DESTINY MEDIA TECHNOLOGIES INC
Form 10-K
November 24, 2014

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

(Mark One)

FORM 10-K

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

For the fiscal year ended **August 31, 2014**

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER 0-28259

DESTINY MEDIA TECHNOLOGIES INC.

(Name of registrant as specified in its charter)

NEVADA (State or other jurisdiction of incorporation or organization)	**84-1516745** (I.R.S. Employer Identification No.)
Suite 750, PO Box 11527, 650 West Georgia Street, Vancouver, British Columbia, Canada (Address of principal executive offices)	**V6B 4N7** (Zip Code)

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

Securities registered under Section 12(b) of the Exchange Act:	**NOT APPLICABLE**
Securities registered under Section 12(g) of the Exchange Act:	**COMMON STOCK, $0.001 PAR VALUE PER SHARE**

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.
[ ] Yes [**X**] No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
[ ] Yes [**X**] No

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

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ]	Smaller reporting company [X]
(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 [X]

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of the last business day of the registrant s most recently completed second fiscal quarter was $45,410,589.

The number of shares outstanding of the registrant s common stock, par value $0.001, as of November 24, 2014 was 52,993,874.

DOCUMENTS INCORPORATED BY REFERENCE

None

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PART I

FORWARD LOOKING STATEMENTS

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

CURRENCY

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

ITEM 1. BUSINESS.
OVERVIEW AND CORPORATE BACKGROUND

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

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

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

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

OUR PRODUCTS AND SERVICES

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

Currently, more than 97% of the Company s revenues come from the Play MPE® digital distribution service, which the recording industry uses to distribute new pre-release music and music videos to trusted recipients before that content is generally available for sale to the public.

The remaining 3% of revenue is generated from sales of video products branded as Clipstream®, a playerless streaming video solution. The majority of Clipstream® revenue is derived from a new technology, also branded as Clipstream®.

Clipstream®

Clipstream® products are based on a technology which provides streaming video through the Internet directly on to the variety of devices and browers. Clipstream® s encode once, play anywhere vision addresses the breadth and complexity in today s multi-format video environment, reducing the cost and complexity of delivering streaming video. This single format solution can be sold into any customer landscape and industry vertical requiring streaming video.

The Company is developing products under the Clipstream® brand that include the core engine technology, a cloud encoding and hosting service, an enhanced security plug-in and variants of these solutions for Market Research and a Advertising industry verticals. The Company has had some initial revenue from the market research video questionnaire service.

Competing solutions deliver video through a variety of formats: Flash, and HTML 5 <video> tag formats, predominately either H.264, H.265 or Web M. This variety of formats has created a number of problems for video publishers:

1.

To reach a wide audience, video providers have to transcode , or convert, the source video format into a number of third party formats. Transcoding is costly, time consuming, creates additional costs for storage and hosting, and can involve considerable human touch to keep everything in check.

2. New HTML 5 video formats do not offer native security. The content is in an unencrypted format that is easily copied.

3. For many industry verticals, such as advertising, video interactivity and tracking of activity are necessary features. New device formats reliant on HTML 5 do not offer native interactivity.

4. Source formats are often served by proprietary streaming video servers, where each viewer has a unique standalone connection to the server. Unlike standard HTTP web content, this inefficient delivery method can increase hosting and infrastructure costs by multiple times.

Clipstream® has a solution to these challenges by offering a secure, single-format, playerless, multi-platform video technology served from a robust content delivery network. Clipstream® video requires only one video format to reach mobile devices, Mac OS, PC, iOS and Android. Clipstream® video has native security advantages that enable content owners to lock content to servers and make copying difficult. Clipstream® video operates as a Javascript screen element that can be fully integrated into tracking and interactive elements by advertisers, designers and web applications developers. All of this can be served on a standard HTTP web server, allowing publishers to reap cost and labor savings.

The Company intends to focus on three to four primary business verticals in the coming twelve months, including Market Research & Survey, Advertising and Government & Education. Another key focus will be the opportunity to license the core Clipstream® engine. This will be approached through technology and commercial partnerships and based upon a royalty licensing model. The current offerings are all available as a software as a service although in the future the company may choose a variety of licensing options to suit industry verticals and or customer and competitive requirements.

Play MPE®

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

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

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

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

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

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

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

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

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

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

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

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

BUSINESS DEVELOPMENT

Play MPE®

In fiscal 2014, annual revenue was $3,572,376 with 97% of our revenue from Play MPE®.

In fiscal 2014, the Company began developing a browser based encoder which will permit a greater number of customers to utilize the Play MPE® system. When ready, this new encoder will permit customers to access our distribution tool through internet from a Mac or PC, will provide access to a greater number of customers with a range of technical ability and will be more easily translated into various languages.

Also the Company developed apps for Android, Android Tablet, iPhone, iPad and Blackberry, and is currently increasing the system s infrastructure with a new watermarked streaming facility in the UK.

In February 2014, the Company announced an agreement that, effective March 1, 2014, Play MPE® would be the exclusive supplier of digital distribution services to Sony Music Entertainment Australia for promotional delivery of audio content in Australia.

In March 2014, the Company announced an agreement with Shazam Entertainment Limited, the world s leading media engagement company, whereby Destiny s Play MPE® system would automatically transmit digital fingerprints and metadata to Shazam servers. Shazam collects acoustic fingerprints of music and matches it against its database of more than 35 million songs, allowing its more than 85 million monthly active users in 200 countries to quickly identify the name and artist of a song they hear over the radio. By incorporating song fingerprints into the Play MPE® system, the Company is simplifying the process for our record label and independent artist customers to introduce new music.

Play MPE® staff regularly attend various industry conferences including:

September 4-7, 2013	Christian Music Broadcasters Momentum 2013 in Lake Buena Vista, FL
January 30, 2014	Midem 2014, Cannes, France
February 18, 2014	Country Radio Seminars, Nashville TN
April 30, 2014	AIM Presents: Music Connected, London, UK
August 5-8, 2014	FMQB Triple A Convention, Boulder, CO

Clipstream®

In the second quarter of fiscal 2014, Clipstream® beta-launched a self-service cloud encoding and hosting system to deliver the new Javascript video player technology. In limited client and partner testing, those who signed up to the Clipstream® Cloud could upload, manage and re-host videos encoded into the Clipstream® proprietary video format alongside existing service-based delivery methods. The cloud model included:

- The Clipstream® Uploader: a slim drag-and-drop encoder that automatically converts raw video from a variety of formats into the Clipstream® proprietary format and automatically uploads it into the cloud hosting network
- The Clipstream® Cloud host: (my.clipstream.com) a video management, customization and hosting network containing controls allowing the user to deliver video of any length to multiple platforms, on both mobiles, PCs, Mac OS and Linux computers.

