

DESTINY MEDIA TECHNOLOGIES INC
Form 10KSB
November 29, 2007

U.S.
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB
(Mark One)

Annual Report Pursuant To Section 13 Or 15(D) Of The Securities Exchange Act Of 1934

For the fiscal year ended **August 31, 2007**

Transition Report Under Section 13 Or 15(D) Of The Securities Exchange Act Of 1934

For the transition period from _____ to _____

COMMISSION FILE NUMBER 000-28259

DESTINY MEDIA TECHNOLOGIES INC.

(Name of small business issuer in its charter)

COLORADO

(State or other jurisdiction of incorporation or organization)

84-1516745

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

570 Granville Street, Suite 800

Vancouver, British Columbia, Canada

(Address of principal executive offices)

V6C 3P1

(Zip Code)

604-609-7736

Issuer's telephone number

Securities registered under Section 12(b) of the Exchange Act:

NOT APPLICABLE

Securities registered under Section 12(g) of the Exchange Act:

COMMON STOCK, PAR VALUE \$0.001 PER

SHARE

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 []**

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB. **[]**

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State issuer's revenues for its most recent fiscal year: **\$875,544**

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days. (See definition of affiliate in [Rule 12b-2](#) of the Exchange Act.)

\$21,475,920 as of November 15, 2007

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date. **49,944,001 Shares of Common Stock as of November 15, 2007**

Transitional Small Business Disclosure Format (check one): Yes No

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

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PART I

FORWARD LOOKING STATEMENTS

The information in this Annual Report on Form 10-KSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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, 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. The 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-KSB are presented in United States dollars unless otherwise indicated.

ITEM 1. DESCRIPTION OF BUSINESS.
OVERVIEW AND CORPORATE BACKGROUND

Destiny Media Technologies Inc. (Destiny Media) is a holding company which owns 100% of the outstanding shares of Destiny Software Productions Inc. and MPE Distribution, Inc. The Company , Destiny or we refers to the consolidated activities of all three companies.

Destiny develops software tools and provides services which enable content owners to distribute their digital media globally using the internet. All Destiny technologies are developed by internal staff, are proprietary and are owned by the company.

Content can be accessed in either a transient manner (TV, radio) or it can be owned locally by the consumer (DVD s, CD s). Destiny provides media owners both approaches over the internet through two product lines:

A) Clipstream® Product Line

Clipstream® enables audio or video content to be streamed so that the audio or video plays instantly and automatically. This is analogous to TV or radio. Creating streaming video content with other technologies can be a complicated process and in many cases, users are required to purchase and maintain streaming servers. With Clipstream®, content owners simply encode the content into the Clipstream format, then upload to an existing website. Clipstream® is a standards based technology built around Sun Microsystem s Java engine. Because Java is included in most operating systems and browsers, Clipstream® encoded content will play instantly. This means that a much higher percentage of potential viewers successfully see the content by using Clipstream® than with other solutions. Clipstream® users are not required to download third party player software which can create instabilities and allow unsafe external access to the user s computer.

Clipstream® products include:

Clipstream®: embeds high fidelity audio and video on demand into web pages and emails

<http://www.clipstream.com>

Clipstream® Live: embeds live video stream into web pages and emails

<http://live.clipstream.com>

Clipstream® IPTV: users can view TV and change channels remotely

<http://live.clipstream.com>

Clipstream® Audiomail: converts audio left on a telephone answering machine into an audio clip

<http://www.audio-mail.com>

Clipstream® Survey Solutions: secure video questionnaires prevent piracy and feature high view rates

<http://www.surveyclip.com>

Clipstream® Advertising Solutions: TV style video commercials and rich media banner ads

<http://www.clipstreamad.com>

Clipstream® Server Solutions: servers to power hosted sites

<http://www.clipstreamserver.com>

Radio Destiny: Software to broadcast internet radio from a home computer

<http://www.radiodestiny.com>

B) MPE® Product Line

MPE® enables the secure download of audio or video to a user's computer. Content is protected from unauthorized distribution through two patent pending technologies. The first recognizes a user device as being unique, then encrypts the content to lock to that particular machine. The second patent pending technology embeds a digital trace or watermark into unlocked content, so that copies can be traced back to the owner of the original file.

MPE® products include:

Play MPE™: over 1,000 record labels use this service to deliver pre-release music and music videos to trusted recipients including radio station program directors, music buyers, record label staff and the media. Over 60,000 songs have been sent through this system.

<http://www.plaympe.com>

MyPlayMPE: a self service system for smaller independents to distribute music and music videos through Play MPE™

<http://www.myplaympe.com>

PODDS: a complete software suite to set up to securely sell music online. Includes encoding modules, accounting modules and the player software. This software can be utilized in an OEM agreement to set up third party online music stores. In addition, Destiny has set up its own store to sell music to commercial users in Canada (DJ's, online jukeboxes, etc.) Destiny has an encoded catalog of 12,000 songs and album artwork under license from the four major record labels in Canada.

<http://www.podds.ca>

Destiny Media Technologies, Inc. was incorporated in August 1998 under the laws of the State of Colorado.

We carry out our business operations through our wholly owned subsidiary, Destiny Software Productions Inc., a British Columbia company that was incorporated in 1992, and MPE Distribution, Inc. a Nevada company that was incorporated in 2007.

Our principal executive office is located at #800-570 Granville Street, Vancouver, British Columbia V6C 3P1. Our telephone number is (604) 609-7736 and our facsimile number is (604) 609-0611.

