term portion	12,071

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**Destiny Media Technologies Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2015 and 2014

**8. RELATED PARTY TRANSACTIONS**

The Company entered into a consulting agreement with a family member of a Director to provide project management service effective March 1, 2014. During the year ended August 31, 2015, the Company paid consulting fees of \$68,011 (2014 - \$30,647) under this agreement. The family member's service was terminated at the end of May 2015.

On May 23, 2014, the Company announced director compensation for the period from June 1, 2014 to May 31, 2015 in the amount of \$48,000 for each Director (Lawrence Langs, Steve Vestergaard, Yoshitaro Kumagai and Edward Kolic) payable in a lump sum if the Director chose to take part in a private placement of the Company or as monthly payments in the alternative. The Director Compensation is in addition to any existing compensation paid to the executive director of the Company. During the year ended August 31, 2015, the Company paid \$36,000 to a Director and expensed the prepaid cost of \$108,000. The total amount of \$144,000 was charged to general and administrative in the consolidated statement of operations and comprehensive income (loss). During the year ended August 31, 2014, the Company paid \$144,417 to its Directors and with \$36,417 charged to general and administrative in the consolidated statement of operations and comprehensive income (loss), and \$108,000 included in prepaid expenses.

**9. CONTINGENCIES**

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. The claim asserts that the Company has repudiated a subscription agreement entered into in 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 against Noramco and the alleged major beneficial shareholder of Noramco, R. A. Bruce McDonald, for damages arising from a proposed private placement in 2000 which did not close.



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

August 31, 2015 and 2014

**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:

	2015	2014
	\$	\$
<b>Play MPE®</b>		
United States	<b>1,314,553</b>	1,296,078
Europe	<b>1,695,042</b>	2,000,944
Australia	<b>285,230</b>	167,826
<b>Total Play MPE® Revenue</b>	<b>3,294,825</b>	3,464,848
<b>Clipstream ®</b>		
United States	<b>28,712</b>	107,528
<b>Total Clipstream ® Revenue</b>	<b>28,712</b>	107,528
<b>Total Revenue</b>	<b>3,323,537</b>	3,572,376

Revenue in the above table is based on location of the customer's billing address. Some of these customers have distribution centers located around the globe and distribute around the world. During the year ended August 31, 2015, the Company generated 45% of total revenue from one customer [2014 - one customer represented 49%].

It is in management's opinion that the Company is not exposed to significant credit risk.

As at August 31, 2015, one customer represented \$237,037 (59%) of the trade receivables balance [2014 - one customer represented 79%].

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

**Destiny Media Technologies Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2015 and 2014

**11. SUBSEQUENT EVENTS**

Subsequent to year ended August 31, 2015, the Company has completed a non-brokered private placement financing of 2,020,000 Units at a price of USD\$0.25 per Unit for gross proceeds of USD\$505,000.

Each Unit is comprised of one common share of Destiny and one-half of one common share purchase warrant ("Warrant"), with each whole Warrant entitling the holder to purchase one additional common share at USD\$0.30 per share for a period of two years from the date of the issue. Destiny will have the right to accelerate the expiry date of the Warrants if, at any time, the average closing price of Destiny's common shares is equal to or greater than USD\$1.25 for 20 consecutive trading days. In the event of acceleration, the expiry date will be accelerated to a date that is 30 days after Destiny issues a news release announcing that it has elected to exercise this acceleration right.

The securities issued under the financing will be subject to a hold period expiring on February 21, 2016 pursuant to applicable Canadian securities laws and the rules of the TSX Venture Exchange.

The proceeds from the private placement will be used for general working capital purposes.

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

None.

**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, as of August 31, 2015.

Based on their evaluation, our management, with the participation of our principal executive officer and principal financial officer concluded that as of August 31, 2015, our disclosure controls and procedures were effective.

**Internal Control Over Financial Reporting**

The Chief Executive Officer and the Chief Financial Officer of the Company are responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act, 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 1992 framework provided by the Committee of Sponsoring Organizations ( COSO ), the Company conducted an evaluation of the effectiveness of the internal control over financial reporting as at August 31, 2015 and concluded that our internal control over financial reporting is effective as of August 31, 2015.

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**

There were no changes in internal control over financial reporting during the fiscal quarter ended August 31, 2015.

**ITEM 9B. OTHER INFORMATION.**

None.