Throughout fiscal 2014, development continued on building out a host of features for the Clipstream® Cloud including content management, security, player customization, user-interface and billing components. We integrated the Google CDN as a secondary hosting provider to the Amazon CDN.

Ongoing development through the year expanded the security offering embedded in the Clipstream® player, resulting in the Enhanced Security Plug-in, a browser-based application that enables content owners to block screen capture, copy-paste functions, screen-scraping and certain applications contained in a customizable blacklist. This component was a requirement of existing and new customers in market research and their clients in the motion picture, television, medical and advertising industries.

With this component, the market research and survey offering became available late summer this year. Marketing of this offering began after fiscal 2014 when Clipstream® staff attended the CASRO (http://www.casro.org/) annual conference, the major market research association convention. Typical applications include test marketing sensitive and pre-release television commercials, movie trailers, TV pilots, concepts and product demonstrations. The plug-in is integrated in the cloud delivery and can be implemented by select market research users in a self-service model. As well, work continued on already existing security features including dynamic watermarking and host-locking. Customer review and feedback was positive and we should see early evidence of completed evaluations and closed sales in the early weeks of calendar 2015.

Ongoing development advanced the reliability, functionality, cross-platform functionality and performance of the underlying core Clipstream® video engine with expanded testing to all major mobile platforms as well as continued compatibility work with the major PC and Mac browsers. Clipstream video has been tested on all major PC, Mac OS, Android, Blackberry and iOS browsers and on dozens of the most popular mobile devices. Major strides were made in the area of performance, image and audio quality for the player.

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In February 2014, Clipstream® began prototyping a version of the player optimized for the advertising industry vertical, running a series of public ads promoting Clipstream® using the latest player on various websites. This campaign surpassed 750,000 impressions and provided valuable feedback for the project. The quality of experience and play rate was high and the Company is now in the process of developing a product roadmap and converting this raw prototype technology into an initial packaged offering for availability in the first quarter of calendar 2015.

Some events where Clipstream® was showcased in attendance this fiscal year include:

October 28-30, 2013	Seattle Interactive Conference, Seattle, WA
October 30, 2013	Best of ESOMAR Canada 2013, Vancouver, BC, Canada
January 7-9, 2014	International CES, Las Vegas, NV
April 24, 2014	BC Technology Impact Awards, Vancouver, BC, Canada
April 29, 2014	2014 Digital Strategy Conference, Vancouver, BC, Canada

Significant Customers

During the year ended August 31, 2014, the Company generated 49% of total revenue from one customer and 8% of total revenue from another customer (2013 - one customer represented 51% and another customer represented 10%).

OUR BUSINESS OPERATIONS

We lease approximately 5,792 square feet of office space, with the lease expiring in December of 2014, and we currently have 27 total employees, including 25 full time employees and 2 part time employees. Our employees include our President and Chief Executive Officer, Chief Financial Officer and Vice President and Chief Operating Officer, Clipstream®, twelve sales and technical support personnel, and ten software developers. We also employ contractors as needed.

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

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

Clipstream® solutions rely on company servers for billing, management, reporting and logic and third party servers for raw hosting. This arrangement allows Clipstream® to scale rapidly as customer demand requires it.

Research and Development

Total research and development expenditures for the year ended August 31, 2014 were $1,062,668 (2013: $1,207,700).

COMPETITION

Play MPE®

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

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

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

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

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

Direct competitors are often regional, with little global presence.

Clipstream®

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

This had the notable disadvantage that users were required to maintain and update player plug-in software. This could be difficult for novice users and users that did not have administrative rights or situations where upgrading the plug-in was not possible without also upgrading the operating system. It was common for a significant portion of users were unable to see the video. For applications such as advertising, those lower play rates meant lower revenues for the site owner running the ads. The most dominant format in the last few years has been Flash from Adobe, but Adobe has discontinued support for Flash on devices.

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

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

By contrast, Clipstream® uses features only available in HTML 5 compliant browsers, but not the <video> tag. This allows the video to play without software on a wide range of platforms without a need for transcoding.

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

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

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

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

Clipstream® Advantages

A Clipstream® powered website does not require that its visitors download and install player software. Clipstream® just plays. Other solutions require intrusive codecs and new versions of their player in the background.

As Clipstream® is playerless, management estimates that at least 10% more visitors see the rich media content.

The Clipstream® solution is less intrusive and, as a result, safer for users. Alternative solutions control a user s device and can be used by malicious sites to install malware. Clipstream® content will never crash or compromise your machine.

Clipstream® content is uploaded to any brand of web server and just works. Alternative solutions require that you purchase, install and configure streaming server systems, running on dedicated hardware.

Clipstream® plays on any JavaScript and HTML 5 enabled device, so playback is not restricted to computers. This cross platform approach means the same object will work for any browser on any brand of computer or device at any bitrate. (An autodetect procedure automatically delivers the highest possible stream quality).

Because there is no player, Clipstream® encoded media never becomes obsolete and never has to be re-encoded. Other solutions launch new player software without backwards compatibility.

Clipstream® media will automatically cache because it is an ordinary web component, just like a graphic or a block of text. This means that Clipstream will save up to 90% on bandwidth cost (over 90% for ads), while providing much more reliable playback. This standards based approach means that there is no limit to simultaneous streams.

Clipstream® components can be uploaded to the cloud for third party hosting. Player solutions require complicated server farms to handle more than a few thousand simultaneous visitors.

Clipstream® objects can be embedded into databases for long term storage and easy context sensitive retrieval. Every aspect of the Clipstream® engine can be accessed by web authoring tools to create a customized look and feel.

