

---

**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, 2017**

**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

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" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

Emerging growth company

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting 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  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 \$10,458,301.

The number of shares outstanding of the registrant's common stock, par value \$0.001, as of November 29, 2017 was 55,013,874.

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

None

**DESTINY MEDIA TECHNOLOGIES INC.**  
**FORM 10-K**

INDEX

<u>PART I</u>		<u>4</u>
<u>ITEM 1.</u>	<u>BUSINESS.</u>	<u>5</u>
<u>ITEM 1A.</u>	<u>RISK FACTORS.</u>	<u>10</u>
<u>ITEM 1B.</u>	<u>UNRESOLVED STAFF COMMENTS.</u>	<u>12</u>
<u>ITEM 2.</u>	<u>PROPERTIES.</u>	<u>12</u>
<u>ITEM 3.</u>	<u>LEGAL PROCEEDINGS.</u>	<u>12</u>
<u>ITEM 4.</u>	<u>MINE SAFETY DISCLOSURES.</u>	<u>13</u>
<u>ITEM 5.</u>	<u>MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	<u>14</u>
<u>ITEM 6.</u>	<u>SELECTED FINANCIAL DATA</u>	<u>15</u>
<u>ITEM 7.</u>	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.</u>	<u>15</u>
<u>ITEM 7A.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.</u>	<u>22</u>
<u>ITEM 8.</u>	<u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.</u>	<u>22</u>
<u>ITEM 9.</u>	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.</u>	<u>22</u>
<u>ITEM 9A.</u>	<u>CONTROLS AND PROCEDURES.</u>	<u>23</u>
<u>ITEM 9B.</u>	<u>OTHER INFORMATION</u>	<u>24</u>
<u>PART III</u>		<u>24</u>
<u>ITEM 10.</u>	<u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.</u>	<u>2</u>
<u>ITEM 11.</u>	<u>EXECUTIVE COMPENSATION.</u>	<u>27</u>
<u>ITEM 12.</u>	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	<u>29</u>
<u>ITEM 13.</u>	<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	<u>31</u>
<u>ITEM 14.</u>	<u>PRINCIPAL ACCOUNTING FEES AND SERVICES</u>	<u>31</u>
<u>PART IV</u>		<u>32</u>
<u>ITEM 15.</u>	<u>EXHIBITS, FINANCIAL STATEMENT SCHEDULES.</u>	<u>32</u>

## 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 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.dsnv.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 the business is the Play MPE® 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 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.

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® 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 the 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 2016 we made it even easier for decision makers in radio, press, TV, and film to use the Play MPE® service with a new 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 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. 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.dsnyc.com/play-mpe-stats>

Ongoing work in 2017 progressed on a completely browser based encoder, when all stages are complete, this system will be accessible on any computer without installation and will completely replace many of the current Windows based desktop tools. It is expected that this new solution will increase usage of Play MPE® by providing an easier to use, more intuitive experience, providing access to both Mac and PC users, providing new release creation workflows, and more configuration options. It also allows for easy translation to accelerate international expansion.

We continue to invest in new development which should lead to higher usage.

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. This product is marketed in a limited way and has incidental revenues.

## **BUSINESS DEVELOPMENT**

### **Play MPE®**

During the year ended August 31, 2017, we generated revenues of \$3,445,014, of which 99% was derived from Play MPE®.

In September 2016, we announced the availability of a new secure streaming audio preview feature.

This enhancement allows Play MPE® recipients to quickly hear a short preview of a song directly from the notification email without having to login. This quick audio preview leverages Play MPE®’s secure infrastructure and patented watermarking features to increase recipient activity and engagement with the service. This increased activity and engagement within the system increases the value of each Play MPE® release and further solidifies Play MPE® as the go-to-service for promotional music distribution.

Throughout the year the Play MPE service was regularly updated, these updates included a significant upgrade to the email sending infrastructure and a number of smaller features targeted at improved performance and increasing activity. Progress also continued on additional services for a new generation of browser based administration tools that are planned to launch in 2018. These new tools are expected to increase usage with existing customers and facilitate expansion to new customers, radio formats, and territories.

Play MPE® staff regularly attend various industry conferences including:

September 2016	Americanafest, Nashville, TN
September 2016	Christian Music Broadcasters Momentum 2016, Lake Buena Vista, FL
February 2017	Country Radio Seminar, Nashville, TN
April 2017	Canadian Music Week, Toronto, ON
May 2017	Non Commvention, Philadelphia, PA
June 2017	The Gathering, Louisville, KY
August 2017	FMQB Triple A Convention, Boulder, CO

Other business development efforts focused on moving select customers to monthly subscription pricing that encourages more usage of the system. Initial trial customers have significantly increased their spending and activity with Play MPE as a result of moving to a simpler monthly pricing model, additional customers have been identified for transition to monthly pricing.

#### **Clipstream®**

The Clipstream script based video engine received on-going updates throughout the year focused on improving quality and user experience across a broad range of devices. In July of 2017 the business development strategy was revised to focus only on partnerships where the differentiated value of script based video could offer stronger differentiation to customers performing other workflows in online video.

In November 2017, after completing a detailed review of the resources required to progress Clipstream further, the Company transitioned the product to maintenance only stopping development of new major features. Business development will focus on identifying strategic alternatives for the product, business, and intellectual property outside the Company.

#### **Significant Customers**

During the year ended August 31, 2017, we generated 41% of total revenue from one customer (2016 - one customer represented 42%).

#### **OUR BUSINESS OPERATIONS**

We lease approximately 6,550 square feet of office space, with the lease expiring in June of 2022, and we currently have 22 total employees. Our employees include our President, Chief Executive Officer and Chief Financial Officer, two finance personnel, ten sales and technical support personnel, and nine software developers. We also employ contractors as needed.

#### **Research and Development**

Total research and development expenditures for the year ended August 31, 2017 were \$1,304,742 (2016: \$1,292,996).

## COMPETITION

### Play MPE®

Play MPE® has regional competitors with limited global presence and limited functionality while Play MPE® has major label use globally. A network effect entrenches the system, as it is difficult for any single user to switch to an alternative without the entire industry switching. The system was built to facilitate sharing of assets and content with regional subsidiaries and affiliates of our major label customers. This allows local representatives to localize the release resulting in costs savings and efficiencies not available in competing solutions. The player software is available in 27 languages.

Play MPE® has several advantages over physical distribution (mail, courier or hand delivery) of manufactured CD's. Digital distribution through Play MPE® is faster, less expensive, more reliable, more secure, provides additional real time and more accurate reporting of usage, provides a great deal of added functionality and provides the error free and automatic transmission of "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. This benefits labels who want to be in third party databases 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.

## 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, 9676574
- b. US pending application No. 15/358834
- c. US pending application No. 15/598222
- d. Japan Patent No. 5103479
- e. Canada patent No. 2682926
- f. 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, 9137567, 9215499, 9380338, 9432726 and 9432727
- b. South Africa Patent No. 2014/01618d
- c. Singapore Patent No. 2014008775
- d. Australia (Patent No. 2012297524)
- e. New Zealand (Patent No. 622065)
- f. Pending US application No. 13/517574 (publication No. US-2013-0044823)
- g. Pending Canadian patent application No. 2843766
- h. Pending China (Publication No. CN 103891303/Application No. 201280050754.7)
- i. Pending Europe (Publication No. 2745526/Application No. 12824114.8)
- j. Pending Japan (Application No. 2014-525268)
- k. Pending India (Application No. 1961/DELNO/2014)
- l. Pending Israel (Publication No. WO2013/023287/Application No. 230898)
- m. Pending Russian Federation (Application No. 2014110047)
- n. Pending Hong Kong (Application No. 14112896.4)
- o. Pending Cooperation Treaty (Application No. PCT/CA2012/05034)

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

Play MPE®

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

MPE®

Granted: USA, Canada, Japan, European Community

Sonox Digital®

Granted: Japan, China, European Community, Canada

Clipstream®

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

## 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 were \$3,170,580 for the year ended August 31, 2017 and \$3,547,196 for the year ended August 31, 2016 while our revenue was \$3,445,014 for the year ended August 31, 2017 and \$3,337,813 for the year ended August 31, 2016. 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 two claims against the Company, as described in "Item 3. Legal Proceedings". If we are not successful in these 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 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.