We are a publicly traded company. Our common stock trades on the OTC Bulletin board under the symbol DSNY and on various German exchanges (Frankfurt, Berlin, Stuttgart and Xetra) under the symbol DME 935 410.

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

BUSINESS DEVELOPMENT

Our current CEO, Steve Vestergaard, started the Destiny Software business as a private partnership in January 1991. The business was sold to Destiny Software Productions Inc. the following year. Destiny Software developed a dozen video games, marketing and branding them through outside publishing companies. In 1995, Destiny began developing various internet technologies, releasing the Radio Destiny Internet radio broadcasting software in May 1996.

Destiny Media Technologies, Inc. acquired Destiny Software Productions Inc. from Mr. Vestergaard in 1999.

During the year, the Company focused on growing the Play MPE™ music distribution service, launching the PODDS online music system, launching a new version of Clipstream® with much higher quality audio and video and securing Clipstream® partnerships in the market research and advertising verticals.

Play MPE™ is becoming a global standard for music distribution by the major record labels, and during the year, the company invested in the infrastructure, relationships and the people in order to prepare for the anticipated growth in system usage. In March, the company began hiring and has doubled the number of staff. Already under commercial contract with Universal Music Group and sub-labels of other major labels, we continued to sign additional Play MPE™ usage contracts, increase record label usage and increase radio adoption across formats with great success. Currently, the Company has distributed over 60,000 songs and has significantly expanded trusted user adoption. Subsequent to year end, the Company began touring the country to visit every major market radio station in North America. We conducted site visits to encourage radio personnel to use the system each day. In addition, the Company launched a comprehensive advertising campaign that will continue throughout the first quarter of 2008 to increase awareness and encourage continued active utilization of the system. We had a large advertising presence at the National Association of Broadcasters (NAB) show in October and advertisements are appearing in every major industry publication conveying the benefits and popularity of the Play MPE™ system. The company partnered with Greendisk and the CD recycling center to discourage use of physical delivery by radio.

Our server systems powering Play MPE™ are being modified to be highly scaleable to accommodate increased usage. Additionally, our programming team has been developing new server software for all of 2007 and a new encoder is expected to launch in January 2008. This new encoder will have additional features which we hope will add further value to our leading position in the marketplace. The various databases and players will be migrated to the new system at that time. The company currently has two server locations supporting up to a gigabit per second of high speed transfer and real time offsite backup. The new server software will support extremely high availability with the ability to add European and Asian server locations as demand requires.

In fiscal 2008, the Company plans to invest heavily in Clipstream® sales and marketing and to launch a number of new Clipstream® solutions, including a Clipstream® hosted solution and new products for the advertising industry. The Company will also pursue synergistic opportunities including selling Clipstream® licenses to the recording industry. One example is Clipstream® powered audio banners which allow record labels to advertise new music. When viewers hover their mouse over the banner, CD quality audio streams instantly. When they move their mouse off the banner, it stops instantly. Another example would be to host music videos and other video content for the industry in Clipstream® format.

In August, the company moved into a new head office, with approximately double the office space.

July 26/2006

Clipstream® Audio 3.0 released. Audio is much higher quality than MP3 at the same bitrate and plays instantly without a player.

August 1/2006

Destiny sales representative John Pillsbury featured in an article about video in online surveys featured in Quirk's

Marketing Research Review August issue.

August 8/06

<http://www.allaccess.com> enters into a strategic marketing agreement with the Play MPE™ system

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August 22/06

Featured article by Steve Vestergaard where he talks to the Wireless Innovation Network about Destiny and his thoughts about wireless technology and potential for Clipstream® on wireless devices.

September 06/06

Global Market Insite selects Clipstream® Video for testing movie trailers online.

September 14/06

Destiny launches Canada's first legal online commercial music service featuring Destiny's new PODDS online music store software suite.

November 8/06

Destiny files a provisional patent for innovative watermarking technology that traces the source of an illegal copy even if the copy has been compressed or converted to another format.

November 16/06

Support is added for distributing music videos through the Play MPE™ system.

November 21/06

Brand Health article on video use in market research singles out the Clipstream® secure video solution for the market research industry.

Dec 7/06

Destiny launches an artist liner service for Play MPE™. Rather than come into the studio to record promotional recordings for individual radio stations, artists can call into a system based on Clipstream® audiomail to have their telephone call recorded and the recording made available in Play MPE™.

Dec 11/06

The Play MPE™ system is featured on the cover of Christian Radio Weekly.

Feb 26/07

Destiny closes \$2.16 Million private placement. The main use of proceeds is to hire staff and improve infrastructure to scale the Play MPE™ system.

March 07/07

Destiny extends the Play MPE™ distribution agreement with Universal Music Group.

March 16/07

Clipstream® Video 3 launches at the Spring Video on the Net 2007. Supports high fidelity audio and the ability to stream full screen at thirty frames a second.

March 19/07

Destiny sponsors a Wikipedia camp in Chennai India with the founder of Wikipedia. Clipstream® is used to stream the event live on the internet.

April 21/07

Destiny attends the Gospel Music Association Convention in Nashville.

April 23/07

Destiny launches Play MPE™ system in Canada and announces intent to expand internationally.

May 1/07

Clipstream® featured in Ad Age Guide to Online Video.

May 4/07

Destiny sues competitor and executives of competitor for defamation for making the claim that the Play MPE™ system infringes on their patent in Canada. Destiny previously sued to have the Federal Court declare that there is no infringement.

