DESTINY MEDIA TECHNOLOGIES INC
Form 10-Q
July 16, 2018

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **May 31, 2018**

[ ] 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.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **NEVADA** | **84-1516745** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **1110 885 West Georgia Street, Vancouver, British Columbia, Canada** | **V6C 3E8** |
| (Address of principal executive offices) | (Zip Code) |

**604-609-7736**
(Registrant's telephone number, including area code)

______________________________________________________________

(Former name, former address and former fiscal year, if changes since last report)

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.
[X] 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)
[X] 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.

| | | | | |
|---|---|---|---|---|
| Large accelerated filer | [ ] | | Accelerated filer | [ ] |
| Non-accelerated filer | [ ] | (Do not check if a smaller reporting company) | Smaller reporting company | [X] |

Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act
[ ] Yes [ ] No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)
[ ] Yes [X] No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer s class of common stock, as of the latest practicable date:

**The number of shares outstanding of the registrant s common stock, par value $0.001, as of July 16, 2018 was 55,013,874.**

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements.

Condensed Consolidated Financial Statements

**Destiny Media Technologies Inc.**
(Unaudited)
May 31, 2018
(Expressed in United States dollars)

**Destiny Media Technologies Inc.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**
(Expressed in United States Dollars)
Unaudited

As at,

| | **May 31, 2018** $ | August 31, 2017 $ |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents | **2,051,330** | 1,342,956 |
| Accounts receivable, net of allowance for doubtful accounts of $6,171 [August 31, 2017   $3,383] *[note 10]* | **314,656** | 529,666 |
| Other receivables | **58,453** | 21,216 |
| Short term receivable *[note 3]* | | 64,811 |
| Prepaid expenses | **52,452** | 54,507 |
| Deposit | **573** | 592 |
| **Total current assets** | **2,477,464** | 2,013,748 |
| Deposits | **34,618** | 27,923 |
| Property and equipment, net *[note 4]* | **175,886** | 116,208 |
| Intangible assets, net *[note 4]* | **50,897** | 86,824 |
| **Total assets** | **2,738,865** | 2,244,703 |
| | | |
| **LIABILITIES AND STOCKHOLDERS   EQUITY** | | |
| **Current** | | |
| Accounts payable | **166,934** | 127,444 |
| Accrued liabilities | **165,427** | 192,433 |
| Deferred leasehold inducement | **52,476** | 2,090 |
| Deferred revenue | **1,978** | 23,685 |
| Obligation under capital lease | **2,956** | 6,246 |
| **Total liabilities** | **389,771** | 351,898 |
| | | |
| Commitments and contingencies *[notes 6 and 8]* | | |
| **Stockholders   equity** | | |
| Common stock, par value $0.001 *[note 5]* | | |
| Authorized: 100,000,000 shares | | |
| Issued and outstanding: 55,013,874 shares | | |
| [August 31, 2017   issued and outstanding 55,013,874 shares] | **55,014** | 55,014 |
| Additional paid-in capital *[note 5]* | **9,754,093** | 9,712,213 |
| Accumulated deficit | **(7,123,037)** | (7,607,531) |
| Accumulated other comprehensive loss | **(336,976)** | (266,891) |
| **Total stockholders   equity** | **2,349,094** | 1,892,805 |
| **Total liabilities and stockholders   equity** | **2,738,865** | 2,244,703 |

***See accompanying notes***

**Destiny Media Technologies Inc.**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
(Expressed in United States dollars)
Unaudited

| | **Three Months Ended May 31, 2018 $** | Three Months Ended May 31, 2017 $ | **Nine Months Ended May 31, 2018 $** | Nine Months Ended May 31, 2017 $ |
|---|---|---|---|---|
| **Revenue** *[note 10]* | **921,605** | 897,475 | **2,710,458** | 2,571,582 |
| | | | | |
| **Operating expenses** | | | | |
| General and administrative | **183,942** | 139,105 | **497,767** | 519,053 |
| Sales and marketing | **237,205** | 237,326 | **758,927** | 766,007 |
| Research and development | **290,497** | 321,210 | **891,985** | 975,909 |
| Depreciation and Amortization | **27,988** | 37,048 | **79,175** | 120,538 |
| | **739,632** | 734,689 | **2,227,854** | 2,381,507 |
| **Income from operations** | **181,973** | 162,786 | **482,604** | 190,075 |
| **Other income** | | | | |
| Interest income | **1,656** | 3,437 | **5,657** | 12,071 |
| Other income (expense) | | | **(3,767)** | |
| **Net income** | **183,629** | 166,223 | **484,494** | 202,146 |
| | | | | |
| **Other comprehensive income** | | | | |
| Foreign currency translation adjustments | **(29,076)** | (30,661) | **(70,085)** | (44,792) |
| | | | | |
| **Total comprehensive income** | **154,553** | 135,562 | **414,409** | 157,354 |
| | | | | |
| **Net income per common share, basic and diluted** | **0.00** | 0.00 | **0.01** | 0.00 |
| | | | | |
| **Weighted average common shares outstanding:** | | | | |
| | | | | |
| **Basic and diluted** | **55,013,874** | 55,013,874 | **55,013,874** | 55,013,874 |

