

DESTINY MEDIA TECHNOLOGIES INC  
Form 10-K  
November 25, 2013

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

(Mark One)

**FORM 10-K**

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

For the fiscal year ended **August 31, 2013**

**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)

**COLORADO**

(State or other jurisdiction of incorporation or organization)

**84-1516745**

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

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

(Address of principal executive offices)

**V6B 4N7**

(Zip Code)

**604-609-7736**

Registrant's telephone number, including area code

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

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

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

Yes  No

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

Yes  No

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Yes  No

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter was \$31,697,519.

The number of shares outstanding of the registrant's common stock, par value \$0.001, as of November 25, 2013 was 52,021,353.

**DOCUMENTS INCORPORATED BY REFERENCE**

None

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

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**PART I**

**FORWARD LOOKING STATEMENTS**

The information in this Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act ), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ). These forward-looking statements involve risks and uncertainties, including statements regarding Destiny Media's capital needs, business strategy and expectations. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may", "will", "should", "expect", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential" or "continue", the negative of such terms or other comparable terminology. Actual events or results may differ materially. In evaluating these statements, you should consider various factors, including the risks outlined below under Item 1A. Risk Factors , and, from time to time, in other reports Destiny Media files with the SEC. These factors may cause Destiny Media's actual results to differ materially from any forward-looking statements. Destiny Media disclaims any obligation to publicly update these statements, or disclose any difference between its actual results and those reflected in these statements. Such information constitutes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

**CURRENCY**

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

## **ITEM 1. BUSINESS.**

### **OVERVIEW AND CORPORATE BACKGROUND**

Destiny Media Technologies, Inc. was incorporated in August 1998 under the laws of the State of Colorado. 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 or we refers to the consolidated activities of all three companies.

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

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

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

### **OUR PRODUCTS AND SERVICES**

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

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

The remaining 5% of revenue is generated from legacy sales of Clipstream®, a playerless streaming video solution first launched in 1999.

#### **Clipstream® Legacy**

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

This legacy technology relies on a plugin from Oracle to be bundled into the browser and the install rate of this plugin has declined significantly since launch fourteen years ago. This first generation of Clipstream® generally does not work at all on smart phones and other devices. This product is in the process of being phased out and is not expected to be offered past the end of Q2-2014. The Company has successfully developed a second generation version of Clipstream® (G2) which works natively on all modern browsers. The Company has been transitioning legacy customers to use the new technology. The Company offers this as a service where the videos are encoded and hosted on Company servers.

#### **Clipstream® Next Generation**

The introduction of new browsers supporting HTML 5 has created a new opportunity where video can be decompressed and rendered directly by the browser. The Company has filed seven US patents claiming an August 2011 priority date over this new technology, which use the HTML 5 <canvas> tag and Javascript to render the video rather than using the HTML 5 <video> tag. This approach has a large number of advantages which disrupt the existing paradigm.

Streaming video encoded in this format can be hosted from any brand of web server and it will play directly across desktops, laptops, smart phones, tablets, e-book readers, internet enabled TV's and other devices, including future devices still under development. As the streams are served by HTTP progressive download, they can be reused potentially reducing the bandwidth and hardware infrastructure required at the source. Clipstream® G2 is cross platform which results in savings from the elimination of costs associated with re-encoding videos into multiple formats (transcoding) and costs of the extra storage, power, air conditioning, staff and facility space required by competitive offerings. The solution is playerless and does not rely on third party plug-ins. Video encoded in this format does not need to be re-encoded in the future as future browsers will be backwards compatible with the standards the technology relies on.

The Clipstream® G2 engine has been developed and is currently being demonstrated at <http://www.clipstream.com>. Some market research companies have migrated to this new technology and the Company is currently offering encoding in this format as a service.

### **Clipstream® Cloud**

The first service based around this engine, the Clipstream® cloud is expected to launch in fiscal 2014. Similar to Youtube, but intended for corporate users, this system allows non technical staff to easily create cross platform videos. Users download a free tool from our automated site, then drag and drop video files in any format into that tool, which uploads them to the cloud. A link is returned to the user which they can insert into any webpage to embed the video into that webpage. That single video format will play cross platform on a wide variety of current and future devices without conversion. The user can log into their own management account to change settings on the video and to see real time usage statistics.

The cloud is managed by servers at one or more Destiny controlled facilities. The actual location where the content is stored and hosted is open ended. The Company is currently partnered with Amazon's cloud services to provide hosting services, but some or all of the content can be moved in the future to other providers, including Destiny's own facilities. This flexibility was built into the system so that usage could scale quickly if demand was there.

The business model is usage based. Users will purchase a monthly package through an automated credit card sale, which will limit the amount of transfer they are allowed in a month. Any overage outside of that package would be automatically billed the following month.

### **Play MPE®**

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

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

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

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

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

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

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

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

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

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

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

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

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

## BUSINESS DEVELOPMENT

### MPE®

In fiscal 2013, annual revenue was \$3,679,029 with over 95% of our revenue from Play MPE®.

In October 2012, the Japanese patent office granted preliminary approval for our watermarking patent. Unlike competing solutions which require transforming the audio and embedding frequencies, our solution marks audio with identifying information which is completely inaudible, which can't be removed and which survives conversion into non digital formats.

In February, the Company announced the launch of Daily Play MPE® (<http://daily.plaympe.com>). This website announces many of the releases that are sent through Play MPE® and provides charts listing the songs with the greatest Play MPE® activity in different geographic locations. As record labels distribute songs to their targeted recipients, our system now will automatically feed this information, along with cover art and other meta data, to the Daily Play MPE® website. This feed will, in turn, be automatically relayed to our social media sites: <https://www.facebook.com/dailyplaympe> and <https://twitter.com/PlayMPE>. With the website and social media feeds, the Company hopes to expand our presence in social media, increase the direct interaction with recipients, provide greater promotional value to our record label clients and Play MPE® itself and facilitate greater traffic through the Play MPE® system.

In April, the Company announced a major upgrade to both the software and hardware infrastructure with the launch of the Play MPE® Direct-to-Web portal (<http://goplay.plaympe.com>). Now recipients will be able to access pre-release music distributed through the Play MPE® system with installed player software. The Company also announced the release of the new Play MPE® App for iPhone and a new global contract with Universal Music Group to send music to countries anywhere in the world.

In June, the Company announced the release of the Play MPE® App for Android.

Some highlights for the year include:

September 6-8, Christian Music Broadcasters Momentum Conference in Orlando, FL  
2012

September 6-9, Canadian Country Music Week, Saskatoon, SK  
2012

September 21-22, iHeartRadio Music Festival, Las Vegas, NV  
2012

October 8-9, San Francisco MusicTech Summit XI, San Francisco, CA  
2012

February 26-March 1, Country Radio Seminars, Nashville, TN  
2013

March 12-16, South by Southwest Music and Media Conference in Austin, TX  
2013

March 19-24, Canadian Music Week in Toronto, ON  
2013

March 21-22, City of Hope, New York, NY  
2013

August 6-9, 2013 FMQB Triple A Convention, Boulder, CO

**Clipstream®**

In August of fiscal 2012, the Company launched an initial proof of concept for the second generation Clipstream® solution. This was followed by a potential commercial prototype in December. This version required too much CPU and too much bandwidth for a large fraction of the users. We developed a new more efficient compression CODEC that required much less CPU and much less bandwidth to meet the same quality requirements in February 2013. In March 2013, we transitioned three legacy market research customers to begin paid trials using this commercial candidate. We worked with these test customers in a real world environment with real survey respondents and continued to modify the CODEC and playback engine through the summer. In June 2013, we began offering this engine to all market research customers at the Market Research Association Annual Conference. We also began transitioning existing market research customers from our legacy streaming offering to the new technology.

Around this playerless streaming engine, we are building out a number of new products. The first is a cloud uploader system. Users will drag and drop video files in any standard video format into our free tool and it will convert into our proprietary cross platform format and upload into the cloud. Our revenue model will be to charge a fee for a monthly package that provides a certain number of minutes of storage and data transfer and to charge overage fees above that. This product is expected to launch in calendar 2013. The Company continues to invest only minimally into sales and marketing for Clipstream® until the Clipstream® Cloud application launches.

Some highlights for the year include:

Sep 9 - 12, 2012 ESOMAR Congress 2012, Atlanta, GA

May 28-30, 2013 Council of American Survey Research Organization Technology Conference, NY, NY

June 10-12, 2013 Market Research Association Annual Conference & 2013, Orlando, FL.

### **Significant Customers**

During the year ended August 31, 2013, the Company generated 51% of total revenue from one customer and 10% of total revenue from another customer (2012 - one customer represented 54% and another customer represented 10%).

## **OUR BUSINESS OPERATIONS**

We lease approximately 5,792 square feet of office space, with the lease expiring in December of 2014, and we currently have 25 total employees, including 23 full time employees and 2 part time employees. Our employees include our President and Chief Executive Officer, Chief Financial Officer, fourteen sales and technical support personnel, and seven software developers. We also employ contractors as needed.

We manage our own server infrastructure and use the services of external hosting facilities. We have racks of server and storage hardware at five physical locations (three in Vancouver, Canada, one in Australia and one in London, England). Servers are highly redundant with RAIDs, custom switches, redundant power supplies and multiple connections to the internet backbone. Access to the network is load balanced across the server locations, providing bandwidth of anywhere from 100 Mbps to 1 Gbps depending on the facility and continued access to users if a facility ever failed.

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

### **Research and Development**

Total research and development expenditures for the year ended August 31, 2013 were \$1,207,700 (2012: \$1,889,450).

