

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

**FORM 10-Q**

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended February 28, 2017

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-28259

**DESTINY MEDIA TECHNOLOGIES INC.**

(Exact 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)

V6C 3E8  
(Zip Code)

604-609-7736

(Registrant's telephone number, including area code)

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

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

☒ Yes      ☐ No

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

☒ Yes      ☐ No

Indicate by check mark 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 ☐

Smaller reporting company ☒

(Do not check if a smaller reporting company)

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

**The number of shares outstanding of the registrant's common stock, par value \$0.001, as of April 13, 2017 was 55,013,874.**

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements.

Condensed Consolidated Financial Statements

#### **Destiny Media Technologies Inc.**

(Unaudited)

Six months ended February 28, 2017

(Expressed in United States dollars)

**Destiny Media Technologies Inc.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Expressed in United States dollars)

Unaudited

As at

|                                                                                                        | February 28,<br>2017<br>\$ | August 31,<br>2016<br>\$ |
|--------------------------------------------------------------------------------------------------------|----------------------------|--------------------------|
| <b>ASSETS</b>                                                                                          |                            |                          |
| <b>Current</b>                                                                                         |                            |                          |
| Cash and cash equivalents                                                                              | 939,390                    | 662,743                  |
| Accounts receivable, net of allowance for<br>doubtful accounts of \$1,891 [Aug 31, 2016 – \$4,049]     | 516,773                    | 628,135                  |
| Other receivables                                                                                      | 31,762                     | 15,051                   |
| Current portion of long term receivable [note 3]                                                       | 122,697                    | 113,834                  |
| Prepaid expenses                                                                                       | 30,158                     | 61,525                   |
| Deposits                                                                                               | 22,173                     | —                        |
| <b>Total current assets</b>                                                                            | <b>1,662,953</b>           | <b>1,481,288</b>         |
| Deposits                                                                                               | 560                        | 22,978                   |
| Long term receivable [note 3]                                                                          | —                          | 61,642                   |
| Property and equipment, net                                                                            | 137,074                    | 174,951                  |
| Intangible assets, net                                                                                 | 93,829                     | 110,017                  |
| <b>Total assets</b>                                                                                    | <b>1,894,416</b>           | <b>1,850,876</b>         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                            |                            |                          |
| <b>Current</b>                                                                                         |                            |                          |
| Accounts payable                                                                                       | 137,477                    | 108,157                  |
| Accrued liabilities                                                                                    | 191,608                    | 190,077                  |
| Deferred leasehold inducement                                                                          | 11,461                     | 28,962                   |
| Deferred revenue                                                                                       | 10,061                     | 23,563                   |
| Obligation under capital lease – current portion [note 5]                                              | 5,403                      | 5,240                    |
| <b>Total current liabilities</b>                                                                       | <b>356,010</b>             | <b>355,999</b>           |
| Obligation under capital lease – long term portion [note 5]                                            | 3,405                      | 6,472                    |
| <b>Total liabilities</b>                                                                               | <b>359,415</b>             | <b>362,471</b>           |
| Commitments and contingencies [notes 5 and 8]                                                          |                            |                          |
| <b>Stockholders' equity</b>                                                                            |                            |                          |
| Common stock, par value \$0.001 [note 4]                                                               |                            |                          |
| Authorized: 100,000,000 shares                                                                         |                            |                          |
| Issued and outstanding: 55,013,874 shares<br>[Aug 31, 2016 – issued and outstanding 55,013,874 shares] | 55,014                     | 55,014                   |
| Additional paid-in capital                                                                             | 9,690,884                  | 9,666,080                |
| Accumulated deficit                                                                                    | (7,860,389)                | (7,896,312)              |
| Accumulated other comprehensive (loss)                                                                 | (350,508)                  | (336,377)                |
| <b>Total stockholders' equity</b>                                                                      | <b>1,535,001</b>           | <b>1,488,405</b>         |
| <b>Total liabilities and stockholders' equity</b>                                                      | <b>1,894,416</b>           | <b>1,850,876</b>         |

See accompanying notes

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE INCOME**

(Expressed in United States dollars)