May 17/07

Destiny exhibits Play MPE™ at the 2007 AAA Non Comm-vention in Louisville, Kentucky.

June 12/07

Interviews with Steve Vestergaard to air on the Biography Channel, Yahoo finance and on US Airways for the month of July.

June 21/07

Destiny sponsors CASRO (Council of American Research Organizations) conference.

June 28/07

Destiny exhibits and sponsors the 2007 Conclave radio conference in the Minneapolis Marriott Center.

June 28/07

Play MPE™ article in Christian Radio Weekly.

August 6/07

R&R AAA Summit.

August 23/07

Destiny moves into larger, two floor head office in anticipation of growth.

OUR PRODUCTS

Clipstream® Suite

<http://www.clipstream.com>

Clipstream® enables users to experience internet audio and video directly inside an email or web page. Competing technologies require users to download, install and configure a player. Users that haven't downloaded the player can't access the content. Because the Clipstream® player is a Java applet and because Java is natively supported by most email and web browser clients, Clipstream® content will play instantly for 98% of the audience. The content will play directly within an email or web page rather than in a separate window. This makes Clipstream® uniquely well suited for applications where reach is important. For example, media companies can take video content intended for television and repurpose it in web pages and emails, and market research companies can get a much higher response rate.

Content is converted into the proprietary Clipstream® compression format using the Clipstream® encoder software which we provide for free. The content owner purchases a code key from us that enables the content to play. Code keys are limited to a period of time.

Our software applications will work on most Java based computers, set top boxes and wireless devices which have enough CPU and memory to play back the content. In addition, our Clipstream® software enables streaming media to be delivered to users regardless of the operating system of the user's computer.

Our Clipstream® software products incorporate the following features that we believe give our products advantages over products offered by competitors:

1. Web pages, e-mails, banner advertisements and other Internet applications that incorporate our Clipstream® software enable users to play the media instantly without the requirement of an additional player program.
2. Our customers are able to achieve up to a 90% reduction on bandwidth costs for streaming delivered using our products versus competing streaming solutions.
3. The Clipstream® software enables streaming through firewalls and proxies that may block competing streaming solutions.
4. The Clipstream® software is compatible with database protocols and non-personal computer devices such as PDAs, wireless and set top boxes that support Java.
5. The look and feel can be tightly integrated into a web page and most aspects of the engine can be accessed via Javascript.
6. Our customers do not require a server to deliver pre-recorded media content. Customers can simply use our encoder software to convert their media content into our Clipstream® format and upload it to their web site with the accompanying applet.
7. We have developed our Clipstream® software to be as scaleable as possible. A video or audio clip encoded in Clipstream® is treated like any other element in the web page. It can be served by a standard HTTP server, cache or proxy and can pass seamlessly through a firewall.
8. Corporate environments using our Clipstream® software have an advantage over player-based solutions as management information systems staff do not have to ensure that players are correctly installed on each

machine in their corporate network in order for users to receive audio and video streaming media.

9. Clipstream® content can be locked to a particular website, protecting content owners from piracy. Video content can be watermarked and screen scraper programs can be blocked.

Radio Destiny Broadcaster and Destiny Media Player

<http://www.radiodestiny.com>

<http://www.stationdirectory.com>

The Radio Destiny Broadcaster software enables customers to broadcast a professional Internet radio station from the customer's personal computer. The customer may broadcast live or from a playlist created by the customer. The only hardware required is a personal computer equipped with a sound card and a reliable Internet connection. When broadcasting in the live mode, the customer simply puts their audio signal into the input of their sound card, configures the options and clicks 'start broadcast' on the Radio Destiny Broadcaster software. When broadcasting in script mode, the customer pre-records a set of audio files, and then specifies a schedule for play back. The customer could spend a couple of hours setting up the broadcasting schedule for the week, then the Radio Destiny Broadcaster software will broadcast the content 24 hours per day, 7 days per week. When deployed, the customer's Internet radio station is automatically added to the directory of stations at our Radio Destiny web portal. Listeners can receive a Radio Destiny Internet radio broadcast using our Destiny Media Player. The Radio Destiny Broadcaster software has been designed to be consumer friendly and is easy to use.

Play MPE™

<http://www.plaympe.com>

<http://www.myplaympe.com>

The Play MPE™ system enables a content owner to securely move electronic files (song, videos etc.) through the Internet to a trusted end user.

The record label uses our encoder tool to manage lists of potential recipients. Because sub-labels are often operated to compete with one another, list security is important, even within the same company. An extensive system has been built to manage lists and to interact with partner lists.

Music labels can access the original content from CDs, from the local hard drive or from a LAN based music repository. They check off the recipients from the list management system and whether the system should send an email by preview. They set rights for the users, including whether the user has to play the song on the recipient computer or if it can be exported to a portable device. They set the times for any previews to go out and when the song should show up in the system.

When the song is released, it is automatically encoded in a preview format and a high quality compressed format. The compressed format retains all of the audio fidelity of the original in a fraction of the file size. The system achieves this by allocating bits on a variable basis, so that if a song gets busy, it allocates more bits, but when the song becomes less complex, fewer bits are required.

The compressed file is then sent to our server with the attached song data and artwork, where it resides in a database.

If this is the first time a user has been serviced with a song, the system will automatically send an email invitation with instructions to download our player software.