## **COMPETITION**

### **MPE®**

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

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



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

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

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

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

|              | <b>Play MPE®</b>  | <b>Competing Alternatives</b>   | <b>Physical Distribution</b>   |
|--------------|---|---|--|
| Speed        | Proprietary lossless compression at 4 times download speed or 15 times download speed with inaudible compression loss.  | Trade off between slower download speeds or lower quality file.   | Dependent on mail courier.   |
| Security     | User and machine authentication. Digital locking and Watermark available  | Watermarking, password and other access control methods.  | Typically no security.   |
| Watermarking | Patent pending proprietary watermark "Methods for Watermarking Media Data" Embeds in real time Uniquely identifies the recipient account, Survives on air broadcast and compression, Inaudible Integrated with the IFPI | Not available or Licensed 3 <sup>rd</sup> party watermarks Range available offers trade off between audio quality and reliability Longer implementation required Does not survive on air broadcast, conversion to new formats, compression or filtering None known to be integrated with the IFPI None known to be unique to the individual recipient account | Unique individual watermarking not available.                            |
| Cost         | Estimated to be approximately 80% savings over physical   | Unknown range   | Costs generally include:<br>mail or courier charges<br>manufacture of CD |

|           |                              |                               |  |
|-----------|------------------------------|-------------------------------|--|
| Streaming | Instant, Clipstream® powered | 3rd party players and codecs. | address label,<br>packaging,<br>list maintenance<br>Not applicable |
|-----------|------------------------------|-------------------------------|--|

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|                           |  |  |   |
|---------------------------|--|--|---|
| Reporting Player          | Real time PC   | None to real time Required 3rd party players   | None Labor intensive  |
| Versions and capabilities | Mac and, iPhone player versions including the following proprietary software features:<br>encrypted audio playback, drag and drop play lists, integrated CD burning, export to other formats   | which require correct version and association information.                                     | process to encode into a digital format at radio to integrate into radio automation and reporting software systems  |
| Portability               | No Player required Direct to Web supports playerless streaming and download from any web browser   | Play MPE Websites require installation of a third party media player and authentication agents | Portable.   |
| Meta Data                 | Fingerprinting, photos, video, PDF s, Data (ISRC codes, intro times, beats per minute, etc.) exported into radio automation system/software. Exclusive integration with RCS Sound Software the world s leading radio scheduling software provider. | Artist name, title, label, compatible with only one automation system.                         | Radio must manually input meta data requiring more labor and leading to errors causing errors in royalty reporting. |
| Formats                   | CD, WAV, MP2, MP3, AAC, WMA  | MP3, WMA, WAV  | CD  |
| Players                   | Windows, Mac, PC, Browser, Android, iPhone, Blackberry, iPad, tablet   | Typically browser based only   | CD  |

**Clipstream®**

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

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

The most dominant format in the last few years has been Flash from Adobe, but Adobe has discontinued support for Flash on devices.

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

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

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

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

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

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

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

#### Clipstream® Advantages

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

- Dozens of parameters provide functionality not available from any other streaming solution. For example, Clipstream® provides the only technology available to link every pixel or group of pixels in a banner to a different audio stream. This technology can be used for audio navigation of a website or to provide ads that do not require the visitor to leave the host site to listen to an ad.

## **GOVERNMENT REGULATION**

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

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" Parent Patent**

**a. US Patent No. 7983441, Japan Patent No. 5103479**

**b. Pending Canada (Publication No. 2682926), Europe (Publication No. 2082527)**

#### **Watermarking "Methods for Watermarking Media Data" Child Patent (Continuation)**

**a. US Patent No. 8300885**

**b. Pending US (Publication No. US-2013-0096705)**

Destiny has developed a watermarking technology which can uniquely identify the individual who originally accessed a particular song. Our watermark is unique as it can be embedded and identified rapidly, it is inaudible, it survives on air broadcast, compression and conversion to other formats and is virtually impossible to remove. Our watermarking technology is used in the Play MPE® distribution system when songs are exported or when streaming a track. Other watermarking technologies are slow and provide a trade off between a destruction of audio quality and the ease that they can be filtered out.

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**  
**(Pending US - Publication numbers are US-2013-0047074, US-2013-0044260, US-2013-0044822, US-2013-0044823, US-2013-0044802, US-2013-0044826 and US-2013-0044804)**

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

**Registered Trademarks**

Clipstream®

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

Pending: Australia

Play MPE®

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

Pending: Australia

MPE®

Granted: Japan, USA, Canada, European Community

Pending: Australia

Sonox Digital®

Granted: Japan, China, European Community

Pending: Canada, USA

**Domain Names**

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

**Trade Secrets**

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

**ITEM 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.*

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

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

Operating expenses increased slightly to \$3,443,150 for the year ended August 31, 2013 from \$3,264,111 for the year ended August 31, 2012 while our revenue decreased slightly to \$3,679,029 for the year ended August 31, 2013 from \$3,983,789 for the year ended August 31, 2012. Our ability to maintain profitability is conditional upon our ability to control our operating expenses. While we have been successful in containing our operating expenses, there is a risk that we will have to increase our operating expenses in the future. Factors that could cause our operating expenses to increase include our determination to spend more on sales and marketing in order to increase product sales or our determination that more research and development expenditures are required in order to keep our current software products competitive or in order to develop new products for the market. To the extent that our operating expenses increase without a corresponding increase in revenue, our financial condition would be adversely impacted.

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

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

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

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

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

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

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

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

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

*Our ability to manage growth.*

Should we be successful in the sales and marketing efforts of our software products, we will experience significant growth in operations. If this occurs, management anticipates that additional expansion will be required in order to continue our product development. Any expansion of our business would place further demands on our management,

operational capacity and financial resources. We anticipate that we may need to recruit qualified personnel in all areas of its operations, including management, sales, marketing, delivery, and software development. There can be no assurance that we will be effective in attracting and retaining additional qualified personnel, expanding its operational capacity or otherwise managing growth. In addition, there can be no assurance that our current systems, procedures or controls will be adequate to support any expansion of our operations. The failure to manage growth effectively could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

*Product delays and errors.*

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

*Online commerce security risks.*

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

*International operations.*

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



**ITEM 1B. UNRESOLVED STAFF COMMENTS.**

None

**ITEM 2. PROPERTIES.**

Our head office is located in leased premises at Suite 750, 650 Georgia Street, Vancouver, British Columbia, Canada V6B 4N7. Our principal business operations are carried out from our head office. Our leased premises consist of approximately 5,792 square feet. We pay rent of approximately \$24,880 Canadian (equal to approximately \$23,600 US) per month. The lease expires December 31, 2014. 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 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. On March 4, 2013, Mr. McDonald passed away. The implications for the outstanding litigation are unclear.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not Applicable

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

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

| <b>QUARTER</b>               | <b>HIGH (\$)</b> | <b>LOW (\$)</b> |
|------------------------------|------------------|-----------------|
| 1 <sup>st</sup> Quarter 2012 | \$0.49           | \$0.33          |
| 2 <sup>nd</sup> Quarter 2012 | \$0.85           | \$0.37          |
| 3 <sup>rd</sup> Quarter 2012 | \$0.96           | \$0.53          |
| 4 <sup>th</sup> Quarter 2012 | \$1.06           | \$0.70          |
| 1 <sup>st</sup> Quarter 2013 | \$0.97           | \$0.70          |
| 2 <sup>nd</sup> Quarter 2013 | \$0.82           | \$0.57          |
| 3 <sup>rd</sup> Quarter 2013 | \$0.98           | \$0.60          |
| 4 <sup>th</sup> Quarter 2013 | \$2.79           | \$0.92          |

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

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

**Holders of Common Stock**

As of November 25, 2013 our shareholders' list for our common stock showed 60 registered shareholders and 52,021,353 shares of our common stock outstanding.

**Dividends**

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

**Recent Sales of Unregistered Securities**

During the year ended August 31, 2013, 47,610 shares were issued pursuant to the cashless exercise of 85,000 share purchase options that were exercisable at an exercise price of \$0.50 per share. Of this total, 27,568 shares were issued pursuant to the cashless exercise of 60,000 share purchase options that were exercisable at an exercise price of \$0.50 per share during the year ended August 31, 2012. Such shares were issued in reliance upon Section 3(a)(9) of the Securities Act, for a security exchanged by the issuer with its existing security holders exclusively where no commission or other remuneration is paid or given directly or indirectly for soliciting such exchange.

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

On December 6, 2012, the Board of Directors authorized for repurchase a new tranche of up to 1,000,000 shares of the Company's common stock at a maximum share purchase price of \$1.00 per share. The Board approved stock repurchase program ran through May 31, 2013. During the year ended August 31, 2013, the Company repurchased and cancelled 156,650 shares.

**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.**

|  | <b>Fiscal</b>  |              |              |              |              |
|--|--|--------------|--------------|--------------|--------------|
|  | <b>Year</b>  |              |              |              |              |
|  | <b>2013</b>  | <b>2012</b>  | <b>2011</b>  | <b>2010</b>  | <b>2009</b>  |
|  | <b>(Expressed in US dollars, except per share amounts)</b> |              |              |              |              |
| <b>Continuing Operations:</b>                  |  |              |              |              |              |
| Service revenue                                | \$ 3,679,029   | \$ 3,983,789 | \$ 4,007,230 | \$ 3,771,382 | \$ 2,560,447 |
| Income from continuing operations              | \$ 235,879   | \$ 719,678   | \$ 797,600   | \$ 689,062   | \$ 44,781    |
| Net income                                     | \$ 226,014   | \$ 563,003   | \$ 638,508   | \$ 1,686,073 | \$ 610,831   |
| Net income per common share, basic and diluted | \$ 0.00  | \$ 0.01      | \$ 0.01      | \$ 0.03      | \$ 0.01      |
| <b>Balance Sheet:</b>                          |  |              |              |              |              |
| Working capital                                | \$ 1,842,538   | \$ 1,641,032 | \$ 1,354,115 | \$ 976,139   | \$ 658,673   |
| Total assets                                   | \$ 3,657,656   | \$ 3,793,002 | \$ 3,058,137 | \$ 2,578,817 | \$ 1,425,944 |
| Long-term liabilities                          | -  | -            | -            | \$ 3,745     | \$ 13,987    |
| Stockholders equity                            | 3,283,007  | 3,280,935    | 2,405,865    | 2,059,369    | 790,934      |

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, 2013 AND 2012****Revenue**

Total revenue for the year ended August 31, 2013 declined 8% over the same period in the prior year to \$3,679,029 (2012 - \$3,983,789), while fourth quarter revenue decreased to \$860,974 (fourth quarter fiscal 2012 - \$941,426).

Revenue from the Play MPE® system currently represents approximately 96% of our total revenues. Play MPE® access fee revenue was \$3,519,587 (2012 - \$3,819,576) for the year ended August 31, 2013. The decrease is

attributable to various terms reached in a renewed agreement with UMG. Amongst other things, the two-year renewal was restructured to reduce the amount that is considered chargeable usage and provides a global monthly committed usage rather than individual territory commitments. Further, revenue associated with UMG distributions of EMI content is now included under this agreement and also contributes the reduction. This restructuring was necessary to facilitate the expansion of UMG's usage into new territories and facilitates a broader coverage in existing territories. Revenue associated with this agreement is currently at the monthly committed usage and should only increase in future periods.