*Customer Concentration*

During the year ended August 31, 2017, 41% of the Company's revenue is derived from one customer with operations in numerous countries. This customer is currently of key importance to our operations and any adverse change to the revenue from this customer would have a material adverse effect on our results of operations.

**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 6,550 square feet. We pay rent of approximately \$26,240 Canadian (equal to approximately \$20,934 US) per month. The lease expires June 30, 2022. 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 that did not close.

On September 5, 2017, Steve Vestergaard, former President and Chief Executive Officer of the Company, 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 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 OTCQB 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. In June 2016 the Company began trading on the OTCQB. The high and the low trading prices for our shares for each quarter of the last two fiscal years were:

QUARTER	HIGH (\$)	LOW (\$)
1 <sup>st</sup> Quarter 2016	\$0.50	\$0.15
2 <sup>nd</sup> Quarter 2016	\$0.26	\$0.17
3 <sup>rd</sup> Quarter 2016	\$0.34	\$0.15
4 <sup>th</sup> Quarter 2016	\$0.30	\$0.16
1 <sup>st</sup> Quarter 2017	\$0.22	\$0.14
2 <sup>nd</sup> Quarter 2017	\$0.28	\$0.13
3 <sup>rd</sup> Quarter 2017	\$0.28	\$0.17
4 <sup>th</sup> Quarter 2017	\$0.27	\$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.

#### Holder of Common Stock

As of November 29, 2017 our shareholders' list for our common stock showed 56 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.**

(Expressed in US dollars)	2017	2016	Fiscal Year 2015	2014	2013
Continuing Operations:					
<b>Service revenue</b>	\$ 3,445,014	\$ 3,337,813	\$ 3,323,537	\$ 3,572,376	\$ 3,679,029
<b>Income (loss) from operations</b>	\$ 274,434	\$ (209,383)	\$ (797,013)	\$ (368,783)	\$ 235,879
<b>Net income (loss)</b>	\$ 288,781	\$ (188,251)	\$ (1,596,646)	\$ (324,399)	\$ 226,014
<b>Net income (loss) per common share, basic and diluted</b>	\$ 0.01	\$ (0.00)	\$ (0.03)	\$ (0.01)	\$ 0.00
Balance Sheet					
<b>Working capital</b>	\$ 1,661,850	\$ 1,125,289	\$ 513,472	\$ 1,476,767	\$ 1,842,538
<b>Total assets</b>	\$ 2,244,703	\$ 1,850,876	\$ 1,537,190	\$ 3,401,206	\$ 3,657,656
<b>Long-term liabilities</b>	\$ —	\$ 6,472	\$ 12,071	\$ —	\$ —
<b>Stockholders' equity</b>	\$ 1,892,805	\$ 1,488,405	\$ 1,102,434	\$ 3,002,647	\$ 3,283,007

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, 2017 AND 2016****Revenue**

Total revenue for the year ended August 31, 2017 increased by 3.2% over the same period in the prior year to \$3,445,014 (2016 – \$3,337,813). The increase in Play MPE® revenue was spread evenly throughout all geographic territories where Play MPE® has an appreciable presence. Revenue growth in Europe was slightly stronger due the addition of distributions lists in Norway and Sweden but this increase was slightly moderated by declines in the Euro relative to the US dollar.

Approximately 50% of our Play MPE® revenue is denominated in Euros, 42% is denominated in US Dollars and 8% is denominated in Australia Dollars for the year ended August 31, 2017.

**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. The Company maintains a large portion of its financial reserves in Canadian dollars to mitigate the downside risk of adverse exchange rates.

Overall costs dropped by 10.6% to \$3,170,580 (2016 – \$3,547,196) during the year ended August 31, 2017. The decline is result of reduced spending on staffing costs, marketing, telecommunications, research and development and public company expenditures. These savings are partially offset by a non-recurring increase in professional fees.

The decrease in telecommunications expenditures is the result of a planned temporary increase in spending in the prior fiscal year as we transitioned to external hosting services.

Staffing costs declined by 3.7% for the year as a result of staffing reductions experienced near the end of the fiscal year. It is expected that the majority of these staffing reductions do not result in a reduction in our ability to fully service our current and prospective customers and, as these reductions occurred near the end of the fiscal year, we expect to see a reduction in total costs for fiscal 2018.

<b>General and administrative</b>	<b>31-Aug 2017</b>	<b>31-Aug 2016</b>	<b>\$ Change</b>	<b>% Change</b>
	(12 months)	(12 months)		
	\$	\$		
Wages and benefits	339,619	358,424	(18,805)	(5.2%)
Rent	35,681	34,751	930	2.7%
Telecommunications	34,793	43,883	(9,090)	(20.7%)
Bad debt	(806)	3,052	(3,858)	(126.4%)
Office and miscellaneous	159,628	243,160	(83,532)	(34.4%)
Professional fees	161,579	119,163	42,416	35.6%
	<u>730,494</u>	<u>802,433</u>	<u>(71,939)</u>	<u>(9.0%)</u>

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 office and miscellaneous expenses is due to a variety of declines including a reduction of public company expenditures. The increase in professional fees is a non-recurring increase related to legal advice on employment matter related to the termination of our previous Chief Executive Officer.

<b>Sales and marketing</b>	<b>31-Aug 2017</b>	<b>31-Aug 2016</b>	<b>\$ Change</b>	<b>% Change</b>
	(12 months)	(12 months)		
	\$	\$		
Wages and benefits	730,406	862,611	(132,205)	(15.3%)
Rent	84,082	89,225	(5,143)	(5.8%)
Telecommunications	81,988	112,669	(30,681)	(27.2%)
Travel	15,313	32,967	(17,654)	(53.6%)
Advertising and marketing	70,170	162,912	(92,742)	(56.9%)
	<u>981,959</u>	<u>1,260,384</u>	<u>(278,425)</u>	<u>(22.1%)</u>

Sales and marketing expenses consist primarily of salaries and related personnel costs including overhead, sales commissions, advertising and promotional fees, and travel costs. The decrease in wages and benefits is mostly attributable to a decrease in Clipstream sales personnel during the year. The decrease in advertising and marketing is attributable to decreased online advertising of Clipstream@.

<b>Research and development</b>	<b>31-Aug 2017</b> (12 months) \$	<b>31-Aug 2016</b> (12 months) \$	<b>\$ Change</b>	<b>% Change</b>
Wages and benefits	1,000,455	940,982	59,473	6.3%
Rent	114,770	98,311	16,459	16.7%
Telecommunications	111,912	124,144	(12,232)	(9.9%)
Research and development	77,605	129,559	(51,954)	(40.1%)
	<u>1,304,742</u>	<u>1,292,996</u>	<u>11,746</u>	<u>0.9%</u>

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 attributable to the increase in personnel during the year. The decrease in research and development costs is primarily attributable to a reduction in non-recurring costs incurred in the prior year associated with the transition to externally hosting services.