**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	<i>Chief Executive Officer and Director</i>	49	<i>January 1999</i>
Frederick Vandenberg	<i>Chief Financial Officer and Treasurer</i>	47	<i>July 2007</i>
Edward Kolic <sup>(1)</sup>	<i>Director</i>	54	<i>February 1999</i>
Haig Bagerdjian <sup>(1)</sup>	<i>Director</i>	59	<i>January 2015</i>
Yoshitaro Kumagai <sup>(1)</sup>	<i>Director</i>	69	<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 Treasurer 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.

**Haig Bagerdjian.** Mr. Bagerdjian has been a director of the Company since January 2015. Currently Haig Bagerdjian is Chairman and Chief Executive Officer of Point.360 (<http://www.point360.com/>), a full-service audio-visual asset management and distribution company that has been serving the entertainment industry for over 30 years. He has been Chairman of Point.360 since 2001 and CEO since 2002. Prior to joining Point.360, he was Executive Vice President of Syncor International Corporation, a leading provider of radiopharmaceuticals, comprehensive nuclear pharmacy

services and medical imaging services from 1991 to 2002. From 1987 to 1991, he served in several executive level positions at Calmark Holding Corporation. He also was General Counsel for American Adventure, Inc., which was a subsidiary of Calmark Holding and he is currently a director of Innodata-Isogen, Inc. Mr. Bagerdjian received a J.D. from Harvard Law School and is admitted to the State Bar of California.

**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 currently consists of Mr. Haig Bagerdjian, Mr. Edward Kolic and Mr. Yoshitaro Kumagai. Messrs. Bagerdjian, Kolic and Kumagai are non-employee directors of the Company and are considered independent directors. Our Board of Directors has currently designated Mr. Haig Bagerdjian 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 over financial reporting.

Our Board adopted a charter for the Audit Committee in November 2013, a copy of which is available on our corporate website [www.dsnny.com](http://www.dsnny.com).

**FAMILY RELATIONSHIPS**

There are no family relationships among our officers and directors.

**COMPLIANCE WITH SECTION 16(a) OF THE 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 our review of the copies of such forms received by us, we believe that during the fiscal year ended August 31, 2015 all such filing requirements were complied except as follows:

<b>Name</b>	<b>Number of Late Reports</b>	<b>Number of Transactions Not Reported on a Timely Basis</b>	<b>Failure to File Requested Forms</b>
Steven Vestergaard	1	1	Nil
Frederick Vandenberg	1	1	Nil
Edward Kolic	1	1	Nil
Haig Bagerdjian	3	2	Nil
Yoshitaro Kumagai	1	1	Nil

**CODE OF ETHICS**

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

We have adopted a code of ethics that applies to our principal executive officer, principle financial and accounting officer, or persons performing similar functions.



## **POLICY ON NEW CANDIDATES FOR DIRECTOR**

1. The Committee will accept for consideration submissions from shareholders of recommendations for the nomination of directors. Acceptance of a recommendation for consideration does not imply that the Committee will nominate the recommended candidate.
2. All shareholder nominating recommendations must be in writing, addressed to the Committee care of the Company's Corporate Secretary at the Company's principal headquarters, Suite 1110 885 West Georgia St., Vancouver, British Columbia, V6C 3E8. Submissions must be made by mail, courier or personal delivery. Submissions by e-mail will not be considered.
3. A nominating recommendation must be accompanied by the following information concerning each recommending shareholder:
  - a. The name and address, including telephone number, of the recommending shareholder;
  - b. The number of the Company's shares owned by the recommending shareholder and the time period for which such shares have been held;
  - c. If the recommending shareholder is not a shareholder of record, a statement from the record holder of the shares (usually a broker or bank) verifying the holdings of the shareholder and a statement from the recommending shareholder of the length of time that the shares have been held. (Alternatively, the shareholder may furnish a current Schedule 13D, Schedule 13G, Form 3, Form 4 or Form 5 filed with the Securities and Exchange Commission reflecting the holdings of the shareholder, together with a statement of the length of time that the shares have been held); and
  - d. A statement from the shareholder as to whether the shareholder has a good faith intention to continue to hold the reported shares through the date of the Company's next annual meeting of shareholders.
4. If a recommendation is submitted by a group of two or more shareholders, the information regarding recommending shareholders must be submitted with respect to each shareholder in the group.
5. A nominating recommendation must be accompanied by the following information concerning the proposed nominee:
  - a. the information required by Item 401 of SEC Regulation S-K (providing for disclosure of the name, address, any arrangements or understanding regarding nomination and five year business experience of the proposed nominee, as well as information regarding certain types of legal proceedings within the past five years involving the nominee);
  - b. the information required by Item 403 of SEC Regulation S-K (providing for disclosure regarding the proposed nominee's ownership of securities of the Company); and
  - c. the information required by Item 404 of SEC Regulation S-K (providing for disclosure of transactions between the Company and the proposed nominee valued in excess of \$120,000 and certain other types of business relationships with the Company).
  - d. a description of all relationships between the proposed nominee and the recommending shareholder and any agreements or understandings between the recommending shareholder and the nominee regarding the nomination.
  - e. a description of all relationships between the proposed nominee and any of the Company's competitors, customers, suppliers, labor unions or other persons with special interests regarding the Company.
6. The recommending shareholder must furnish a statement supporting its view that the proposed nominee possesses the minimum qualifications prescribed by the Committee for nominees, and briefly describing the contributions that the nominee would be expected to make to the board and to the governance of the Company.
7. The recommending shareholder must state whether, in the shareholder's view, the nominee, if elected, would represent all shareholders and not serve for the purpose of advancing or favoring any particular shareholder or other constituency of the Company.
8. The nominating recommendation must be accompanied by the consent of the proposed nominee to be interviewed by the Committee, if the Committee chooses to do so in its discretion (and the recommending shareholder must furnish the proposed nominee's contact information for this purpose), and, if nominated and