There were a number of positive impacts for Play MPE® revenue which partially offset this decline. In Scandinavia, Play MPE® has shown strong growth with other major labels (44% growth over the prior period) and independent labels (58% growth over the prior period). In New Zealand, Play MPE® showed an increase of 69% over the prior period. In the United States, Play MPE® continues to see growth in independent label revenue (2%).

Approximately 50% of our Play MPE® revenue is denominated in Euros for the year ended August 31, 2013. Play MPE® revenue from Europe for the year ended August 31, 2013 reached \$1,745,890 (2012 - \$1,617,015) representing an increase of 8%. Approximately 47% of Play MPE® revenue is denominated in US Dollars and 3% of Play MPE® revenue is denominated in Australia Dollars for the year ended August 31, 2013.

Play MPE® is the world leader in an evolving business which is transforming the way record labels distribute pre-release music. We have seen the transition from traditional distribution methods to Play MPE® begin gradually and the growth seen in prior years has continued into 2013 through existing clients, and through new clients in new geographic areas and includes; a 2% increase in North American independent record label revenue, a 69% increase in New Zealand and 8% growth in European revenue, of which 10% is attributable to independent record labels and the remainder is attributable to growth from our major record label clients in Europe.

Excluding the decrease in pricing associated with the renewed agreement with UMG mentioned above, revenue from Play MPE(R) has grown in every major market where Play MPE® derives an appreciable amount of revenue; United States, Australia and Europe. This growth in all territories is shown in both major label and independent label usage.

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

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

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

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

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

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



## Operating Expenses

### Overview

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

Total operating expenditures in the prior year were significantly impacted by litigation through both the legal fees incurred and the settlement that it applied to reduce total legal fees. Comparing the two periods without describing this impact is less meaningful. Ignoring the impact of all litigation, total operating costs were \$3,398,250 for the year ended August 31, 2013 and \$3,592,011 for the year ended 2012. Therefore, ignoring the impact of various legal disputes that have been substantially resolved, operating costs have fallen by 5%.

These cost reductions are primarily the result of a reduction in contract expenditures and salaries and wages, partially offset by an increase in shareholder relations. These reductions were achieved through more efficient staffing, and a reduction in non-cash option expenditures.

Including all operating costs, total operating expenditures for the year increased by 5% to \$3,443,150 from \$3,264,111.

| <b>General and administrative</b> | <b>31-Aug<br/>2013</b> | <b>31-Aug<br/>2012</b> | <b>\$<br/>Change</b> | <b>%<br/>Change</b> |
|-----------------------------------|------------------------|------------------------|----------------------|---------------------|
|                                   | (12 months)            | (12 months)            |                      |                     |
|                                   | \$                     | \$                     |                      |                     |
| Wages and benefits                | 325,323                | 382,467                | (57,144)             | (14.9%)             |
| Rent                              | 28,861                 | 36,414                 | (7,553)              | (20.7%)             |
| Telecommunications                | 15,011                 | 18,136                 | (3,125)              | (17.2%)             |
| Bad debt                          | 6,011                  | (986)                  | 6,997                | (709.6%)            |
| Office and miscellaneous          | 326,980                | 368,212                | (41,232)             | (11.2%)             |
| Professional fees                 | 188,229                | (216,512)              | 404,741              | (186.9%)            |
|                                   | 890,415                | 587,731                | 302,684              | 51.5%               |

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

The decrease in wages and benefits is mainly due to an increased focus on marketing and promotional activities from general and administrative staff in the current period.

The decrease in office and miscellaneous costs is related to exchange losses during the fiscal year of 2012 mostly resulting of fluctuations in the value of Euro, which impacts cash and account receivable balances denominated in that currency. The decrease partially offsets by the increased expenditures on investor relations activities during the fiscal year of 2013.

The increase in professional fees is the result of the recovery of litigation costs in 2012 that resulted in a negative net expenditure for the comparative period.

| <b>Sales and marketing</b> | <b>31-Aug<br/>2013</b> | <b>31-Aug<br/>2012</b> | <b>\$<br/>Change</b> | <b>%<br/>Change</b> |
|----------------------------|------------------------|------------------------|----------------------|---------------------|
|----------------------------|------------------------|------------------------|----------------------|---------------------|

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|                    | (12 months)<br>\$ | (12 months)<br>\$ |         |        |
|--------------------|-------------------|-------------------|---------|--------|
| Wages and benefits | 910,146           | 417,907           | 492,239 | 117.8% |

|                           |           |         |          |         |
|---------------------------|-----------|---------|----------|---------|
| Rent                      | 80,742    | 38,690  | 42,052   | 108.7%  |
| Telecommunications        | 41,995    | 19,269  | 22,726   | 117.9%  |
| Meals and entertainment   | 11,441    | 12,914  | (1,473)  | (11.4%) |
| Travel                    | 56,612    | 72,957  | (16,345) | (22.4%) |
| Advertising and marketing | 120,224   | 135,987 | (15,763) | (11.6%) |
|                           | 1,221,160 | 697,724 | 523,436  | 75.0%   |

Sales and marketing expenses consist primarily of salaries and related personnel costs including overhead, sales commissions, advertising and promotional fees, and travel costs. The increase in wages and benefits is mainly due to an increased focus from our existing staff on marketing and promotional activities in the current period as described above.

| Research and development | 31-Aug<br>2013<br>(12 months)<br>\$ | 31-Aug<br>2012<br>(12 months)<br>\$ | \$<br>Change | %<br>Change |
|--------------------------|-------------------------------------|-------------------------------------|--------------|-------------|
| Wages and benefits       | 1,063,002                           | 1,637,437                           | (574,435)    | (35.1%)     |
| Rent                     | 94,302                              | 155,899                             | (61,597)     | (39.5%)     |
| Telecommunications       | 49,047                              | 77,645                              | (28,598)     | (36.8%)     |
| Research and development | 1,349                               | 18,469                              | (17,120)     | (92.7%)     |
|                          | 1,207,700                           | 1,889,450                           | (681,749)    | (36.1%)     |

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 decrease in wages and benefits is primarily due to a shift of Company's Play MPE® staff from the development of a new version of the recipient software to business development related activities including customer visits and promotion. Rent expense has decreased as a result of a rent abatement received during the second fiscal quarter of this year.

### Depreciation and Amortization

Depreciation and amortization expense arose from fixed assets and other assets. Depreciation and amortization increased to \$123,875 for the fiscal year ended August 31, 2013 from \$89,206 for the fiscal year ended August 31, 2012, an increase of \$34,669 or 39% as a result of the development of new Clipstream® applications and resulting applications made for various patents and trademarks to protect those products.

### Other earnings and expenses

Other income decreased to \$nil for the year ended August 31, 2013 from \$4,458 for the year ended August 31, 2012, a decrease of \$4,458.

Interest income increased to \$78,135 for the year ended August 31, 2013 from \$48,052 for the year ended August 31, 2012, an increase of \$30,083. This is a result of interest income earned on the amount receivable pursuant to the litigation settlement described above.

Interest expense decreased to \$nil for the year ended August 31, 2013 from \$1,185 for the year ended August 31, 2012, a decrease of \$1,185.

### Income Taxes

Our provision for income tax expense for the year ended August 31, 2013 is \$88,000 compared to \$208,000 in 2012. The Company pays no current income tax as a result of various tax deductions available to the Company.

During the year ended August 31, 2013 the Company recorded income tax expense of \$88,000 to recognize the utilization of these various tax deductions during the year to reduce taxable income. The Company realized a net decrease to tax assets of \$83,000 in 2013 mostly relating to the realization of input tax credits related to prior year's scientific research and development returns filed during 2013.

The Company is subject to United States federal and state income taxes at an approximate rate of 34% (2012 - 34%) and to Canadian federal and British Columbia provincial taxes in Canada at an approximate rate of 25.42% (2012 - 25.5%) . The effective tax rate of 28.02% in 2013 is slightly lower than our expected blended tax rate of 27.7% as a result of the higher income tax rate in Canada than expected. Our effective tax rate could fluctuate due to the valuation of our deferred tax assets, or by changes in tax laws, regulations, and accounting principles.

As at August 31, 2013 the Company had deferred tax assets of \$859,000 (August 31, 2012 - \$947,000) which includes the value of benefits from deductions associated with non-capital losses, depreciable assets, and investment tax credits. The Company will continue to evaluate whether deferred tax assets are realizable on an annual basis.

## Income

During the year ended August 31, 2013, operating income decreased to \$235,879 (August 31, 2012 - \$719,678). Net income was \$229,014 (August 31, 2012 - \$563,003). The reduction in net income is primarily the result of a reduction in revenue associated with reduced pricing to our largest customer.

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

|  | <b>31-Aug<br/>2013</b> | <b>31-Aug<br/>2012</b> |
|--|------------------------|------------------------|
| Net income                             | \$ 226,014             | \$ 563,003             |
| Interest income and expenses           | (78,135)               | (46,867)               |
| Deferred income tax expense (recovery) | 88,000                 | 208,000                |
| Depreciation and amortization          | 123,875                | 89,206                 |
| Stock based compensation               | 20,080                 | 42,797                 |
| Adjusted EBITDA                        | \$ 379,834             | \$ 856,139             |

## LIQUIDITY AND FINANCIAL CONDITION

We had cash of \$1,521,552 as at August 31, 2013 compared to cash of \$1,275,423 as at August 31, 2012. We had a working capital surplus of \$1,842,538 as at August 31, 2013 compared to \$1,641,032 as at August 31, 2012. The increase in our working capital was mainly due to increased cash and decreased accounts payable balance.

We have \$1,510,538 in cash held outside of the United States, and there is no intent to repatriate at this time. Should we decide to repatriate in the future, taxes would need to be accrued and paid.

## **Cash Flows**

Net cash generated in operating activities was \$517,567 for the year ended August 31, 2013, compared to \$22,612 for the year ended August 31, 2012. As of the date of this report, we have collected approximately 94% of the accounts receivable balance at August 31, 2013. The main reason for the increase in net cash flows provided in the operating activities was primarily due to the decrease in total operating cost without the impact of the litigation settlement in comparative period.

The cash used in investing activities was \$86,366 for the year ended August 31, 2013, compared to \$231,581 for the year ended August 31, 2012. Cash used in investing activities are largely attributable to the development of new Clipstream® applications and the resulting applications made for various patents and trademarks to protect these products.