Unaudited

|                                                              | <b>Three Months<br/>Ended<br/>February 28,<br/>2017<br/>\$</b> | Three Months<br>Ended<br>February 29,<br>2016<br>\$ | <b>Six Months<br/>Ended<br/>February 28,<br/>2017<br/>\$</b> | Six Months<br>Ended<br>February 29,<br>2016<br>\$ |
|--------------------------------------------------------------|----------------------------------------------------------------|-----------------------------------------------------|--------------------------------------------------------------|---------------------------------------------------|
| <b>Revenue</b> <i>[note 10]</i>                              | <b>781,878</b>                                                 | 763,897                                             | <b>1,674,107</b>                                             | 1,611,618                                         |
| <b>Operating expenses</b>                                    |                                                                |                                                     |                                                              |                                                   |
| General and administrative                                   | <b>209,871</b>                                                 | 158,207                                             | <b>388,777</b>                                               | 393,590                                           |
| Sales and marketing                                          | <b>256,006</b>                                                 | 302,188                                             | <b>503,412</b>                                               | 652,786                                           |
| Research and development                                     | <b>346,465</b>                                                 | 331,722                                             | <b>671,139</b>                                               | 650,762                                           |
| Depreciation and Amortization                                | <b>41,612</b>                                                  | 53,196                                              | <b>83,490</b>                                                | 103,025                                           |
|                                                              | <b>853,954</b>                                                 | 845,313                                             | <b>1,646,818</b>                                             | 1,800,163                                         |
| <b>Income (loss) from operations</b>                         | <b>(72,076)</b>                                                | (81,416)                                            | <b>27,289</b>                                                | (188,545)                                         |
| <b>Other income</b>                                          |                                                                |                                                     |                                                              |                                                   |
| Interest income                                              | <b>3,871</b>                                                   | 6,033                                               | <b>8,634</b>                                                 | 12,155                                            |
| <b>Net income (loss)</b>                                     | <b>(68,205)</b>                                                | (75,383)                                            | <b>35,923</b>                                                | (176,390)                                         |
| <b>Other comprehensive income (loss)</b>                     |                                                                |                                                     |                                                              |                                                   |
| Foreign currency translation adjustments                     | <b>19,238</b>                                                  | (19,309)                                            | <b>(14,131)</b>                                              | (37,065)                                          |
| <b>Total comprehensive income (loss)</b>                     | <b>(48,967)</b>                                                | (94,692)                                            | <b>21,792</b>                                                | (213,455)                                         |
| <b>Net income (loss) per common share, basic and diluted</b> | <b>(0.00)</b>                                                  | (0.00)                                              | <b>0.00</b>                                                  | (0.00)                                            |
| <b>Weighted average common shares outstanding:</b>           |                                                                |                                                     |                                                              |                                                   |
| <b>Basic and diluted</b>                                     | <b>55,013,874</b>                                              | 55,013,874                                          | <b>55,013,874</b>                                            | 54,458,929                                        |

*See accompanying notes*

**Destiny Media Technologies Inc.**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

(Expressed in United States dollars)

Unaudited

|                                   | <b>Common stock</b> |               | <b>Additional<br/>paid-in<br/>capital</b> | <b>Accumulated<br/>Deficit</b> | <b>Accumulated<br/>other<br/>comprehensive<br/>Income (loss)</b> | <b>Total<br/>stockholders'<br/>equity</b> |
|-----------------------------------|---------------------|---------------|-------------------------------------------|--------------------------------|------------------------------------------------------------------|-------------------------------------------|
|                                   | <b>Shares</b>       | <b>Amount</b> |                                           |                                |                                                                  |                                           |
|                                   | <b>#</b>            | <b>\$</b>     | <b>\$</b>                                 | <b>\$</b>                      | <b>\$</b>                                                        | <b>\$</b>                                 |
| <b>Balance, August 31, 2016</b>   | <b>55,013,874</b>   | <b>55,014</b> | <b>9,666,080</b>                          | <b>(7,896,312)</b>             | <b>(336,377)</b>                                                 | <b>1,488,405</b>                          |
| Total comprehensive income (loss) | —                   | —             | —                                         | 35,923                         | (14,131)                                                         | 21,792                                    |
| Stock based compensation – Note 4 | —                   | —             | 24,804                                    | —                              | —                                                                | 24,804                                    |
| <b>Balance, February 28, 2017</b> | <b>55,013,874</b>   | <b>55,014</b> | <b>9,690,884</b>                          | <b>(7,860,389)</b>             | <b>(350,508)</b>                                                 | <b>1,535,001</b>                          |

