DESTINY MEDIA TECHNOLOGIES INC
Form 10-K
November 29, 2016

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

FORM 10-K

(Mark One)

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

For the fiscal year ended **August 31, 2016**

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER **0-28259**

DESTINY MEDIA TECHNOLOGIES INC.
(Name of registrant as specified in its charter)

NEVADA (State or other jurisdiction of incorporation or organization)	**84-1516745** (I.R.S. Employer Identification No.)
1110 - 885 West Georgia Street, **Vancouver, British Columbia, Canada** (Address of principal executive offices)	**V6B 4N7** (Zip Code)
604-609-7736 Registrant's telephone number, including area code	
Securities registered under Section 12(b) of the Exchange Act:	**NOT APPLICABLE**
Securities registered under Section 12(g) of the Exchange Act:	**COMMON STOCK, $0.001 PAR VALUE PER SHARE**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
[ ] Yes [**X**] 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 [**X**] No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
[**X**] Yes [ ] No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
[**X**] Yes [ ] No

Indicate by check mark 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 [**X**] No

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of the last business day of the registrant s most recently completed second fiscal quarter was $10,616,336.

The number of shares outstanding of the registrant s common stock, par value $0.001, as of November 28, 2016 was 55,013,874.

DOCUMENTS INCORPORATED BY REFERENCE

None

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PART I

FORWARD LOOKING STATEMENTS

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

CURRENCY

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

ITEM 1. BUSINESS.

OVERVIEW AND CORPORATE BACKGROUND

Destiny Media Technologies, Inc. was incorporated in August 1998 under the laws of the State of Colorado and the corporate jurisdiction was changed to Nevada effective October 8, 2014. We carry out our business operations through our wholly owned subsidiary, Destiny Software Productions Inc., a British Columbia company that was incorporated in 1992, MPE Distribution, Inc. a Nevada company that was incorporated in 2007 and Sonox Digital Inc. incorporated under the Canada Business Corporations Act in 2012. The Company , Destiny Media , Destiny , we or us refers consolidated activities of all four companies.

Our principal executive office is located at Suite 1110, 885 West Georgia Street, Vancouver, British Columbia V6C 3E8. Our telephone number is (604) 609-7736 and our facsimile number is (604) 609-0611.

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

Our corporate website is located at http://www.dsny.com.

OUR PRODUCTS AND SERVICES

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

1. The Clipstream® Online Video Platform (OVP) is a self-service, high capacity, and high performance system, for encoding, hosting and reporting on video playback which can be embedded in third party websites or emails. Playback is currently through the Company s proprietary JavaScript codec engine, which is only available on the internet through the Company. Support for other video playback technologies and new features are being built out for the solution. Until additional features are added, this product is marketed in a limited way and has incidental revenues.

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

2. The Clipstream® JavaScript codec engine was updated in October 2016 replacing a proprietary compression format the Company abandoned because of quality concerns. This new codec engine is based on the latest compression techniques from the next-generation HEVC standard, and is a significant improvement. It offers double the quality at a 62% bandwidth reduction from the previous proprietary codec. Similarly, it offers a large bandwidth improvement over H.264, the compression technology commonly used by other OVP solutions. As an example, video which would take 2.5 Mbps in H.264 (a format used by Youtube) only takes 1.8Mbps. This can lead to reduced costs, and less re-buffering for end users.

The unique software based approach to rendering video, is protected by over two dozen patents claiming initial priority to 2011 has a number of advantages over the more traditional approach of using plug-ins (for example, Flash), browser supported formats (for example, H.264) or installed chips. With the JavaScript codec approach, the Company can offer new features such as enhanced security, interactivity, and future proofing of their content. A new feature can be created and applied cross platform for all HTML5 compliant devices without a rollout period. This feature is currently only available as a component of the Clipstream® OVP solution but the Company will seek licensing opportunities in the future.

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

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

Record labels around the world, including all three major labels (Universal Music Group, Warner Music Group and Sony Music Entertainment), are regularly using Play MPE® to deliver their content to radio.

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

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

While many clients are set up to manage and upload recipient lists, most rely on the proprietary Play MPE® network, which is quickly becoming a valuable asset to the industry. Our staff manages lists of recipients in various formats and those lists are made available to our customers using the Play MPE® system. The Play MPE® system provides Play MPE® staff with the feedback and resources necessary to manage and maintain this network of recipients which is not available with physical distribution or by smaller competitors. Customers select lists of recipients within the proprietary network based on music format and geography. In 2016 these lists were expanded to new territories, including Sweden and Denmark, and to include a list of music supervisors and influencers responsible for music selection for TV and Movie production was added. Expanding these lists allows customers to reach more recipients with each release increase the value of the Play MPE® system.

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

On the impact date, the send appears in the available tracks section of a recipient s account. Recipients can access these tracks through proprietary iPhone, Mac and Windows based players, through a Direct to Web browser interface supporting playerless streaming and download, or through partner sites, including integration into reporting systems, radio automation systems, or through custom direct integration. Destiny's proprietary applications offer popular features, such as the ability to drag and drop to build and burn playlists to CD's for music meetings, the ability to convert and export into a wide variety of formats and to export metadata automatically into third party applications and solutions. In 2016 we made it even easier for decision makers in radio, press, TV, and film to use the Play MPE® service with a new secure streaming audio preview feature. The enhancement allows Play MPE® recipients to quickly hear a short preview of a song directly from the notification email without having to login.

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

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

After the content is released, all activity by the recipient is logged in real time, providing record labels and promotions staff real time detail on which songs are accessed, streamed, downloaded and exported. This contrast with physical distribution where record labels may be unsure whether the courier package went to the correct individual or whether it was ever opened. This information provides invaluable feedback in real time to marketing and promotions staff who can cater their programs appropriately. Recipients receive a custom library of available tracks and are able to repeat the download if music is lost.

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

Starting in July 2016 the first stage of a completely browser based encoder was launched. When all stages are complete, this system will be accessible on any computer without installation and will completely replace many of the current Windows based desktop tools. It is expected that this new solution will increase usage of Play MPE® by providing an easier to use, more intuitive experience, providing access to both Mac and PC users, providing new release creation workflows, and more configuration options. It also allows for easy translation to accelerate international expansion.