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

GOVERNMENT REGULATION

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

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

Patents

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

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

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

2. **Watermarking "Methods for Watermarking Media Data" Parent Patent**
   a. US Patent No. 7983441, Japan Patent No. 5103479 and Europe Patent No. 2082527
   b. Pending Canada (Publication No. 2682926)

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

When the original patent claims were granted in the US, the Company filed a set of new additional, broader claims in a continuation application in Canada and the US to further protect the technology.

3. **Cross Platform Streaming Video Script Based Video Rendering**
   a Pending US Publication numbers:

      US-2013-0047074,
      US-2013-0044260,

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US-2013-0044822,
US-2013-0044823,
US-2013-0044802,
US-2013-0044826 and
US-2013-0044804)

b. Pending China (Publication No. CN 103891303/Application No. 201280050754.7)
c. Pending Europe (Publication No. 2745526/Application No. 12824114.8)
d. Pending Japan (Application No. 2014-525268)
e. Pending Australia (Application No. 2012297524)
f. Pending India (Application No. 1961/DELNO/2014)
g. Pending Canada (Application No. 2843766)
h. Pending Israel (Publication No. 2013/023287/Application No. 230898)
i. Pending Singapore (Application No. 2014008775)
j. Pending New Zealand (Application No. 622065)
k. Pending South Africa (Application No. 2014/01618)
l. Pending Russian Federation (Application No. 2014110047)
m. Pending Hong Kong (Application No. <not assigned>)

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

Registered Trademarks

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

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

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

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

Domain Names

Destiny owns a large number of domain names, including many valuable four letter (dice.net, dsny.com) and URL s featuring common words (radio-play.com, streamingaudio.com, pirateradio.com and many others.) **Trade Secrets** As an innovative software development company, the Company has a wide range of proprietary algorithms and software libraries which form the core of its offerings.

ITEM 1A. RISK FACTORS.

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

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

97% of our revenue is generated from our Play MPE® distribution service. Competitors may arise and/or customers may not renew distribution contracts. This factor could cause our revenue to decrease with the result that our financial condition and operating results would be adversely affected. Competitors have been small, regionally based, have limited resources, and have yet to capture a material share of the market. If a competitor were to develop a comparable or superior product, our market share could be reduced.

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

Operating expenses increased to $3,941,159 for the year ended August 31, 2014 from $3,443,150 for the year ended August 31, 2013 while our revenue decreased slightly to $3,572,376 for the year ended August 31, 2014 from $3,679,029 for the year ended August 31, 2013. Our ability to achieve profitability is conditional upon our ability to control our operating expenses. There is a risk that we will have to increase our operating expenses in the future. Factors that could cause our operating expenses to increase include our determination to spend more on sales and marketing in order to increase product sales or our determination that more research and development expenditures are required in order to keep our current software products competitive or in order to develop new products for the market. To the extent that our operating expenses increase without a corresponding increase in revenue, our financial condition would be adversely impacted.

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

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

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

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

Our financial results may be adversely impacted by currency fluctuations.

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

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

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

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

Our ability to manage growth.

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

Risk of system failure and/or security risks.

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

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

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

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

Product delays and errors.

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

Online commerce security risks.

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

International operations.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.
None

ITEM 2. PROPERTIES.
Our head office is located in leased premises at Suite 750, 650 Georgia Street, Vancouver, British Columbia, Canada V6B 4N7. Our principal business operations are carried out from our head office. Our leased premises consist of approximately 5,792 square feet. We pay rent of approximately $25,270 Canadian (equal to approximately $22,400 US) per month. The lease expires December 31, 2014. We consider our leased premises adequate for our current business purposes.

ITEM 3. LEGAL PROCEEDINGS.
On November 8, 2011, the Company was served with a Notice of Civil Claim in the Supreme Court of British Columbia from Noramco Capital Corporation for $100,000. The claim asserts that the Company has repudiated a subscription agreement entered into in August 2000. Management believes the claim is without merit and that the likelihood that the outcome of this matter will have a material adverse impact on its result of operations, cash flows and financial condition of the Company is remote. The Company has filed a counterclaim against Noramco and the alleged major beneficial shareholder of Noramco, R. A. Bruce McDonald, for damages arising from a proposed private placement in 2000 which did not close.

ITEM 4. MINE SAFETY DISCLOSURES.
Not Applicable

PART II

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

Market Information

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

QUARTER	HIGH ($)	LOW ($)
1st Quarter 2013	$0.97	$0.70
2nd Quarter 2013	$0.82	$0.57
3rd Quarter 2013	$0.98	$0.60
4th Quarter 2013	$2.79	$0.92
1st Quarter 2014	$2.93	$1.60
2nd Quarter 2014	$2.82	$0.80
3rd Quarter 2014	$1.25	$0.78
4th Quarter 2014	$1.05	$0.65

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

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

Holders of Common Stock

As of November 24, 2014 our shareholders list for our common stock showed 58 registered shareholders and 52,993,874 shares of our common stock outstanding.

Dividends

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

Recent Sales of Unregistered Securities

During the year ended August 31, 2014, 733,209 shares were issued pursuant to the cashless exercise of 875,000 share purchase options exercisable at $0.50 and 150,000 share purchase options exercisable at $0.25. 150,000 shares were issued pursuant to the cash exercise of 75,000 share purchase options exercisable at $0.50 and 75,000 share purchase options exercisable at $0.85.

On May 23, 2014, the Company announced director compensation for the period from June 1, 2014 to May 31, 2015 in the amount of $48,000 for each Director (Lawrence Langs, Steve Vestergaard, Yoshitaro Kumagai and Edward Kolic) payable in a lump sum if the Director chose to take part in a private placement of the Company or as monthly payments in the alternative. Immediately following the compensation announcement, three Directors took part in the private placement resulting in the Company issuing 128,701 shares at $0.87 per share for gross proceeds of $111,970.

Such shares were issued in reliance upon Section 3(a)(9) of the Securities Act, for a security exchanged by the issuer with its existing security holders exclusively where no commission or other remuneration is paid or given directly or indirectly for soliciting such exchange.

OTHER INFORMATION

None.

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

ITEM 6. SELECTED FINANCIAL DATA.