#### **Depreciation and amortization**

Depreciation and amortization decreased to \$153,385 for the fiscal year ended August 31, 2017 from \$191,383 for the fiscal year ended August 31, 2016, a decrease of \$37,998 or 20% from an overall reduction in capital expenditures consistent with our outsourcing of infrastructure related costs.

#### **Other earnings and expenses**

Interest income decreased to \$14,314 for the year ended August 31, 2017 from \$21,132 for the year ended August 31, 2016, a decrease of \$6,818. 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.

#### **Net income (loss)**

During the year ended August 31, 2017, income (loss) from operations increased by approximately \$484,000 to \$274,434 (August 31, 2016 – (\$209,383)). Net income (loss) increased by approximately \$477,000 to \$288,781 (August 31, 2016 – (\$188,251)). The increase in net income is attributable to our increased Play MPE® revenue and reduced operating expenses from an overall decrease in spending on salaries and wages, Clipstream marketing, non-recurring telecommunications occurring in fiscal 2016, public company expenditures and non-recurring consulting costs occurring in fiscal 2016.

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>2017</b>	<b>2016</b>	<b>2015</b>
Net loss	\$ 288,781	\$ (188,251)	\$ (1,596,646)
Interest income and expenses	(14,314)	(21,132)	(42,787)
Deferred income tax expense	-	-	842,000
Depreciation and amortization	153,385	191,383	182,863
Stock based compensation	46,133	49,608	60,807
Deferred leasehold inducement	(26,754)	(34,255)	69,244
Adjusted EBITDA	<u>\$ 447,231</u>	<u>\$ (2,647)</u>	<u>\$ (484,519)</u>

#### **LIQUIDITY AND FINANCIAL CONDITION**

Our cash balance increased by \$680,213 during the year to \$1,342,956 as at August 31, 2017 (\$662,743 - August 31, 2016).

We had working capital of \$1,661,850 as at August 31, 2017 compared to \$1,125,289 as at August 31, 2016. The increase in our working capital was primarily due to an increase in our net income.

We had \$1,048,131 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 provided in operating activities was \$695,603 for the year ended August 31, 2017, compared to net cash used of \$162,819 for the year ended August 31, 2016. The increase was mainly the result of an increase in our net income and a decrease in accounts receivable. As of the date of this report, we have collected over 90% of the accounts receivable balance at August 31, 2017.

The cash used in investing activities was \$63,340 for the year ended August 31, 2017, compared to \$73,097 for the year ended August 31, 2016.

The cash provided by financing activities was \$Nil for the year ended August 31, 2017 compared to net cash provided of \$489,943 for the year ended August 31, 2016. The change was the result of a private placement in the 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 within the scope of ASC 985-20 *Software – Costs of Software to be Sold, Leased or Marketed* 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 FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). ASU 2014-09 supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)", and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date" ("ASU 2015-14") in August 2015. The amendments in ASU 2015-14 defer the effective date of ASU 2014-09. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Further to ASU 2014-09 and ASU 2015-14, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)" ("ASU 2016-08") in March 2016, ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing" ("ASU 2016-10") in April 2016, and ASU No. 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients" ("ASU 2016-12"), respectively. The amendments in ASU 2016-08 clarify the implementation guidance on principal versus agent considerations, including indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. ASU 2016-10 clarifies guideline related to identifying performance obligations and licensing implementation guidance contained in the new revenue recognition standard. The updates in ASU 2016-10 include targeted improvements based on input the FASB received from the Transition Resource Group for Revenue Recognition and other stakeholders. It seeks to proactively address areas in which diversity in practice potentially could arise, as well as to reduce the cost and complexity of applying certain aspects of the guidance both at implementation and on an ongoing basis. ASU 2016-12 addresses narrow-scope improvements to the guidance on collectability, non-cash consideration, and completed contracts at transition. Additionally, the amendments in this ASU provide a practical expedient for contract modifications at transition and an accounting policy election related to the presentation of sales taxes and other similar taxes collected from customers. The effective date and transition requirements for ASU 2016-08, ASU 2016-10 and ASU 2016-12 are the same as ASU 2014-09. We are currently in the process of evaluating the impact of the adoption of ASU 2014-09, ASU 2016-08, ASU 2016-10 and ASU 2016-12 on our consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes” (“ASU 2015-17”). Topic 740, Income Taxes, requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. Deferred tax liabilities and assets are classified as current or noncurrent based on the classification of the related asset or liability for financial reporting. Deferred tax liabilities and assets that are not related to an asset or liability for financial reporting are classified according to the expected reversal date of the temporary difference. To simplify the presentation of deferred income taxes, the amendments in ASU 2015-17 require that deferred income tax liabilities and assets be classified as noncurrent in a classified statement of financial position. For public business entities, the amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. We do not expect the adoption of ASU 2015-17 to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). The amendments in this update create Topic 842, Leases, and supersede the leases requirements in Topic 840, Leases. Topic 842 specifies the accounting for leases. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. The main difference between Topic 842 and Topic 840 is the recognition of lease assets and lease liabilities for those leases classified as operating leases under Topic 840. Topic 842 retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous leases guidance. The result of retaining a distinction between finance leases and operating leases is that under the lessee accounting model in Topic 842, the effect of leases in the statement of comprehensive income and the statement of cash flows is largely unchanged from previous GAAP. The amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. Early application of the amendments in ASU 2016-02 is permitted. We are currently in the process of evaluating the impact of the adoption of ASU 2016-02 on our consolidated financial statements.

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. We are currently evaluating the impact of the adoption of ASU 2016-13 on our consolidated 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 are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for (1) public business entities for reporting periods for which financial statements have not yet been issued and (2) all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments in this ASU should be applied prospectively to an award modified on or after the adoption date. We do not expect the adoption of ASU 2017-09 to have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash" ("ASU 2016-18"), which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this ASU do not provide a definition of restricted cash or restricted cash equivalents. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. We do not expect the adoption of ASU 2016-18 to have a material impact 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 negligible negative impact on net income.

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

Index to Audited Consolidated Financial Statements for the Years Ended August 31, 2017 and 2016:

1. Report of Independent Registered Public Accounting Firm – BDO Canada LLP;
2. Consolidated Balance Sheets as at August 31, 2017 and 2016;
3. Consolidated Statement of Comprehensive Income (loss) for the Years Ended August 31, 2017 and 2016;
4. Consolidated Statement of Changes in Stockholders' Equity for the Years Ended August 31, 2017 and 2016;
5. Consolidated Statement of Cash Flows for the Years Ended August 31, 2017 and 2016;
6. Notes to Consolidated Financial Statements.