In 2016 all Play MPE® services were migrated to a cloud computing platform. Previously, the system was hosted at five server facilities (three in North America, one in Europe and one in Australia). This process required Destiny staff to manage multiple physical servers and operating systems at each location and to deal with remote hardware equipment maintenance. A large investment in infrastructure was required on an ongoing basis as storage arrays and servers were regularly replaced. Scalability was limited by physical real estate at the co-location facilities and access to electricity and cooling. The new approach increased Destiny's global server footprint by 1,500% with the ability to scale further in response to market demand. Audio encoding capacity increased 600%, and global streaming capacity increased 265%, allowing individual watermarks to be embedded faster. Server capacity is virtually unlimited and can respond to market demands. Migrating to a cloud platform provides the ability to scale automatically in response to market demand and expanded the logging and failover recovery services that ensure the system remains available. Other system features added since the migration to a cloud platform have enabled more rapid and proactive support of customer issues and leverage the latest cloud computing technologies to reduce the time required for the development and testing of new services.

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

BUSINESS DEVELOPMENT

Play MPE®

During the year ended August 31, 2016, we generated revenues of $3,337,813, of which 98% was derived from Play MPE®.

In November 2015, a new Play MPE logo and website were launched. The updated website focused on clearly communicating with customers.

Also in November 2015, a reselling partner was added in Scandinavia covering Denmark, Norway, Sweden, Finland, Iceland. Responsible for working with both existing and new clients within the industry they provide vital sales and service in the same language and time zone.

In July 2016, we announced the availability of a release creation tool for Play MPE®. This tool significantly reduces the time required for creating a release, making it easier for full-service Play MPE® customers to load their assets into the system and define the promotional content of their release. The new service also adds more detailed access to release history for full-service labels and promoters using the Play MPE® system.

Play MPE® staff regularly attend various industry conferences including:

September 2015	Christian Music Broadcasters Momentum 2015, Lake Buena Vista, FL
October 2015	CMJ Week, New York, NY
January 2016	Country Radio Seminar, Nashville, TN
April 2016	Momentum Summit, Nashville, TN
May 2016	Non COMM Conference, Philadelphia, PA
August 2016	FMQB Triple A Convention, Boulder, CO

Clipstream®

In October 2015, we announced the roll out of a fall release of the Clipstream including new features and back-end improvements for the cloud product, the introduction of technology for the advertising industry, and a new player API allowing third parties to build Clipstream® into their own offerings. An encoding API to further advance third party integration is in development. Since the previous release, a major focus on improving proprietary server management logic resulted in a 300% reduction in encoding operating costs while increasing customer satisfaction through responsiveness.

In October 2016, we announced that the latest generation of the compression engine powering the Clipstream® platform. The new compression engine, based on the HEVC standard, reduced bandwidth usage for the Clipstream® platform by over 62% and increased the highest resolution delivered by 78%. The video industry began work on HEVC, also known as H.265, as early as 2004 to replace H.264 and deliver higher quality video at lower bandwidth; however, the standard struggles to gain traction in the industry due to slow adoption by web browsers. Clipstream s proprietary JavaScript playback overcomes this limitation and delivers the latest compression technologies to any browser without requiring special plug-ins or changes from browser developers.

Other improvements announced in October a new project organization that enables quick sorting of hosted videos into different projects to streamline organization and management for customers with thousands of videos. Also included in project organization was a new feature to apply the same settings across all videos within a project and by default, greatly increasing video workflow efficiency to get videos live to viewers as quickly and securely as possible. In addition to the new compression engine and project organization we also announced Clipstream® HD Audio support to provide audio with twice the sample rate of competing options and allow the playback of videos with higher than CD quality audio, a first in the online video platform industry.

Significant Customers

During the year ended August 31, 2016, we generated 42% of total revenue from one customer (2015 - one customer represented 45%).

OUR BUSINESS OPERATIONS

We lease approximately 9,106 square feet of office space, with the lease expiring in June of 2017, and we currently have 23 total employees, including 22 full time employees and 1 part time employee. Our employees include our President and Chief Executive Officer, Chief Financial Officer, two finance personnel, ten sales and technical support personnel, and eight software developers. We also employ contractors as needed.

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

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

As of the end of fiscal 2015, all Clipstream® services were moved to AWS. In early 2016, the Company migrated all MPE® services to AWS and is currently completing the closure of most remaining co-located facilities.

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

Research and Development

Total research and development expenditures for the year ended August 31, 2016 were $1,292,996 (2015: $1,376,386).

COMPETITION

Play MPE®

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

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

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

Clipstream®

The online video platform market is relatively crowded with at least three dozen large competitors in North America alone. It is a growing market with strong margins, recurring revenues and sticky customers. Competitors include Youtube, Vimeo, Kaltura, Brightcove, Ooyala, and many others.

To address this market, we are using our expertise in security and high volume hosting, where reliability is important, to build out world-class back end infrastructure. This infrastructure is implemented has a software layer on top of Amazon's AWS server network, creating a partially proprietary distribution network based on their hardware.

In addition to the back-end infrastructure, we are building out features to better fit additional customer workflows and adding support for standards based codec solutions in addition to our proprietary JavaScript codec solution. Our strategic goal is to be a best of breed provider in the OVP industry across a variety of verticals.

Additional differentiation from competition will come from our JavaScript codec engine based on the HEVC standard. As a software solution, we are able to offer new video compression techniques, such as parts of the next generation HEVC standard, that cannot be supported elsewhere. Beyond compression techniques, other online video distribution features like increased security, more flexible playback, future proofing ensuring videos can play back without re-encoding in the future - and custom requests from customers can be more easily implemented. Customer driven custom features can be developed and rolled out instantly cross platform as the software requires only standard HTML support from the browser. For example, we have built in support for a 96 KHz audio sampling rate which is much higher fidelity than CD's 44.1 KHz, this allows us to offer a unique competitive differentiation to music industry customers.