	Fiscal Year				
	2014	**2013**	**2012**	**2011**	**2010**
	(Expressed in US dollars, except per share amounts)				
Continuing Operations:					
Service revenue	$ 3,572,376	$ 3,679,029	$ 3,983,789	$ 4,007,230	$ 3,771,382
Income from continuing operations	$ (368,783)	$ 235,879	$ 719,678	$ 797,600	$ 689,062
Net income	$ (324,399)	$ 226,014	$ 563,003	$ 638,508	$ 1,686,073
Net income per common share, basic and diluted	$ (0.01)	$ 0.00	$ 0.01	$ 0.01	$ 0.03
Balance Sheet:					
Working capital	$ 1,476,767	$ 1,842,538	$ 1,641,032	$ 1,354,115	$ 976,139
Total assets	$ 3,401,206	$ 3,657,656	$ 3,793,002	$ 3,058,137	$ 2,578,817
Long-term liabilities	-	-	-	-	$ 3,745
Stockholders equity	$ 3,002,647	$ 3,283,007	$ 3,280,935	$ 2,405,865	$ 2,059,369

The selected financial data should be read in conjunction with the Consolidated Financial Statements and Notes thereto, and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion of our results of operations and financial condition should be read together with the consolidated financial statements and related notes that are included in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors.

RESULTS OF OPERATIONS FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013

Revenue

Total revenue for the year ended August 31, 2014 declined 3% over the same period in the prior year to $3,572,376 (2013 - $3,679,029), while fourth quarter revenue increased 4% to $896,681 (fourth quarter fiscal 2013 - $860,974).

Revenue from the Play MPE® system currently represents approximately 97% of our total revenues. The third quarter in fiscal 2014 represents the first quarter following the anniversary of a renewal with our largest customer. This agreement consolidated territorial agreements into one global distribution agreement and eliminated certain pricing inefficiencies, which, while usage continues to grow, represented a decline in pricing for this customer and a decline in revenue. Accordingly our year ended results include two quarters where this agreement is consistent with the prior year and two quarters that include different pricing models. Total Play MPE® revenue grew in the latter half of fiscal 2014, when compared to the same period in fiscal 2013 by 7.6% . Additionally, Play MPE® continues to show positive revenue growth in various sources. In Scandinavia, Play MPE® has shown growth with Sony Music and Warner Music (17% growth over the year) and independent labels (6% growth over the prior year). In the United States, Play MPE® continues to see growth in independent label revenue (13%) which offsets a small decline in revenue associated with Sony Music and Warner Music. Australian Play MPE® revenue grew by 35% with the addition of Sony Music and the return of several independent label clients.

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

Approximately 58% of our Play MPE® revenue is denominated in Euros for the year ended August 31, 2014. Play MPE® revenue from Europe for the year ended August 31, 2014 reached $2,000,943 (2013 - $1,745,890) representing an increase of 15%. Approximately 37% of Play MPE® revenue is denominated in US Dollars and 4% of Play MPE® revenue is denominated in Australia Dollars for the year ended August 31, 2014.

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

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

For customers where it is not appropriate to enter into a formal contract we provide access to the Play MPE® system through our quoting system. Revenue generated from this type of access was approximately $365,801 for the year ended August 31, 2014 (2013 - $292,196).

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

Approximately 3% of our revenues are derived from sales of our Clipstream® software. The management is planning to focus on sales, marketing and support resources on our new Clipstream® generation to increase revenue.

Operating Expenses

Overview

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

Total operating costs for the year ended increased by 15% to $3,941,159 (August 31, 2013 - $3,443,150). The increase is attributable to one time costs of approximately $335,000 associated with the repurchase of options charged to general and administration expense, increased rent, increased shareholders relations expenses and director's compensation adopted in the last quarter of fiscal year 2014. Excluding the one time costs related to the repurchase of options, our operating expenditures for the year ended August 31, 2014 grew by approximately 5% over the prior year.

General and administrative	**31-Aug 2014** (12 months) $	**31-Aug 2013** (12 months) $	**$ Change**	**% Change**
Wages and benefits	730,039	325,323	404,716	124.4%
Rent	42,696	28,861	13,835	47.9%
Telecommunications	16,537	15,011	1,526	10.2%
Bad debt	(3,329)	6,011	(9,340)	(155.4%)
Office and miscellaneous	354,173	326,980	27,193	8.3%
Professional fees	211,875	188,229	23,646	12.6%
	1,351,991	890,415	461,576	51.8%

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

The increase in wages and benefits is due to the costs related to repurchase of options described above. The increase in professional fees is primarily related to non-recurring legal advice surrounding a NASDAQ listing application and addressing various associated United States securities issues. The increase in office and miscellaneous is due to the costs related to shareholder relations consulting services received in current period, which is partially offset by the foreign exchange gains during the current period as a result of fluctuations in the value of the Euro and Australia dollar impacting cash and accounts receivable balances denominated in those currencies.

Sales and marketing	**31-Aug 2014** (12 months) $	**31-Aug 2013** (12 months) $	**$ Change**	**% Change**
Wages and benefits	1,000,376	910,146	90,230	9.9%
Rent	117,599	80,742	36,857	45.6%
Telecommunications	45,549	41,995	3,554	8.5%
Meals and entertainment	14,003	11,441	2,562	22.4%
Travel	80,207	56,612	23,595	41.7%
Advertising and marketing	120,601	120,224	377	0.3%
	1,378,335	1,221,160	157,175	12.9%

Sales and marketing costs consist primarily of salaries and related personnel costs including overhead, sales commissions, advertising and promotional fees, and travel costs. The increase in wages and benefits is mainly due to the Company s allocation of Play MPE® staff on marketing and promotional activities. Rent expense has increased as a result of increased monthly rent in current period and rent abatement received during the comparative period. The increase in travel is the result of marketing our products internationally.

Research and development	31-Aug 2014 (12 months) $	31-Aug 2013 (12 months) $	$ Change	% Change
Wages and benefits	911,451	1,063,002	(151,551)	(14.3%)
Rent	108,372	94,302	14,070	14.9%
Telecommunications	41,975	49,047	(7,072)	(14.4%)
Research and development	870	1,349	(479)	(35.5%)
	1,062,668	1,207,700	(145,032)	(12.0%)

Research and development costs consist primarily of salaries and related personnel costs including overhead and consulting fees with respect to product development and deployment. The decrease in wages and benefits is primarily due to a shift of Company s Play MPE® staff from the development of a new version of the recipient software to business development related activities including customer visits and promotion.