Consolidated Financial Statements

**Destiny Media Technologies Inc.**  
August 31, 2017 and 2016  
(Expressed in United States dollars)



Tel: 604 688 5421  
Fax: 604 688 5132  
[www.bdo.ca](http://www.bdo.ca)

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

### **Report of Independent Registered Public Accounting Firm**

**Board of Directors and Stockholders  
Destiny Media Technologies Inc.  
Vancouver, Canada**

We have audited the accompanying consolidated balance sheets of Destiny Media Technologies Inc. as of August 31, 2017 and 2016 and the related consolidated statements of comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated 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 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 financial statement presentation. 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 consolidated financial position of Destiny Media Technologies Inc. at August 31, 2017 and 2016, and the consolidated results of its operations and its consolidated 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 29, 2017

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

---

## Destiny Media Technologies Inc.

## CONSOLIDATED BALANCE SHEETS

As at August 31,

(Expressed in United States dollars)

	2017	2016
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	1,342,956	662,743
Accounts receivable, net of allowance for doubtful accounts of \$3,383 [2016 – \$4,049] [note 10]	529,666	628,135
Other receivables	21,216	15,051
Short term receivable [note 3]	64,811	113,834
Prepaid expenses	54,507	61,525
Deposit	592	—
<b>Total current assets</b>	<b>2,013,748</b>	<b>1,481,288</b>
Deposits	27,923	22,978
Long term receivable [note 3]	—	61,642
Property and equipment, net [note 4]	116,208	174,951
Intangible assets, net [note 4]	86,824	110,017
<b>Total assets</b>	<b>2,244,703</b>	<b>1,850,876</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable	127,444	108,157
Accrued liabilities	192,433	190,077
Deferred leasehold inducement	2,090	28,962
Deferred revenue	23,685	23,563
Obligation under capital lease – current portion [note 7]	6,246	5,240
<b>Total current liabilities</b>	<b>351,898</b>	<b>355,999</b>
Obligation under capital lease – long term portion [note 7]	—	6,472
<b>Total liabilities</b>	<b>351,898</b>	<b>362,471</b>
Commitments and contingencies [notes 7 and 9]		
<b>Stockholders' equity</b>		
Common stock, par value \$0.001 [note 5]		
Authorized: 100,000,000 shares		
Issued and outstanding: 55,013,874 shares		
[2016 – issued and outstanding 55,013,874 shares]	55,014	55,014
Additional paid-in capital [note 5]	9,712,213	9,666,080
Accumulated deficit	(7,607,531)	(7,896,312)
Accumulated other comprehensive loss	(266,891)	(336,377)
<b>Total stockholders' equity</b>	<b>1,892,805</b>	<b>1,488,405</b>
<b>Total liabilities and stockholders' equity</b>	<b>2,244,703</b>	<b>1,850,876</b>

See accompanying notes

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended August 31,

(Expressed in United States dollars)

	2017 \$	2016 \$
<b>Service revenue</b> <i>[note 10]</i>	<b>3,445,014</b>	3,337,813
<b>Operating expenses</b>		
General and administrative	730,494	802,433
Sales and marketing	981,959	1,260,384
Research and development	1,304,742	1,292,996
Depreciation and amortization	153,385	191,383
	<b>3,170,580</b>	3,547,196
Income (loss) from operations	274,434	(209,383)
<b>Other income</b>		
Interest income	14,314	21,132
Other income	33	—
<b>Income (loss) before provision for income taxes</b>	<b>288,781</b>	(188,251)
Income tax expense - deferred <i>[note 6]</i>	—	—
<b>Net income (loss)</b>	<b>288,781</b>	(188,251)
Foreign currency translation adjustments	69,486	28,254
<b>Total comprehensive income (loss)</b>	<b>358,267</b>	(159,997)
<b>Net income (loss) per common share, basic and diluted</b>	<b>0.01</b>	(0.00)
<b>Weighted average common shares outstanding:</b>		
Basic	55,013,874	54,737,918
Diluted	55,013,874	54,737,918

*See accompanying notes*

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years ended August 31,

(Expressed in United States dollars)

	Common stock		Additional paid-in capital \$	Accumulated Deficit \$	Accumulated other comprehensive loss \$	Total stockholders' equity \$
	Shares #	Amount \$				
<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>
Total comprehensive income (loss)	—	—	—	(188,251)	28,254	(159,997)
Common stock issued pursuant to private placement	2,020,000	2,020	502,980	—	—	505,000
Less: share issuance costs	—	—	(8,640)	—	—	(8,640)
Stock based compensation – <i>Note 5</i>	—	—	49,608	—	—	49,608
<b>Balance, August 31, 2016</b>	<b>55,013,874</b>	<b>55,014</b>	<b>9,666,080</b>	<b>(7,896,312)</b>	<b>(336,377)</b>	<b>1,488,405</b>
Total comprehensive income	—	—	—	288,781	69,486	358,267
Stock based compensation – <i>Note 5</i>	—	—	46,133	—	—	46,133
<b>Balance, August 31, 2017</b>	<b>55,013,874</b>	<b>55,014</b>	<b>9,712,213</b>	<b>(7,607,531)</b>	<b>(266,891)</b>	<b>1,892,805</b>

*See accompanying notes*

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended August 31,

(Expressed in United States dollars)

	2017 \$	2016 \$
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	288,781	(188,251)
Items not involving cash:		
Depreciation and amortization	153,385	191,383
Stock-based compensation	46,133	49,608
Deferred leasehold inducement	(26,754)	(34,354)
Unrealized foreign exchange	3,342	(9,182)
Changes in non-cash working capital:		
Accounts receivable	120,514	(223,238)
Other receivables	(5,204)	537
Prepaid expenses and deposits	4,967	(15,517)
Accounts payable	8,962	(31,251)
Accrued liabilities	(6,882)	(1,496)
Deferred revenue	(899)	(1,328)
Long term receivable	109,258	100,270
<b>Net cash provided (used) in operating activities</b>	<b>695,603</b>	<b>(162,819)</b>
<b>INVESTING ACTIVITY</b>		
Purchase of property, equipment and intangibles	(63,340)	(73,097)
<b>Net cash used in investing activity</b>	<b>(63,340)</b>	<b>(73,097)</b>
<b>FINANCING ACTIVITIES</b>		
Common stock issued on private placement, net	—	496,360
Payments under capital lease obligations	—	(6,417)
<b>Net cash provided by financing activities</b>	<b>—</b>	<b>489,943</b>
<b>Effect of foreign exchange rate changes on cash</b>	<b>47,950</b>	<b>21,400</b>
<b>Net increase in cash and cash equivalents during the year</b>	<b>680,213</b>	<b>275,427</b>
Cash and cash equivalents, beginning of year	662,743	387,316
<b>Cash and cash equivalents, end of year</b>	<b>1,342,956</b>	<b>662,743</b>
<b>Supplementary disclosure</b>		
Interest paid	—	—
Income taxes paid	—	—
Equipment acquired through capital lease obligations	—	—

See accompanying notes

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2017 and 2016

### 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. 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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2017 and 2016

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

**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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2017 and 2016

**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, 2017, there were no impairment indicators present.

**Litigation and settlement costs**

From time to time, we may be 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, 2017, the Company incurred approximately \$2,655 (2016: \$ Nil) 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2017 and 2016

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 expensed as incurred, unless such costs are within the scope of ASC 985-20 Software – Costs of Software to be Sold, Leased or Marketed (“ASC 985-20”), in which case such 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 and intangibles**

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, trademarks and lists	Straight-line over 3 years

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2017 and 2016

**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 \$9,593 and \$769 during the years ended August 31, 2017 and 2016, respectively.

**Income taxes**

The Company utilizes the liability method of accounting for income taxes as set forth in ASC 740, *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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2017 and 2016

**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, 2017, 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.

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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2017 and 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

## 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, 2017</b>	August 31, 2016
	\$	\$
Net income (loss)	<b>288,781</b>	(188,251)
Weighted average common shares outstanding	<b>55,013,874</b>	54,737,918
Diluted weighted average common shares outstanding	<b>55,013,874</b>	54,737,918

At August 31, 2017, the Company had 1,706,250 outstanding options exercisable at \$0.40, 100,000 outstanding options exercisable at \$0.26, and 1,010,000 outstanding warrants exercisable at \$0.30. Those outstanding options and warrants were not included in the computation of diluted EPS because to do so would have been anti-dilutive.