Users can configure their experience with the system, including merging various email accounts into a single ID and setting email preferences. At the user's request, email previews can be restricted to one per day, week or month in the form of a digest. Otherwise, if a preview is selected by the label, an email will automatically go out at the specified date and time alerting the recipient of a new song. This email preview can feature a Clipstream® stream of the song embedded directly in the email, album cover graphics, promotional materials and instructions for accessing the song. This combination of our valuable technologies provides exceptional significant appeal to the use of the Play MPE™ system.

When the recipient launches the player, they are presented with a list of label logos that have made songs available to them. The order of the icons is dependent on the order that the user was serviced with new music.

Under each label, they see the tracks that are available for them on our server. From this screen, they can listen to a high quality stream, look at album graphics and promotional information, provide feedback to the label or download the song locally to their machine.

Songs are downloaded in the background using our download manager and each song is encrypted securely with a key generated based on that particular authorized computer. If the song is passed on to another computer, it will not play.

If the user has export rights, they can drag the song into a playlist which they can burn to CD using our integrated low level CD burning software or export directly into the standard digital software systems used at radio stations. As the song is exported, we embed our proprietary digital watermark into the song.

The watermark is a technology we developed which alters the music into a subtle way that embeds the ID of the user who created the exported file. If the song is copied, the labels can tell who made the first copy.

The recipient's interaction with the song is monitored, providing valuable data reporting back to the label.

PODDS Online Music Store Software

<http://www.podds.ca>

The Company has developed online player software that facilitates integrated previewing, purchase and playback of music directly from the player, without using a third party browser. Users can quickly click from song to song to preview music samples and access information about the songs and artists, all directly from within the player.

This iTunes style application supports high quality playback in an encrypted format directly from the player. Alternatively, the user can export the songs according to content owners' permissions into standards based formats. When this occurs, a digital watermark is incorporated into the song, identifying the user that made the first unencrypted copy. The software also supports integrated burning of the song to a CD, in which case the watermark is embedded into the CD data.

The system consists of a number of software components, including server software modules, encoder modules, reporting modules and the player application.

The Company launched an online music service, initially in Canada, branded as PODDS. This service is licensed through the Audio Video Licensing Association and the major labels in Canada to sell music to commercial users. The system has been integrated into a digital jukebox system and music is currently being sold to remote jukeboxes, DJ's and club owners.

OUR BUSINESS OPERATIONS

On August 23, 2007, we moved our head office, and business operations are carried out in leased premises in Vancouver, British Columbia, Canada. We lease 10,100 square feet of office space, with the lease expiring in August of 2010, and we have twenty-four full time employees and one part time employee. Our employees include our President and Chief Executive Officer, Chief Financial Officer, our vice-presidents of operations, a legal affairs and HR director, thirteen sales and support personnel and seven software developers. We also employ contractors as needed.

We manage our own server infrastructure and use the services of an external hosting facility. We have eleven servers at two physical locations. Servers are highly redundant with RAID's, custom switches, redundant power supplies and multiple connections to the internet backbone. The first location is 1 gigabit per second and the backup facility is 100 megabit per second.

COMPETITION

Our principal competitors in the development and distribution of streaming media technology are RealNetworks, Adobe and Microsoft. All are substantially larger than we are and have significantly greater financial resources

available and have increased their commitment to and presence in the streaming media industry. We anticipate they will continue to increase the competitive pressure in the overall market for streaming media software. This increased competition could lead to increased pressure to decrease the price of streaming media software. This pressure on price could force us to reduce the price that we are able to charge our customers for our software products.

Internationally, the main competitor for our MPE® preview service is physical distribution of music CDs and promotional security free digital distribution of MP3 s. We are aware of some small competitors in the secure digital distribution market outside of the US which have some penetration into the US. However, we are not aware of any company, other than ourselves, with a distribution agreement with a US major label nor are we aware of any competitor with a similar number of songs digitally distributed or with a distribution channel comparable in size or usage to ours and across formats in US radio.

There are a number of large competitors for our PODDS online store, including Pure Tracks and iTunes in Canada. We are not aware of a significant provider of online music store software.

The factors that impact on our ability to compete in the media distribution software market include:

- (i) the quality and reliability of our software;
- (ii) the features of our software;
- (iii) ease of use and interactive user features of our software;
- (iv) scalability of our software;
- (v) our software pricing and licensing terms;
- (vi) the emergence of new and more advanced technologies; and
- (vii) the compatibility of our software with our customer's existing network components and software systems

We must continue to innovate and improve the performance of our software products to compete in the media technologies market, to maintain our customer base and to increase our customer base. We anticipate that consolidation will continue in this industry and related industries such as computer software, media and communications. Consequently, competitors may be acquired by, receive investments from or enter into other commercial relationships with, larger, well-established and well-financed companies. There can be no assurance that we will be able to establish or sustain a leadership position in these market segments. We are committed to working toward market penetration of our brand, products and services, which, as a strategic response to changes in the competitive environment, may require pricing, licensing, service or marketing changes intended to extend our current brand and technology. Price concessions or the emergence of other pricing or distribution strategies by competitors may reduce the prices that we may charge our customers for our software products. In addition, many of our current and potential competitors have greater name recognition, larger overall installed bases, more employees and significantly greater financial, technical, marketing, public relations and distribution resources than we do. These competitive factors may have a material adverse effect on our business, financial condition and results of operations.

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.

ITEM 2. DESCRIPTION OF PROPERTY.