The newest generation of the JavaScript codec was launched on October 4, 2016 and is commercially available as part of the OVP, but is not being marketed yet as memory, CPU and timing issues on resource limited devices are being addressed.

GOVERNMENT REGULATION

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

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

Patents

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

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

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

2. Watermarking "Methods for Watermarking Media Data"

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

We have a developed a watermarking technology which can uniquely identify the individual who originally accessed a particular song. Our watermark is unique as it can be embedded and identified rapidly, it is inaudible, it survives on air broadcast, compression and conversion to other formats and is virtually impossible to remove. Our watermarking technology is used in the Play MPE® distribution system when songs are exported or when streaming a track. Other watermarking technologies are slow and provide a trade-off between a destruction of audio quality and the ease that they can be filtered out. When the original patent claims were granted in the US, the Company filed a set of new additional, broader claims in a continuation application in Canada and the US to further protect the technology.

3. Cross Platform Streaming Video Script Based Video Rendering

a. US Patents No. 9143826, 9137567, 9215499, 9380338, 9432726 and 9432727
b. South Africa Patent No. 2014/01618d
c. Singapore Patent No. 2014008775
d. Pending US application No. 13/517574 (publication No. US-2013-0044823)
e. Pending Canadian patent application No. 2843766
f. Pending China (Publication No. CN 103891303/Application No. 201280050754.7)
g. Pending Europe (Publication No. 2745526/Application No. 12824114.8)
h. Pending Japan (Application No. 2014-525268)
i. Pending Australia (Application No. 2012297524)
j. Pending India (Application No. 1961/DELNO/2014)
k. Pending Israel (Publication No. WO2013/023287/Application No. 230898)
l. Pending New Zealand (Application No. 622065)
m. Pending Russian Federation (Application No. 2014110047)
n. Pending Hong Kong (Application No. 14112896.4)
o. Pending Cooperation Treaty (Application No. PCT/CA2012/05034)

This solution enables publishers to serve streaming video from their web site without the need for a separate streaming server. The solution will play instantly in all recent browsers, including mobile devices, without the need for a separate video player.

Registered Trademarks

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

Play MPE®
Granted: USA, Canada, Japan, European Community, China and Australia

MPE®
Granted: USA, Canada, Japan, European Community
Pending: Australia

Sonox Digital®
Granted: Japan, China, European Community, Canada
Published: USA

Domain Names

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

ITEM 1A. RISK FACTORS.

We face risks in executing our business plan and achieving revenues. The following risks are material risks that we face. We also face the risks identified elsewhere in this Annual Report, including those risks identified under Item 1. Business , including Competition and Government Regulation, and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations . If any of these risks occur, our business and our operating results and financial condition could be seriously harmed.

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

98% of our revenue is generated from our Play MPE® distribution service. Competitors may arise and/or customers may not renew distribution contracts. This factor could cause our revenue to decrease with the result that our financial condition and operating results would be adversely affected. Competitors have been small, regionally based, have limited resources, and have yet to capture a material share of the market. If a competitor were to develop a comparable or superior product, our market share could be reduced.

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

Operating expenses were $3,547,196 for the year ended August 31, 2016 and $4,120,550 for the year ended August 31, 2015 while our revenue was $3,337,813 for the year ended August 31, 2016 and $3,323,537 for the year ended August 31, 2015. Our ability to achieve profitability is conditional upon our ability to control our operating expenses. There is a risk that we will have to increase our operating expenses in the future. Factors that could cause our operating expenses to increase include our determination to spend more on sales and marketing in order to increase product sales or our determination that more research and development expenditures are required in order to keep our current software products competitive or in order to develop new products for the market. To the extent that our operating expenses increase without a corresponding increase in revenue, our financial condition would be adversely impacted.

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

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

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

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

Our financial results may be adversely impacted by currency fluctuations.

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

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

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

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

Our ability to manage growth.

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

Risk of system failure and/or security risks.

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

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

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

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

Product delays and errors.

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

Online commerce security risks.

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

International operations.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None

ITEM 2. PROPERTIES.

Our head office is located in leased premises at Suite 1110, 885 Georgia Street, Vancouver, British Columbia, Canada V6C 3E8. Our principal business operations are carried out from our head office. Our leased premises consist of approximately 9,106 square feet. We pay rent of approximately $29,367 Canadian (equal to approximately $22,154 US) per month. The lease expires June 29, 2017. We consider our leased premises adequate for our current business purposes.

ITEM 3. LEGAL PROCEEDINGS.

On November 8, 2011, the Company was served with a Notice of Civil Claim in the Supreme Court of British Columbia from Noramco Capital Corporation for $100,000. The claim asserts that the Company has repudiated a subscription agreement entered into in August 2000. Management believes the claim is without merit and that the likelihood that the outcome of this matter will have a material adverse impact on its result of operations, cash flows and financial condition of the Company is remote. The Company has filed a counterclaim against Noramco and R. A. Bruce McDonald, for damages arising from a proposed private placement in 2000 that did not close.

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

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

QUARTER	HIGH ($)	LOW ($)
1st Quarter 2015	$0.78	$0.40
2nd Quarter 2015	$0.49	$0.28
3rd Quarter 2015	$0.76	$0.25
4th Quarter 2015	$0.40	$0.15
1st Quarter 2016	$0.50	$0.15
2nd Quarter 2016	$0.26	$0.17
3rd Quarter 2016	$0.34	$0.15
4th Quarter 2016	$0.30	$0.16

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 28, 2016 our shareholders list for our common stock showed 60 registered shareholders and 55,013,874 shares of our common stock outstanding.

Dividends

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

Recent Sales of Unregistered Securities

None.

OTHER INFORMATION

None.

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

ITEM 6. SELECTED FINANCIAL DATA.