## 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2017 and 2016

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

*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"). ASU 2014-09 supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)", and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date" ("ASU 2015-14") in August 2015. The amendments in ASU 2015-14 defer the effective date of ASU 2014-09. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Further to ASU 2014-09 and ASU 2015-14, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)" ("ASU 2016-08") in March 2016, ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing" ("ASU 2016-10") in April 2016, and ASU No. 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients" ("ASU 2016-12"), respectively. The amendments in ASU 2016-08 clarify the implementation guidance on principal versus agent considerations, including indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. ASU 2016-10 clarifies guideline related to identifying performance obligations and licensing implementation guidance contained in the new revenue recognition standard.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2017 and 2016

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

The updates in ASU 2016-10 include targeted improvements based on input the FASB received from the Transition Resource Group for Revenue Recognition and other stakeholders. It seeks to proactively address areas in which diversity in practice potentially could arise, as well as to reduce the cost and complexity of applying certain aspects of the guidance both at implementation and on an ongoing basis. ASU 2016-12 addresses narrow-scope improvements to the guidance on collectability, non-cash consideration, and completed contracts at transition. Additionally, the amendments in this ASU provide a practical expedient for contract modifications at transition and an accounting policy election related to the presentation of sales taxes and other similar taxes collected from customers. The effective date and transition requirements for ASU 2016-08, ASU 2016-10 and ASU 2016-12 are the same as ASU 2014-09. We are currently in the process of evaluating the impact of the adoption of ASU 2014-09, ASU 2016-08, ASU 2016-10 and ASU 2016-12 on our consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes" ("ASU 2015-17"). Topic 740, Income Taxes, requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. Deferred tax liabilities and assets are classified as current or noncurrent based on the classification of the related asset or liability for financial reporting. Deferred tax liabilities and assets that are not related to an asset or liability for financial reporting are classified according to the expected reversal date of the temporary difference. To simplify the presentation of deferred income taxes, the amendments in ASU 2015-17 require that deferred income tax liabilities and assets be classified as noncurrent in a classified statement of financial position. For public business entities, the amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. We do not expect the adoption of ASU 2015-17 to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). The amendments in this update create Topic 842, Leases, and supersede the leases requirements in Topic 840, Leases. Topic 842 specifies the accounting for leases. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. The main difference between Topic 842 and Topic 840 is the recognition of lease assets and lease liabilities for those leases classified as operating leases under Topic 840. Topic 842 retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous leases guidance. The result of retaining a distinction between finance leases and operating leases is that under the lessee accounting model in Topic 842, the effect of leases in the statement of comprehensive income and the statement of cash flows is largely unchanged from previous GAAP. The amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. Early application of the amendments in ASU 2016-02 is permitted. We are currently in the process of evaluating the impact of the adoption of ASU 2016-02 on our consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2017 and 2016

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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. We are currently evaluating the impact of the adoption of ASU 2016-13 on our consolidated 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 are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for (1) public business entities for reporting periods for which financial statements have not yet been issued and (2) all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments in this ASU should be applied prospectively to an award modified on or after the adoption date. We do not expect the adoption of ASU 2017-09 to have a material impact on our consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2017 and 2016

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

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash" ("ASU 2016-18"), which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this ASU do not provide a definition of restricted cash or restricted cash equivalents. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. We do not expect the adoption of ASU 2016-18 to have a material impact on our consolidated financial statements.

**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, 2017, installments of US\$872,111, including interest of US\$231,499, have been received (\$999,200AUD and \$255,969AUD, respectively).

The following table summarizes the changes regarding the carrying value of the remaining receivable balance during the year ended August 31, 2017 and covering the period of September 1, 2016 to August 31, 2017:

	2017	2016
	\$	\$
<b>Beginning balance</b>	<b>175,206</b>	265,530
Gross installments received	<b>(127,845)</b>	(123,442)
Interest	<b>12,840</b>	23,172
Foreign exchange impact	<b>4,610</b>	10,216
<b>Ending balance</b>	<b>64,811</b>	175,476

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2017 and 2016

3. LONG TERM RECEIVABLE (cont'd.)

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 fiscal year are as follows:

	Principal \$	Interest \$	Total \$
2018	64,811	1,950	66,761
	<b>64,811</b>	<b>1,950</b>	<b>66,761</b>

4. PROPERTY AND EQUIPMENT AND INTANGIBLES

	Cost \$	Accumulated amortization \$	Net book value \$
<b>2017</b>			
<b>Property and equipment</b>			
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	—
	<b>707,398</b>	<b>591,190</b>	<b>116,208</b>
<b>Intangibles</b>			
Patents, trademarks and lists	415,752	328,928	86,824
	<b>415,752</b>	<b>328,928</b>	<b>86,824</b>
<b>2016</b>			
<b>Property and equipment</b>			
Furniture and fixtures	160,766	110,261	50,505
Computer hardware	224,278	165,133	59,145
Computer software	212,896	171,993	40,903
Leasehold improvement	68,316	43,918	24,398
	666,256	491,305	174,951
<b>Intangibles</b>			
Patents and trademarks	344,322	234,306	110,016
	<b>344,322</b>	<b>234,306</b>	<b>110,016</b>

Depreciation and amortization for the year ended August 31, 2017 was \$153,385 (2016: \$191,383)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2017 and 2016

**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.

**2017**

During the year ended August 31, 2017, no shares were issued.

**2016**

During the year ended August 31, 2016, the Company issued 2,020,000 Units at a price of \$0.25 per Unit for gross proceeds of \$505,000 pursuant to a private placement with issuance costs of \$8,640.

Each Unit was comprised of one common share of the Company and one-half of one common share purchase warrant ("Warrant"), with each whole Warrant entitling the holder to purchase one additional common share at \$0.30 per share for a period of two years from the date of the issuance. The Company will have the right to accelerate the expiry date of the Warrants if, at any time, the average closing price of the Company's common shares is equal to or greater than \$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 the Company issues a news release announcing that it has elected to exercise this acceleration right.

**[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 1,196,931 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2017 and 2016

## 5. STOCKHOLDERS' EQUITY (cont'd.)

*Stock-Based Payment Award Activity*

A summary of option activity under the Plans as of August 31, 2017 and 2016, and changes during the years ended are presented below:

Options	Shares	Weighted Average Exercise Price \$	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value \$
<b>Outstanding at September 1, 2015</b>	<b>1,220,000</b>	<b>0.53</b>	<b>2.38</b>	<b>—</b>
Granted	—	—	—	—
Forfeited	(270,000)	0.98	—	—
Expired	—	—	—	—
<b>Outstanding at August 31, 2016</b>	<b>950,000</b>	<b>0.40</b>	<b>1.58</b>	<b>—</b>
Granted	1,500,000	0.39	—	—
Forfeited	(600,000)	0.40	—	—
Expired	(43,750)	0.40	—	—
<b>Outstanding at August 31, 2017</b>	<b>1,806,250</b>	<b>0.39</b>	<b>4.07</b>	<b>—</b>
<b>Exercisable at August 31, 2017</b>	<b>439,583</b>	<b>0.39</b>	<b>2.02</b>	<b>—</b>

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock for the options that were in-the-money at August 31, 2017.