elected, to serve as a director of the Company.

9. A shareholder (or group of shareholders) wishing to submit a nominating recommendation for an annual meeting of shareholders must ensure that it is received by the Secretary of the Company, as provided above, not later than the 60th day nor earlier than the 90th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the shareholder must be so received not earlier than the 90th day prior to the annual meeting and not later than the later of the 60th day prior to the annual meeting or the 15th day following the day on which public announcement of the date of the meeting is first made by the Company.

**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 other than the principle executive officer who were serving as executive officers at the end of the year ended August 31, 2015; 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, 2015,

who we will collectively refer to as our named executive officers, of our company for the years ended August 31, 2015 and 2014, 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 and the Chief Financial Officer, whose total compensation does not exceed \$100,000 for the respective fiscal year:

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$) <sup>(1)</sup>	Director Fees Earned in Cash (\$) <sup>(2)</sup>	Other Annual Compensation (\$) <sup>(3)</sup>	Total (\$)
Steven Vestergaard <sup>(4)</sup> President, Chief Executive Officer and Director	2015	215,644	Nil	Nil	33,553	36,000	10,782	295,979
	2014	241,462	Nil	Nil	Nil	12,000	12,073	265,535
Frederick Vandenberg <sup>(5)</sup> Chief Financial Officer, Treasurer and Secretary	2015	174,174	Nil	Nil	12,582	Nil	8,709	195,465
	2014	195,027	Nil	Nil	Nil	Nil	9,751	204,778

- (1) Option awards shown here represent the aggregate grant date fair value of all options granted
- (2) On May 23, 2014, the Board of Directors set the annual compensation payable to each member of the Board of Directors at \$48,000 per annum for the period from June 1, 2014 to May 31, 2015. The fees earned or paid in cash of \$36,000 for Mr. Vestergaard as a Director was for the service period of September 1, 2014 to May 31, 2015 during this fiscal year (August 31, 2014 - \$12,000 for the service period of June 1 2014 to August 31 2014).
- (3) 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.
- (4) All salaries paid to Mr. Vestergaard are paid in Canadian dollars.
- (5) All salaries paid to Mr. Vandenberg are paid in Canadian dollars.
- (6) Compensation is stated in United States dollars. Where compensation was provided in Canadian dollars, compensation is based on an exchange rate of 0.8294 US dollars for each 1.00 Canadian dollar during the 2015 fiscal year. Compensation is stated in United States dollars and is based on an exchange rate of 0.9287 US dollars for each 1.00 Canadian dollar during the 2014 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.

**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, 2015.

Option Awards						Stock Awards			
Name	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or 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 Unearned Shares, Units or Other Rights that have not Vested (#)	
Steven Vestergaard	50,000	350,000	N/A	0.40	(1)	N/A	N/A	N/A	
Frederick Vandenberg	18,750	131,250	N/A	0.40	(2)	N/A	N/A	N/A	

(1) The total of unexercised options of 400,000 including the exercisable of 50,000 and unexercisable of \$350,000 is subject to equal monthly vesting over two years commencing June 25, 2015 and the expiry date is two years from the particular vesting date.

(2) The total of unexercised options of 150,000 including the exercisable of 18,750 and unexercisable of \$131,250 is subject to equal monthly vesting over two years commencing June 25, 2015 and the expiry date is two years from the particular vesting date.