Net cash used in financing activities was \$99,762 for the year ended August 31, 2013 compared to net cash provided of \$255,760 for the year ended August 31, 2012. The change is mainly the result of share purchase warrants exercised during the second quarter of fiscal 2012 and the reimplementation of the share buyback program during the second fiscal quarter of 2013 and the subsequent repurchase of shares for return to the treasury.

We expect our current cash balance as well as cash expected to be generated from operations during fiscal 2014 will provide sufficient funds during the fiscal year end of August 31, 2014. We are encouraged by our revenue growth in fiscal 2013 relating to revenue growth in Europe, New Zealand and independent labels in North America as new and existing record label clients incorporate Play MPE® into their work flow.

## **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 yet have a standard business practice for contracts that contain extended payment terms, and therefore recognizes revenue from such contracts when the payment terms lapse and all other revenue criteria have been met.

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

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

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

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

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

Research and development expense includes costs incurred to develop intellectual property. The costs for the development of new software and substantial enhancements to existing software are expensed as incurred until technological feasibility has been established, at which time any additional costs would be capitalized. We have determined that technological feasibility is established at the time a working model of software is completed. Because we believe our current process for developing software will be essentially completed concurrently with the establishment of technological feasibility, no costs have been capitalized to date.

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

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

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

### ***Income Taxes***

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

If management's estimates of the cash flows or operating results do not materialize due to errors in estimates or unforeseen changes to the economic conditions affecting the Company, it could result in an impairment adjustment in future periods up to the carrying value of the deferred income tax balance of \$859,000.

### *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**

In February 2013, the FASB issued Accounting Standards Update 2013-02, Other Comprehensive Income (Topic 220). The objective of this Update is to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendments in this Update seek to attain that objective by requiring an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. This accounting standard update is effective prospectively for annual and interim periods beginning after December 15, 2012. The Company does not expect the adoption of this standard will have material impact on the consolidated financial statements.

### *Accounting Standards Not Yet Effective*

In July 2013, the FASB issued Accounting Standards Update 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The current practice Topic 740, Income Taxes does not include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The objective of this Update is to eliminate the diversity in practice in the presentation of unrecognized tax benefits. This accounting standard update is effective for fiscal years, and interim within those years, beginning after December 15, 2014, early adoption is permitted. The Company is currently evaluating the impact of this update on the consolidated financial statements.



In April 2013, the FASB issued Accounting Standards Update 2013-07, Presentation of Financial Statements (Topic 205), Liquidation of Accounting . The amendments of this Update are being issued to clarify when an entity should apply the liquidation basis of accounting. The amendments require an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. In addition, the guidance provides principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis so accounting. The amendments apply to all entities that issue financial statements that are presented in conformity with U.S. GAAP except investment companies that are regulated under the Investment Company Act of 1940. The amendments are effective for entities that determine liquidation imminent during annual reporting periods beginning after December 15, 2013. The Company does not expect the adoption of this Update will have material impact on the consolidated financial statements.

In March 2013, the FASB issued Accounting Standards Update 2013-05, Foreign Currency Matters (Topic 830) . The objective of this Update is to resolve the diversity in practice about whether Subtopic 810-10, Consolidation Overall, or Subtopic 830-30, Foreign Currency Matters Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. This accounting standard update is effective prospectively for annual and interim periods beginning after December 31, 2013. The Company is currently evaluating the impact of this update on the consolidated financial statements.

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

### **Foreign Exchange Risk**

Our revenues are primarily in United States dollars and Euros while our operating expenses are primarily in Canadian dollars. Thus, operating expenses and the results of operations are impacted to the extent they are not hedged by the rise and fall of the relative values of Canadian dollar to these currencies. During the year, the effect of net fluctuations in the value of Canadian dollar, Australian dollar and Euro relative to the US dollar did not have a significant impact in net income. Comprehensive income showed a loss of approximately \$144,000 as a result of the decline in value of the Canadian dollar relative to United States dollars. As the Company's costs are primarily in Canadian dollars, in order to mitigate foreign exchange risk, the Company currently carries the majority of its assets in Canadian dollars. Thus, with a decline the relative value of the Canadian dollar, our comprehensive income shows a loss. The expected corresponding reduction in costs associated with a decline in the relative value of the Canadian dollar did not yet significantly impact the income statement.

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

Index to Audited Consolidated Financial Statements for the Years Ended August 31, 2013 and 2012:

1. Report of Independent Registered Public Accounting Firm BDO Canada LLP
2. Consolidated Balance Sheets as at August 31, 2013 and 2012;
3. Consolidated Statement of Comprehensive Income for the Years Ended August 31, 2013 and 2012;
4. Consolidated Statement of Changes in Stockholders' Equity for the Years Ended August 31, 2013 and 2012;
5. Consolidated Statement of Cash Flows for the Years Ended August 31, 2013 and 2012;
6. Notes to Consolidated Financial Statements.



Consolidated Financial Statements

**Destiny Media Technologies Inc.**

August 31, 2013 and 2012

(Expressed in United States dollars)

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheets of Destiny Media Technologies Inc. (the Company ) as of August 31, 2013 and 2012, and the related consolidated statements of comprehensive income, changes in stockholders equity and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Destiny Media Technologies Inc. at August 31, 2013 and 2012, and the results of its operations and its cash flows for the years ended August 31, 2013 and 2012, in conformity with accounting principles generally accepted in the United States of America.

(signed) "BDO CANADA LLP"

Chartered Accountants

Vancouver, Canada  
November 20, 2013

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**Destiny Media Technologies Inc.****CONSOLIDATED BALANCE SHEETS**

As at August 31

(Expressed in United States dollars)

|   | 2013             | 2012             |
|---|------------------|------------------|
|   | \$               | \$               |
| <b>ASSETS</b>   |                  |                  |
| <b>Current</b>  |                  |                  |
| Cash and cash equivalents   | 1,521,552        | 1,275,423        |
| Accounts receivable, net of allowance for<br>doubtful accounts of \$11,392 [2012 \$6,053] | 419,697          | 440,053          |
| Other receivables   | 16,636           | 48,508           |
| Current portion of long term receivable [note 3]  | 99,649           | 104,056          |
| Prepaid expenses  | 29,653           | 27,059           |
| Deferred tax assets - current portion [note 6]  | 130,000          | 258,000          |
| <b>Total current assets</b>   | <b>2,217,187</b> | <b>2,153,099</b> |
| Deposits  | 35,611           | 37,847           |
| Long term receivable [note 3]   | 440,889          | 625,098          |
| Property and equipment, net [note 4]  | 234,969          | 287,958          |
| Deferred tax assets - long term portion [note 6]  | 729,000          | 689,000          |
| <b>Total assets</b>   | <b>3,657,656</b> | <b>3,793,002</b> |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                  |                  |
| <b>Current</b>  |                  |                  |
| Accounts payable  | 79,622           | 199,930          |
| Accrued liabilities   | 221,720          | 250,623          |
| Deferred leasehold inducement   | 2,892            | 5,843            |
| Deferred revenue  | 70,415           | 55,671           |
| <b>Total liabilities</b>  | <b>374,649</b>   | <b>512,067</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: 51,981,964 shares   |                  |                  |
| [2012 issued and outstanding 52,091,004 shares]   | 51,982           | 52,091           |
| Additional paid-in capital  | 8,929,384        | 9,008,957        |
| Accumulated Deficit   | (5,787,016)      | (6,013,030)      |
| Accumulated other comprehensive income  | 88,657           | 232,917          |
| <b>Total stockholders equity</b>  | <b>3,283,007</b> | <b>3,280,935</b> |
| <b>Total liabilities and stockholders equity</b>  | <b>3,657,656</b> | <b>3,793,002</b> |
| <i>See accompanying notes</i>   |                  |                  |

**Destiny Media Technologies Inc.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

Years ended August 31

(Expressed in United States dollars)

|   | <b>2013</b>       | 2012       |
|---|-------------------|------------|
|   | \$                | \$         |
| <b>Service revenue</b> <i>[note 10]</i>               | <b>3,679,029</b>  | 3,983,789  |
| <b>Operating expenses</b>                             |                   |            |
| General and administrative                            | <b>890,415</b>    | 587,731    |
| Sales and marketing                                   | <b>1,221,160</b>  | 697,724    |
| Research and development                              | <b>1,207,700</b>  | 1,889,450  |
| Depreciation and amortization                         | <b>123,875</b>    | 89,206     |
|   | <b>3,443,150</b>  | 3,264,111  |
| Income from operations                                | <b>235,879</b>    | 719,678    |
| <b>Other income (expenses)</b>                        |                   |            |
| Interest income                                       | <b>78,135</b>     | 48,052     |
| Other income  |                   | 4,458      |
| Interest and other expense                            |                   | (1,185)    |
| <b>Income before provision for income taxes</b>       | <b>314,014</b>    | 771,003    |
| Income tax expense - deferred <i>[note 6]</i>         | <b>(88,000)</b>   | (208,000)  |
| <b>Net income</b>                                     | <b>226,014</b>    | 563,003    |
| Other comprehensive income (loss), net of tax         |                   |            |
| Foreign currency translation adjustments              | <b>(144,260)</b>  | 9,600      |
| <b>Total comprehensive income</b>                     | <b>81,754</b>     | 572,603    |
| <b>Net income per common share, basic and diluted</b> | <b>0.00</b>       | 0.01       |
| <b>Weighted average common shares outstanding:</b>    |                   |            |
| <b>Basic</b>  | <b>52,006,459</b> | 51,237,450 |
| <b>Diluted</b>  | <b>52,965,805</b> | 51,773,825 |