Our head office is located in leased premises at Suite 800, 570 Granville Street, Vancouver, British Columbia, Canada V6C 3P1. Our principal business operations are carried out from head office. Our leased premises consist of approximately 10,100 square feet. We pay rent of approximately \$26,000 Canadian (equal to approximately \$24,500 US) per month. The lease expires August 30, 2010. We consider our leased premises adequate for our current business purposes.

The Company owns proprietary algorithms, source code, trademarks and other intellectual property associated with its Clipstream® and MPE® product lines.

We have been granted a trademark for Clipstream® in the US, Canada, Japan, Israel and Europe in connection with our software products. We have also been granted a trademark in the US for MPE®.

We have filed for patent protection in the US for the MPE[®] distribution system and for the digital watermark technology. Patent protection is currently pending.

We have applied for trademark protection for MPE® in Canada, China, Europe and Japan. We have applied for trademark protection for PLAY MPE™ and SONOX DIGITAM™ in the US, Canada, China, Europe and Japan . This protection is currently pending.

We generally develop our own technologies and algorithms in house and have a number of technologies that we rely on to maintain our competitive advantage.

ITEM 3. LEGAL PROCEEDINGS.

On March 7, 2006 we filed a Statement of Claim in the Federal Court of Canada against Musicrypt Inc. to assert that our Play MPE™ system does not infringe on Canadian Patent No. 2,407,774, owned by Musicrypt, Inc. The action commenced by us also seeks a declaration that this patent is invalid. On June 7, 2006, Destiny s counsel received a statement of defense and counterclaim from the defendants. The statement of defense includes a counterclaim, requesting specified damages or audited Canadian profits from the Play MPE™ system if it is offered in Canada. Management believes the counterclaim is without merit and does not believe that the outcome of this matter will have an adverse impact on its result of operations and financial condition.

On May 3, 2007 the Company filed a statement of claim for damages from Musicrypt Inc., John Heaven and Clifford Hunt caused by the defendants making statements constituting defamation and injurious falsehood, making false or misleading statements tending to discredit the business, making false or misleading representations contrary to the Competition Act, and unlawful interference with the Company s economic relations. The Company also requests an injunction from continuing the defamatory actions.

On June 7, 2007 the defendants filed a statement of defense, denying the allegations set out in the statement of claim dated May 3, 2007, and counterclaim against the Company and our CEO, Steve Vestergaard, for making statements constituting defamation and injurious falsehood, making false or misleading statements tending to discredit the business, making false or misleading representations contrary to the Competition Act, and unlawful interference with Musicrypt s economic relations. The counterclaim further requests an injunction continuing the actions instigating the statement of claim.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to our security holders for a vote during the fourth quarter of our fiscal year ending August 31, 2007.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

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

| QUARTER | HIGH (\$) | LOW (\$) |
|------------------------------|-----------|----------|
| 1 st Quarter 2006 | \$0.35 | \$0.10 |
| 2 nd Quarter 2006 | \$0.35 | \$0.12 |
| 3 rd Quarter 2006 | \$0.39 | \$0.21 |
| 4 th Quarter 2006 | \$0.33 | \$0.18 |

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| | | |
|------------------------------|--------|--------|
| 1 st Quarter 2007 | \$0.34 | \$0.20 |
| 2 nd Quarter 2007 | \$0.71 | \$0.26 |
| 3 rd Quarter 2007 | \$1.08 | \$0.44 |
| 4 th Quarter 2007 | \$0.70 | \$0.35 |

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

Holders of Common Stock

As of November 15, 2007 we had 49,944,001 shares of our common stock outstanding and there were 1,259 registered shareholders of our common stock.

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 our fiscal year ended August 31, 2007, the Company completed a private placement which consisted of the issuance of 5,400,000 common shares for total gross proceeds of \$2,160,000. In respect of fees associated with the transaction, we issued 20,000 common shares, 361,000 warrants exercisable into common shares at \$0.40 expiring February 28, 2012, and 400,000 warrants exercisable into common shares at \$0.50 expiring February 28, 2012 as part of the sale. The private placement also included the issuance of 5,400,000 warrants exercisable into common shares at \$0.50 expiring February 28, 2012. Also, 604,778 stock options were exercised for cash proceeds of \$188,000. 1,975,000 warrants were exercised for cash proceeds of \$505,000.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We did not purchase any of our shares of common stock or other securities during the year ended August 31, 2007.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS.

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 later in this Annual Report on Form 10-KSB. 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, including those set forth under **Risk Factors** or in other parts of this Annual Report on Form 10-KSB.

RESULTS OF OPERATIONS FOR THE YEAR ENDED AUGUST 31, 2007

Revenue

Our fourth quarter revenue was the highest revenue quarter of the last four years as overall revenue grew for the third straight quarter on the strength of our eighth straight quarter of revenue growth in our Play MPE™ system. Revenue associated with our MPE® technology has grown by approximately 101% and now represents approximately 58% of our total revenue. Revenue associated with our MPE® technology had jumped following the second quarter as we began to transition our customers to transactional based contracts and continued to grow through to the end of the fiscal year. Revenue for the fourth quarter for MPE® exceeded management estimates by more than 5% and exceeded the third quarter revenue by 22%.

Our revenue model is based on invoicing on a price per **send**. At August 31, 2007, we have delivered more than 60,000 individual songs in more than 70,000,000 transactions. We refer to a **transaction** as one song which is made available to one recipient. For revenue purposes, fees are based on **sends** as defined in their respective agreements, and

could include a single transaction or group of transactions. 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.