The following table summarizes information regarding the non-vested stock purchase options outstanding as of August 31, 2017:

	Number of Options	Weighted Average Grant Date Fair Value \$
<b>Non-vested options at August 31, 2015</b>	<b>736,250</b>	<b>0.09</b>
Granted	—	—
Forfeited	(80,000)	0.17
Vested	(375,000)	0.08
<b>Non-vested options at August 31, 2016</b>	<b>281,250</b>	<b>0.08</b>
Granted	1,500,000	0.07
Forfeited	—	—
Vested	(414,583)	0.11
<b>Non-vested options at August 31, 2017</b>	<b>1,366,667</b>	<b>0.07</b>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2017 and 2016

5. STOCKHOLDERS' EQUITY (cont'd.)

As of August 31, 2017, there was \$91,967 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 1.8 years.

During the year ended August 31, 2017, the total stock-based compensation expense of \$46,133 is reported in the statement of comprehensive loss as follows:

	2017	2016
	\$	\$
Stock-based compensation		
General and administrative	31,641	28,608
Sales and marketing	4,665	13,063
Research and development	9,827	7,937
Total stock-based compensation	46,133	49,608

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2017 and 2016

## 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:

	2017 \$	2016 \$
Expected term of stock options (years)	1.8-3.0	—
Expected volatility	86.4%-87.7%	—
Risk-free interest rate	1.4-1.6%	—
Dividend yields	—	—
Weighted average grant date fair value	\$ 0.07	—

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, 2017, the Company recognized compensation expense of \$45,212 (2016: \$37,304) in salaries and wages on the consolidated statement of comprehensive income (loss) 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 \$0.21 (2016: \$0.23). The shares are held in trust by the Company for a period of one year from the date of purchase.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2017 and 2016

5. STOCKHOLDERS' EQUITY (cont'd.)

[d] Warrants

As at August 31, 2017, the Company has the following common stock warrants outstanding:

	Number of Common Shares Issuable	Exercise Price \$	Date of Expiry	Aggregate Intrinsic Value \$
\$0.30 Warrants	1,010,000	0.30	October 20, 2017	—
	<b>1,010,000</b>			—

The Company will have the right to accelerate the expiry date of all of the warrants if, at any time, the average closing price of the Company's common shares is equal to or greater than \$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 the Company issues a news release announcing that it has elected to exercise this acceleration right. Subsequent to August 31, 2017, these warrants expired unexercised.

All of the common stock warrants were issued in connection with the private placement transaction described in Note 5[a].

The warrants were classified as equity at the date of issuance. They contained no provision that would require liability classification. Accordingly, they were classified as equity at the date of issuance and included in additional paid in capital. The proceeds were not bifurcated between the value of the share and the warrant as the amount is contained within additional paid in capital. The Company applied its best judgment to estimate key assumptions in determining the fair value of the warrants on the date of issuance. The Company used historical data to estimate stock volatilities. The risk-free rates are consistent with the terms of the warrants and are based on the United States Treasury yield curve in effect at the time of issuance.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2017 and 2016

## 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:

	2017 \$	2016 \$
Tax at U.S. statutory rates	98,000	(64,000)
Permanent differences	2,000	2,000
Stock option compensation	16,000	17,000
Effect of lower foreign tax in Canada	(21,000)	18,000
Effect of research tax credits claims filed in respect of prior years	(128,000)	(36,000)
Foreign exchange and other adjustments	(89,000)	25,000
Change in valuation allowance	122,000	38,000
<b>Provision for deferred income taxes</b>	<b>—</b>	<b>—</b>

Included in other adjustments and change in valuation allowance for the year ended August 31, 2017 is \$87,000 (2016: (\$15,000)) for the effect of changes in foreign exchange rates and \$2,000 (2016: \$40,000) 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2017 and 2016

6. INCOME TAXES (cont'd.)

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

	2017 \$	2016 \$
<b>Deferred tax assets:</b>		
Net operating loss carryforwards	1,196,000	1,324,000
Excess of book over tax depreciation	561,000	501,000
Tax Credit Carryforwards	1,411,000	1,220,000
Total deferred tax asset	3,168,000	3,045,000
Valuation allowance	(3,168,000)	(3,045,000)
<b>Net deferred tax asset</b>	<b>—</b>	<b>—</b>

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

	2017 \$	2016 \$
United States	64,866	86,193
Canada	223,915	(274,444)
	<b>288,781</b>	<b>(188,251)</b>

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

	Canada \$	United States \$
2021 and thereafter	34,000	3,499,000
	<b>34,000</b>	<b>3,499,000</b>

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

	\$	\$
2028 and thereafter	1,349,000	—
	<b>1,349,000</b>	<b>—</b>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2017 and 2016

7. COMMITMENTS

The Company entered into a new lease agreement commencing July 1, 2017 and expiring June 30, 2022 for the same premise consisting of approximately 6,550 square feet. The Company has fiscal year payments committed as follows:

	\$
2018	252,088
2019	257,749
2020	265,152
2021	270,813
2022	231,121

During the year ended August 31, 2017 the Company incurred rent expense of \$234,533 (2016 - \$222,287) which has been allocated between general and administrative expenses, research and development and sales and marketing on the consolidated statement of comprehensive income (loss). The rent expense during the year ended August 31, 2017 has included the allocation of rental payments on a straight-line basis.

In February 2015, the Company entered into a capital lease. The Company is committed to make payments under its capital leases for 4 year terms of the leases until March 2018 as follows:

	\$
2015	2,705
2016	7,032
2017	5,950
2018	7,012
Total lease payments	22,699
Less: Amounts paid	16,253
Total lease payable	6,446
Less: Amounts representing interest	(200)
Balance of obligation	6,246

8. RELATED PARTY TRANSACTIONS

None.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2017 and 2016

## 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.

## 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:

	2017	2016
	\$	\$
<b>Play MPE®</b>		
United States	1,428,802	1,379,240
Europe	1,687,724	1,628,897
Australia	289,910	274,501
<b>Total Play MPE® Revenue</b>	<b>3,406,436</b>	<b>3,282,638</b>
<b>Clipstream ®</b>		
United States	38,578	55,175
<b>Total Clipstream ® Revenue</b>	<b>38,578</b>	<b>55,175</b>
<b>Total Revenue</b>	<b>3,445,014</b>	<b>3,337,813</b>

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, 2017, the Company generated 41% of total revenue from one customer [2016 - one customer represented 42%].

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

As at August 31, 2017, one customer represented \$377,672 (71%) of the trade receivables balance [2016 - one customer represented \$354,459 (63%)].

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2017 and 2016

10. CONCENTRATIONS AND ECONOMIC DEPENDENCE (cont'd.)

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

11. SUBSEQUENT EVENTS

On September 5, 2017, Steve Vestergaard, former President and Chief Executive Officer of Destiny Media Technologies Inc. (the "Company") has 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.

51

---

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 is 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, 2017.

Based on this evaluation, our management, with the participation of our principal executive officer and principal financial officer concluded that as of August 31, 2017, our disclosure controls and procedures were effective.

**Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting, as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act, is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles ("GAAP"). Internal control over financial reporting includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are transacted in accordance with authorizations of management and directors of the Company, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with existing policies or procedures may deteriorate. A material weakness is defined as "a deficiency, or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

Our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, conducted an assessment of the effectiveness of its internal control over financial reporting as of August 31, 2017 based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management concluded that our internal controls over financial reporting were effective as of August 31, 2017.