	Fiscal Year				
(Expressed in US dollars)	**2016**	**2015**	**2014**	**2013**	**2012**
Continuing Operations:					
Service revenue	$ 3,337,813	$ 3,323,537	$ 3,572,376	$ 3,679,029	$ 3,983,789
Income(loss) from operations	$ (209,383)	$ (797,013)	$ (368,783)	$ 235,879	$ 719,678
Net income (loss)	$ (188,251)	$ (1,596,646)	$ (324,399)	$ 226,014	$ 563,003
Net income (loss) per common share, basic and diluted	$ (0.00)	$ (0.03)	$ (0.01)	$ 0.00	$ 0.01
Balance Sheet:					
Working capital	$ 1,125,289	$ 513,472	$ 1,476,767	$ 1,842,538	$ 1,641,032
Total assets	$ 1,850,876	$ 1,537,190	$ 3,401,206	$ 3,657,656	$ 3,793,002
Long-term liabilities	6,472	12,071	-	-	-
Stockholders equity	$ 1,488,405	$ 1,102,434	$ 3,002,647	$ 3,283,007	$ 3,280,935

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, 2016 AND 2015

Revenue

Total revenue for the year ended August 31, 2016 increased by 0.5% over the same period in the prior year to $3,337,813 (2014 $3,323,537). The increase was due to an increase in Clipstream® revenue while Play MPE® revenue remained consistent with the prior year. Play MPE® experienced growth in United States independent label revenue throughout the year, while growth in European independent label revenue occurred in the last quarter with the addition of recipient lists in Norway and Sweden and the addition of resellers in northern Europe. Growth in Play MPE® revenue was offset by a decline in major label revenue in the US and unfavorable exchange rates.

Approximately 50% of our Play MPE® revenue is denominated in Euros, 42% is denominated in US Dollars and 8% is denominated in Australia Dollars for the year ended August 31, 2016.

Approximately 2% of our revenues are derived from sales of our Clipstream® software. Our management is focused on increasing sales, marketing and support resources on our new Clipstream® generation to increase revenue.

Operating Expenses

Overview

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

During the year ended August 31, 2016, while exchange rates resulted in adverse impacts to overall revenue, the strengthening of the US dollar relative to the Canadian dollar resulted in a favorable impact on costs. The Company maintains most of its financial reserves in Canadian dollars to mitigate the downside risk of adverse exchange rates.

Overall costs dropped by 13.9% to $3,547,196 (2015 $4,120,550) during the year ended August 31, 2016. The decline is result of favorable exchange rates, reduced staffing costs with a reduction in executive salaries and wages, recruiting and retrenchment costs, and a reduction in spending on public company expenditures. These savings are partially offset by a 105% increase in marketing costs, an 83% increase in technology related costs with our continued transition to outsourcing infrastructure costs, and an increase in development operating costs associated with subcontracting our infrastructure.

General and administrative	**31-Aug 2016** (12 months) $	**31-Aug 2015** (12 months) $	**$ Change**	**% Change**
Wages and benefits	358,424	611,373	(252,949)	(41.4%)
Rent	34,751	47,052	(12,301)	(26.1%)
Telecommunications	43,883	26,237	17,646	67.3%
Bad debt	3,052	1,659	1,393	84.0%
Office and miscellaneous	243,160	296,225	(53,065)	(17.9%)
Professional fees	119,163	136,922	(17,759)	(13.0%)
	802,433	1,119,468	(317,035)	(28.3%)

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 attributable to a reduction in director and officer compensation and a reduction caused by the devaluation of the Canadian dollar relative to the US dollar. The decrease in office and miscellaneous expenses is due to the termination of shareholder relations consulting agreements and related expenditures. The decrease in rent is due a reduction of one-time costs associated with the change in office lease in the comparative period.

Sales and marketing	**31-Aug 2016** (12 months) $	**31-Aug 2015** (12 months) $	**$ Change**	**% Change**
Wages and benefits	862,611	1,067,831	(205,220)	(19.2%)
Rent	89,225	110,100	(20,875)	(19.0%)
Telecommunications	112,669	61,395	51,274	83.5%
Travel	32,967	51,080	(18,113)	(35.5%)
Advertising and marketing	162,912	151,427	11,485	7.6%
	1,260,384	1,441,833	(181,449)	(12.6%)

Sales and marketing expenses consist primarily of salaries and related personnel costs including overhead, sales commissions, advertising and promotional fees, and travel costs. The decrease in wages and benefits is mostly attributable to exchange rate fluctuations, a reduction in termination costs, as well as a small decrease in personnel during the year. The increase in telecommunications expense is attributable to increased costs related to Amazon Web Services incurred to build a strong IT infrastructure platform. The increase in advertising and marketing expenses is related to an increased focus on online advertising of Clipstream® and Play MPE® during the first half of the year, to gain increased online exposure internationally.

Research and development	**31-Aug 2016** (12 months) $	**31-Aug 2015** (12 months) $	**$ Change**	**% Change**
Wages and benefits	940,982	1,158,311	(217,329)	(18.8%)
Rent	98,311	132,765	(34,454)	(26.0%)
Telecommunications	124,144	74,033	50,111	6.7%
Research and development	129,559	11,277	118,282	1,048.9%
	1,292,996	1,376,386	(83,390)	(6.1%)

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 attributable to exchange rate fluctuations, a reduction in termination costs, as well as a small decrease in personnel during the year. The increase in telecommunications expense is attributable to increased costs related to Amazon Web Services incurred to build a stronger IT infrastructure platform. The decrease in rent is due to decrease rent expenses in the current period as a result of on time costs associated with the change in office lease in the comparative period. The increase in research and development costs is attributable to testing and consultation associated with testing the quality and functionality of new Clipstream® applications and Play MPE®.

Depreciation and Amortization

Depreciation and amortization expense arose from fixed assets and other assets. Depreciation and amortization increased to $191,383 for the fiscal year ended August 31, 2016 from $182,863 for the fiscal year ended August 31, 2015, an increase of $8,520 or 4.7% .

Other earnings and expenses

Interest income decreased to $21,132 for the year ended August 31, 2016 from $42,787 for the year ended August 31, 2015, a decrease of $21,655. The interest income is derived from the amount receivable pursuant to our previous litigation settlement. The decrease in interest income is the result of a lower settlement receivable balance from the settlement receivable being paid down during the year, as well as foreign currency exchange fluctuations.