The MPE® security engine powers two products: the Play MPE™ (www.plaympe.com) media distribution system, and our online music store software suite (www.podds.ca). Our www.myplaympe.com system was launched immediately following the year end. MyPlayMPE is a system catered to smaller independent labels and allows access to our distribution network.

Approximately 39% of our revenues are derived from sales of our Clipstream® software, and declined from the previous year by 43%. This reflects a management strategy of focusing sales, marketing and support resources on MPE® until it generates positive cash flow. Sales and marketing efforts in the second half of the year have been focused on reaching Clipstream® resellers rather than selling directly to end users. The Company is targeting resellers in the advertising and market research space where the advantages of Clipstream®'s 98% user reach and security are important to end customers.

Radio Destiny sales represent 3% of our total revenue.

Our revenues decreased to \$875,544 for the year ended August 31, 2007 from \$884,082 for the year ended August 31, 2006, representing a decrease of \$8,538 or 1%.

Operating Expenses

As a result of the adopting FAS123(R) on September 1, 2006, the Company recorded additional non-cash stock compensation expense for options granted to employees. Total non-cash stock compensation for the period, and included in our operating expenses, are outlined below:

| | August 31 | |
|--------------------------------|-----------|--------|
| | 2007 | 2006 |
| | \$ | \$ |
| General and administrative | 97,100 | 13,793 |
| Sales and marketing | 513,182 | 12,390 |
| Research and development | 159,929 | 10,406 |
| Total stock-based compensation | 770,211 | 36,589 |

| General and administrative | August 31, 2007 | August 31, 2006 | \$ Change | % Change |
|----------------------------|--------------------|--------------------|--------------|-------------|
| Wages and benefits | 332,418 | 215,241 | 117,177 | 54.4% |
| Rent | 27,066 | 32,023 | (4,957) | (15.5%) |
| Telecommunications | 13,303 | 17,809 | (4,506) | (25.3%) |
| Bad debt | (361) | 11,448 | (11,809) | (103.2%) |
| Office and miscellaneous | 54,274 | 92,021 | (37,747) | (41.0%) |
| Professional fees | 244,611 | 140,495 | 104,116 | 74.1% |
| | 671,311 | 509,037 | 162,274 | 31.9% |

General and Administrative. 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 costs is due in part to the increase in non-cash compensation, and the increase in professional fees. These costs mainly increased due to a greater volume of legal work associated with securities, litigation, contracts, patents and trademarks.

| Sales and marketing | August 31, 2007 | August 31, 2006 | \$ Change | % Change |
|----------------------------|----------------------------|----------------------------|----------------------|---------------------|
| Wages and benefits | 414,584 | 277,336 | 137,248 | 49.5% |
| Rent | 31,269 | 32,023 | (754) | (2.4%) |
| Telecommunications | 15,368 | 17,809 | (2,441) | (13.7%) |
| Meals and entertainment | 4,391 | - | 4,391 | - |
| Travel | 65,906 | 15,058 | 50,848 | 337.7% |
| Advertising and marketing | 819,840 | 115,040 | 704,800 | 612.7% |
| | 1,351,358 | 457,266 | 894,092 | 195.5% |

Sales and Marketing. Sales and marketing expenses consist primarily of salaries and related personnel costs including overhead, sales commissions, advertising and promotional fees, and travel costs. The majority of this increase, approximately \$500,000, was due to the increase in non-cash stock based compensation. Additionally, in the second half of the year, we added additional staff to further the distribution and acceptance of the Play MPE™ distribution system. As a result, we have had a large increase in the usage of our system through both increased radio adoption and record label acceptance. The testimonials of our Play MPE™ system can be viewed at <http://plaympe.com/v3/company/testimonials.php>.

| Research and development | August 31, 2007 | August 31, 2006 | \$ Change | % Change |
|---------------------------------|----------------------------|----------------------------|----------------------|---------------------|
| Wages and benefits | 809,022 | 311,651 | 497,371 | 159.6% |
| Rent | 65,871 | 46,367 | 19,504 | 42.1% |
| Telecommunications | 32,375 | 25,786 | 6,589 | 25.6% |
| Repairs and maintenance | 1,773 | 257 | 1,516 | - |
| | 909,041 | 384,061 | 524,980 | 136.7% |

Research and Development. Research and development costs consist primarily of salaries and related personnel costs including overhead and consulting fees with respect to product development and deployment. The increase is due to both increased staff and stock based compensation.

Amortization. Amortization expense arose from fixed assets and other assets. Amortization increased to \$62,902 for the fiscal year ended August 31, 2007 from \$54,303 for the fiscal year ended August 31, 2006, an increase of \$8,599 or 15.84% .

Other earnings and expenses

Interest expense decreased to \$13,289 for the fiscal year ended August 31, 2007 from \$22,058 for an effective decrease of \$8,769.

Gain on disposition of capital asset

The gain on disposition of capital assets is due to the sale of our phone system on moving to our expanded location.

Losses

Our loss from operations increased to \$2,119,068 for the year ended August 31, 2007 from \$520,585 for the year ended August 31, 2006, representing an increase of \$1,598,483. Our net loss increased to \$2,096,974 for the year ended August 31, 2007 from \$485,335 for the year ended August 31, 2006, representing an increase of \$1,611,639 or 332%. The most significant increase was due to the adoption of FAS123 and non-cash stock compensation expense.

LIQUIDITY AND FINANCIAL CONDITION

We had cash of \$1,215,183 as at August 31, 2007 compared to cash of \$156,337 as at August 31, 2006. We had a working capital surplus of \$1,339,722 as at August 31, 2007 compared to a working capital deficiency of \$59,429 as at August 31, 2006.