*See accompanying notes*

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

|                                                         | Six Months<br>Ended<br>February 28<br>2017<br>\$ | Six Months<br>Ended<br>February 29<br>2016<br>\$ |
|---------------------------------------------------------|--------------------------------------------------|--------------------------------------------------|
| <b>OPERATING ACTIVITIES</b>                             |                                                  |                                                  |
| Net income (loss)                                       | 35,923                                           | (176,390)                                        |
| Items not involving cash:                               |                                                  |                                                  |
| Depreciation and amortization                           | 83,490                                           | 103,025                                          |
| Stock-based compensation                                | 24,804                                           | 24,804                                           |
| Deferred leasehold inducement                           | (17,192)                                         | (16,817)                                         |
| Unrealized foreign exchange                             | 1,530                                            | (5,537)                                          |
| Changes in non-cash working capital:                    |                                                  |                                                  |
| Accounts receivable                                     | 104,658                                          | (40,741)                                         |
| Other receivables                                       | (16,872)                                         | (20,574)                                         |
| Prepaid expenses and deposits                           | 30,711                                           | 7,278                                            |
| Accounts payable                                        | 28,730                                           | 27,685                                           |
| Accrued liabilities                                     | 2,522                                            | (8,289)                                          |
| Deferred revenue                                        | (13,251)                                         | (18,928)                                         |
| Long term receivable                                    | 49,376                                           | 47,915                                           |
| <b>Net cash provided (used) by operating activities</b> | <b>314,429</b>                                   | <b>(76,569)</b>                                  |
| <b>INVESTING ACTIVITIES</b>                             |                                                  |                                                  |
| Purchase of property and equipment                      | (32,466)                                         | (114,497)                                        |
| <b>Net cash used in investing activities</b>            | <b>(32,466)</b>                                  | <b>(114,497)</b>                                 |
| <b>FINANCING ACTIVITIES</b>                             |                                                  |                                                  |
| Common stock issued in private placements               | —                                                | 496,360                                          |
| <b>Net cash provided in financing activities</b>        | <b>—</b>                                         | <b>496,360</b>                                   |
| <b>Effect of foreign exchange rate changes on cash</b>  | <b>(5,316)</b>                                   | <b>(19,602)</b>                                  |
| <b>Net decrease in cash during the period</b>           | <b>276,647</b>                                   | <b>285,692</b>                                   |
| Cash, beginning of the period                           | 662,743                                          | 387,316                                          |
| <b>Cash, end of the period</b>                          | <b>939,390</b>                                   | <b>673,008</b>                                   |
| <b>Supplementary disclosure</b>                         |                                                  |                                                  |
| Interest paid                                           | —                                                | —                                                |
| Income taxes paid                                       | —                                                | —                                                |

See accompanying notes

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2017 and February 29, 2016

**1. ORGANIZATION**

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

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

**2. BASIS OF PRESENTATION**

The accompanying unaudited interim condensed consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States for interim financial information pursuant to the rules and regulations of the United States Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended February 28, 2017 are not necessarily indicative of the results that may be expected for the year ended August 31, 2017.

The balance sheet at August 31, 2016 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by United States generally accepted accounting principles for annual financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended August 31, 2016.



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

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2017 and February 29, 2016

**3. LONG TERM RECEIVABLE**

The Company agreed to settle litigation with an unrelated party. Pursuant to a Settlement Deed dated March 5, 2012, the Company became entitled to a settlement sum of \$825,000 Australian dollars ("AUD") (US \$858,194), receivable in monthly installments over the course of 72 months, beginning on March 31, 2012 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 February 28, 2017, installments of \$914,900AUD including interest of \$249,437AUD have been received.

The following table summarizes the changes regarding the carrying value of the remaining receivable balance during the six-month period ended February 28, 2017 and for the year ended August 31, 2016:

|                             | February 28, 2017<br>\$ | August 31, 2016<br>\$ |
|-----------------------------|-------------------------|-----------------------|
| <b>Beginning balance</b>    | <b>175,206</b>          | 265,530               |
| Gross installments received | <b>(63,842)</b>         | (123,442)             |
| Interest included in above  | <b>7,877</b>            | 23,172                |
| Foreign exchange impact     | <b>3,456</b>            | 9,946                 |
| <b>Ending balance</b>       | <b>122,697</b>          | 175,206               |

The foreign exchange impact in 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 as follows:

|      | Principal<br>\$ | Interest<br>\$ | Total<br>\$    |
|------|-----------------|----------------|----------------|
| 2017 | 59,810          | 5,024          | 64,834         |
| 2018 | 62,887          | 1,892          | 64,779         |
|      | <b>122,697</b>  | <b>6,916</b>   | <b>129,613</b> |

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2017 and February 29, 2016

**4. STOCKHOLDERS' EQUITY**

**[a] Common stock issued and authorized**

The Company is authorized to issue up to 100,000,000 shares of common stock, par value \$0.001 per share.