Income Taxes

During the year ended August 31, 2016 the Company recorded income tax expense of $Nil (August 31, 2015 - $842,000) to reduce our deferred tax assets. The decrease in deferred income tax expense is associated with the derecognition of deferred tax assets during the year ended August 31, 2015, as a result of the Company s net losses. The Company currently pays no current income tax as a result of realizing no taxable income.

Net Loss

During the year ended August 31, 2016, loss from operations decreased by 74% to $209,383 (August 31, 2015 - $797,013). Net loss decreased by 88% to $188,251 (August 31, 2015 - $1,596,646). The decrease in net loss is primarily due to decreased operating costs related to a reduction in staffing costs, a reduction in spending on public company expenditures and a decrease in deferred income tax expense as a result of recognizing a valuation allowance against deferred tax assets in the comparative period.

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

The following is a reconciliation of net income from operations to Adjusted EBITDA:

		31-Aug 2016		**31-Aug 2015**
Net loss	$	(188,251)	$	(1,596,646)
Interest income and expenses		(21,132)		(42,787)
Deferred income tax expense		-		842,000
Depreciation and amortization		191,383		182,863
Stock based compensation		49,608		60,807
Deferred leasehold inducement		(34,255)		69,244
Adjusted EBITDA	$	(2,647)	$	(484,519)

LIQUIDITY AND FINANCIAL CONDITION

We had cash of $662,743 as at August 31, 2016 compared to cash of $387,316 as at August 31, 2015. We had working capital of $1,125,289 as at August 31, 2016 compared to $513,472 as at August 31, 2015. The increase in our working capital was due to a decrease in our net loss, offset by an increase in accounts receivable and a decrease in accounts payable, and from proceeds from a private placement completed in October, 2015.

We had $640,456 in cash held outside of the United States, and there is no intent to repatriate this cash at this time. Should we decide to repatriate in the future, taxes may need to be accrued and paid.

Cash Flows

Net cash used in operating activities was $162,819 for the year ended August 31, 2016, compared to net cash used of $69,562 for the year ended August 31, 2015. As of the date of this report, we have collected approximately 93% of the accounts receivable balance at August 31, 2016.

The cash used in investing activities was $73,097 for the year ended August 31, 2016, compared to $338,091 for the year ended August 31, 2015. The decrease in net cash used in investing activities was largely attributable to the leasehold improvements for our new office in the comparative period.

The cash provided by financing activities was $489,943 for the year ended August 31, 2016 compared to net cash used of $2,240 for the year ended August 31, 2015. The change was the result of a private placement in the current period.

CAPITAL RESOURCES

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

MATERIAL OFF-BALANCE SHEET ARRANGEMENTS

None.

CRITICAL ACCOUNTING ESTIMATES

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

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

Revenue Recognition

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

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

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

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

Stock-Based Compensation

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

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

Research and Development Expense for Software Products

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

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

Accounts Receivable and Allowance for Doubtful Accounts

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

Income Taxes

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

If management’s estimates of the cash flows or operating results do not materialize due to errors in estimates or unforeseen changes to the economic conditions affecting the Company, it could result in an impairment adjustment in future periods.

Contingencies

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

Impairment of Long-Lived Assets

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

RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Standards Not Yet Effective

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

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). ASU 2014-15 will explicitly require management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosure in certain circumstances. The new standard will be effective for all entities in the first annual period ending after December 15, 2016. We are currently evaluating the impact of the adoption of this new standard on our consolidated financial statements.

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

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

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

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

Foreign Exchange Risk

Our revenues are primarily in United States dollars and Euros while our operating expenses are primarily in Canadian dollars. Thus, operating expenses and the results of operations are impacted, to the extent they are not hedged, by the rise and fall of the relative values of the Canadian dollar to these currencies. During the year, as a result of fluctuations in the Euro, and the Australian, Canadian, and US dollars, the Company realized an overall positive impact on net income through favorable impacts on expenses outweighing negative impacts on total revenue.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Index to Audited Consolidated Financial Statements for the Years Ended August 31, 2016 and 2015:

1. Report of Independent Registered Public Accounting Firm BDO Canada LLP;
2. Consolidated Balance Sheets as at August 31, 2016 and 2015;
3. Consolidated Statement of Comprehensive Income for the Years Ended August 31, 2016 and 2015;
4. Consolidated Statement of Changes in Stockholders' Equity for the Years Ended August 31, 2016 and 2015;
5. Consolidated Statement of Cash Flows for the Years Ended August 31, 2016 and 2015;
6. Notes to Consolidated Financial Statements.

Consolidated Financial Statements

Destiny Media Technologies Inc.
August 31, 2016 and 2015
(Expressed in United States dollars)

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

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Destiny Media Technologies Inc. as of August 31, 2016 and 2015 and the related consolidated statements of comprehensive loss, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Destiny Media Technologies at August 31, 2016 and 2015, and the consolidated results of its operations and its consolidated cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO CANADA LLP

Chartered Professional Accountants

Vancouver, Canada
November 28, 2016

Destiny Media Technologies Inc.

CONSOLIDATED BALANCE SHEETS

As at August 31, (Expressed in United States dollars)

	2016 $	2015 $
ASSETS		
Current		
Cash and cash equivalents	**662,743**	387,316
Accounts receivable, net of allowance for doubtful accounts of $4,049 [2015 $6,058] *[note 10]*	**628,135**	399,148
Other receivables	**15,051**	15,471
Current portion of long term receivable *[note 3]*	**113,834**	98,180
Prepaid expenses	**61,525**	36,042
Total current assets	**1,481,288**	936,157
Deposits	**22,978**	32,222
Long term receivable *[note 3]*	**61,642**	167,350
Property and equipment, net *[note 4]*	**284,968**	401,461
Total assets	**1,850,876**	1,537,190
LIABILITIES AND STOCKHOLDERS EQUITY		
Current		
Accounts payable	**108,157**	139,879
Accrued liabilities	**190,077**	189,672
Deferred leasehold inducement	**28,962**	63,217
Deferred revenue	**23,563**	24,712
Obligation under capital lease current portion [*note 7*]	**5,240**	5,205
Total current liabilities	**355,999**	422,685
Obligation under capital lease long term portion [*note 7*]	**6,472**	12,071
Total liabilities	**362,471**	434,756
Commitments and contingencies *[notes 7 and 9]*		
Stockholders equity		
Common stock, par value $0.001 *[note 5]*		
Authorized: 100,000,000 shares		
Issued and outstanding: 55,013,874 shares [2015 issued and outstanding 52,993,874 shares]	**55,014**	52,994
Additional paid-in capital	**9,666,080**	9,122,132
Accumulated deficit	**(7,896,312)**	(7,708,061)
Accumulated other comprehensive (loss)	**(336,377)**	(364,631)
Total stockholders equity	**1,488,405**	1,102,434
Total liabilities and stockholders equity	**1,850,876**	1,537,190