Working Capital Surplus

The increase in our working capital surplus is attributed to a significant increase to cash. We have raised \$2,160,000 through private placement, net of costs of \$220,740 and received proceeds of \$505,000 on warrants exercised which led to a significant increase in our cash.

Our accounts payable and accrued liabilities decreased to \$325,442 as at August 31, 2007 from \$328,773 at August 31, 2006, representing a decrease of \$3,331 or 1%. Included in our accounts payable and accrued liabilities balance as at August 31, 2007 is \$193,197 of accrued liabilities and \$132,245 trade accounts payable.

Our shareholder loans payable significantly decreased to Nil as at August 31, 2007 from \$17,142 as at August 31, 2006.

Our current deferred revenues decreased to \$9,984 as at August 31, 2007 from \$10,469 as at August 31, 2006, representing a total decrease of \$485 or 5%.

Cash Flows

Net cash used in operating activities increased to \$1,642,770 for the year ended August 31, 2007 compared to \$538,213 for the year ended August 31, 2006, representing an increase of \$1,104,557 or 205%. The increase is due in part to the timing of receipts and disbursements and in part to increased staff costs associated with the expansion of the Play MPE™ system. The cash used in operating activities was off-set by net cash provided by financing activities in the amount of \$2,630,996 for the year ended August 31, 2007 compared to \$650,247 for the year ended August 31, 2006.

We have financed our operations to date primarily through the sale of equity securities and borrowings from shareholders. When possible, we have issued common stock for services and debt settlement. We continued these financing activities through the year ended August 31, 2007 as our revenues to date have provided insufficient funding for our working capital requirements. Accordingly, we anticipate that we will have to continue to rely on funding from private placements, cash flows and other offerings in order to finance our future operating costs.

We completed the following issuances of our common stock during the year ended August 31, 2007 in respect of our financing activities:

1. We issued 604,778 common shares pursuant to option agreements exercised during the year at a weighted average exercise price of \$0.31 for net proceeds of \$188,000.
- 2.

During the year ended August 31, 2007, the Company completed a private placement which consisted of the issuance of 5,400,000 units at \$0.40 for net cash proceeds of \$1,954,940. Each unit consists of one common share and one warrant exercisable into one common share at \$0.50 expiring February 28, 2012. In connection with the private placement, the Company incurred \$220,740 of financing and share issue costs (of which \$15,681 is included in accounts payable at the end of the year) and issued as compensation an additional 20,000 common shares, 361,000 warrants exercisable into common shares at \$0.40 expiring February 28, 2012, and 400,000 warrants exercisable into common shares at \$0.50 expiring February 28, 2012.

3. During the year ended August 31, 2007, 1,750,000 \$0.25 warrants were exercised for gross proceeds of \$437,500. 225,000 \$0.30 warrants were exercised for gross proceeds of \$67,500.

Going Concern

During the year ended August 31, 2007, the Company was successful in raising approximately \$2 million in net cash proceeds in an equity private placement. Additionally, the Company is aggressively implementing its business plan of transitioning new and existing customers (record labels) to transactional based contracts through the full commercial deployment of its Play MPE™ system. Until the end of fiscal year of 2007, the Company had been receiving a transaction fee based access fee to utilize the Play MPE™ system. In most cases, the major record labels were sending songs to trusted recipients through our digital system in addition to physical delivery of a CD. Usage has grown such that the various record labels are able to send the song digitally only and, subsequent to the current period, the Company has begun to charge for the service on a transaction fee basis. The Company is pursuing similar transaction fee based agreements with other large record labels and developing an Indie Uploader system for smaller labels. Through the end of the current year, the Company continued to utilize cash in operations (\$1,642,770 for the year ending August 31, 2007). However, management expects revenues, and cashflows, to increase significantly into fiscal 2008. Management believes that current cash resources will be sufficient through fiscal 2008 irrespective of significant revenue growth associated with the Play MPE™ system.

There are no assurances that the Company will be successful in achieving these goals. In view of these conditions, the ability of the Company to continue as a going concern is not certain. These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

MATERIAL OFF-BALANCE SHEET ARRANGEMENTS

None.

CRITICAL ACCOUNTING POLICIES

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States, 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.

- The consolidated financial statements have been prepared on the going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of operations. If we were not to continue as a going concern, we would likely not be able to realize on our assets at values comparable to the carrying value or the fair value estimates reflected in the balances set out in the preparation of the consolidated financial statements. There can be no assurances that we will be successful in generating additional cash from equity or other sources to be used for operations. The consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.
- We recognize revenue when there is persuasive evidence of an arrangement, delivery has occurred, the fee is fixed or determinable, collection is reasonably assured, and there are no substantive performance obligations remaining. Our revenue recognition policies are in conformity with AICPA's Statement of Position No. 97-2, Software Revenue Recognition, as amended (SOP 97-2). We generate revenue from software arrangements

involving multiple element sales arrangements. Revenue is allocated to each element of the arrangement based on the relative fair value of the elements and is recognized as each element is delivered and we have no significant remaining performance obligations. If evidence of fair value for each element does not exist, all revenue from the arrangement is recognized over the term of the arrangement. To-date, evidence of fair value for each element has not been available on sales arrangements. Changes in our business priorities or model in the future could

materially impact our reported revenue and cash flow. Although such changes are not currently contemplated, they could be required in response to industry or customer developments.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006 the FASB issued Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (FIN 48). FIN 48 creates a single model to address uncertainty in income tax positions. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition and, clearly scopes income taxes out of FASB Statement No. 5, Accounting for Contingencies . FIN 48 applies to all tax positions related to income taxes subject to FASB Statement No. 109, Accounting for Income Taxes . This includes tax positions considered to be routine as well as those with a high degree of uncertainty. FIN 48 is effective for fiscal years beginning after December 15, 2006. Differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts recognized after adoption should be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. The cumulative effect adjustment would not apply to those items that would not have been recognized in earnings, such as the effect of adopting FIN 48 on tax positions related to business combinations. The Company will adopt FIN 48 effective September 1, 2007 and does not expect the adoption to have a material impact on the Company's financial statements.