During the six months ended February 28, 2017, 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 2,153,181 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 February 28, 2017, and changes during the period ended are presented below:

| <b>Options</b>                          | <b>Shares</b>  | <b>Weighted<br/>Average<br/>Exercise Price<br/>\$</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Term</b> | <b>Aggregate<br/>Intrinsic<br/>Value<br/>\$</b> |
|-----------------------------------------|----------------|-------------------------------------------------------|--------------------------------------------------------------------|-------------------------------------------------|
| <b>Outstanding at August 31, 2016</b>   | <b>950,000</b> | <b>0.40</b>                                           | <b>1.58</b>                                                        | <b>—</b>                                        |
| Granted                                 | —              | —                                                     | —                                                                  | —                                               |
| Forfeited                               | (100,000)      | 0.40                                                  | —                                                                  | —                                               |
| Expired                                 | —              | —                                                     | —                                                                  | —                                               |
| <b>Outstanding at February 28, 2017</b> | <b>850,000</b> | <b>0.40</b>                                           | <b>1.16</b>                                                        | <b>—</b>                                        |
| <b>Exercisable at February 28, 2017</b> | <b>756,250</b> | <b>0.40</b>                                           | <b>1.04</b>                                                        | <b>—</b>                                        |

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock for the options that were in-the-money at February 28, 2017.

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2017 and February 29, 2016

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

The following table summarizes information regarding the non-vested stock purchase options outstanding as of February 28, 2017:

|                                                | <b>Number of Options</b> | <b>Weighted<br/>Average<br/>Grant Date<br/>Fair Value<br/>\$</b> |
|------------------------------------------------|--------------------------|------------------------------------------------------------------|
| <b>Non-vested options at August 31, 2016</b>   | <b>281,250</b>           | <b>0.08</b>                                                      |
| Granted                                        | —                        | —                                                                |
| Vested                                         | (187,500)                | 0.08                                                             |
| <b>Non-vested options at February 28, 2017</b> | <b>93,750</b>            | <b>0.08</b>                                                      |

As of February 28, 2017, there was \$12,402 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 0.24 years.

During the six month periods ended February 28, 2017 and 2016, stock-based compensation expense has been reported in the consolidated statement of operations and comprehensive income as follows:

|                                       | <b>Three Months Ended</b> |                    | <b>Six Months Ended</b> |                    |
|---------------------------------------|---------------------------|--------------------|-------------------------|--------------------|
|                                       | <b>February 28</b>        | <b>February 29</b> | <b>February 28</b>      | <b>February 29</b> |
|                                       | <b>2017</b>               | <b>2016</b>        | <b>2017</b>             | <b>2016</b>        |
|                                       | <b>\$</b>                 | <b>\$</b>          | <b>\$</b>               | <b>\$</b>          |
| <b>Stock-based compensation:</b>      |                           |                    |                         |                    |
| General and administrative            | <b>8,764</b>              | 7,152              | <b>17,528</b>           | 14,303             |
| Sales and marketing                   | <b>1,240</b>              | 3,266              | <b>2,563</b>            | 6,532              |
| Research and development              | <b>2,398</b>              | 1,984              | <b>4,713</b>            | 3,969              |
| <b>Total stock-based compensation</b> | <b>12,402</b>             | 12,402             | <b>24,804</b>           | 24,804             |

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2017 and February 29, 2016

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

**[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 six months ended February 28, 2017, the Company recognized compensation expense of \$30,002 (2016 - \$15,995) in salaries and wages on the consolidated statement of operations and comprehensive income in respect of the Plan, representing the Company's employee matching of cash contributions to the plan. The shares were purchased on the open market at an average price of \$0.21 (2016 - \$0.23). The shares are held in trust by the Company for a period of one year from the date of purchase.

**[d] Warrants**

As at February 28, 2017, the Company has the following common stock warrants outstanding:

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

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

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2017 and February 29, 2016

**5. COMMITMENTS**

In December 2014, the Company entered into a sublease agreement commencing May 1, 2015 and expiring June 29, 2017 for a premise with free occupation from December 2014 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 | 88,691 |

During the six months ended February 28, 2017 the Company incurred rent expense of \$115,848 (2016 - \$120,887) 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. The rent expense during the six months ended February 28, 2017 has included the allocation of rental payments on a straight-line basis.