See accompanying notes

Destiny Media Technologies Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)

Years ended August 31, (Expressed in United States dollars)

	2016	2015
	$	$
Service revenue *[note 10]*	**3,337,813**	3,323,537
Operating expenses		
General and administrative	**802,433**	1,119,468
Sales and marketing	**1,260,384**	1,441,833
Research and development	**1,292,996**	1,376,386
Depreciation and amortization	**191,383**	182,863
	3,547,196	4,120,550
Loss from operations	**(209,383)**	(797,013)
Other income (expenses)		
Interest income	**21,132**	42,787
Other income (expenses)		(420)
Loss before provision for income taxes	**(188,251)**	(754,646)
Income tax expense - deferred *[note 6]*		(842,000)
Net loss	**(188,251)**	(1,596,646)
Foreign currency translation adjustments	**28,254**	(364,374)
Total comprehensive loss	**(159,997)**	(1,961,020)
Net loss per common share, basic and diluted	**(0.00)**	(0.03)
Weighted average common shares outstanding:		
Basic	**54,737,918**	52,993,874
Diluted	**54,737,918**	52,993,874

See accompanying notes

Destiny Media Technologies Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

Years ended August 31, (Expressed in United States dollars)

	Common stock Shares #	Common stock Amount $	Additional paid-in capital $	Accumulated Deficit $	Accumulated other comprehensive Income (loss) $	Total stockholders equity $
Balance, August 31, 2014	**52,993,874**	**52,994**	**9,061,325**	**(6,111,415)**	**(257)**	**3,002,647**
Total comprehensive income (loss)				(1,596,646)	(364,374)	(1,961,020)
Stock compensation			60,807			60,807
Balance, August 31, 2015	**52,993,874**	**52,994**	**9,122,132**	**(7,708,061)**	**(364,631)**	**1,102,434**
Total comprehensive income (loss)				(188,251)	28,254	(159,997)
Common stock issued pursuant to private placement	2,020,000	2,020	502,980			505,000
Less: share issuance costs			(8,640)			(8,640)
Stock based compensation *Note 5*			49,608			49,608
Balance, August 31, 2016	**55,013,874**	**55,014**	**9,666,080**	**(7,896,312)**	**(336,377)**	**1,488,405**

See accompanying notes

Destiny Media Technologies Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended August 31, (Expressed in United States dollars)

	2016	2015
	$	$
OPERATING ACTIVITIES		
Net loss	**(188,251)**	(1,596,646)
Items not involving cash:		
Depreciation and amortization	**191,383**	182,863
Stock-based compensation	**49,608**	60,807
Deferred leasehold inducement	**(34,354)**	69,244
Deferred income taxes		842,000
Unrealized foreign exchange	**(9,182)**	26,247
Changes in non-cash working capital:		
Accounts receivable	**(223,238)**	54,412
Other receivables	**537**	53,500
Prepaid expenses and deposits	**(15,517)**	89,339
Accounts payable	**(31,251)**	18,497
Accrued liabilities	**(1,496)**	24,185
Deferred revenue	**(1,328)**	6,676
Long term receivable	**100,270**	99,314
Net cash used in operating activities	**(162,819)**	(69,562)
INVESTING ACTIVITY		
Purchase of property and equipment	**(73,097)**	(338,091)
Net cash used in investing activity	**(73,097)**	(338,091)
FINANCING ACTIVITIES		
Common stock issued on private placement, net	**496,360**	
Payments under capital lease obligations	**(6,417)**	(2,240)
Net cash provided by (used in) financing activities	**489,943**	(2,240)
Effect of foreign exchange rate changes on cash	**21,400**	(192,798)
Net increase (decrease) in cash and cash equivalents during the year	**275,427**	(602,691)
Cash and cash equivalents, beginning of year	**387,316**	990,007
Cash and cash equivalents, end of year	**662,743**	387,316
Supplementary disclosure		
Interest paid		
Income taxes paid		
Equipment acquired through capital lease obligations		21,150

See accompanying notes

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Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2016 and 2015

1. ORGANIZATION

Destiny Media Technologies Inc. (the Company) was incorporated in August 1998 under the laws of the State of Colorado and the corporate jurisdiction was changed to Nevada effective October 8, 2014. The Company develops technologies that allow for the distribution over the Internet of digital media files in either a streaming or digital download format. The technologies are proprietary. The Company operates out of Vancouver, BC, Canada and serves customers predominantly located in the United States, Europe and Australia.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of presentation and fiscal year

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

Principles of consolidation

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

Use of estimates

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

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Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2016 and 2015

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

Cash and cash equivalents

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

Revenue recognition

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

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

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

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2016 and 2015

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, 2016, there were no impairment indicators present.

Litigation and settlement costs

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

During the year ended August 31, 2016, the Company incurred approximately $Nil (2015: $8,000) in professional legal fees in connection with legal actions against the Company and legal actions initiated by the Company. These costs are expensed as incurred and are recorded as a component of general and administrative expenses.

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2016 and 2015

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

Allowance for doubtful accounts

The Company establishes an allowance for doubtful accounts through review of open accounts, and historical collection and allowance amounts. The allowance for doubtful accounts is intended to reduce trade accounts receivable to the amount that reasonably approximates their fair value due to their short-term nature. The amount ultimately realized from trade accounts receivable may differ from the amount estimated in the consolidated financial statements based on collection experience.