**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

On June 26, 2017, the Company dismissed its Chief Executive Officer. On that date, the Company's Chief Financial Officer assumed the position of President, and Chief Executive Officer in addition to his position of Chief Financial Officer. As a result, there was a lack of segregation of duties between the position of Chief Executive Officer and Chief Financial Officer over the period subsequent to June 26, 2017.

52

---

To address this lack of segregation of duties, management ensured that additional oversight procedures were performed to ensure the financial statements included herein fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented. Accordingly, we believe the financial statements included in this report present fairly, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

**Other than as noted above, there were no changes in internal control over financial reporting during the fiscal quarter ended August 31, 2017.**

**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>
Frederick Vandenberg	<i>President, Corporate Secretary, Chief Executive Officer and Chief Financial Officer</i>	49	<i>CEO since June 2017 CFO since July 2007</i>
Hyonmyong Cho <sup>(1)</sup>	<i>Chairman of the Board, Director</i>	45	<i>February 2017</i>
Samuel Jay Graber <sup>(1)</sup>	<i>Director</i>	56	<i>February 2017</i>
Steven Vestergaard	<i>Director</i>	51	<i>January 1999</i>

<sup>(1)</sup> Member 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:

**Fred Vandenberg, B. Comm. MBA, CPA, CA** Mr. Vandenberg has been our Chief Executive Officer since June 2017 and Chief Financial Officer since July 2007. Mr. Vandenberg's core responsibilities include strategic planning and coordinating strategic planning, marketing and product development, leading the accounting, treasury, financial controls and financial reporting functions of the Company. Mr. Vandenberg has been with the company for 12 years, heading up the finance group and managing the majority of Play MPE operations, including the initial transition of our customers to commercial agreements in 2008. Mr. Vandenberg oversees the business development and operational functions of Play MPE, expanding into new markets while ensuring we continue to lead the industry in customer service. 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 Professional Accountant in Ontario.

**Hyonmyong Cho.** Mr. Cho has been a director of the Company since February 2017. Hyonmyong Cho is currently a managing member of Greenlaw International Management Company LLC which manages Greenlaw International LP, a fund which invests in microcap stocks. From 2002 to 2008, Mr. Cho was a Managing Director of Forum Partners which managed several real estate private equity funds in Europe and Asia. At Forum Partners, Mr. Cho managed a worldwide team tasked with private equity deal structuring, analysis and negotiation. Prior to Forum Partners, Mr. Cho was a senior associate at Nassau Capital, whose only limited partner was Princeton University, and he was responsible for the due diligence, negotiation, documentation and monitoring of private equity transactions. Prior to that, Mr. Cho was a partner in Novalis Ventures, a venture capital fund focused on early stage investments in the real estate industry. Before that, Mr. Cho was a Vice President at Cahill, Warnock & Company, a private equity firm focused on making direct investments in micro-cap public companies. Mr. Cho began his career as a financial analyst for Alex Brown & Sons, Inc. in the mergers and acquisitions, real estate and health care groups. Mr. Cho was a Morehead Scholar at the University of North Carolina, graduating with a B.A. in English Literature.

**Samuel Jay Graber.** Mr. Graber has been a director of the Company since February 2017. Mr. Graber recently retired as VP of Business Development from Apex Software LLC., a privately-owned developer of building drawing and area calculation software for jurisdictional mass appraisal at the municipal, county, province and statewide level as well as for the real estate mortgage appraisal industry. Mr. Graber continues to serve on various committees for the International Association of Assessing Officers (IAAO) as he remains a business partner in Apex. Prior to 20 years in the software/technology arena, Mr. Graber worked in direct sales / sales management for various manufacturing entities including automotive and decorative lighting, plastic extrusion, art glass and architectural flooring. Mr. Graber earned a BS degree in both Business Management and in Psychology from Eastern Mennonite College (now EMU).

**Steven Vestergaard.** Mr. Vestergaard has been a director since 1999. Mr. Vestergaard obtained a B.Sc. from the University of British Columbia in 1989 and was previously the Company's Chief Executive Officer.

#### **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. Hyonmyong Cho and Mr. Samuel Jay Graber. Both Mr. Cho and Mr. Graber are non-employee directors of the Company and are considered independent. Our Board of Directors has currently designated Mr. Cho 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 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.dsny.com](http://www.dsny.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, 2017 all such filing requirements were complied with.

#### **CODE OF ETHICS**

The Company's code of ethics is available on our website at <http://www.dsny.com/code-of-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, 2017; 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, 2017,

who we will collectively refer to as our “named executive officers”, of our company for the years ended August 31, 2017 and 2016, 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>	Other Annual Compensation (\$) <sup>(2)</sup>	Total (\$)
Frederick Vandenberg <sup>(3)</sup> President, Chief Executive Officer and Chief Financial Officer	2017	159,033	Nil	Nil	27,047	7,952	194,032
	2016	158,424	Nil	Nil	Nil	7,921	166,345
Steven Vestergaard <sup>(4)</sup> Director	2017	162,590	Nil	Nil	10,143	Nil	172,733
	2016	196,144	Nil	Nil	Nil	Nil	196,144

- (1) Option awards shown here represent the aggregate grant date fair value of all options granted.
- (2) The value of prerequisites and other personal benefits, securities and property for the individuals included in the summary compensation table that does not exceed \$10,000 is not reported herein. Other compensation for Mr. Vestergaard and Mr. Vandenberg includes participation in the employee share purchase plan described below under long term incentive plans.
- (3) All salaries paid to Mr. Vandenberg are paid in Canadian dollars.
- (4) All salaries paid to Mr. Vestergaard are paid in Canadian dollars. The salaries paid to Mr. Vestergaard in 2017 covered the period of September 1, 2016 to June 28, 2017.
- (5) Compensation is stated in United States dollars. Where compensation was provided in Canadian dollars, compensation is based on an exchange rate of 0.7573 US dollars for each 1.00 Canadian dollar during the 2017 fiscal year. Compensation is stated in United States dollars and is based on an exchange rate of 0.7544 US dollars for each 1.00 Canadian dollar during the 2016 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. 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, 2017.

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned 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 (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that have not Vested (\$)
Frederick Vandenberg	164,583	366,667	N/A	0.40	(1)	N/A	N/A	N/A	N/A
Steven Vestergaard	12,500	137,500	N/A	0.40	July 6, 2022	N/A	N/A	N/A	N/A

(1) The exercisable of 164,583 options consist of 131,250 options expired evenly every month within next 21 months and 33,333 options with an expiry of July 6, 2022. The unexercisable 366,667 options have an expiry date of July 6, 2022.

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, 2017. All purchases will be made through the Exchange by a third party plan agent and no purchases will be made on the OTC or German exchanges. The third party plan agent will also be responsible for the administration of the Plan on behalf of Destiny and the participants. Additionally, we have registered stock option plans.

COMPENSATION OF DIRECTORS

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

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

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	All Other Compensation (\$)	Total (\$)
Hyonmyong Cho	Nil	Nil	15,214	Nil	Nil
Samuel Jay Graber	Nil	Nil	15,214	Nil	Nil

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

The following table sets forth certain information concerning the number of shares of our common stock owned beneficially as of November 29, 2017 by: (i) each person (including any group) known to us to own more than five percent (5%) of any class of our voting securities, (ii) each of our directors and each of our named executive officers, and (iii) officers and directors as a group. Unless otherwise indicated, the shareholders listed possess sole voting and investment power with respect to the shares shown.