**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 the Company. 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 semi-monthly basis for the year ended August 31, 2015. 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:

<b>Name</b>	<b>Fees Earned or Paid in Cash (\$)<sup>(1)</sup></b>	<b>Stock Awards (\$)</b>	<b>Option Awards (\$)</b>	<b>All Other Compensation (\$)<sup>(2)</sup></b>	<b>Total (\$)</b>
Yoshitaro Kumagai	36,000	Nil	Nil	Nil	36,000
Haig Bagerdjian	Nil	Nil	Nil	12,500	12,500
Edward Kolic	36,000	Nil	Nil	Nil	36,000

- (1) On May 23, 2014, the Board of Directors set the annual compensation payable to each member of the Board of Directors at \$48,000 per annum for the period from June 1, 2014 to May 31, 2015. The fees earned or paid in cash of \$36,000 for Mr. Kumagai and Mr. Kolic was for the service period of September 1, 2014 to May 31, 2015 during this fiscal year.
- (2) All other compensation for Mr. Bagerdjian includes participation in the employee share purchase plan described above under long term incentive plans.
- (3) All other compensation is stated in United States dollars and compensation was provided in Canadian dollars.

**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 24, 2015 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.

<b>Title of class</b>	<b>Name and address of beneficial owner</b>	<b>Number of Shares of Common Stock</b>	<b>Percentage of Common Stock<sup>(1)</sup></b>
<b>DIRECTORS AND OFFICERS:</b>			
Common Stock	Steven Vestergaard President, Chief Executive Officer and Director c/o 1110-885 W Georgia St. Vancouver, BC, V6C 3E8	11,386,593 <sup>(2)</sup>	20.52%
Common Stock	Frederick Vandenberg Chief Financial Officer and Corporate Secretary c/o 1110-885 W Georgia St. Vancouver, BC, V6C 3E8	813,861 <sup>(3)</sup>	1.47%



Common Stock	Edward Kolic Director c/o 1110-885 W Georgia St. Vancouver, BC, V6C 3E8	418,373 <sup>(4)</sup>	*
Common Stock	Haig Bagerdjian Director c/o 1110-885 W Georgia St. Vancouver, BC, V6C 3E8	170,632 <sup>(5)</sup>	*
Common Stock	Yoshitaro Kumagai Director c/o 1110-885 W Georgia St. Vancouver, BC, V6C 3E8	523,069 <sup>(6)</sup>	*
Common Stock	All Officers and Directors as a Group (6 persons)	13,312,528	23.99%

\* Less than one percent (1%)

- (1) Under Rule 13d-3 of the Exchange Act, 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 such 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 24, 2015. As of November 24, 2015, there were 55,013,874 shares of our common stock issued and outstanding.
- (2) Consists of 11,253,260 shares held by Mr. Vestergaard and 133,333 shares that are immediately acquirable upon the exercise of stock options held by Mr. Vestergaard within 60 days of November 24, 2015.
- (3) Consists of 763,861 shares held by Mr. Vandenberg and 50,000 shares that are immediately acquirable upon the exercise of stock options held by Mr. Vandenberg within 60 days of November 24, 2015.
- (4) Consists of 318,373 shares held by Mr. Kolic and 100,000 shares that may be acquired upon the exercise of stock options held by Mr. Kolic within 60 days of November 24, 2015.
- (5) Consists of 70,632 shares held by Mr. Bagerdjian and 100,000 shares that may be acquired upon the exercise of stock options held by Mr. Bagerdjian within 60 days of November 24, 2015.
- (6) Consists of 423,069 shares held by Mr. Kumagai and 100,000 shares that may be acquired upon the exercise of stock options held by Mr. Kumagai within 60 days of November 24, 2015.





**EQUITY COMPENSATION PLAN INFORMATION**

We have two equity compensation plans, namely our Amended 2006 Stock Option Plan and the 2015 Stock Option Plan, under which up to 7,750,000 shares of our common stock, have been authorized for issuance to our officers, directors, employees and consultants. Our plans have not been approved by the Company's stockholders. The following summary information is presented for our plans on an aggregate basis as of August 31, 2015.

	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	Not Applicable	Not Applicable	Not Applicable
Equity Compensation Plans Not Approved By Security Holders	1,220,000 Shares of Common Stock	\$0.53 per Share	1,783,181 Shares of Common Stock
Total	1,220,000 Shares of Common Stock		1,783,181 Shares of Common Stock

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

Except as described under Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters and under Item 11. Executive Compensation, and under note 8 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 person who beneficially owns, directly or indirectly, shares carrying more than 5% of the voting rights attached to our common stock; or
- (C) any immediate family member of any of the foregoing persons.