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

|                                     | \$      |
|-------------------------------------|---------|
| 2017                                | 2,676   |
| 2018                                | 6,636   |
| Total lease payments                | 9,312   |
| Less: Amounts representing interest | (504)   |
| Balance of obligation               | 8,808   |
| Less: Current portion               | (5,403) |
| Long term portion                   | 3,405   |

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2017 and February 29, 2016

**6. RELATED PARTY TRANSACTIONS**

There were no related party transactions during the six months ended February 28, 2017 and comparative period ended February 29, 2016.

**7. INCOME TAX**

The Company has adopted the provisions of ASC 740, Income taxes. This standard clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The standard also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company and its subsidiaries are subject to U.S. federal income tax, Canadian income tax, as well as income tax of multiple state and local jurisdictions. Based on the Company's evaluation, 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 as of February 28, 2017. 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.

**8. CONTINGENCIES**

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

**Destiny Media Technologies Inc.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2017 and February 29, 2016

**9. NEW 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.

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2017 and February 29, 2016

**9. NEW ACCOUNTING PRONOUNCEMENTS (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.



**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2017 and February 29, 2016

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

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

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

(Expressed in United States dollars)

Unaudited

Six months ended February 28, 2017 and February 29, 2016

**10. CONCENTRATIONS AND ECONOMIC DEPENDENCE**

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

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

|                          | <b>Three Months Ended</b> |                    | <b>Six Months Ended</b> |                    |
|--------------------------|---------------------------|--------------------|-------------------------|--------------------|
|                          | <b>February 28</b>        | <b>February 29</b> | <b>February 28</b>      | <b>February 29</b> |
|                          | <b>2017</b>               | <b>2016</b>        | <b>2017</b>             | <b>2016</b>        |
|                          | <b>\$</b>                 | <b>\$</b>          | <b>\$</b>               | <b>\$</b>          |
| <b>Play MPE®</b>         |                           |                    |                         |                    |
| North America            | <b>307,868</b>            | 306,075            | <b>671,127</b>          | 652,027            |
| Europe                   | <b>397,098</b>            | 381,877            | <b>837,260</b>          | 801,433            |
| Australasia              | <b>65,874</b>             | 61,919             | <b>143,584</b>          | 132,043            |
| Total Play MPE®          | <b>770,840</b>            | 749,871            | <b>1,651,971</b>        | 1,585,503          |
| <b>Clipstream ®</b>      |                           |                    |                         |                    |
| North America            | <b>11,038</b>             | 14,026             | <b>22,136</b>           | 26,115             |
| Outside of North America | <b>—</b>                  | <b>—</b>           | <b>—</b>                | <b>—</b>           |
| Total Clipstream ®       | <b>11,038</b>             | 14,026             | <b>22,136</b>           | 26,115             |
| <b>Total revenue</b>     | <b>781,878</b>            | 763,897            | <b>1,674,107</b>        | 1,611,618          |

Revenue in the above table is based on location of the customer. Some of these customers have distribution centers located around the globe and distribute around the world. During the six months ended February 28, 2017, the Company generated 41% of total revenue from one customer [2016 – 43%].

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

As at February 28, 2017, one customer represented \$337,718 (65%) of the trade receivables balance [August 31, 2016 – one customer represented \$354,459 (63%)].

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

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

### **FORWARD LOOKING STATEMENTS**

The following discussion should be read in conjunction with the accompanying financial statements and notes thereto included within this Quarterly Report on Form 10-Q. In addition to historical information, the information in this discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements involve risks and uncertainties, including statements regarding the Company's capital needs, business strategy and expectations. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements.

In some cases, you can identify forward-looking statements by terminology such as "may", "will", "should", "expect", "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 described in this Quarterly Report, including the risk factors under "Item 1A. Risk Factors." of part II, and, from time to time, in other reports the Company files with the Securities and Exchange Commission. These factors may cause the Company's actual results to differ materially from any forward-looking statement. The Company disclaims any obligation to publicly update these statements, or disclose any difference between its actual results and those reflected in these statements. Such information constitutes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

### **OVERVIEW AND CORPORATE BACKGROUND**

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

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

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

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

### **OUR PRODUCTS AND SERVICES**

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

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

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

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

## **Play MPE®**

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

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

## **Clipstream®**

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 Clipstream® JavaScript codec engine is based on the latest compression techniques from the next-generation HEVC standard. 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.