Title of class	Name and address of beneficial owner	Number of Shares of Common Stock	Percentage of Common Stock <sup>(1)</sup>
DIRECTORS AND OFFICERS:			
Common Stock	Hyonmyong Cho, Director, Chairman of the Board, c/o 1110-885 W Georgia St. Vancouver, BC, V6C 3E8	2,452,689 <sup>(5)</sup>	4.5%
Common Stock	Samuel Jay Graber, Director c/o 1110-885 W Georgia St. Vancouver, BC, V6C 3E8	416,175 <sup>(4)</sup>	*
Common Stock	Steven Vestergaard, Director c/o 1110-885 W Georgia St. Vancouver, BC, V6C 3E8	11,290,760 <sup>(2)</sup> (6)	20.5%
Common Stock	Frederick Vandenberg President, Chief Executive Officer, Chief Financial Officer and Corporate Secretary c/o 1110-885 W Georgia St. Vancouver, BC, V6C 3E8	1,115,301 <sup>(3)</sup>	2.0%
Common Stock	All Officers and Directors as a Group (4 persons)	15,274,925	27.6%

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 29, 2017. As of November 29, 2017, 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 37,500 shares that are acquirable upon the exercise of stock options held by Mr. Vestergaard within 60 days of November 29, 2017.
- (3) Consists of 884,051 shares held by Mr. Vandenberg and 231,250 shares that are acquirable upon the exercise of stock options held by Mr. Vandenberg within 60 days of November 29, 2017.
- (4) Consists of 359,925 shares held by Mr. Graber and 56,250 shares that may be acquired upon the exercise of stock options held by Mr. Graber within 60 days of November 29, 2017.
- (5) Consists of 665,174 shares held by Mr. Cho and 56,250 shares that may be acquired upon the exercise of stock options held by Mr. Cho within 60 days of November 29, 2017 and includes 1,731,265 shares held through Mr. Cho's indirect pecuniary ownership held through Greenlaw International LP, a Delaware limited partnership (the "Fund"), and Greenlaw International GP LLC, a Delaware limited liability company and the general partner of the Fund which has the right to receive an allocation of a portion of the profits of the Fund.
- (6) The share ownership disclosed herein has been calculated based on the latest filings by Mr. Vestergaard under Section 16(a) of the Securities Exchange Act of 1934. The Company has not been able to confirm the amount with Mr. Vestergaard including any ownership under Rule 13d-3 of the Securities Exchange Act of 1934.

#### 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, 2017.

	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	950,000 Shares of Common Stock	\$0.40 per Share	2,053,181 Shares of Common Stock
Total	950,000 Shares of Common Stock		2,053,181 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.

All of directors are our independent directors.

**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, 2017 and the year ended August 31, 2016 as follows:

**BDO Canada LLP**

	2017	2016
<b>Audit Fees</b>	\$ 79,790	\$ 78,238
<b>Audit Related Fees</b>	-	-
<b>Tax Fees</b>	11,058	7,970
<b>All Other Fees</b>	-	-
<b>Total Fees</b>	<u>\$ 90,848</u>	<u>\$ 86,208</u>

*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, 2017 and 2016, 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 (loss);
4. Consolidated Statements of Cash Flows;
5. Consolidated Statement of Changes in Stockholders' Equity; and

6. Notes to the Consolidated Financial Statements.

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

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

<a href="#"><u>3.1</u></a>	<a href="#"><u>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).</u></a>
<a href="#"><u>3.2</u></a>	<a href="#"><u>Amended and Restated Bylaws (incorporated by reference to Exhibit B to the Plan of Conversion as filed in our Definitive Proxy Statement on Form DEF14A on August 18, 2014)</u></a>
<a href="#"><u>4.1 †</u></a>	<a href="#"><u>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)</u></a>
<a href="#"><u>10.1</u></a>	<a href="#"><u>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).</u></a>
<a href="#"><u>10.2</u></a>	<a href="#"><u>Rule 506 Subscription Agreement dated February 24, 2006 between Destiny Media Technologies Inc. and Global Equity Trading &amp; Finance Ltd. (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on March 3, 2006).</u></a>
<a href="#"><u>10.3</u></a>	<a href="#"><u>Rule 506 Subscription Agreement dated February 3, 2006 between Destiny Media Technologies Inc. and Global Equity Trading &amp; Finance Ltd. (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on March 3, 2006).</u></a>
<a href="#"><u>10.4</u></a>	<a href="#"><u>Securities Purchase Agreement dated February 26, 2007 (incorporated by reference to Exhibit 99.1 to our Current Report on Form 8-K filed on March 1, 2007).</u></a>
<a href="#"><u>10.5 †</u></a>	<a href="#"><u>Employee Stock Purchase Plan (incorporated by reference to our Other Definitive Proxy Statements on Form DEF 14A filed on February 04, 2011).</u></a>
<a href="#"><u>21.1*</u></a>	<a href="#"><u>Subsidiaries of the Registrant.</u></a>
<a href="#"><u>23.1*</u></a>	<a href="#"><u>Consent of Independent Registered Public Accounting Firm – BDO CANADA LLP</u></a>
<a href="#"><u>24*</u></a>	<a href="#"><u>Power of Attorney (included in Signature pages)</u></a>
<a href="#"><u>31.1*</u></a>	<a href="#"><u>Section 302 Certification of Chief Executive Officer and Chief Financial Officer</u></a>
<a href="#"><u>32.1*</u></a>	<a href="#"><u>Section 906 Certification of Chief Executive Officer and Chief Financial Officer</u></a>
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/Frederick Vandenberg  
Frederick Vandenberg, Chief Executive Officer and Chief Financial Officer  
Date: November 29, 2017

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS that each individual whose signature appears below constitutes and appoints 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/Frederick Vandenberg  
Frederick Vandenberg, President  
Chief Executive Officer (Principal Executive Officer)  
Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)  
Date: November 29, 2017

By: /s/ Hyonmyong Cho  
Hyonmyong Cho  
Director  
Date: November 29, 2017

By: /s/ Samuel Jay Graber  
Samuel Jay Graber  
Director  
Date: November 29, 2017

**SUBSIDIARIES OF THE REGISTRANT**

Name of Subsidiary

Destiny Software Productions Inc. \*  
MPE Distribution, Inc.

Jurisdiction

British Columbia, Canada  
Nevada, United States

\* Destiny Software Productions Inc. has one wholly-owned subsidiary named Sonox Digital Inc. It was incorporated under the laws of British Columbia, Canada.

---



Tel: 604 688 5421  
Fax: 604 688 5132  
[www.bdo.ca](http://www.bdo.ca)

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

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-133552, No. 333-114904 and No. 333-100161) of Destiny Media Technologies Inc. (the "Company") of our report dated November 29, 2017 relating to the consolidated financial statements of the Company which appears in this Form 10-K of the Company for the year ended August 31, 2017.

/s/ BDO CANADA LLP

Vancouver, Canada  
November 29, 2017

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

---

**CERTIFICATIONS**

I, Frederick Vandenberg, certify that:

- (1) I have reviewed this annual report on Form 10-K of Destiny Media Technologies Inc.;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 29, 2017

/s/Frederick Vandenberg

[Signature]

**Chief Executive Officer and Chief Financial Officer (principal executive officer and principal financial officer)**

[Title] \_\_\_\_\_

---

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Frederick Vandenberg, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Destiny Media Technologies, Inc. for the year ended August 31, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Destiny Media Technologies, Inc..

By: /s/Frederick Vandenberg

Name: FREDERICK VANDENBERG

Title: Chief Executive Officer and Chief  
Financial Officer

Date: November 29, 2017

---