*See accompanying notes*

**Destiny Media Technologies Inc.**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY**
(Expressed in United States dollars)
Unaudited

| | Common stock | | Additional paid-in capital | Accumulated Deficit | Accumulated other comprehensive loss | Total stockholders equity |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| | # | $ | $ | $ | $ | $ |
| **Balance, August 31, 2017** | **55,013,874** | **55,014** | **9,712,213** | **(7,607,531)** | **(266,891)** | **1,892,805** |
| Total comprehensive income | | | | 484,494 | (70,085) | 414,409 |
| Stock based compensation *Note 5* | | | 41,880 | | | 41,880 |
| **Balance, May 31, 2018** | **55,013,874** | **55,014** | **9,754,093** | **(7,123,037)** | **(336,976)** | **2,349,094** |

*See accompanying notes*

**Destiny Media Technologies Inc.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
(Expressed in United States dollars)
Unaudited

Nine months ended May 31,

| | **2018** **$** | 2017 $ |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income | **484,494** | 202,146 |
| Items not involving cash: | | |
| Depreciation and amortization | **79,175** | 120,538 |
| Stock-based compensation | **41,880** | 37,206 |
| Deferred leasehold inducement | **5,860** | (25,644) |
| Unrealized foreign exchange | **(420)** | 2,475 |
| Loss on disposal of property and equipment | **3,767** | |
| Changes in non-cash working capital: | | |
| Accounts receivable | **204,756** | 193,701 |
| Other receivables | **(40,911)** | 1,228 |
| Prepaid expenses and deposits | **(7,113)** | (164) |
| Accounts payable | **39,911** | (3,878) |
| Accrued liabilities | **(19,895)** | (9,954) |
| Deferred revenue | **(21,425)** | (21,230) |
| Deferred leasehold inducement | **45,735** | — |
| Short term receivable | **64,582** | 78,759 |
| **Net cash provided by operating activities** | **880,396** | 575,183 |
| | | |
| **INVESTING ACTIVITY** | | |
| Purchase of property, equipment and intangibles | **(113,867)** | (49,457) |
| **Net cash used in investing activity** | **(113,867)** | (49,457) |
| | | |
| **Effect of foreign exchange rate changes on cash** | **(58,155)** | (23,894) |
| | | |
| **Net increase in cash and cash equivalents during the period** | **708,374** | 501,832 |
| Cash and cash equivalents, beginning of period | **1,342,956** | 662,743 |
| **Cash and cash equivalents, end of period** | **2,051,330** | 1,164,575 |
| | | |
| **Supplementary disclosure** | | |
| Interest paid | | |
| Income taxes paid | | |

*See accompanying notes*

**Destiny Media Technologies Inc.**

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

May 31, 2018

### 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 OTCQB 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. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated interim financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States for interim financial information pursuant to the rules and regulations of the United States Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended May 31, 2018 are not necessarily indicative of the results that may be expected for the year ended August 31, 2018.

The balance sheet at August 31, 2017 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by United States generally accepted accounting principles for annual financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended August 31, 2017.

**Destiny Media Technologies Inc.**

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

May 31, 2018

**3. SHORT 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 was due to be paid in equal monthly installments of AUD$14,050 until the end of the obligation and was accruing interest at a rate of 10.25% per annum compounded monthly. The receivable was secured by a registered charge against real estate located in Australia.

As of May 31, 2018, all installments due under the terms of the settlement had been received.

The following table summarizes the changes in the carrying value of the receivable balance during the year ended August 31, 2017 and during the nine months ended May 31, 2018:

| | **May 31, 2018** | August 31, 2017 |
|---|---|---|
| | $ | **$** |
| **Beginning balance** | **64,811** | 175,206 |
| Gross installments received | **(65,766)** | (127,845) |
| Interest | **1,921** | 12,840 |
| Foreign exchange impact | **(966)** | 4,610 |
| **Ending balance** | | 64,811 |

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

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**Destiny Media Technologies Inc.**