*See accompanying notes*

**Destiny Media Technologies Inc.****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

Years ended August 31

(Expressed in United States dollars)

|   | Common stock<br>Shares<br># | Amount<br>\$  | Additional<br>paid-in<br>capital<br>\$ | Shares<br>held<br>for cancellation<br>\$ | Accumulated<br>Deficit<br>\$ | Accumulated<br>other<br>comprehensive<br>income<br>\$ | Total<br>stockholders'<br>equity<br>\$ |
|---|-----------------------------|---------------|--|--|------------------------------|---|--|
| <b>Balance,<br/>August 31,<br/>2011</b>                     | <b>50,612,507</b>           | <b>50,613</b> | <b>8,758,044</b>                       | <b>(50,076)</b>                          | <b>(6,576,033)</b>           | <b>223,317</b>  | <b>2,405,865</b>                       |
| Total<br>comprehensive<br>income                            |                             |               |  |  | 563,003                      | 9,600   | 572,603                                |
| Common stock<br>issued on<br>options<br>exercised           | 24,225                      | 24            | (24)                                   |  |                              |   |  |
| Common stock<br>issued on<br>warrants<br>exercised          | 1,579,202                   | 1,579         | 277,171                                |  |                              |   | 278,750                                |
| Stock options<br>repurchased<br>and cancelled               |                             |               | (19,080)                               |  |                              |   | (19,080)                               |
| Common stock<br>cancelled                                   | (124,930)                   | (125)         | (49,951)                               | 50,076                                   |                              |   |  |
| Stock<br>compensation                                       |                             |               | 42,797                                 |  |                              |   | 42,797                                 |
| <b>Balance,<br/>August 31,<br/>2012</b>                     | <b>52,091,004</b>           | <b>52,091</b> | <b>9,008,957</b>                       |  | <b>(6,013,030)</b>           | <b>232,917</b>  | <b>3,280,935</b>                       |
| Total<br>comprehensive<br>income                            |                             |               |  |  | 226,014                      | (144,260)   | 81,754                                 |
| Common stock<br>issued on<br>options<br>exercised Note<br>4 | 47,610                      | 48            | (48)                                   |  |                              |   |  |
| Common stock<br>cancelled Note<br>4                         | (156,650)                   | (157)         | (99,605)                               |  |                              |   | (99,762)                               |
| Stock<br>compensation<br>Note 4                             |                             |               | 20,080                                 |  |                              |   | 20,080                                 |
| <b>Balance,<br/>August 31,<br/>2013</b>                     | <b>51,981,964</b>           | <b>51,982</b> | <b>8,929,384</b>                       |  | <b>(5,787,016)</b>           | <b>88,657</b>   | <b>3,283,007</b>                       |

*See accompanying notes*

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**Destiny Media Technologies Inc.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended August 31

(Expressed in United States dollars)

|  | 2013             | 2012             |
|--|------------------|------------------|
|  | \$               | \$               |
| <b>OPERATING ACTIVITIES</b>                                      |                  |                  |
| Net income   | 226,014          | 563,003          |
| Items not involving cash:  |                  |                  |
| Depreciation and amortization                                    | 123,875          | 89,206           |
| Stock-based compensation   | 20,080           | 42,797           |
| Deferred leasehold inducement                                    | (2,717)          | 956              |
| Deferred income taxes  | 88,000           | 208,000          |
| Gain on legal settlement   |                  | (858,194)        |
| Unrealized foreign exchange                                      | 51,945           | 20,141           |
| Changes in non-cash working capital:                             |                  |                  |
| Accounts receivable  | (5,880)          | (58,405)         |
| Other receivables  | 30,242           | 13,205           |
| Prepaid expenses and deposits                                    | (4,363)          | 6,190            |
| Accounts payable   | (113,442)        | (88,142)         |
| Accrued liabilities  | (14,778)         | (56,085)         |
| Deferred revenue   | 18,801           | 17,886           |
| Long term receivable   | 99,790           | 122,054          |
| <b>Net cash provided by operating activities</b>                 | <b>517,567</b>   | <b>22,612</b>    |
| <b>INVESTING ACTIVITIES</b>                                      |                  |                  |
| Purchase of property and equipment                               | (86,366)         | (231,581)        |
| <b>Net cash used in investing activities</b>                     | <b>(86,366)</b>  | <b>(231,581)</b> |
| <b>FINANCING ACTIVITIES</b>                                      |                  |                  |
| Repayments on capital lease obligations                          |                  | (3,910)          |
| Proceeds from exercise of stock options and warrants             |                  | 278,750          |
| Repurchase of stock and options                                  | (99,762)         | (19,080)         |
| <b>Net cash used in financing activities</b>                     | <b>(99,762)</b>  | <b>255,760</b>   |
| <b>Effect of foreign exchange rate changes on cash</b>           | <b>(85,310)</b>  | <b>(9,541)</b>   |
| <b>Net increase in cash and cash equivalents during the year</b> | <b>246,129</b>   | <b>37,250</b>    |
| Cash and cash equivalents, beginning of year                     | 1,275,423        | 1,238,173        |
| <b>Cash and cash equivalents, end of year</b>                    | <b>1,521,552</b> | <b>1,275,423</b> |
| <b>Supplementary disclosure</b>                                  |                  |                  |
| Interest paid  |                  | 1,185            |
| Income taxes paid  |                  |                  |
| <i>See accompanying notes</i>                                    |                  |                  |

**Destiny Media Technologies Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2013 and 2012

**1. ORGANIZATION**

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Basis of presentation and fiscal year**

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

**Principles of consolidation**

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

**Use of estimates**

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

**Destiny Media Technologies Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2013 and 2012

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

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

**Cash and cash equivalents**

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

**Revenue recognition**

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

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

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

**Destiny Media Technologies Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2013 and 2012

**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, 2013, there were no impairment indicators present.

**Litigation and settlement costs**

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

During the year ended August 31, 2013, the Company incurred approximately \$44,900 \$ (2012: \$574,000) in professional legal fees in connection with legal actions against the Company and legal actions initiated by the Company. These costs are expensed as incurred and are recorded as a component of general and administrative expenses.

During the year ended August 31, 2013, the Company recorded gains on settlements of litigation of \$Nil (2012: \$887,915) which offset the professional fees incurred.

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

August 31, 2013 and 2012

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

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

**Research and development costs**

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

**Property and equipment**

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

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

**Destiny Media Technologies Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2013 and 2012

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

**Translation of foreign currencies**

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

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

**Advertising**

Advertising costs are expensed as incurred and totaled \$38,474 and \$53,855 during the years ended August 31, 2013 and 2012, respectively.

**Income taxes**

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

**Destiny Media Technologies Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2013 and 2012

**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 not recorded a deferred tax liability related to its investment in foreign subsidiaries. The Company has determined that its investment in these subsidiaries is permanent in nature and it does not intend to dispose of these investments in the foreseeable future. The amount of the deferred tax liability related to the Company's investment in foreign subsidiaries is not reasonably determinable.

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, 2013, 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

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

August 31, 2013 and 2012

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

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.

**Earnings per share**

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

|  | <b>Year Ended</b>          |                            |
|--|----------------------------|----------------------------|
|  | <b>August 31,<br/>2013</b> | <b>August 31,<br/>2012</b> |
|  | <b>\$</b>                  | <b>\$</b>                  |
| Net income   | <b>226,014</b>             | 563,003                    |
| Weighted average common shares outstanding         | <b>52,006,459</b>          | 51,237,450                 |
| Effect of dilutive securities - warrants           |                            | 126,927                    |
| Effect of dilutive securities - options            | <b>959,346</b>             | 409,448                    |
| Diluted weighted average common shares outstanding | <b>52,965,805</b>          | 51,773,825                 |

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**Destiny Media Technologies Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2013 and 2012

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

For the year ended August 31, 2013 all of outstanding options were dilutive and their effect was included in diluted weighted average common shares outstanding. For the year ended August 31, 2012 weighted average potentially dilutive securities of 43,278 and 3,109,365 shares arising from stock options and share purchase warrants, respectively, were not included as their effect would be anti-dilutive.

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

**Comprehensive income**

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

**Fair value measurement**

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

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

Level 2 observable inputs other than Level 1, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-derived prices whose inputs are observable or whose significant value drivers are observable; and Level 3 assets and liabilities whose significant value drivers are unobservable by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

**Destiny Media Technologies Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2013 and 2012

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

**Recently adopted accounting pronouncements**

In February 2013, the FASB issued Accounting Standards Update 2013-02, Other Comprehensive Income (Topic 220) . The objective of this Update is to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendments in this Update seek to attain that objective by requiring an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. This accounting standard update is effective prospectively for annual and interim periods beginning after December 15, 2012. The Company does not expect the adoption of this standard will have material impact on the consolidated financial statements.

***Accounting Standards Not Yet Effective***

In July 2013, the FASB issued Accounting Standards Update 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists . The current practice Topic 740, Income Taxes does not include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The objective of this Update is to eliminate the diversity in practice in the presentation of unrecognized tax benefits. This accounting standard update is effective for fiscal years, and interim within those years, beginning after December 15, 2014, early adoption is permitted. The Company is currently evaluating the impact of this update on the consolidated financial statements.

In April 2013, the FASB issued Accounting Standards Update 2013-07, Presentation of Financial Statements (Topic 205), Liquidation of Accounting . The amendments of this Update are being issued to clarify when an entity should apply the liquidation basis of accounting. The amendments require an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. In addition, the guidance provides principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis so accounting. The amendments apply to all entities that issue financial statements that are presented in conformity with U.S. GAAP except investment

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

August 31, 2013 and 2012

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

companies that are regulated under the Investment Company Act of 1940. The amendments are effective for entities that determine liquidation imminent during annual reporting periods beginning after December 15, 2013. The Company does not expect the adoption of this Update will have material impact on the consolidated financial statements.

In March 2013, the FASB issued Accounting Standards Update 2013-05, Foreign Currency Matters (Topic 830) . The objective of this Update is to resolve the diversity in practice about whether Subtopic 810-10, Consolidation Overall, or Subtopic 830-30, Foreign Currency Matters Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. This accounting standard update is effective prospectively for annual and interim periods beginning after December 31, 2013. The Company is currently evaluating the impact of this update on the consolidated financial statements.

**3. LONG TERM RECEIVABLE**

The Company agreed to settle litigation with an unrelated party. Pursuant to a Settlement Deed dated March 5, 2012, the Company became entitled to a settlement sum of \$825,000 Australian dollars ( AUD ) (US \$858,194), receivable in monthly installments over the course of 72 months, beginning on March 31, 2012. The unpaid balance accrues interest of 10.25% per annum compounded monthly. The receivable is secured by a registered charge against real estate located in Australia. As of August 31, 2013, installments of \$324,800AUD and interest of \$105,513AUD have been received.