**SHARE ISSUANCES**

None.

Messrs Bagerdjian, Kolic and Kumagai are independent directors. Mr. Vestergaard is our Chief Executive Officer and is not viewed as an independent director of the Company.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.**

*Audit Fees*

Our current sole principal independent registered public accountant, BDO Canada LLP, provided audit and other services during the year ended August 31, 2015 and the year ended August 31, 2014 as follows:

**BDO Canada LLP**

	2015	2014
<b>Audit Fees</b>	<b>\$ 84,974</b>	\$ 98,173
<b>Audit Related Fees</b>	-	-
<b>Tax Fees</b>	<b>9,667</b>	12,341
<b>All Other Fees</b>	-	-
<b>Total Fees</b>	<b>\$ 94,641</b>	\$ 110,514

*Audit Fees.* This category includes the fees for the audit of our annual 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 other audit 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 service, the engagement be:

- approved by the Company's audit committee; or
- 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 under the Exchange Act to management.

The audit committee requires advance approval of all audit, audit-related, tax, and non-audit 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.

Of the total aggregate fees paid by us to our accountants during the fiscal years ended August 31, 2015 and 2014, 100% and 100% of the aggregate fees, respectively, were approved by the audit committee pursuant to the *de minimis* exception provided by Section (c)(7)(i)(C) of Rule 2-01 of Regulations S-X.

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 Comprehensive Income;
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:**

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

- 3.1 Amended Articles Of Incorporation (incorporated by reference to Exhibit 3(I) to our Amendment No. 5 to Registration Statement on Form 10SB12G filed on April 24, 2000).

3.2 Amended and Restated Bylaws.

- 4.1 2006 Amended And Restated Stock Option Plan (incorporated by reference to Exhibit 4.1 to our Post-effective Amendment No. 1 to Registration Statement on Form S-8 filed on May 18, 2007)
- 10.1 Share Purchase Agreement among Steve Vestergaard And Euro Industries Ltd. And Destiny Software Productions Inc. dated June 15, 1999 (incorporated by reference to Exhibit 4 to our Registration Statement on Form 10SB12G filed on November 23, 1999).
- 10.2 Rule 506 Subscription Agreement dated February 24, 2006 between Destiny Media Technologies Inc. and Global Equity Trading & Finance Ltd. (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on March 3, 2006).
- 10.3 Rule 506 Subscription Agreement dated February 3, 2006 between Destiny Media Technologies Inc. and Global Equity Trading & Finance Ltd. (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on March 3, 2006).
- 10.4 Securities Purchase Agreement dated February 26, 2007 (incorporated by reference to Exhibit 99.2 to our Current Report on Form 8-K filed on March 1, 2007).
- 10.5 Employee Stock Purchase Plan (incorporated by reference to our Other Definitive Proxy Statements on Form DEF 14A filed on February 04, 2011).
- 21.1\* Subsidiaries of the Registrant.
- 23.1\* Consent of Independent Registered Public Accounting Firm - BDO CANADA LLP
- 24\* Power of Attorney (included in Signature pages)
- 31.1\* Section 302 Certification of Chief Executive Officer
- 31.2\* Section 302 Certification of Chief Financial Officer
- 32.1\* Section 906 Certification of Chief Executive Officer
- 32.2\* Section 906 Certification of Chief Financial Officer
- 100\* XBRL-Related Documents
- 101\* Interactive Data File

\* Filed herewith  
Management contract or compensatory plan or arrangement

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly 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 and Director  
Date: November 25, 2015

/s/Frederick Vandenberg  
Frederick Vandenberg, Chief Financial Officer  
Date: November 25, 2015

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS that each individual whose signature appears below constitutes and appoints Steven Vestergaard and Frederick Vandenberg, his true and lawful attorney-in-fact and agent with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, 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, President and Director  
(Principal Executive Officer)  
Date: November 25, 2015

By: /s/Frederick Vandenberg  
Frederick Vandenberg, Chief Financial Officer  
(Principal Financial Officer and Principal  
Accounting Officer)  
Date: November 25, 2015

By: /s/Edward Kolic  
Edward Kolic  
Director  
Date: November 25, 2015

By: /s/Yoshitaro Kumagai  
Yoshitaro Kumagai  
Director  
Date: November 25, 2015

By: /s/ Haig Bagerdjian  
Haig Bagerdjian  
Director  
Date: November 25, 2015