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

May 31, 2018

**4. PROPERTY AND EQUIPMENT AND INTANGIBLES**

| | Cost<br>$ | Accumulated amortization<br>$ | Net book value<br>$ |
|---|---|---|---|
| **May 31, 2018** | | | |
| **Property and equipment** | | | |
| Furniture and fixtures | **149,556** | **114,057** | **35,499** |
| Computer hardware | **237,418** | **197,761** | **39,657** |
| Computer software | **215,441** | **202,506** | **12,935** |
| Leasehold improvement | **164,093** | **76,298** | **87,795** |
| | **766,508** | **590,622** | **175,886** |
| | | | |
| **Intangibles** | | | |
| Patents, trademarks and lists | **413,673** | **362,776** | **50,897** |
| | **413,673** | **362,776** | **50,897** |
| | | | |
| **August 31, 2017** | | | |
| **Property and equipment** | | | |
| Furniture and fixtures | 171,724 | 126,005 | 45,719 |
| Computer hardware | 241,705 | 192,596 | 49,109 |
| Computer software | 222,554 | 201,174 | 21,380 |
| Leasehold improvement | 71,415 | 71,415 | |
| | 707,398 | 591,190 | 116,208 |
| | | | |
| **Intangibles** | | | |
| Patents, trademarks and lists | 415,752 | 328,928 | 86,824 |
| | 415,752 | 328,928 | 86,824 |

Depreciation and amortization for the three and nine months ended May 31, 2018 was $27,988 and $79,175, respectively (2017: $37,048 and $120,538, respectively)

**Destiny Media Technologies Inc.**

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

May 31, 2018

**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.

During the nine months ended May 31, 2018, no shares were issued.

**[b] Stock option plans**

The Company has two existing stock option plans (the Plans ), 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 1,328,181 common shares remain eligible for issuance under the plans. The options generally vest over a range of periods from the date of grant, some are immediate, and others are 12 or 24 months. Any options that do not vest as the result of a grantee leaving the Company are forfeited and the common shares underlying them are returned to the reserve. The options generally have a contractual term of five years.

*Stock-Based Payment Award Activity*

A summary of option activity under the Plans as of May 31, 2018, and changes during the period then ended is presented below:

| Options | Shares | Weighted Average Exercise Price $ | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value $ |
|---|---|---|---|---|
| **Outstanding at August 31, 2017** | **1,806,250** | **0.39** | **4.07** | |
| Granted | 150,000 | 0.40 | 4.54 | |
| Forfeited | (150,000) | 0.40 | 4.27 | |
| Expired | (131,250) | 0.40 | | |
| **Outstanding at May 31, 2018** | **1,675,000** | **0.39** | **3.56** | |
| **Exercisable at May 31, 2018** | **877,082** | **0.39** | **3.20** | |

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 May 31, 2018.

**Destiny Media Technologies Inc.**

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

May 31, 2018

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

The following table summarizes information regarding the non-vested stock purchase options outstanding as of May 31, 2018 and changes during the period then ended:

| | Number of Options | Weighted Average Grant Date Fair Value |
|---|---|---|
| | | $ |
| **Non-vested options at August 31, 2017** | **1,366,667** | **0.07** |
| Granted | 150,000 | 0.08 |
| Forfeited | (100,000) | 0.07 |
| Vested | (618,749) | 0.07 |
| **Non-vested options at May 31, 2018** | **797,918** | **0.07** |

As of May 31, 2018, there was $55,230 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 1.36 years.

During the three and nine months ended May 31, 2018, stock-based compensation expense has been reported in the statement of comprehensive income as follows:

| | **Three Months Ended** | | **Nine Months Ended** | |
|---|---|---|---|---|
| | **May 31, 2018** | May 31, 2017 | **May 31, 2018** | May 31, 2017 |
| | $ | $ | **$** | $ |
| **Stock-based compensation:** | | | | |
| General and administrative | **8,243** | 8,764 | **25,777** | 26,292 |
| Sales and marketing | **1,788** | 1,075 | **5,363** | 3,638 |
| Research and development | **3,580** | 2,563 | **10,740** | 7,276 |
| **Total stock-based compensation** | **13,611** | 12,402 | **41,880** | 37,206 |

**Destiny Media Technologies Inc.**

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

May 31, 2018

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

*Valuation Assumptions*

The fair value of each option award granted during the nine months ended May 31, 2018 and 2017 was estimated on the date of grant using the Black-Scholes option-pricing model based on the following assumptions:

| | **2018** | 2017 |
|---|---|---|
| | **$** | $ |
| Expected term of stock options (years) | **3.02** | |
| Expected volatility | **93.3%** | |
| Risk-free interest rate | **1.9%** | |
| Dividend yields | | |
| Weighted average grant date fair value | **$0.08** | |

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 three and nine months ended May 31, 2018, the Company recognized compensation expense of $26,545 and $53,026, respectively (2017: $7,578 and $37,580, respectively) in salaries and wages on the condensed consolidated interim statement of comprehensive income 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 $0.24 (2017: $0.21) . 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 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