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

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

|      | <b>Principal</b> | <b>Interest</b> | <b>Total</b> |
|------|------------------|-----------------|--------------|
| 2014 | 99,649           | 50,810          | 150,457      |
| 2015 | 110,356          | 40,101          | 150,457      |
| 2016 | 122,215          | 28,243          | 150,457      |
| 2017 | 135,347          | 15,110          | 150,457      |
| 2018 | 72,971           | 2,196           | 75,167       |
|      | 540,538          | 136,460         | 676,995      |

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

August 31, 2013 and 2012

**4. PROPERTY AND EQUIPMENT**

|                        | <b>Cost</b>    | <b>Accumulated<br/>amortization</b> | <b>Net book<br/>value</b> |
|------------------------|----------------|-------------------------------------|---------------------------|
|                        | \$             | \$                                  | \$                        |
| <b>2013</b>            |                |                                     |                           |
| Furniture and fixtures | <b>124,366</b> | <b>106,014</b>                      | <b>18,352</b>             |
| Computer hardware      | <b>467,226</b> | <b>374,057</b>                      | <b>93,169</b>             |
| Computer software      | <b>130,575</b> | <b>73,393</b>                       | <b>57,182</b>             |
| Patents and trademarks | <b>112,408</b> | <b>46,142</b>                       | <b>66,266</b>             |
|                        | <b>834,575</b> | <b>599,606</b>                      | <b>234,969</b>            |
| <b>2012</b>            |                |                                     |                           |
| Furniture and fixtures | 131,983        | 107,790                             | 24,193                    |
| Computer hardware      | 470,517        | 358,813                             | 111,704                   |
| Computer software      | 168,706        | 96,407                              | 72,299                    |
| Patents and trademarks | 90,808         | 11,046                              | 79,762                    |
|                        | 862,014        | 574,056                             | 287,958                   |

**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.

**2013**

During the year ended August 31, 2013, 47,610 shares were issued pursuant to the cashless exercise of 85,000 share purchase options exercisable at \$0.50. Of this total, 27,568 shares were issued pursuant to the cashless exercise of 60,000 share purchase options exercised at \$0.50 during the year ended August 31, 2012.

**2012**

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

**Destiny Media Technologies Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2013 and 2012

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

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

During the year ended August 31, 2012, the Company re-purchased and cancelled 150,000 stock options from two employees for the average market price of \$0.63 per share.

**[b] Common stock cancelled**

On December 6, 2012, the board of directors authorized for repurchase a new tranche of up to 1,000,000 shares of the Company's common stock at a maximum share purchase price of \$1.00 per share. Repurchases will be at times and in amounts as the Company deems appropriate and will be made through open market transactions. All repurchases will be made in compliance with the Securities and Exchange Commission's Rule 10b-18, subject to market conditions, applicable legal requirements and other factors. The board approved stock repurchase program runs through May 31, 2013. In addition to the applicable securities laws, the Company will not make any purchases during a time at which its insiders are subject to a blackout from trading in the Company's common shares.

During the year ended August 31, 2013, the Company repurchased and cancelled 156,650 shares.

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

**[c] Stock option plans**

The Company has two existing stock option plans (the "Plans"), namely the Amended 1999 Stock Option Plan and the 2006 Stock Option Plan, under which up to 3,750,000 and 5,100,000 shares of the common stock, respectively, have been reserved for issuance. A total of 2,094,716 common shares remain eligible for issuance under the plans. The options generally vest over a range of periods from the date of grant, some are immediate, and others are 12 or 24 months. Any options that do not vest as the result of a grantee leaving the Company are forfeited and the common shares underlying them are returned to the reserve. The options generally have a contractual term of five years.

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

August 31, 2013 and 2012

**5. STOCKHOLDERS EQUITY (cont d.)***Stock-Based Payment Award Activity*

A summary of option activity under the Plans as of August 31, 2013 and 2012, and changes during the years ended are presented below:

| <b>Options</b>                                   | <b>Shares</b>    | <b>Weighted<br/>Average<br/>Exercise Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Term</b> | <b>Aggregate<br/>Intrinsic<br/>Value<br/>\$</b> |
|--|------------------|--|--|---|
| <b>Outstanding at September 1, 2011</b>          | <b>2,290,000</b> | <b>0.50</b>                                    | <b>0.99</b>  | <b>25,500</b>                                   |
| Granted  | 900,000          | 0.50   |  |   |
| Exercised  | (110,000)        | 0.50   |  | 48,995  |
| Repurchased and cancelled                        | (150,000)        | 0.50   |  | 19,080  |
| Expired or forfeited                             | (1,130,000)      | 0.53   |  |   |
| <b>Outstanding at August 31, 2012</b>            | <b>1,800,000</b> | <b>0.48</b>                                    | <b>1.57</b>  | <b>802,500</b>                                  |
| Granted  | 75,000           | 0.85   |  |   |
| Exercised  | (25,000)         | 0.50   |  | 45,000  |
| <b>Outstanding at August 31, 2013</b>            | <b>1,850,000</b> | <b>0.49</b>                                    | <b>0.56</b>  | <b>3,119,250</b>                                |
| <b>Vested and exercisable at August 31, 2013</b> | <b>1,809,375</b> | <b>0.49</b>                                    | <b>0.56</b>  | <b>3,065,219</b>                                |

The following table summarizes information regarding the non-vested stock purchase options outstanding as of August 31, 2013:

|  | <b>Number of<br/>Options</b> |
|--|------------------------------|
| <b>Non-vested options at August 31, 2012</b> |                              |
| Granted                                      | 75,000                       |
| Vested                                       | (34,375)                     |
| <b>Non-vested options at August 31, 2013</b> | <b>40,625</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, 2013.

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

August 31, 2013 and 2012

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

During the year ended August 31, 2013, the weighted average fair value on grant date was \$0.016 per share (2012 - \$0.024) and total stock-based compensation expense of \$20,080 are reported in the statement of operations as follows:

|                                | <b>2013</b>   | 2012   |
|--------------------------------|---------------|--------|
|                                | \$            | \$     |
| Stock-based compensation       |               |        |
| General and administrative     | <b>20,080</b> | 6,746  |
| Sales and marketing            |               | 7,168  |
| Research and development       |               | 28,883 |
| Total stock-based compensation | <b>20,080</b> | 42,797 |

*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:

|  | <b>2013</b>        | 2012   |
|--|--------------------|--------|
|  | \$                 | \$     |
| Expected term of stock options (years) | <b>0.25-0.46</b>   | 1.00   |
| Expected volatility                    | <b>49-72%</b>      | 41-45% |
| Risk-free interest rate                | <b>0.01%-0.09%</b> | 0.20%  |

*Dividend yields*

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

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

During the year ended August 31, 2013, the Company entered into a consulting agreement with a non-employee to provide investor relations consulting services and maximize shareholder value. As part of the agreement, the Company has issued 75,000 options exercisable at \$0.85. The options vest equally over twelve months following the signing of the agreement on March 15, 2013. The vested options of 34,375 during the year ended August 31, 2013 was measured using the Black-Scholes option-pricing model and amounted to \$20,080. The amount was expensed to general and administrative in the statement of operations.

**Destiny Media Technologies Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

August 31, 2013 and 2012

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

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

**[d] Employee Stock Purchase Plan**

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

During the year ended August 31, 2013, the Company recognized compensation expense of \$101,708 (2012: \$89,139) in salaries and wages on the statement of operations in respect of the Plan, representing the Company's employee matching of cash contributions to the plan. The shares were purchased on the open market at an average price of \$0.81 (2012: \$0.55). The shares are held in trust by the Company for a period of one year from the date of purchase.

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

August 31, 2013 and 2012

**5. STOCKHOLDERS EQUITY (cont d.)****[e] Warrants**

As at August 31, 2013, the Company had no common stock warrants outstanding. A summary of common stock warrant activity as of August 31, 2012 and changes during the year ended August 31, 2012 are presented below:

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

**Outstanding at August 31, 2012 and 2013**

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

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

August 31, 2013 and 2012

**6. INCOME TAXES**

The Company is subject to United States federal and state income taxes at an approximate rate of 34.0% and to Canadian federal and British Columbia provincial taxes in Canada at an approximate rate of 25.42% . 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:

|   | <b>2013</b>      | <b>2012</b> |
|---|------------------|-------------|
|   | \$               | \$          |
| Tax at U.S. statutory rates   | <b>107,000</b>   | 262,000     |
| Permanent differences   | <b>7,000</b>     | 17,000      |
| Effect of lower foreign tax in Canada                                 | <b>(28,000)</b>  | (62,000)    |
| Effect of research tax credits claims filed in respect of prior years | <b>(303,000)</b> | (158,000)   |
| Other adjustments and change to valuation allowance                   | <b>305,000</b>   | 149,000     |
| <b>Provision for deferred income taxes</b>                            | <b>88,000</b>    | 208,000     |

Included in other adjustments and change in valuation allowance for the year ended August 31, 2013 is \$(20,000) (2012: \$(4,000)) relating to the effect of changes in statutory tax rates, \$88,000 (2012: (\$12,000)) for the effect of changes in foreign exchange rates, \$66,000 (2012: \$(215,000)) in respect of a change in estimates and provisions and \$171,000 (2012: \$380,000) in respect of the change in valuation allowance, which includes the items noted below.

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

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

August 31, 2013 and 2012

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

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

|                                      | <b>2013</b>        | <b>2012</b> |
|--------------------------------------|--------------------|-------------|
|                                      | \$                 | \$          |
| <b>Deferred tax assets:</b>          |                    |             |
| Net operating loss carryforwards     | <b>1,117,000</b>   | 1,198,000   |
| Excess of book over tax depreciation | <b>611,000</b>     | 694,000     |
| Tax Credits carryforward             | <b>1,084,000</b>   | 837,000     |
| Total deferred tax asset             | <b>2,812,000</b>   | 2,729,000   |
| Valuation allowance                  | <b>(1,953,000)</b> | (1,782,000) |
| <b>Net deferred tax asset</b>        | <b>859,000</b>     | 947,000     |
| <b>Less: current portion</b>         | <b>130,000</b>     | 258,000     |
| <b>Non-current</b>                   | <b>729,000</b>     | 689,000     |

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

|               | <b>2013</b>    | <b>2012</b> |
|---------------|----------------|-------------|
|               | \$             | \$          |
| United States | <b>(357)</b>   | 43,167      |
| Canada        | <b>314,371</b> | 727,836     |
|               | <b>314,014</b> | 771,003     |

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

|                     | <b>Canada</b> | <b>United States</b> |
|---------------------|---------------|----------------------|
|                     | \$            | \$                   |
| 2020 and thereafter |               | 3,286,149            |
|                     |               | <b>3,286,149</b>     |

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

|                     | <b>Canada</b>    | <b>United States</b> |
|---------------------|------------------|----------------------|
|                     | \$               | \$                   |
| 2028 and thereafter | 1,084,000        |                      |
|                     | <b>1,084,000</b> |                      |

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

August 31, 2013 and 2012

**7. COMMITMENTS**

On September 15, 2010 the Company entered into a sub-lease agreement for its premises. It commenced on October 22, 2010 and will expire on October 30, 2013. On August 21, 2013 the company entered into a new lease agreement for the same premises and it will commence on November 1, 2013 and will expire on December 31, 2014. The Company is committed to payments as followed:

\$

|      |         |
|------|---------|
| 2014 | 274,667 |
| 2015 | 94,479  |

During the year ended August 31, 2013 the Company incurred rent expense of \$203,905 (2012: \$231,003) which has been allocated between general and administrative expenses, research and development and sales and marketing on the statement of operations.