Depreciation and Amortization

Depreciation and amortization expense arose from fixed assets and other assets. Depreciation and amortization increased to $148,165 for the fiscal year ended August 31, 2014 from $123,875 for the fiscal year ended August 31, 2013, an increase of $24,290 or 20% as a result of additional servers purchased for our Play MPE® operations and various patents and trademarks applications.

Other earnings and expenses

Interest income decreased to $61,366 for the year ended August 31, 2014 from $78,135 for the year ended August 31, 2013, a decrease of $16,769. 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.

Income Taxes

Our provision for income tax expense for the year ended August 31, 2014 is $17,000 compared to $88,000 for the year ended August 31, 2013. The Company pays no current income tax as a result of various tax deductions available to the Company to reduce taxable income.

During the year ended August 31, 2014 the Company recorded income tax expense of $17,000 to recognize the utilization of these various tax deductions during the year to reduce taxable income. The Company realized a net increase to tax assets of $197,000 in 2014 mostly relating to the realization of input tax credits related to prior year's scientific research and development returns filed during 2014.

The Company is subject to United States federal and state income taxes at an approximate rate of 34% (2013 - 34%) and to Canadian federal and British Columbia provincial taxes in Canada at an approximate rate of 26% (2013 - 25.42%) . The effective tax rate of (5.3%) in 2014 differs from the statutory expected blended tax rate of 27.2% due primarily to non-deductible permanent differences related to stock option compensation. Our effective tax rate could fluctuate due to the valuation of our deferred tax assets, or by changes in tax laws, regulations, and accounting principles.

As at August 31, 2014 the Company had deferred tax assets of $842,000 (August 31, 2013 - $859,000) which includes the value of benefits from deductions associated with non-capital losses, depreciable assets, and investment tax credits. The Company will continue to evaluate whether deferred tax assets are realizable on an annual basis.

Income

During the year ended August 31, 2014, operating income decreased to a loss of $368,783 (August 31, 2013 - an income of $235,879). Net income decreased to a loss of $324,399 (August 31, 2013 - an income of $226,014). The reduction in net income is primarily due to the costs related to repurchase of options and the result of a reduction in revenue associated with the elimination of contractual inefficiencies to our largest customer.

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

		31-Aug 2014		**31-Aug 2013**
Net income	$	(324,399)	$	226,014
Interest income and expenses		(61,366)		(78,135)
Deferred income tax expense		17,000		88,000
Depreciation and amortization		148,165		123,875
Stock based compensation		32,948		20,080
Adjusted EBITDA	$	(187,652)	$	379,834

LIQUIDITY AND FINANCIAL CONDITION

We had cash of $990,007 as at August 31, 2014 compared to cash of $1,521,552 as at August 31, 2013. We had a working capital surplus of $1,476,767 as at August 31, 2014 compared to $1,842,538 as at August 31, 2013. The decrease in our working capital was due to a decrease in our cash balance.

We have $973,119 in cash held outside of the United States, and there is no intent to repatriate at this time. Should we decide to repatriate in the future, taxes would need to be accrued and paid.

Cash Flows

Net cash used in operating activities was $336,823 for the year ended August 31, 2014, compared to net cash generated of $517,567 for the year ended August 31, 2013. As of the date of this report, we have collected approximately 96% of the accounts receivable balance at August 31, 2014. The reduction in cash provided by operations was primarily due to a one time cash payout related to repurchase of outstanding options.

The cash used in investing activities was $236,871 for the year ended August 31, 2014, compared to $86,366 for the year ended August 31, 2013. The increase in net cash used in investing activities is largely attributable to bolstering our global server infrastructure and patent applications in current period.

Net cash provided in financing activities was $100,005 for the year ended August 31, 2014 compared to net cash used of $99,762 for the year ended August 31, 2013. The change is mainly the result of private placement and cash exercise of options in current period.

We expect our current cash balance as well as cash expected to be generated from operations during fiscal 2015 will provide sufficient funds during the fiscal year end of August 31, 2015.

CAPITAL RESOURCES

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

MATERIAL OFF-BALANCE SHEET ARRANGEMENTS

None.

CRITICAL ACCOUNTING ESTIMATES

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

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

Revenue Recognition

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

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

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

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

Stock-Based Compensation

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

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

Research and Development Expense for Software Products

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

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

Accounts Receivable and Allowance for Doubtful Accounts

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

Income Taxes

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

If management s estimates of the cash flows or operating results do not materialize due to errors in estimates or unforeseen changes to the economic conditions affecting the Company, it could result in an impairment adjustment in future periods up to the carrying value of the deferred income tax balance of $842,000.

Contingencies

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

Impairment of Long-Lived Assets

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

RECENT ACCOUNTING PRONOUNCEMENTS

Recently adopted accounting pronouncements

In March 2013, the FASB issued Accounting Standards Update 2013-05, Foreign Currency Matters (Topic 830) . The objective of this Update is to resolve the diversity in practice about whether Subtopic 810-10, Consolidation Overall, or Subtopic 830-30, Foreign Currency Matters Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. This accounting standard update is effective prospectively for annual and interim periods beginning after December 31, 2013. The adoption of this standard did not have a material effect on the Company s consolidated financial statements.

Accounting Standards Not Yet Effective

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

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers," which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 requires an entity to recognize revenue depicting the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 will also result in enhanced revenue related disclosures. ASU 2014-09 is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2016. The Company has not yet evaluated the impact of the adoption of this new standard.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.
Foreign Exchange Risk

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Index to Audited Consolidated Financial Statements for the Years Ended August 31, 2014 and 2013:

Consolidated Financial Statements

Destiny Media Technologies Inc.
August 31, 2014 and 2013
(Expressed in United States dollars)

Tel: 604 688 5421
Fax: 604 688 5132
www.bdo.ca

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Destiny Media Technologies Inc. (the Company) as of August 31, 2014 and 2013, and the related consolidated statements of comprehensive income (loss), changes in stockholders equity and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Destiny Media Technologies Inc. at August 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO CANADA LLP

Chartered Accountants

Vancouver, Canada
November 21, 2014

Destiny Media Technologies Inc.