Research and development costs

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

Property and equipment

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

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

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2016 and 2015

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

Translation of foreign currencies

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

Transactions denominated in foreign currencies are translated at the exchange rate in effect on the transaction date. These foreign currency gains and losses are included as a component of general and administrative expenses in the consolidated statements of operations.

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

Advertising

Advertising costs are expensed as incurred and totaled $769 and $94,346 during the years ended August 31, 2016 and 2015, 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, 2016 and 2015

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

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

The Company has concluded that there are no significant uncertain tax positions requiring recognition in the Company s financial statements. The Company s evaluation was performed for the tax years ended August 31, 1999 through August 31, 2016, the tax years which remain subject to examination by major tax jurisdictions. The Company may from time to time be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to the Company s financial results. In the event the Company has received an assessment for interest and/or penalties, it has been classified in the financial statements as selling, general and administrative expense.

Investment tax credits

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

Stock based compensation

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

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

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2016 and 2015

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

Earnings per share

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

	Year Ended	
	August 31, 2016	August 31, 2015
	$	$
Net income (loss)	**(188,251)**	(1,596,646)
Weighted average common shares outstanding	**54,737,918**	52,993,874
Diluted weighted average common shares outstanding	**54,737,918**	52,993,874

At August 31, 2016, the Company had 950,000 outstanding options exercisable at $0.40 and 1,010,000 outstanding warrants exercisable at $0.30. Those outstanding options and warrants were not included in the computation of diluted EPS because to do so would have been anti-dilutive due to a loss from operations.

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

Comprehensive income (loss)

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

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2016 and 2015

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

Fair value measurement

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

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

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

Accounting Standards Not Yet Effective

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

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2016 and 2015

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

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern (ASU 2014-15). ASU 2014-15 will explicitly require management to assess an entity s ability to continue as a going concern, and to provide related footnote disclosure in certain circumstances. The new standard will be effective for all entities in the first annual period ending after December 15, 2016. We are currently evaluating the impact of the adoption of this new standard on our consolidated financial statements.

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

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

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

In February 2016, FASB issued ASU 2016-02, Leases. The guidance would require lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right of-use assets. The guidance is effective for annual and interim reporting periods beginning on or after December 15, 2018. The Company is currently evaluating the impact of its pending adoption of ASU 2016-02 on its consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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3. LONG TERM RECEIVABLE

In a prior year, the Company agreed to settle litigation with an unrelated party. Pursuant to a Settlement Deed dated March 5, 2012, the Company became entitled to a settlement sum of $825,000 Australian dollars (AUD) (US $858,194), receivable in monthly installments over the course of 72 months, beginning on March 31, 2012 and ending on February 28, 2018. The balance is due to be paid in equal monthly installments of $14,050AUD until the end of the obligation. The unpaid balance accrues interest of 10.25% per annum compounded monthly. The receivable is secured by a registered charge against real estate located in Australia. As of August 31, 2016, installments of US$744,266, including interest of US$218,659, have been received ($830,600AUD and $239,036AUD, respectively).

The following table summarizes the changes regarding the carrying value of the remaining receivable balance during the year ended August 31, 2016 and covering the period of September 1, 2015 to August 31, 2016:

	2016	2015
	$	**$**
Beginning balance	**265,530**	461,294
Gross installments received	**(123,442)**	(135,403)
Interest included in above	**23,172**	36,089
Foreign exchange impact	**9,946**	(96,450)
Ending balance	**175,206**	265,530

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

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

	Principal	**Interest**	**Total**
	$	$	$
2017	113,834	12,709	126,543
2018	61,372	1,847	63,219
	175,206	**14,556**	**189,762**

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2016 and 2015

4. PROPERTY AND EQUIPMENT

	Cost	Accumulated amortization	Net book value
	$	$	$
2016			
Furniture and fixtures	**160,766**	**110,261**	**50,505**
Computer hardware	**224,278**	**165,133**	**59,145**
Computer software	**212,896**	**171,993**	**40,903**
Patents, trademarks and lists	**344,322**	**234,306**	**110,016**
Leasehold improvement	**68,316**	**43,917**	**24,399**
	1,010,578	**725,610**	**284,968**
2015			
Furniture and fixtures	159,507	96,870	62,637
Computer hardware	449,547	369,826	79,721
Computer software	211,229	130,063	81,166
Patents and trademarks	279,415	154,737	124,678
Leasehold improvement	67,781	14,522	53,259
	1,167,479	766,018	401,461

Depreciation and amortization for the year ended August 31, 2016 was $191,383 (2015: $182,863)

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.

2016

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

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

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2016 and 2015

5. STOCKHOLDERS EQUITY (cont d.)

2015

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

[b] Stock option plans

The Company has two existing stock option plans (the Plan), namely the 2006 Stock Option Plan and the 2015 Stock Option Plan, under which up to 7,750,000 shares of the common stock, has been reserved for issuance. A total of 2,053,181 common shares remain eligible for issuance under the plan. The options generally vest over a range of periods from the date of grant, some are immediate, and others are 12 or 24 months. Any options that do not vest as the result of a grantee leaving the Company are forfeited and the common shares underlying them are returned to the reserve. The options generally have a contractual term of five years.

Stock-Based Payment Award Activity

A summary of option activity under the Plans as of August 31, 2016 and 2015, and changes during the years ended are presented below:

Options	Shares	Weighted Average Exercise Price $	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value $
Outstanding at September 1, 2014	**545,000**	**0.95**	**2.55**	**67,500**
Granted	1,100,000	0.40		
Expired	(425,000)	0.74		
Outstanding at August 31, 2015	**1,220,000**	**0.53**	**2.38**	
Granted				
Forfeited	(270,000)	0.98		
Expired				
Outstanding at August 31, 2016	**950,000**	**0.40**	**1.58**	
Exercisable at August 31, 2016	**668,750**	**0.40**	**0.96**	

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, 2016.