## **RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016**

### **Revenue**

Total revenue for the six months ended February 28, 2017 increased by 4% to \$1,674,107 (February 29, 2016 - \$1,611,618). Play MPE® revenue currently accounts for 99% of the Company's revenue. The increase in Play MPE® in the six months ended February 28, 2017 is the result of increases in all of geographic areas. Total quarterly revenue grew year over year for the fifth consecutive quarter.

During the six months ended February 28, 2017, 50% of our Play MPE® revenues were denominated in Euros and 9% were denominated in Australian Dollars (2016: 50% and 8%, respectively).

### **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.

Overall costs dropped by 9% to \$1,646,818 (2016 – \$1,800,163) during the six months ended February 28, 2017. The majority of this decline is the result of reductions in Clipstream marketing, staff health benefits, telecommunication and public company expenditures.

The Company maintains most of its financial reserves in Canadian dollars to mitigate the downside risk of adverse exchange rates.

**General and administrative**

|                          | <b>28-Feb<br/>2017</b> | <b>29-Feb<br/>2016</b> | <b>\$</b>      | <b>%</b>      |
|--------------------------|------------------------|------------------------|----------------|---------------|
|                          | (6 months)             | (6 months)             | <b>Change</b>  | <b>Change</b> |
|                          | \$                     | \$                     |                |               |
| Wages and benefits       | 184,489                | 171,290                | 13,199         | 7.7%          |
| Rent                     | 18,305                 | 15,189                 | 3,116          | 20.5%         |
| Telecommunications       | 18,151                 | 20,765                 | (2,614)        | (12.6%)       |
| Bad debt                 | (2,115)                | 1,911                  | (4,026)        | (210.7%)      |
| Office and miscellaneous | 106,063                | 115,684                | (9,621)        | (8.3%)        |
| Professional fees        | 63,884                 | 68,751                 | (4,867)        | (7.1%)        |
|                          | <u>388,777</u>         | <u>393,590</u>         | <u>(4,813)</u> | <u>(1.2%)</u> |

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

**Sales and marketing**

|                           | <b>28-Feb<br/>2017</b> | <b>29-Feb<br/>2016</b> | <b>\$</b>        | <b>%</b>       |
|---------------------------|------------------------|------------------------|------------------|----------------|
|                           | (6 months)             | (6 months)             | <b>Change</b>    | <b>Change</b>  |
|                           | \$                     | \$                     |                  |                |
| Wages and benefits        | 374,913                | 410,550                | (35,637)         | (8.7%)         |
| Rent                      | 40,823                 | 39,075                 | 1,748            | 4.5%           |
| Telecommunications        | 40,480                 | 53,421                 | (12,941)         | (24.2%)        |
| Travel                    | 4,524                  | 17,083                 | (12,559)         | (73.5%)        |
| Advertising and marketing | 42,672                 | 132,657                | (89,985)         | (67.8%)        |
|                           | <u>503,412</u>         | <u>652,786</u>         | <u>(149,374)</u> | <u>(22.9%)</u> |

Sales and marketing expenses consist primarily of salaries and related personnel costs including overhead, sales commissions, advertising and promotional fees, and travel costs. The decrease in wages and benefits is attributable to reduced staffing costs. The decrease in advertising and marketing is attributable to decreased online advertising of Clipstream® and Play MPE®.

**Research and development**

|                          | <b>28-Feb<br/>2017</b> | <b>29-Feb<br/>2016</b> | <b>\$</b>     | <b>%</b>      |
|--------------------------|------------------------|------------------------|---------------|---------------|
|                          | (6 months)             | (6 months)             | <b>Change</b> | <b>Change</b> |
|                          | \$                     | \$                     |               |               |
| Wages and benefits       | 522,064                | 521,220                | 844           | 0.2%          |
| Rent                     | 56,720                 | 50,045                 | 6,675         | 13.3%         |
| Telecommunications       | 56,243                 | 68,418                 | (12,175)      | (17.8%)       |
| Research and development | 36,112                 | 11,079                 | 25,033        | 225.9%        |
|                          | <u>671,139</u>         | <u>650,762</u>         | <u>20,377</u> | <u>3.1%</u>   |

Research and development costs consist primarily of salaries and related personnel costs including overhead and consulting fees with respect to product development and deployment. The overall increase in Research and development is attributable to the consulting costs incurred to optimize server infrastructure.