May 31, 2018

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

**[d] Warrants**

A summary of common stock warrants outstanding as of May 31, 2018, and changes during the period then ended is presented below:

| | Number of Common Shares Issuable | Exercise Price $ | Date of Expiry | Aggregate Intrinsic Value $ |
|---|---|---|---|---|
| **Outstanding at August 31, 2017** | 1,010,000 | 0.30 | October 20, 2017 | |
| Expired | (1,010,000) | 0.30 | | |
| **Outstanding at May 31, 2018** | | | | |

**6. COMMITMENTS**

The Company entered into a lease agreement commencing July 1, 2017 and expiring June 30, 2022 for the same premise consisting of approximately 6,618 square feet. The Company has fiscal year payments committed as follows:

| | $ |
|---|---|
| 2018 | 62,032 |
| 2019 | 252,232 |
| 2020 | 259,473 |
| 2021 | 265,010 |
| 2022 | 226,165 |

During the three and nine months ended May 31, 2018 the Company incurred rent expense of $54,834 and $194,762, respectively (2017 - $56,953 and $172,801, respectively) which has been allocated between general and administrative expenses, research and development and sales and marketing on the condensed consolidated interim statement of comprehensive income. The rent expense during the nine months ended May 31, 2018 has included the allocation of rental payments on a straight-line basis over the term of the lease.

**7. RELATED PARTY TRANSACTIONS**

There were no related party transactions during the nine months ended May 31, 2018 and comparative period ended May 31, 2017.

**Destiny Media Technologies Inc.**

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

May 31, 2018

## 8. CONTINGENCIES

The Company is subject to claims and legal proceedings that arise in the ordinary course of business. Such matters are inherently uncertain, and there can be no guarantee that the outcome of any such matter will be decided favorably to the Company or that the resolution of any such matter will not have a material adverse effect upon the Company s financial statements. The Company does not believe that any of such pending claims and legal proceedings will have a material adverse effect on its consolidated financial statements.

On September 5, 2017, the Company s former President and Chief Executive Officer filed a Notice of Civil Claim in the Supreme Court of British Columbia against the Company, its subsidiaries, independent directors and current Chief Executive Officer, claiming damages for conspiracy, breach of contract, wrongful dismissal, defamation and aggravated and punitive damages. The Company believes the claims are without merit and will defend itself against the claims. The quantum of loss, if any, is not determinable at this time and management believes it is unlikely that the outcome of this matter will have an adverse impact on its results of operations, cash flows and financial condition.

## 9. NEW ACCOUNTING PRONOUNCEMENTS

***Recently Adopted Accounting Standards***

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes ( ASU 2015-17 ). ASU 2015-17 requires deferred tax assets and liabilities to be classified as non-current in the consolidated balance sheet. Previously, accounting principles required an entity to separate deferred income tax assets and liabilities between current and noncurrent amounts in a classified statement of financial position. The Company adopted this standard on September 1, 2017. The adoption of ASU 2015-17 did not have any impact on the Company s condensed consolidated interim financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation Stock Compensation (Topic 718): Scope of Modification Accounting ( ASU 2017-09 ), which provides guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. The amendments in this ASU should be applied prospectively to an award modified on or after the adoption date. The Company adopted this standard on September 1, 2017. The adoption of ASU 2015-17 did not have any impact on the Company s consolidated financial statements.

**Destiny Media Technologies Inc.**

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

May 31, 2018

**9. NEW ACCOUNTING PRONOUNCEMENTS (cont d.)**

***Accounting Standards Not Yet Effective***

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ( ASU 2014-09 ). This new accounting guidance on revenue recognition provides for a single five-step model to be applied to all revenue contracts with customers. The new standard also requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. ASU 2014-09 will be effective for the Company beginning on September 1, 2018.

The new guidance permits two methods of adoption, full retrospective or modified retrospective, and the Company anticipates that it will use the modified retrospective method of adoption in which the cumulative effect of applying the ASU will be recognized at September 1, 2018, the date of initial application. Management has implemented a plan of adoption and is continuing to evaluate the impact that adoption of this guidance will have on the Company s financial statements.

The Company s implementation plan includes the following:

- Analyzing the Company s different revenue contracts and arrangements;
- Selecting representative contracts within each group for evaluation under ASU 2014-09;
- Identifying the impact from the standard on current business processes;
- Evaluating additional disclosure requirements and monitoring changes to the Company s internal controls and accounting practices.