CONSOLIDATED BALANCE SHEETS

As at August 31 (Expressed in United States dollars)

	2014	2013
	$	$
ASSETS		
Current		
Cash and cash equivalents	**990,007**	1,521,552
Accounts receivable, net of allowance for doubtful accounts of $5,513 [2013 $11,392]	**544,609**	419,697
Other receivables	**78,040**	16,636
Current portion of long term receivable *[note 3]*	**115,464**	99,649
Prepaid expenses	**147,206**	29,653
Deferred tax assets current portion *[note 6]*		130,000
Total current assets	**1,875,326**	2,217,187
Deposits	**22,870**	35,611
Long term receivable *[note 3]*	**345,830**	440,889
Property and equipment, net *[note 4]*	**315,180**	234,969
Deferred tax assets long term portion *[note 6]*	**842,000**	729,000
Total assets	**3,401,206**	3,657,656
LIABILITIES AND STOCKHOLDERS EQUITY		
Current		
Accounts payable	**172,617**	79,622
Accrued liabilities	**203,353**	221,720
Deferred leasehold inducement		2,892
Deferred revenue	**22,589**	70,415
Total liabilities	**398,559**	374,649
Commitments and contingencies *[notes 7 and 9]*		
Stockholders equity		
Common stock, par value $0.001 *[note 5]*		
Authorized: 100,000,000 shares		
Issued and outstanding: 52,993,874 shares		
[2013 issued and outstanding 51,981,964 shares]	**52,994**	51,982
Additional paid-in capital	**9,061,325**	8,929,384
Accumulated deficit	**(6,111,415)**	(5,787,016)
Accumulated other comprehensive income (loss)	**(257)**	88,657
Total stockholders equity	**3,002,647**	3,283,007
Total liabilities and stockholders equity	**3,401,206**	3,657,656

See accompanying notes

Destiny Media Technologies Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended August 31 (Expressed in United States dollars)

	2014	2013
	$	$
Service revenue *[note 10]*	**3,572,376**	3,679,029
Operating expenses		
General and administrative	**1,351,991**	890,415
Sales and marketing	**1,378,335**	1,221,160
Research and development	**1,062,668**	1,207,700
Depreciation and amortization	**148,165**	123,875
	3,941,159	3,443,150
Income (loss) from operations	**(368,783)**	235,879
Other income (expenses)		
Interest income	**61,366**	78,135
Other income	**18**	
Income (loss) before provision for income taxes	**(307,399)**	314,014
Income tax expense - deferred *[note 6]*	**(17,000)**	(88,000)
Net income (loss)	**(324,399)**	226,014
Foreign currency translation adjustments	**(88,914)**	(144,260)
Total comprehensive income (loss)	**(413,313)**	81,754
Net income (loss) per common share, basic and diluted	**(0.01)**	0.00
Weighted average common shares outstanding:		
Basic	**52,486,401**	52,006,459
Diluted	**52,486,401**	52,965,805

See accompanying notes

Destiny Media Technologies Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

Years ended August 31 (Expressed in United States dollars)

	Common stock Shares	**Common stock Amount**	**Additional paid-in capital**	**Accumulated Deficit**	**Accumulated other comprehensive Income (loss)**	**Total stockholders equity**
	#	$	$	$	$	$
Balance, August 31, 2012	**52,091,004**	**52,091**	**9,008,957**	**(6,013,030)**	**232,917**	**3,280,935**
Total comprehensive income (loss)				226,014	(144,260)	81,754
Common stock issued on options exercised	47,610	48	(48)			
Common stock cancelled	(156,650)	(157)	(99,605)			(99,762)
Stock compensation			20,080			20,080
Balance, August 31, 2013	**51,981,964**	**51,982**	**8,929,384**	**(5,787,016)**	**88,657**	**3,283,007**
Total comprehensive income (loss)				(324,399)	(88,914)	(413,313)
Common stock issued on private placement	128,701	129	111,841			111,970
Common stock issued on options exercised Note 5	883,209	883	100,367			101,250
Repurchase of options Note 5			(113,215)			(113,215)
Stock compensation Note 5			32,948			32,948
Balance, August 31, 2014	**52,993,874**	**52,994**	**9,061,325**	**(6,111,415)**	**(257)**	**3,002,647**

See accompanying notes

Destiny Media Technologies Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended August 31	(Expressed in United States dollars)	
	2014	2013
	$	$
OPERATING ACTIVITIES		
Net income (loss)	**(324,399)**	226,014
Items not involving cash:		
Depreciation and amortization	**148,165**	123,875
Stock-based compensation	**32,948**	20,080
Deferred leasehold inducement	**(2,829)**	(2,717)
Deferred income taxes	**17,000**	88,000
Unrealized foreign exchange	**(38,631)**	51,945
Changes in non-cash working capital:		
Accounts receivable	**(139,888)**	(5,880)
Other receivables	**(62,607)**	30,242
Prepaid expenses and deposits	**(106,892)**	(4,363)
Accounts payable	**96,580**	(113,442)
Accrued liabilities	**(11,390)**	(14,778)
Deferred revenue	**(46,055)**	18,801
Long term receivable	**101,175**	99,790
Net cash provided by (used in) operating activities	**(336,823)**	517,567
INVESTING ACTIVITIES		
Purchase of property and equipment	**(236,871)**	(86,366)
Net cash used in investing activities	**(236,871)**	(86,366)
FINANCING ACTIVITIES		
Proceeds from exercise of stock options and warrants	**101,250**	
Repurchase of stock and options	**(113,215)**	(99,762)
Common stock issued on private placement	**111,970**	
Net cash provided by (used in) financing activities	**100,005**	(99,762)
Effect of foreign exchange rate changes on cash	**(57,856)**	(85,310)
Net increase (decrease) in cash and cash equivalents during the year	**(531,545)**	246,129
Cash and cash equivalents, beginning of year	**1,521,552**	1,275,423
Cash and cash equivalents, end of year	**990,007**	1,521,552
Supplementary disclosure		
Interest paid		
Income taxes paid		

See accompanying notes

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2014 and 2013

1. ORGANIZATION

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of presentation and fiscal year

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

Principles of consolidation

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

Use of estimates

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

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2014 and 2013

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

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

Cash and cash equivalents

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

Revenue recognition

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

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

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

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2014 and 2013

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

Long-lived assets

Long-lived assets held for use are evaluated for impairment when events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. Impairment is measured by a two step process: Step 1) the carrying amount of the asset is compared with its estimated undiscounted future cash flows expected to result from the use of the assets and its eventual disposition. If the carrying amount is lower than the undiscounted future cash-flows, no impairment loss is recognized. Step 2) If the carrying amount is higher than the undiscounted future cash-flows then an impairment loss is measured as the difference between the carrying amount and fair value which may be based on internally developed discounted cash flow estimates, quoted market prices, when available, or independent appraisals. The determination of whether or not long-lived assets have become impaired involves a significant level of judgment in the assumptions underlying the approach used to determine the estimated future cash flows expected to result from the use of those assets. Changes in the Company s strategy, assumptions and/or market conditions could significantly impact these judgments and require adjustments to recorded amounts of long-lived assets. As of August 31, 2014, there were no impairment indicators present.