## Amortization

Amortization expense arises from property and equipment, and from patents and trademarks. Amortization decreased to \$83,490 for the six months ended February 28, 2017 from \$103,025 for the six months ended February 29, 2016, a decrease of \$19,535 or 19% from an overall reduction in capital expenditures consistent with our outsourcing of infrastructure related costs.

## Other earnings and expenses

Interest income decreased to \$8,634 for the six months ended February 28, 2017 from \$12,155 for the six months ended February 29, 2016, a decrease of \$3,521. 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.

## Net income

During the six months ended February 28, 2017 we have net income of \$35,923 (2016 – net loss of \$176,390). The increase in net income is attributable to our increased revenue in Play MPE® and reduced operating expenses in overall spending on salaries and wages, marketing, telecommunications and public company expenditures.

For the six month period ended February 28, 2017, adjusted EBITDA increased to \$118,391 (2016 – (\$77,533)). Adjusted EBITDA is not defined under generally accepted accounting principles (“GAAP”) and it may not be comparable to similarly titled measures reported by other companies. We used Adjusted EBITDA, along with other GAAP measures, as a measure of profitability because Adjusted EBITDA helps us to compare our performance on a consistent basis by removing from our operating results the impact of our capital structure, the effect of operating in different tax jurisdictions, the impact of our asset base, which can differ depending on the book value of assets, the accounting methods used to compute depreciation and amortization, the existence or timing of asset impairments and the effect of non-cash stock-based compensation expense. We believe Adjusted EBITDA is useful to investors as it is a widely used measure of performance and the adjustments we make to Adjusted EBITDA provide further clarity on our profitability. We remove the effect of non-cash stock-based compensation from our earnings which can vary based on share price, share price volatility and expected life of the equity instruments we grant. In addition, this stock-based compensation expense does not result in cash payments by us. Adjusted EBITDA has limitations as a profitability measure in that it does not include the interest expense on our debts, our provisions for income taxes, the effect of our expenditures for capital assets, the effect of non-cash stock-based compensation expense and the effect of asset impairments. The following is a reconciliation of net income from operations to Adjusted EBITDA over the eight most recently completed fiscal quarters:

|                                                                          | 2015 Q3   | 2015 Q4   | 2016 Q1   | 2016 Q2  | 2016 Q3 | 2016 Q4 | 2017 Q1 | 2017 Q2  |
|--------------------------------------------------------------------------|-----------|-----------|-----------|----------|---------|---------|---------|----------|
|                                                                          | \$        | \$        | \$        | \$       | \$      | \$      | \$      | \$       |
| Net Income (Loss)                                                        | (218,429) | (957,451) | (101,007) | (75,383) | (2,813) | (9,048) | 104,128 | (68,205) |
| Amortization, stock based compensation and deferred leasehold inducement | 123,911   | 85,222    | 53,608    | 57,404   | 64,630  | 31,094  | 45,698  | 45,404   |
| Interest income                                                          | (9,482)   | (8,214)   | (6,122)   | (6,033)  | (4,902) | (4,075) | (4,763) | (3,871)  |
| Income tax                                                               | —         | 842,000   | —         | —        | —       | —       | —       | —        |
| Adjusted EBITDA                                                          | (104,000) | (38,443)  | (53,521)  | (24,012) | 56,915  | 17,971  | 145,063 | (26,672) |

## LIQUIDITY AND FINANCIAL CONDITION

We had cash of \$939,390 as at February 28, 2017 (August 31, 2016 – \$662,743). We had working capital of \$1,306,943 as at February 28, 2017 compared to working capital of \$1,125,289 as at August 31, 2016. The increase in our working capital was mainly due to an increase in our cash balance as a result of positive cash flow generated from our operating activities.

## CASH FLOWS

Net cash provided by operating activities was \$314,429 for the six months ended February 28, 2017, compared to net cash used of \$76,569 for the six months ended February 29, 2016. The main reason for the increase in net cash flows provided in the operating activities was due to the net income produced and a decrease in our accounts receivable during the period.

Net cash used in investing activities was \$32,466 for the six months ended February 28, 2017, compared to net cash used of \$114,497 for the six months ended February 29, 2016. The decrease in net cash used in investing activities is largely attributable to software testing services and other software purchases aimed at improving product quality in the comparative period.