Management has commenced its plan for adoption of ASU 2014-09 by reviewing various types of revenue contracts and disaggregated the revenue into contract groups. Thus far, from its contract reviews, the Company does not anticipate a material impact to its results of operations as the pattern of revenue recognition is expected to be consistent under the new standard. However, the Company s initial assessment of the impact could change as the adoption plan progresses. The Company expects that there will be an impact to financial reporting due to the enhanced revenue disclosures of ASC 606. The Company will adopt the requirements of the new standard effective September 1, 2018, in the Company's Form 10-Q for the three months ended November 30, 2018.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ( ASU 2016-02 ). The amendments in this Update increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 will be effective for the Company beginning on September 1, 2019. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

**Destiny Media Technologies Inc.**

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

May 31, 2018

**Destiny Media Technologies Inc.**

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

May 31, 2018

**9. NEW ACCOUNTING PRONOUNCEMENTS (cont d.)**

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ( ASU 2016-13 ). Financial Instruments Credit Losses (Topic 326) amends guideline on reporting credit losses for assets held at amortized cost basis and available-for-sale debt securities. For assets held at amortized cost basis, Topic 326 eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For available-for-sale debt securities, credit losses should be measured in a manner similar to current GAAP, however Topic 326 will require that credit losses be presented as an allowance rather than as a write-down. ASU 2016-13 affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments in this ASU will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is in the process of determining the effect the adoption of this standard will have on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash ( ASU 2016-18 ). The purpose of Update No. 2016-18 is to clarify guidance and presentation related to restricted cash in the statements of cash flows as well as increased disclosure requirements. It requires beginning-of-period and end-of-period total amounts shown on the statements of cash flows to include cash and cash equivalents as well as restricted cash and restricted cash equivalents. Update No. 2016-18 will be effective for the Company beginning on September 1, 2018. Early adoption is permitted. The Company is in the process of determining the effect the adoption of this standard will have on its consolidated statements of cash flows.

**Destiny Media Technologies Inc.**

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

May 31, 2018

**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:

| | **Three Months Ended** | | **Nine Months Ended** | |
|---|---|---|---|---|
| | **May 31, 2018** | May 31, 2017 | **May 31, 2018** | May 31, 2017 |
| | **$** | $ | **$** | $ |
| **Play MPE®** | | | | |
| North America | **388,698** | 388,472 | **1,133,059** | 1,059,599 |
| Europe | **446,992** | 425,017 | **1,304,824** | 1,262,277 |
| Australasia | **73,920** | 74,522 | **215,582** | 218,106 |
| Total Play MPE® | **909,610** | 888,011 | **2,653,465** | 2,539,982 |
| **Clipstream ®** | | | | |
| North America | **11,995** | 9,464 | **56,993** | 31,600 |
| Outside of North America | | | | |
| Total Clipstream ® | **11,995** | 9,464 | **56,993** | 31,600 |
| **Total revenue** | **921,605** | 897,475 | **2,710,458** | 2,571,582 |

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 nine months ended May 31, 2018, the Company generated 43% of total revenue from one customer [2017 - one customer represented 40%].

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

As at May 31, 2018, one customer represented $160,251 (51%) of the trade receivables balance [August 31, 2017 one customer represented $377,672 (71%)].

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

**11. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to the current period's presentation. These reclassifications did not affect prior periods' net earnings.

**Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.**

**FORWARD LOOKING STATEMENTS**

The following discussion should be read in conjunction with the accompanying financial statements and notes thereto included within this Quarterly Report on Form 10-Q. In addition to historical information, the information in this discussion 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 the Company 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 , intend , anticipate , believe , estimate , predict , potential or continue , the negative of such terms or other c terminology. Actual events or results may differ materially. In evaluating these statements, you should consider various factors described in this Quarterly Report, including the risk factors under Item 1A. Risk Factors. of part II, and, from time to time, in other reports the Company files with the Securities and Exchange Commission. These factors may cause the Company s actual results to differ materially from any forward-looking statement. The Company 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.

**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 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 OTCQB U.S. ( OTCQB ) 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.dsny.com.

**OUR PRODUCTS AND SERVICES**

Destiny develops and markets software as a service (SaaS) solutions that solve critical problems in distribution and promotion for businesses in the music industry of digital media content over the Internet. Destiny services are based around proprietary security, watermarking and instant play streaming media technologies.

The core of our business is Play MPE®, a promotional music marketing and digital distribution service. Play MPE® is a service for promoting and securely distributing broadcast quality audio, video, images, promotional information and other digital content securely through the internet. The system is currently used by the record 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.

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.

**Play MPE®**

Play MPE® is a service used by the recording industry for promoting and distributing broadcast quality audio, video, images, promotional information and other digital content securely through the internet. Play MPE® is a cloud-based enterprise SaaS service providing tiered, permission-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, many rely on our proprietary lists provided within the service. Our staff manages lists of recipients in various formats and geographies 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. Customers select lists of recipients within the proprietary network based on music format and geography.

When the release is sent, 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, or through partner sites. In addition, we have made it even easier for decision makers in radio, press, TV, and film to use the Play MPE® service with a secure streaming audio preview feature. The enhancement allows Play MPE® recipients to quickly hear a short preview of a song directly from the notification email without having to login.

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.

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.

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 contrasts 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 activity information provides invaluable feedback in real time to marketing and promotions staff who can cater their programs appropriately. Recipients receive a custom library of available tracks and are able to repeat the download if music is lost.