By a credit facilities agreement dated April 8, 2010 and amended June 17, 2011 and August 23, 2012, the Company has a credit facility with the Royal Bank of Canada consisting of a commercial credit card limit of \$47,500 (\$50,000 CDN) with interest rate of the bank prime rate plus 3.5% . Borrowings under the facilities are repayable on demand. As of August 31, 2013, the Company has not drawn the credit facility.

**8. RELATED PARTY TRANSACTIONS**

The Company entered into a consulting agreement with a Director effective October 1, 2010. The Company will pay \$2,000 per month, plus authorized expenses. The Director will receive a 10% commission if related new businesses are successfully closed. During the year ended August 31, 2013, the Company paid consulting fees of \$24,000 (August 31, 2012: \$24,000) under this agreement.

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

August 31, 2013 and 2012

**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. On March 4, 2013, Mr. McDonald passed away. The implications for the outstanding litigation are unclear.

**10. CONCENTRATIONS AND ECONOMIC DEPENDENCE**

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

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

|   | <b>2013</b>      | <b>2012</b>      |
|---|------------------|------------------|
|   | \$               | \$               |
| <b>Play MPE®</b>                                      |                  |                  |
| United States   | 1,643,526        | 2,055,727        |
| Europe*   | 1,745,890        | 1,617,015        |
| Australia   | 130,171          | 146,834          |
| <b>Total Play MPE® Revenue</b>                        | <b>3,519,587</b> | <b>3,819,576</b> |
| <b>Clipstream ® and Radio Destiny</b>                 |                  |                  |
| United States   | 159,442          | 164,213          |
| <b>Total Clipstream ® &amp; Radio Destiny Revenue</b> | <b>159,442</b>   | <b>164,213</b>   |
| <b>Total Revenue</b>                                  | <b>3,679,029</b> | <b>3,983,789</b> |

\*Of this total, \$1,519,598 (2012: \$1,461,375) was derived from the United Kingdom during the year ended August 31, 2013.

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

August 31, 2013 and 2012

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

While, the above segmented information is based on location of the customer, some of these customers have distribution centres located around the globe. Play MPE revenue based on the location source of its distributions is as follows:

|                                | <b>2013</b>      | <b>2012</b>      |
|--------------------------------|------------------|------------------|
|                                | \$               | \$               |
| <b>Play MPE®</b>               |                  |                  |
| United States                  | 1,820,499        | 2,055,727        |
| Europe*                        | 1,377,844        | 1,512,466        |
| Australia                      | 321,244          | 251,383          |
| <b>Total Play MPE® Revenue</b> | <b>3,519,587</b> | <b>3,819,576</b> |

During the year ended August 31, 2013, the Company generated 51% of total revenue from one customer and 10% of total revenue from another customer [2012 - one customer represented 54% and another customer represented 10%].

As at August 31, 2013, one customer represented \$280,455 (67%) of the trade receivables balance [2012 - two customers represented 68%].

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**

Subsequent to the year ended August 31, 2013, 39,389 shares were issued pursuant to the cashless exercise of 50,000 share purchase options exercisable at \$0.50.

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

None.

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

#### **Disclosure Controls and Procedures**

The Chief Executive Officer and Chief Financial Officer of the Company are responsible for evaluating the effectiveness of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act, as of August 31, 2013.

Based on their evaluation, our management, with the participation of our principal executive officer and principal financial officer concluded that as of August 31, 2013, our disclosure controls and procedures were not effective due to the existence of material weaknesses described below.

#### **Internal Control Over Financial Reporting**

The Chief Executive Officer and the Chief Financial Officer of the Company are responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Using the 1992 framework provided by the Committee of Sponsoring Organizations ( COSO ), the Company conducted an evaluation of the effectiveness of the internal control over financial reporting as at August 31, 2013 and concluded that there is a material weakness in internal control over financial reporting, which is discussed below. A material weakness is a control deficiency, or combination of control deficiencies, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

Our audit committee does not have a financial expert and is not independent

As a result of this deficiency in our internal control over financial reporting noted above, the Company's internal control over financial reporting is not effective. This deficiency and the related risk noted above are not uncommon for a company the size as of Destiny. However, the Company is investigating an adjustment to the audit committee which should eliminate this deficiency.

The Company has taken additional steps to mitigate the weakness and risk by consulting outside advisors where necessary on a more regular and timely basis.

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

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

During the last fiscal quarter covered by this annual report, management has conducted a comprehensive review in the Company's internal control over financial reporting and extra steps and reviews have been taken that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**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.

| Name                             | Position Held with the Company               | Age | Date First Elected or Appointed |
|----------------------------------|--|-----|---------------------------------|
| Steven Vestergaard               | <i>Chief Executive Officer and Director</i>  | 47  | <i>January 1999</i>             |
| Frederick Vandenberg             | <i>Chief Financial Officer and Treasurer</i> | 45  | <i>July 2007</i>                |
| Edward Kolic <sup>(1)</sup>      | <i>Director</i>                              | 52  | <i>February 1999</i>            |
| Lawrence J. Langs <sup>(1)</sup> | <i>Director</i>                              | 52  | <i>November 2000</i>            |
| Yoshitaro Kumagai <sup>(1)</sup> | <i>Director</i>                              | 67  | <i>August 2001</i>              |

(1) Members of our Audit Committee

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

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

**Fred Vandenberg, B. Comm. MBA, CA.** Mr. Vandenberg has been our Chief Financial Officer and Treasurer since July 2007. Mr. Vandenberg's core responsibilities include leading the accounting, treasury, strategic planning, financial controls and financial reporting functions of the Company. Mr. Vandenberg has over 17 years of public accounting experience in tax advisory services, mergers and acquisitions, and financial reporting. Mr. Vandenberg completed the Canadian Institute of Chartered Accountant's "In-depth" taxation program while with Ernst & Young in 1998. Mr.

Vandenberg obtained a Bachelor of Commerce from McMaster University in 1991 and a Master of Business Administration (Finance) from McMaster University in 1993. In 1996, Mr. Vandenberg was designated as a Chartered Accountant in Ontario.

**Edward Kolic.** Mr. Kolic has been a director of the Company since February 1999. Previously, Mr. Kolic acted as our Chief Operating Officer from February 1999 to October 2001 during which time he was responsible for the Company's overall product strategy and development of its core technologies. Mr. Kolic was the president of WonderFall Productions Inc., a computer game development company founded by Mr. Kolic, which Destiny purchased in June 1999. Prior to founding Wonderfall Productions, he was as a principal partner and vice-president of marketing for Jacqueline Conoir Designs. From 1988 until 1995, Mr. Kolic was partner and president of Target

Canada Production Ltd., a company engaged in the production of documentary television, educational and information programming for the Canadian Educational Television Networks, large screen interactive presentation media and a range of communication programs for corporate, government and institutional clients. Mr. Kolic is currently the founder of Eighth Avenue Development group, which undertakes development projects in the luxury home market, multi-family residential and land development.

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

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

## **ELECTION OF DIRECTORS AND OFFICERS**

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

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

## **AUDIT COMMITTEE**

Our audit committee consists of Mr. Lawrence J. Langs, Mr. Edward Kolic and Mr. Yoshitaro Kumagai, two of which are independent. Our Board of Directors has not currently designated an audit committee member that qualifies as an "audit committee financial expert" as defined in Item 407(d)(5)(ii) of Regulation S-K. We believe that the audit committee members are collectively capable of analyzing and evaluating our financial statements and understanding internal controls over financial reporting. In addition, we are investigating whether one of the current members will qualify as a audit committee financial expert .

## **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. Lawrence J. Langs, a director of the Company, filed a Form 4 late during the fiscal year ended August 31, 2013. Mr. Langs and Yoshitaro Kumagai, a director of the Company, have not filed Form 3 s. 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, 2013 all such filing requirements were complied with other than as set forth above.

## CODE OF ETHICS

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

We have adopted a code of ethics that applies to our principal executive officer, principal 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 750 PO Box 11527 650 West Georgia, Vancouver, British Columbia, V6B 4N7. 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, 2013; 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, 2013,

who we will collectively refer to as our named executive officers, of our company for the years ended August 31, 2013 and 2012, are set out in the following summary compensation table, except that no disclosure is provided for any named executive officer, other than our principal executive officer, whose total compensation does not exceed \$100,000 for the respective fiscal year:

| Name and Principal Position   | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards (\$) <sup>(1)</sup> | Other Annual Compensation (\$) <sup>(2)</sup> | Total (\$) |
|---|------|-------------|------------|-------------------|-----------------------------------|---|------------|
| Steven Vestergaard <sup>(3)</sup><br>President, Chief Executive Officer and Director    | 2013 | 257,322     | Nil        | Nil               | Nil                               | 12,866  | 270,188    |
|   | 2012 | 257,582     | Nil        | Nil               | 8,731                             | Nil   | 266,313    |
| Frederick Vandenberg <sup>(4)</sup><br>Chief Financial Officer, Treasurer and Secretary | 2013 | 207,837     | Nil        | Nil               | Nil                               | 10,392  | 218,229    |
|   | 2012 | 208,047     | Nil        | Nil               | 4,366                             | 10,402  | 222,815    |

- (1) For a description of the methodology and assumptions used in valuing the option awards granted to our named executive officers and directors during the year ended August 31, 2012, please review Note 5 to the financial statements included herein.

(2)

The value of perquisites and other personal benefits, securities and property for the individuals included in the summary compensation table that does not exceed \$10,000 is not reported herein. Other compensation for Mr. Vestergaard and Mr. Vandenberg includes participation in the employee share purchase plan described below under long term incentive plans.