The following table summarizes information regarding the non-vested stock purchase options outstanding as of August 31, 2016:

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2016 and 2015

5. STOCKHOLDERS EQUITY (cont d.)

	Number of Options	Weighted Average Grant Date Fair Value $
Non-vested options at August 31, 2014	**320,000**	**0.23**
Granted	1,100,000	0.08
Forfeited	(200,000)	0.22
Vested	(483,750)	0.08
Non-vested options at August 31, 2015	**736,250**	**0.09**
Granted	**-**	-
Forfeited	(80,000)	0.17
Vested	(375,000)	0.08
Non-vested options at August 31, 2016	**281,250**	**0.08**

As of August 31, 2016, there was $37,206 of total unrecognized compensation cost related to non-vested share-based compensation awards. The unrecognized compensation cost is expected to be recognized over a weighted average period of 0.73 years.

Subsequent to August 31, 2016, 100,000 stock purchase options exercisable at $0.40 were forfeited.

During the year ended August 31, 2016, the total stock-based compensation expense of $49,608 is reported in the statement of comprehensive loss as follows:

	2016 **$**	2015 $
Stock-based compensation		
General and administrative	**28,608**	45,387
Sales and marketing	**13,063**	12,849
Research and development	**7,937**	2,571
Total stock-based compensation	**49,608**	60,807

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2016 and 2015

5. STOCKHOLDERS EQUITY (cont d.)

Valuation Assumptions

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

	2016	2015
	$	$
Expected term of stock options (years)		1.0-1.96
Expected volatility		88-97%
Risk-free interest rate		0.29%-0.66%
Dividend yields		
Weighted average grant date fair value		$ 0.08

Expected volatilities are based on historical volatility of the Company s stock. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the options is based on US Treasury bill rates in effect at the time of grant.

[c] Employee Stock Purchase Plan

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

During the year ended August 31, 2016, the Company recognized compensation expense of $37,304 (2015: $93,569) 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 $0.23 (2015: $0.37) . 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, 2016 and 2015

5. STOCKHOLDERS EQUITY (cont d.)

[d] Warrants

As at August 31, 2016, the Company has the following common stock warrants outstanding:

	Number of Common Shares Issuable	Exercise Price $	Date of Expiry	Aggregate Intrinsic Value $
$0.30 Warrants	1,010,000	0.30	October 20,2017	
	1,010,000			

The Company will have the right to accelerate the expiry date of all of the warrants if, at any time, the average closing price of the Company s common shares is equal to or greater than $1.25 for 20 consecutive trading days. In the event of acceleration, the expiry date will be accelerated to a date that is 30 days after the Company issues a news release announcing that it has elected to exercise this acceleration right.

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2016 and 2015

6. INCOME TAXES

The Company is subject to United States federal and state income taxes at an approximate rate of 34.0% and to Canadian federal and British Columbia provincial taxes in Canada at an approximate rate of 26%. The reconciliation of the provision (recovery) for income taxes at the United States federal statutory rate compared to the Company s income tax expense is as follows:

	2016 $	2015 $
Tax at U.S. statutory rates	(64,000)	(257,000)
Permanent differences	2,000	2,000
Stock option compensation	17,000	21,000
Effect of lower foreign tax in Canada	18,000	46,000
Effect of research tax credits claims filed in respect of prior years	(36,000)	(175,000)
Foreign exchange and other adjustments	25,000	365,000
Change in valuation allowance	38,000	840,000
Provision for deferred income taxes		842,000

Included in other adjustments and change in valuation allowance for the year ended August 31, 2016 is $(15,000) (2015: $341,000) for the effect of changes in foreign exchange rates and $40,000 (2015: $24,000) in respect of a change in estimates and provisions.

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

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2016 and 2015

6. INCOME TAXES (cont d.)

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

	2016 $	2015 $
Deferred tax assets:		
Net operating loss carryforwards	1,324,000	1,251,000
Excess of book over tax depreciation	501,000	437,000
Tax Credit Carryforwards	1,220,000	1,319,000
Total deferred tax asset	3,045,000	3,007,000
Valuation allowance	(3,045,000)	(3,007,000)
Net deferred tax asset		

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

	2016 $	2015 $
United States	**86,193**	(143,538)
Canada	**(274,444)**	(611,108)
	(188,251)	(754,646)

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

	Canada $	United States $
2021 and thereafter	557,000	3,469,000
	557,000	**3,469,000**

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

	Canada $	United States $
2028 and thereafter	1,220,000	
	1,220,000	

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2016 and 2015

7. COMMITMENTS

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

	$
2017	221,543

During the year ended August 31, 2016 the Company incurred rent expense of $222,287 (2015 - $289,917) which has been allocated between general and administrative expenses, research and development and sales and marketing on the consolidated statement of operations and comprehensive income (loss). The rent expense during the year ended August 31, 2016 has included the allocation of rental payments on a straight-line basis.

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

	$
2015	2,705
2016	7,032
2017	5,950
2018	6,708
Total lease payments	22,395
Less: Amounts paid	9,737
Total lease payable	12,658
Less: Amounts representing interest	(946)
Balance of obligation	11,712
Less: Current portion	(5,240)
Long term portion	6,472

8. RELATED PARTY TRANSACTIONS

The Company entered into a consulting agreement with a family member of a Director to provide project management service effective March 1, 2014. During the year ended August 31, 2016, the Company paid consulting fees of $Nil (2015 - $68,011) under this agreement. The family member's service terminated at the end of May 2015.

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2016 and 2015

9. CONTINGENCIES

On November 8, 2011, the Company was served with a Notice of Civil Claim in the Supreme Court of British Columbia from Noramco Capital Corporation for $100,000. The claim asserts that the Company has repudiated a subscription agreement entered into in August 2000. Management believes the claim is without merit and that the likelihood that the outcome of this matter will have a material adverse impact on its result of operations, cash flows and financial condition of the Company is remote. The Company has filed a counterclaim against Noramco and the alleged major beneficial shareholder of Noramco, R. A. Bruce McDonald, for damages arising from a proposed private placement in 2000 which did not close.

10. CONCENTRATIONS AND ECONOMIC DEPENDENCE

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

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

	2016 **$**	2015 $
Play MPE®		
United States	**1,379,240**	1,314,553
Europe	**1,628,897**	1,695,042
Australia	**274,501**	285,230
Total Play MPE® Revenue	**3,282,638**	3,294,825
Clipstream ®		
United States		