Litigation and settlement costs

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

During the year ended August 31, 2014, the Company incurred approximately $36,000 (2013: $44,900) in professional legal fees in connection with legal actions against the Company and legal actions initiated by the Company. These costs are expensed as incurred and are recorded as a component of general and administrative expenses.

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2014 and 2013

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

Allowance for doubtful accounts

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

Research and development costs

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

Property and equipment

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

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

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2014 and 2013

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

Translation of foreign currencies

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

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

Advertising

Advertising costs are expensed as incurred and totaled $69,464 and $38,474 during the years ended August 31, 2014 and 2013, respectively.

Income taxes

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

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2014 and 2013

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

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

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

The Company has concluded that there are no significant uncertain tax positions requiring recognition in the Company s financial statements. The Company s evaluation was performed for the tax years ended August 31, 1999 through August 31, 2014, the tax years which remain subject to examination by major tax jurisdictions. The Company may from time to time be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to the Company s financial results. In the event the Company has received an assessment for interest and/or penalties, it has been classified in the financial statements as selling, general and administrative expense.

Investment tax credits

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

Stock based compensation

The Company accounts for stock-based compensation arrangements in accordance with ASC 718, Stock Compensation. Under the fair value recognition provisions of ASC 718 stock based compensation cost is estimated at the grant date based on the fair value of the awards expected to vest and recognized as expense ratably over the requisite service period of the award. The Company has used the Black-Scholes option pricing model to estimate fair value of its stock-based awards which requires various judgmental assumptions including estimating stock price volatility and expected life. Compensation expense for unvested options to non-employees is

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2014 and 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont d.) revalued at each balance sheet date and is being amortized over the vesting period of the options. The Company s computation of expected volatility is based on historical volatility. In addition, the Company considers many factors when estimating expected life, including types of awards and historical experience. If any of the assumptions used in the Black-Scholes valuation model change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period.

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

Earnings per share

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

	Year Ended	
	August 31, 2014	August 31, 2013
	$	$
Net income (loss)	**(324,399)**	226,014
Weighted average common shares outstanding	**52,486,401**	52,006,459
Effect of dilutive securities options		959,346
Diluted weighted average common shares outstanding	**52,486,401**	52,965,805

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2014 and 2013

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

At August 31, 2014, the Company had 545,000 outstanding options, which consisted of 225,000 share purchase options exercisable at $0.50, 120,000 share purchase options exercisable at $1.70 and 200,000 share purchase options exercisable at $1.00. Those outstanding options were not included in the computation of diluted EPS because to do so would have been anti-dilutive due to a loss from operations. For the year ended August 31, 2013 all of outstanding options were dilutive and their effect was included in diluted weighted average common shares outstanding.

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

Comprehensive income (loss)

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

Fair value measurement

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

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

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

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2014 and 2013

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

Recently adopted accounting pronouncements

In March 2013, the FASB issued Accounting Standards Update 2013-05, Foreign Currency Matters (Topic 830) . The objective of this Update is to resolve the diversity in practice about whether Subtopic 810-10, Consolidation Overall, or Subtopic 830-30, Foreign Currency Matters Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. This accounting standard update is effective prospectively for annual and interim periods beginning after December 31, 2013. The adoption of this standard did not have a material effect on the Company s consolidated financial statements.

Accounting Standards Not Yet Effective

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

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers," which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 requires an entity to recognize revenue depicting the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 will also result in enhanced revenue related disclosures. ASU 2014-09 is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2016. The Company has not yet evaluated the impact of the adoption of this new standard.

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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 August 31, 2014, installments of $493,400AUD including interest of $162,450AUD have been received.

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

	Principal $	Interest $	Total $
2015	115,464	41,958	157,422
2016	127,871	29,551	157,422
2017	141,611	15,811	157,422
2018	76,348	2,297	78,645
	461,294	89,617	550,911

4. PROPERTY AND EQUIPMENT

	Cost $	Accumulated amortization $	Net book value $
2014			
Furniture and fixtures	**120,370**	**106,160**	**14,210**
Computer hardware	**528,912**	**409,017**	**119,895**
Computer software	**157,449**	**110,673**	**46,776**
Patents and trademarks	**235,375**	**101,076**	**134,299**
	1,042,106	**726,926**	**315,180**
2013			
Furniture and fixtures	124,366	106,014	18,352
Computer hardware	467,226	374,057	93,169
Computer software	130,575	73,393	57,182
Patents and trademarks	112,408	46,142	66,266
	834,575	599,606	234,969

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5. STOCKHOLDERS EQUITY

[a] Common stock issued and authorized

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

2014

During the year ended August 31, 2014, 733,209 shares were issued pursuant to the cashless exercise of 875,000 share purchase options exercisable at $0.50 and 150,000 share purchase options exercisable at $0.25. 150,000 shares were issued pursuant to the cash exercise of 75,000 share purchase options exercisable at $0.50 and 75,000 share purchase options exercisable at $0.85.

On May 23, 2014, the Company announced director compensation for the period from June 1, 2014 to May 31, 2015 in the amount of $48,000 for each Director (Lawrence Langs, Steve Vestergaard, Yoshitaro Kumagai and Edward Kolic) payable in a lump sum if the Director chose to take part in a private placement of the Company or as monthly payments in the alternative. Immediately following the compensation announcement, three Directors took part in the private placement resulting in the Company issuing 128,701 shares at $0.87 per share for gross proceeds of $111,970.