- (3) All salaries paid to Mr. Vestergaard are paid in Canadian dollars.
- (4) All salaries paid to Mr. Vandenberg are paid in Canadian dollars.
- (5) Compensation is stated in United States dollars. Where compensation was provided in Canadian dollars, compensation is based on an exchange rate of 0.9897 US dollars for each 1.00 Canadian dollar during the 2013 fiscal year. Compensation is stated in United States dollars and is based on an exchange rate of 0.9907 US dollars for each 1.00 Canadian dollar during the 2012 fiscal year.

#### EMPLOYMENT AGREEMENT WITH OUR NAMED EXECUTIVE OFFICERS

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

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

#### OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

The following table summarizes equity awards granted to our named executive officers that were outstanding as of August 31, 2013.

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

Jun  
02/2014

**LONG-TERM INCENTIVE PLANS**

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

**COMPENSATION OF DIRECTORS**

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

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

| <b>Name</b>       | <b>Fees<br/>Earned<br/>or<br/>Paid in<br/>Cash<br/>(\$)</b> | <b>Stock<br/>Awards<br/>(\$)</b> | <b>Option<br/>Awards<br/>(\$)</b> | <b>All Other<br/>Compensation<br/>(\$)<sup>(1)</sup></b> | <b>Total<br/>(\$)</b> |
|-------------------|---|----------------------------------|-----------------------------------|--|-----------------------|
| Yoshitaro Kumagai | Nil   | Nil                              | Nil                               | 36,500   | 36,500                |
| Lawrance J. Langs | Nil   | Nil                              | Nil                               | 12,500   | 12,500                |
| Edward Kolic      | Nil   | Nil                              | Nil                               | Nil  | Nil                   |

- (1) All other compensation for Mr. Kumagai and Mr. Langs includes participation in the employee share purchase plan described above under long term incentive plans and \$24,000 for consulting fees for Mr. Kumagai.
- (2) As of August 31, 2013, 150,000 stock options with exercise price of \$0.50 per share and expiry date of January 19, 2014 are each held by Mr. Kumagai, Mr. Langs and Mr. Kolic
- (3) Compensation is stated in United States dollars and compensation was provided in Canadian dollars.

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

The following table sets forth certain information concerning the number of shares of our common stock owned beneficially as of November 25, 2013 by: (i) each person (including any group) known to us to own more than five percent (5%) of any class of our voting securities, (ii) each of our directors and each of our named executive officers, and (iii) officers and directors as a group. Unless otherwise indicated, the shareholders listed possess sole voting and investment power with respect to the shares shown.

| <b>Title of class</b>          | <b>Name and address<br/>of beneficial owner</b>  | <b>Number of Shares of<br/>Common Stock</b> | <b>Percentage of Common<br/>Stock<sup>(1)</sup></b> |
|--------------------------------|--|---|---|
| <b>DIRECTORS AND OFFICERS:</b> |  |   |   |
| Common Stock                   | Steven Vestergaard<br>President, Chief Executive<br>Officer<br>and Director<br>c/o 800-570 Granville St.<br>Vancouver, BC, V6C 3P1 | 11,624,077(6)                               | 22.34%  |
| Common Stock                   | Frederick Vandenberg<br>Chief Financial Officer and<br>Corporate Secretary<br>c/o 800-570 Granville St.                            | 995,706(2)                                  | 1.90%   |

|              |  |             |        |
|--------------|--|-------------|--------|
|              | Vancouver, BC, V6C 3P1   |             |        |
| Common Stock | Edward Kolic<br>Director<br>c/o 800-570 Granville St.<br>Vancouver, BC, V6C 3P1      | 371,300 (3) | *      |
| Common Stock | Lawrence J. Langs<br>Director<br>c/o 800-570 Granville St.<br>Vancouver, BC, V6C 3P1 | 450,418 (4) | *      |
| Common Stock | Yoshitaro Kumagai<br>Director<br>c/o 800-570 Granville St.<br>Vancouver, BC, V6C 3P1 | 625,079 (5) | 1.20%  |
| Common Stock | All Officers and Directors<br>as a<br>Group (5 persons)                              | 14,066,580  | 27.04% |

\* 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 25, 2013. As of November 25, 2013, there were 52,021,353 shares of our common stock issued and outstanding.
- (2) Consists of 545,706 shares held by Mr. Vandenberg and 450,000 shares that may be acquired upon the exercise of stock options held by Mr. Vandenberg.
- (3) Consists of 221,300 shares held by Mr. Kolic and 150,000 shares that may be acquired upon the exercise of stock options held by Mr. Kolic.
- (4) Consists of 300,418 shares held by Mr. Langs and 150,000 shares that may be acquired upon the exercise of stock options held by Mr. Langs.
- (5) Consists of 475,079 shares held by Mr. Kumagai and 150,000 shares that may be acquired upon the exercise of stock options held by Mr. Kumagai.
- (6) Consists of 11,324,077 shares held by Mr. Vestergaard and 300,000 shares that may be acquired upon the exercise of stock options held by Mr. Vestergaard.

#### **EQUITY COMPENSATION PLAN INFORMATION**

We have two equity compensation plans, namely our Amended 1999 Stock Option Plan and our Amended 2006 Stock Option Plan, under which up to 3,750,000 and 5,100,000 shares of our common stock, respectively, have been authorized for issuance to our officers, directors, employees and consultants. Our plans have been approved by the Company's stockholders. The following summary information is presented for our plans on an aggregate basis as of August 31, 2013.

|  | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in column (a)) |
|--|---|---|---|
| Plan Category  | (a)   | (b)   | (c)   |
| Equity Compensation Plans Approved By Security Holders     | 1,850,000 Shares of Common Stock  | \$0.49 per Share  | 2,094,716 Shares of Common Stock  |
| Equity Compensation Plans Not Approved By Security Holders | Not Applicable  | Not Applicable  | Not Applicable  |
| Total  | 1,850,000 Shares of Common Stock  |   | 2,094,716 Shares of Common Stock  |

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

Except as described under Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters and under Item 11. Executive Compensation, and under note 8 of the financial statements, none of the following persons has any direct or indirect material interest in any transaction to which we were or are a party during the past two years, or in any proposed transaction to which the Company proposes to be a party:

- (A) any director or officer;
- (B) any person who beneficially owns, directly or indirectly, shares carrying more than 5% of the voting rights attached to our common stock; or
- (C) any immediate family member of any of the foregoing persons.

**SHARE ISSUANCES**

None

Messrs Lang and Kolic are independent directors. Mr. Vestergaard is our Chief Executive Officer and is not viewed as an independent director of the Company. Mr. Kumagai is not currently viewed as independent under SEC Rule 10A-3(b)(1).

**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, 2013 and the year ended August 31, 2012 as follows:

**BDO Canada LLP**

|                           | <b>2013</b> | <b>2012</b> |
|---------------------------|-------------|-------------|
| <b>Audit Fees</b>         | \$ 107,831  | \$ 97,047   |
| <b>Audit Related Fees</b> | -           | -           |
| <b>Tax Fees</b>           | 12,467      | 9,094       |
| <b>All Other Fees</b>     | -           | -           |
| <b>Total Fees</b>         | \$ 120,298  | \$ 106,141  |

*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 audited related fees paid to BDO Canada LLP.

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

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



Effective May 6, 2003, the Securities and Exchange Commission adopted rules that require that before BDO Canada LLP is engaged by the Company or its subsidiaries to render any auditing or permitted non-audit 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, 2013 and 2012, 100% and 100% of the aggregate fees, respectively, were approved by the audit committee pursuant to the *de minimis* exception provided by Section (c)(7)(i)(C) of Rule 2-01 of Regulations S-X.

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

#### **PART IV**

#### **ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.**

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

The following documents are filed as part of this report:

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

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

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

None.

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

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

3.2\* Amended and Restated Bylaws.

4.1 Amended 1999 Stock Option Plan (incorporated by reference to Exhibit 10.1 to our Registration Statement on Form S-8 filed on April 27, 2004).

4.2 2006 Amended And Restated Stock Option Plan (incorporated by reference to Exhibit 4.1 to our Post-effective Amendment No. 1 to Registration Statement on Form S-8 filed on May 18, 2007)

10.1 Share Purchase Agreement among Steve Vestergaard And Euro Industries Ltd. And Destiny Software Productions Inc. dated June 15, 1999 (incorporated by reference to Exhibit 4 to our Registration Statement on Form 10SB12G filed on November 23, 1999).

10.2 Rule 506 Subscription Agreement dated February 24, 2006 between Destiny Media Technologies Inc. and Global Equity Trading & Finance Ltd. (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on March 3, 2006).

10.3 Rule 506 Subscription Agreement dated February 3, 2006 between Destiny Media Technologies Inc. and Global Equity Trading & Finance Ltd. (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on March 3, 2006).

10.4 Securities Purchase Agreement dated February 26, 2007 (incorporated by reference to Exhibit 99.2 to our Current Report on Form 8-K filed on March 1, 2007).

10.5 Employee Stock Purchase Plan (incorporated by reference to our Other Definitive Proxy Statements on Form DEF 14A filed on February 04, 2011).

21.1\* Subsidiaries of the Registrant.

23.1\* Consent of Independent Registered Public Accounting Firm - BDO CANADA LLP

24\* Power of Attorney (included in Signature pages)

31.1\* Section 302 Certification of Chief Executive Officer

31.2\* Section 302 Certification of Chief Financial Officer

32.1\* Section 906 Certification of Chief Executive Officer

32.2\* Section 906 Certification of Chief Financial Officer

100\* XBRL-Related Documents

101\* Interactive Data File

\* Filed herewith

Management contract or compensatory plan or arrangement

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**DESTINY MEDIA TECHNOLOGIES, INC.**

By: /s/Steven Vestergaard  
Steven Vestergaard, President  
Chief Executive Officer and Director  
Date: November 25, 2013

/s/Frederick Vandenberg  
Frederick Vandenberg, Chief Financial Officer  
Date: November 25, 2013

**POWER OF ATTORNEY**

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/Steven Vestergaard  
Steven Vestergaard, President  
Chief Executive Officer, President and Director  
(Principal Executive Officer)  
Date: November 25, 2013

By: /s/Frederick Vandenberg  
Frederick Vandenberg, Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)  
Date: November 25, 2013

By: /s/Edward Kolic  
Edward Kolic  
Director  
Date: November 25, 2013

By: /s/Yoshitaro Kumagai  
Yoshitaro Kumagai  
Director  
Date: November 25, 2013

By: /s/Lawrence J. Langs  
Lawrence J. Langs  
Director  
Date: November 25, 2013