Real time usage statistics for Play MPE® are available at: http://www.dsny.com/play-mpe-stats

On February 21, 2018, Destiny announced the Beta release of Play MPE® Version 8 and, in July 2018, Destiny officially launched this new version of its encoder into production. This new browser-based encoder will be accessible on any computer without installation and will completely replace many of the current Windows based desktop tools currently used by our customers. It is expected that this new solution will increase usage of Play MPE® by providing an easier to use, faster, more intuitive and streamlined experience, access to both Mac and PC users, new release creation workflows, and more configuration options. It also allows for easy translation into multiple languages to accelerate international expansion. It is expected that the new encoder will be rolled out into commercial production throughout the remainder of the fourth fiscal quarter.

**Clipstream®**

The Company also has a legacy business, Clipstream®, in the online video industry for which it is pursuing strategic alternatives. The Clipstream® Online Video Platform (OVP) is a self-service system, for encoding, hosting and reporting on video playback which can be embedded in third party websites or emails. Playback is currently through the Company's proprietary JavaScript codec engine, which is only available on the internet through the Company. The unique software-based approach to rendering video, is protected by over two dozen patents claiming initial priority to 2011.

The Company has stopped development of new major features for this product. The product is marketed in a limited way and has incidental revenues. Business development is focused on identifying strategic alternatives for the product, business, and intellectual property outside the Company.

**RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED MAY 31, 2018 AND MAY 31, 2017**

**Revenue**

Total revenue for the nine months ended May 31, 2018 increased by 5% overall to $2,710,458 (2017 - $2,571,583). Play MPE® revenue accounted for 98% of this revenue (2017 - 99%) and increased by 5% over the comparable period in fiscal 2017. The increase in Play MPE® revenue was seen from our North American customers, mostly as a result of growth in US independent customers, which increased by 10% over the comparable period in fiscal 2017. The growth in North America was accompanied by a 4% increase in revenue from Europe. The growth in European revenue was driven by favorable exchange rates as the Company saw declines in revenue, as expressed in Euros from this region. The Company believes the decline in this revenue is the result of product issues that are addressed by the recent release of Version 8 of the Play MPE release publishing tools ("Version 8"). We expect we will be able to recapture some of this lost revenue as Version 8 becomes more widely available and adopted.

During the nine months ended May 31, 2018, 49% of our Play MPE® revenues were denominated in Euros and 8% were denominated in Australian Dollars (2017: 50% and 8%, respectively). During the nine months ended May 31, 2018, the effect of foreign exchange fluctuations in these currencies had a favorable impact on our reported revenues from both of these currencies, most significantly from fluctuations in the Euro, which resulted in an 11% increase in reported revenue from that currency.

**Operating Expenses**

Overview

As our technologies and products are developed, maintained and utilized in-house, the majority of our expenditures are on salaries and wages and associated personnel expenses; including office space, supplies and benefits. Our operations are primarily conducted in Canada. Therefore, the majority of our costs are incurred in Canadian dollars while the majority of our revenues are denominated in US dollars and Euros. 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 US dollar to these currencies. We maintain the majority of our financial reserves in Canadian dollars to mitigate the downside risk of adverse exchange rates on our operating expenditures.

Overall operating costs fell by 7% to $2,227,854 (2017 – $2,381,507) during the nine months ended May 31, 2018, largely driven by a reduction in staffing costs and certain Clipstream® related expenditures, and a decrease in depreciation charges. These declines were partially offset by an increase in rent, an increase in non-recurring professional fees, and an increase in marketing activities.

Salaries and wages declined by 13% over the comparative period as a result of staffing reductions experienced near the end of the 2017 fiscal year. The majority of these reductions were related to general and administrative salaries, which are expected to be permanent in nature. However, going forward we expect that a portion of these reductions will be reversed through an increase in salaries and wages in the area of business development.

| **General and administrative** | **31-May 2018** (9 months) $ | **31-May 2017** (9 months) $ | **Change** $ | **Change** % |
|---|---|---|---|---|
| Wages and benefits | 207,890 | 271,316 | (63,426) | -23.4% |
| Rent | 26,657 | 27,207 | (550) | -2.0% |
| Telecommunications | 2,769 | 6,758 | (3,989) | -59.0% |
| Bad debt | 2,943 | (1,997) | 4,940 | -247.4% |
| Office and miscellaneous | 102,828 | 109,305 | (6,477) | -5.9% |
| Professional fees | 143,890 | 93,623 | 50,267 | 53.7% |
| Travel | 10,790 | 12,841 | (2,051) | -16.0% |
| | 497,767 | 519,053 | (21,286) | -4.1% |