The cash provided by financing activities was \$Nil for the six months ended February 28, 2017, compared to \$496,360 for the six months ended February 29, 2016. The change was the result of a private placement in the comparative period.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

Please refer to Note 9 “Recent Accounting Pronouncements” in Notes to Interim Condensed Consolidated Financial Statements for the six months ended February 28, 2017.

## **CRITICAL ACCOUNTING POLICIES**

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

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

### ***Revenue Recognition***

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

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

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

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

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

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

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

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

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

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

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

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

### ***Income Taxes***

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

### ***Contingencies***

As discussed under "Item 1. Legal Proceedings" in Part II and in Note 8 "Contingencies" in Notes to Interim Condensed Consolidated Financial Statements, the Company is subject from time to time to various legal proceedings and claims that arise in the ordinary course of business. In accordance with US GAAP, the Company records a liability when it is probable that a loss has been incurred and the amount is reasonably estimable. There is significant judgment required in both the probability determination and as to whether an exposure can be reasonably estimated. In management's opinion, the Company does not have a potential liability related to any current legal proceedings and claims that would individually or in the aggregate materially adversely affect its financial condition or operating results. However, the outcomes of legal proceedings and claims brought against the Company are subject to significant uncertainty. Should the Company fail to prevail in any of these legal matters or should several of these legal matters be resolved against the Company in the same reporting period, the operating results of a particular reporting period could be materially adversely affected.



### ***Impairment of Long-Lived Assets***

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

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

#### **Foreign Exchange Risk**

Our revenues are primarily in United States dollars and Euros while our operating expenses are primarily in Canadian dollars. Thus, operating expenses and the results of operations are impacted to the extent they are not hedged by the rise and fall of the relative values of Canadian dollar to these currencies. During the six months ended February 28, 2017, as a result of fluctuations in the Euro, and the Australian, Canadian, and US dollars, the Company recognized negative impacts on reported net income.

### **Item 4. Controls and Procedures.**

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

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

In connection with this quarterly report, as required by Rule 13a-15 under the Securities Exchange Act of 1934, we have carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our company's management, including our company's Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, our company's Chief Executive Officer and Chief Financial Officer concluded that as of February 28, 2017, our disclosure controls and procedures are effective as at the end of the period covered by this report.

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

There are no changes in internal control over financial reporting during the six months ended February 28, 2017.

## **PART II – OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

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

**Item 1A. Risk Factors.**

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in “Item 1 – Risk Factors” in our Form 10-K for the fiscal year ended August 31, 2016 filed with the SEC on November 29, 2016. These risks could materially and adversely affect our business, financial condition and results of operations. The risks described in our Form 10-K have not changed materially, however, they are not the only risks we face. Our operations could also be affected by additional factors that are not presently known to us or by factors that we currently consider immaterial to our business.

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

None.

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

None.

**Item 4. Mine Safety Disclosures.**

Not Applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

[31.1\\*](#) [Section 302 Certification of Chief Executive Officer](#)

[31.2\\*](#) [Section 302 Certification of Chief Financial Officer](#)

[32.1\\*](#) [Section 906 Certification of Chief Executive Officer](#)

[32.2\\*](#) [Section 906 Certification of Chief Financial Officer](#)

101\* Interactive Data File

\* Filed herewith

## **SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### **DESTINY MEDIA TECHNOLOGIES, INC.**

By: /s/Steven Vestergaard  
Steven Vestergaard, President  
Chief Executive Officer and Director  
Date: April 13, 2017

/s/Frederick Vandenberg  
Frederick Vandenberg, Chief Financial Officer  
Date: April 13, 2017

## CERTIFICATIONS

I, Steven Vestergaard, certify that:

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

Date: April 13, 2017

/s/Steven Vestergaard

[Signature]

**Chief Executive Officer (principal executive officer)**

[Title]

## CERTIFICATIONS

I, Frederick Vandenberg, certify that:

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

Date: April 13, 2017

/s/Frederick Vandenberg

[Signature]

**Chief Financial Officer (principal financial officer)**

[Title]

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

I, Steven Vestergaard, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Destiny Media Technologies, Inc. for the quarter ended February 28, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Destiny Media Technologies, Inc..

By: /s/Steven Vestergaard

Name: STEVEN VESTERGAARD

Title: Chief Executive Officer

Date: April 13, 2017

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

I, Frederick Vandenberg, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Destiny Media Technologies, Inc. for the quarter ended February 28, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Destiny Media Technologies, Inc..

By: /s/Frederick Vandenberg

Name: FREDERICK VANDENBERG

Title: Chief Financial Officer

Date: April 13, 2017