2013

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

[b] Common stock cancelled

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

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

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5. STOCKHOLDERS EQUITY (cont d.)

[c] Stock option plans

The Company has one existing stock option plan (the Plan), namely the 2006 Stock Option Plan, under which up to 5,100,000 shares of the common stock, has been reserved for issuance. A total of 8,181 common shares remain eligible for issuance under the plan. The options generally vest over a range of periods from the date of grant, some are immediate, and others are 12 or 24 months. Any options that do not vest as the result of a grantee leaving the Company are forfeited and the common shares underlying them are returned to the reserve. The options generally have a contractual term of five years.

Stock-Based Payment Award Activity

A summary of option activity under the Plans as of August 31, 2014 and 2013, and changes during the years ended are presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value $
Outstanding at September 1, 2012	**1,800,000**	**0.48**	**1.57**	**802,500**
Granted	75,000	0.85		
Exercised	(25,000)	0.50		45,000
Outstanding at August 31, 2013	**1,850,000**	**0.49**	**0.56**	**3,119,250**
Granted	320,000	1.26		
Exercised	(1,175,000)	0.49		1,110,500
Repurchased and cancelled	(450,000)	0.50		447,750
Outstanding at August 31, 2014	**545,000**	**0.95**	**2.55**	**67,500**
Exercisable at August 31, 2014	**225,000**	**0.50**	**0.43**	**67,500**

During the year ended August 31, 2014, 450,000 options at an exercise price of $0.50 were repurchased by the Company for consideration of $447,750 based on the open market price on the date of repurchase. The difference between the fair value of options at the repurchase date and the fair market value at grant date was charged to expense resulting in additional compensation of $334,535 recorded in general and administrative expenses.

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company s common stock for the options that were in-the-money at August 31, 2014.

The following table summarizes information regarding the non-vested stock purchase options outstanding as of August 31, 2014:

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5. STOCKHOLDERS EQUITY (cont d.)

	Number of Options	Weighted Average Grant Date Fair Value
Non-vested options at August 31, 2012		
Granted	75,000	0.02
Vested	(34,375)	0.02
Non-vested options at August 31, 2013	**40,625**	**0.02**
Granted	320,000	0.23
Vested	(40,625)	0.02
Non-vested options at August 31, 2014	**320,000**	**0.23**

As of August 31, 2014, there was $57,588 of total unrecognized compensation cost related to non-vested share-based compensation awards. The unrecognized compensation cost is expected to be recognized over a weighted average period of 1.97 years.

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company s common stock for the options that were in-the-money at August 31, 2014.

During the year ended August 31, 2014, the total stock-based compensation expense of $367,484 is reported in the statement of comprehensive loss as follows:

	2014	2013
	$	$
Stock-based compensation		
General and administrative	**367,484**	20,080
Sales and marketing		
Research and development		
Total stock-based compensation	**367,484**	20,080

Valuation Assumptions

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

	2014	2013
	$	$
Expected term of stock options (years)	**1.5-2.5**	0.25-0.46
Expected volatility	**69-74%**	49-72%
Risk-free interest rate	**0.24%-0.70%**	0.01%-0.09%
Dividend yields		
Weighted average grant date fair value	**$ 0.23**	$ 0.02

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5. STOCKHOLDERS EQUITY (cont d.)

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

During the year ended August 31, 2014, the Company entered into a consulting agreement with a non-employee to provide investor relations consulting services and maximize shareholder value. As part of the agreement, the Company has issued 120,000 options exercisable at $1.70 per share. The options vest beginning on March 14, 2015 and ending on March 14, 2017, with a total of forty thousand (40,000) options vesting on the 14th day of March of each year. There was no compensation recognized related to the 120,000 options during the fiscal year of 2014.

[d] Employee Stock Purchase Plan

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

During the year ended August 31, 2014, the Company recognized compensation expense of $117,266 (2013: $101,708) in salaries and wages on the statement of operations in respect of the Plan, representing the Company s employee matching of cash contributions to the plan. The shares were purchased on the open market at an average price of $1.46 (2013: $0.81) . The shares are held in trust by the Company for a period of one year from the date of purchase.

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6. INCOME TAXES

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

	2014	2013
	$	$
Tax at U.S. statutory rates	**(108,000)**	107,000
Permanent differences	**1,000**	7,000
Stock option compensation	**125,000**	
Effect of lower foreign tax in Canada	**(1,000)**	(28,000)
Effect of research tax credits claims filed in respect of prior years	**(338,000)**	(303,000)
Other adjustments and change to valuation allowance	**338,000**	305,000
Provision for deferred income taxes	**17,000**	88,000

Included in other adjustments and change in valuation allowance for the year ended August 31, 2014 is $nil (2013: $(20,000)) relating to the effect of changes in statutory tax rates, $53,000 (2013: $88,000) for the effect of changes in foreign exchange rates, $71,000 (2013: $66,000) in respect of a change in estimates and provisions and $214,000 (2013: $171,000) in respect of the change in valuation allowance, which includes the items noted below.

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

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6. INCOME TAXES (cont d.)

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

	2014	2013
	$	$
Deferred tax assets:		
Net operating loss carryforwards	**1,064,000**	1,117,000
Excess of book over tax depreciation	**558,000**	611,000
Tax Credits carryforward	**1,387,000**	1,084,000
Total deferred tax asset	**3,009,000**	2,812,000
Valuation allowance	**(2,167,000)**	(1,953,000)
Net deferred tax asset	**842,000**	859,000
Less: current portion		130,000
Non-current	**842,000**	729,000

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

	2014	2013
	$	$
United States	**(37,979)**	(357)
Canada	**(269,420)**	314,371
	(307,399)	314,014

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

	Canada	United States
	$	$
2021 and thereafter		3,128,063
		3,128,063

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

	Canada	United States
	$	$
2028 and thereafter	1,387,000	
	1,387,000	

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7. COMMITMENTS

On August 21, 2013 the Company entered into a lease agreement for its premises and it commenced on November 1, 2013 and will expire on December 31, 2014. The Company has fiscal year payments committed as follows:

	$
2015	91,443

During the year ended August 31, 2014 the Company incurred rent expense of $268,667 (2013: $203,905) which has been allocated between general and administrative expenses, research and development and sales and marketing on the consolidated statement of operations and comprehensive income (loss).