Our general and administrative expenses consist of salaries and related personnel costs including overhead, office rent, professional fees, and other general office and travel expenditures. The decrease in wages and benefits is a result of a net reduction in staff experienced in the fourth quarter of fiscal 2017, as discussed above. The decrease in office and miscellaneous is primarily due to reductions in discretionary spending in that area. The increase in professional fees has been incurred in connection with employment litigation matters. The rent allocation to general administration was reduced due to staff reduction in that area, in spite of an overall increase in rent costs relative to the prior year.

| **Sales and marketing** | **31-May 2018** (9 months) $ | **31-May 2017** (9 months) $ | **Change** $ | **Change** % |
|---|---|---|---|---|
| Wages and benefits | 502,120 | 544,895 | (42,775) | -7.9% |
| Rent | 72,713 | 60,100 | 12,613 | 21.0% |
| Telecommunications | 106,483 | 101,946 | 4,537 | 4.5% |
| Advertising and marketing | 77,611 | 59,066 | 18,545 | 31.4% |
| | 758,927 | 766,077 | (7,080) | -0.9% |

Sales and marketing expenses consist of salaries and related personnel costs including overhead, office rent, advertising and promotional expenses, including marketing-related travel costs. The decrease in wages and benefits is attributable to overall reduced staff in Clipstream® sales. This decrease was offset by an increase in rent in connection with the renewal of our office lease, and an increase in Play MPE® business development related travel.

| **Research and development** | **31-May 2018** (9 months) $ | **31-May 2017** (9 months) $ | **Change** $ | **Change** % |
|---|---|---|---|---|
| Wages and benefits | 669,267 | 777,228 | (107,961) | -13.9% |
| Rent | 96,391 | 85,494 | 10,897 | 12.7% |
| Telecommunications | 67,931 | 60,913 | 7,018 | 11.5% |
| Research and development | 58,396 | 52,274 | 6,122 | 11.7% |
| | 891,985 | 975,909 | (83,924) | -8.6% |

Research and development costs consist of salaries and related personnel costs including overhead, office rent and consulting fees with respect to product development and deployment. The decrease in wages and benefits is attributable to overall reduced staffing with respect to Clipstream® related development during the nine-month period ending May 31, 2018. The increase in telecommunications costs is due to increased cloud-based data hosting costs associated with Play MPE® development projects, which has been partially offset by a decrease in other telecommunications operational costs associated with a change in service providers.

**Depreciation and Amortization**

Depreciation and amortization expense arises from property and equipment, and from patents and trademarks. Amortization decreased to $79,175 for the nine months ended May 31, 2018 from $120,538 for the nine months ended May 31, 2017, a decrease of $41,363 or 34% from a combination of an overall reduction in the capital asset balances subject to amortization, and a change in amortization periods for certain assets.

**Other earnings and expenses**

Interest income decreased to $5,657 for the nine months ended May 31, 2018 from $12,071 for the nine months ended May 31, 2017, a decrease of $6,414. A portion of the interest income was being derived from an amount receivable pursuant to a previous litigation settlement. The decrease in interest income is the result of the repayment of the remaining settlement receivable balance during the period.

**Net income**

During the nine months ended May 31, 2018 we reported net income of $484,494 (2017 $202,146). The increase in net income is attributable to a combination of increased revenues as a result of favorable foreign exchange fluctuations and a reduction in certain operating expenses and overall spending on salaries and wages and depreciation and amortization.

For the nine-month period ended May 31, 2018, adjusted EBITDA increased to $606,657 (2017 $322,175). For the three months period ended May 31, 2018, adjusted EBITDA increased to $224,104 (2017 $203,784). Adjusted EBITDA is not defined under generally accepted accounting principles ( GAAP ) and it may not be comparable to similarly titled measures reported by other companies. We used Adjusted EBITDA, along with other GAAP measures, as a measure of profitability because Adjusted EBITDA helps us to compare our performance on a consistent basis by removing from our operating results the impact of our capital structure, the effect of operating in different tax jurisdictions, the impact of our asset base, which can differ depending on the book value of assets, the accounting methods used to compute depreciation and amortization, the existence or timing of asset impairments and the effect of non-cash stock-based compensation expense. We believe Adjusted EBITDA is useful to investors as it is a widely used measure of performance and the adjustments we make to Adjusted EBITDA provide further clarity on our profitability. We remove the effect of non-cash stock-based compensation from our earnings which can vary based on share price, share price volatility and expected life of the equity instruments we grant. In addition, this stock-based compensation expense does not result in cash payments by us. Adjusted EBITDA has limitations as a profitability measure in that it does not include the interest expense on our debts, our provisions for income taxes, the effect of our expenditures for capital assets, the effect of non-cash stock-based compensation expense and the effect of asset impairments. The following is a reconciliation of net income from operations to Adjusted EBITDA over the eight most recently completed fiscal quarters:

| | **2018 Q3** | **2018 Q2** | **2018 Q1** | **2017 Q4** | **2017 Q3** | **2017 Q2** | **2017 Q1** | **2016 Q4** |
|---|---|---|---|---|---|---|---|---|
| | **$** | **$** | $ | $ | $ | **$** | **$** | $ |
| **Net Income (Loss)** | 183,629 | 67,376 | 233,490 | 86,635 | 166,223 | (68,205) | 104,128 | (9,048) |
| Amortization, stock-based compensation and deferred leasehold inducements | 42,103 | 43,496 | 42,220 | 40,664 | 40,998 | 45,404 | 45,698 | 22,169 |
| Interest income | (1,628) | (1,704) | (2,325) | (2,243) | (3,437) | (3,871) | (4,763) | (4,075) |
| **Adjusted EBITDA** | 224,104 | 109,168 | 273,385 | 125,056 | 203,784 | (26,672) | 145,063 | 9,046 |

**LIQUIDITY AND FINANCIAL CONDITION**

At May 31, 2018, we had cash of $2,051,330 (August 31, 2017 $1,342,956). We had working capital of $2,087,693 as at May 31, 2018 compared to working capital of $1,661,850 as at August 31, 2017.

**CASH FLOWS**

Net cash provided by operating activities was $880,396 for the nine months ended May 31, 2018, compared to net cash provided of $575,183 for the nine months ended May 31, 2017. The increase in net cash flows provided in the operating activities was most notably due to an increase in net income as a result of a reduction in expenditures and growth in revenues over the comparative period.

Net cash used in investing activities was $113,867 for the nine months ended May 31, 2018, compared to net cash used of $49,457 for the nine months ended May 31, 2017. The increase in net cash used in investing activities is largely attributable to non-recurring expenditures on leasehold improvements related to office renovations associated with a renewal in our office lease.

There were no cash flows from financing activities during the nine months ended May 31, 2018 and 2017.

**RECENT ACCOUNTING PRONOUNCEMENTS**

Please refer to Note 9 “Recent Accounting Pronouncements” in Notes to Interim Condensed Consolidated Financial Statements for the nine months ended May 31, 2018.

**CRITICAL ACCOUNTING POLICIES**

We prepare our interim condensed 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 have 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.

***Contingencies***

As discussed under Item 1. Legal Proceedings in Part II and in Note 8 Contingencies in Notes to Interim Condensed Consolidated Financial Statements, the Company is subject from time to time 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.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

**Foreign Exchange Risk**

Our revenues are primarily in United States dollars and Euros while our operating expenses are primarily in Canadian dollars. Thus, operating expenses and the results of operations are impacted to the extent they are not hedged by the rise and fall of the relative values of Canadian dollar to these currencies. During the nine months ended May 31, 2018, as a result of fluctuations in the Euro, and the Australian, Canadian, and US dollars, the Company recognized positive impacts on reported net income.

**Item 4. Controls and Procedures.**

**Disclosure Controls and Procedures**

Disclosure controls and procedures and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time period specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is accumulated and communicated to management including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In connection with this quarterly report, as required by Rule 13a-15 under the Securities Exchange Act of 1934, we have carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our company's management, including our company's Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, our company's Chief Executive Officer and Chief Financial Officer concluded that as of May 31, 2018, our disclosure controls and procedures were effective as at the end of the period covered by this report.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal controls over financial reporting during the three months ended May 31, 2018.

## PART II OTHER INFORMATION

**Item 1. Legal Proceedings.**

On September 5, 2017, the Company s former President and Chief Executive Officer, Mr. Steve Vestergaard, filed a Notice of Civil Claim in the Supreme Court of British Columbia against the Company, its subsidiaries, independent directors and current Chief Executive Officer, claiming damages for conspiracy, breach of contract, wrongful dismissal, defamation and aggravated and punitive damages. The Company believes the claims are without merit and will defend itself against the claims.

**Item 1A. Risk Factors.**

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Item 1 Risk Factors in our Form 10-K for the fiscal year ended August 31, 2017 filed with the SEC on November 29, 2017. These risks could materially and adversely affect our business, financial condition and results of operations. The risks described in our Form 10-K have not changed materially, however, they are not the only risks we face. Our operations could also be affected by additional factors that are not presently known to us or by factors that we currently consider immaterial to our business.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not Applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

| | |
|---|---|
| 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 and Chief Financial Officer |
| 101* | Interactive Data File |

* Filed herewith

## SIGNATURES

Pursuant to the requirements 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/ Frederick Vandenberg
Frederick Vandenberg
Chief Executive Officer, President
(Principal Executive Officer)
Date: July 16, 2018

By: /s/ Sandra Boenisch
Sandra Boenisch, CPA, CGA
Chief Financial Officer, Treasurer
(Principal Financing and Accounting Officer)
Date: July 16, 2018