In September 2006, FASB issued SFAS 157 Fair Value Measurements . This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company will adopt SFAS 157 effective September 1, 2008 and does not expect the adoption to have a material impact on the Company's financial statements.

In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 159 The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115 (SFAS No. 159) which permits entities to choose to measure many financial instruments and certain other items at fair value. This statement is effective for fiscal periods beginning after November 15, 2007. The Company will adopt SFAS 157 effective September 1, 2008 and does not expect the adoption to have a material impact on the Company's financial statements.

ITEM 7. FINANCIAL STATEMENTS.

Index to Audited Consolidated Financial Statements for the Year Ended August 31, 2007:

1. Report of Independent Registered Public Accounting Firm;
2. Consolidated Balance Sheets as at August 31, 2007 and 2006;
3. Consolidated Statement of Operations for the Years ended August 31, 2007 and 2006;
4. Consolidated Statement of Stockholders' Equity (Deficiency) and Comprehensive Loss for the years ended August 31, 2007 and 2006;
5. Consolidated Statement of Cash Flows for the Years ended August 31, 2007 and 2006;

6. Notes to Consolidated Financial Statements.

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Consolidated Financial Statements

Destiny Media Technologies Inc.

August 31, 2007 and 2006

(Expressed in United States dollars)

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**REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of
Destiny Media Technologies Inc.

We have audited the accompanying consolidated balance sheets of **Destiny Media Technologies Inc.** as of August 31, 2007 and 2006 and the related consolidated statements of operations, 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits include 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Destiny Media Technologies Inc. at August 31, 2007 and 2006 and the consolidated results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the financial statements, the Company's recurring net losses from operations and stockholders' deficiency raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The 2007 financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Vancouver, Canada,
November 5, 2007.

Chartered Accountants

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Destiny Media Technologies Inc.

CONSOLIDATED BALANCE SHEETS

[See Note 2 - Going Concern Uncertainty]

As at August 31

(Expressed in United States dollars)

| | 2007 | 2006 |
|---|--------------------|-------------|
| | \$ | \$ |
| ASSETS | | |
| Current | | |
| Cash | 1,215,183 | 156,337 |
| Accounts and other receivables, net of allowance for doubtful accounts of \$5,221 [2006 - \$8,615] | 265,849 | 130,537 |
| Inventory | | 1,059 |
| Prepaid expenses | 194,116 | 9,022 |
| Total current assets | 1,675,148 | 296,955 |
| Software development costs, net of accumulated amortization of \$92,788 [2006 - \$61,859] | | 30,929 |
| Property and equipment, net of accumulated amortization of \$264,061 [2006 - \$256,958] [note 4] | 111,907 | 60,973 |
| Total assets | 1,787,055 | 388,857 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current | | |
| Accounts payable | 132,245 | 180,308 |
| Accrued liabilities | 193,197 | 148,465 |
| Shareholder loans payable [note 5] | | 17,142 |
| Deferred revenue | 9,984 | 10,469 |
| Total current liabilities | 335,426 | 356,384 |
| Deferred leasehold inducements, net of accumulated amortization of \$80,698 [2005 - \$46,730] | | 33,968 |
| Obligation for share settlement [note 6] | 100,000 | 100,000 |
| Total liabilities | 435,426 | 490,352 |
| Commitments and contingencies [notes 9 and 10] | | |
| Stockholders equity [note 7] | | |
| Common stock, par value \$0.001 | | |
| Authorized: 100,000,000 shares | | |
| Issued and outstanding: 49,936,001 shares | | |
| August 31, 2006 - 41,936,223 shares] | 49,938 | 41,938 |
| Issued and held for settlement: 133,333 shares | | |
| Additional paid-capital | 8,484,231 | 5,089,760 |
| Deficit | (7,218,267) | (5,121,293) |
| Accumulated other comprehensive loss | 35,727 | (111,900) |
| Total stockholders equity | 1,351,629 | (101,495) |
| Total liabilities and stockholders deficiency | 1,787,055 | 388,857 |

See accompanying notes

Destiny Media Technologies Inc.**CONSOLIDATED STATEMENTS OF OPERATIONS**

Year ended August 31

(Expressed in United States dollars)

| | 2007 | 2006 |
|---|--------------------|-------------|
| | \$ | \$ |
| Revenue <i>[note 12]</i> | 875,544 | 884,082 |
| Operating expenses | | |
| General and administrative | 671,311 | 509,037 |
| Sales and marketing | 1,351,358 | 457,266 |
| Research and development | 909,041 | 384,061 |
| Amortization | 62,902 | 54,303 |
| | 2,994,612 | 1,404,667 |
| Loss from operations | (2,119,068) | (520,585) |
| Other earnings (expenses) | | |
| Gain on settlement of accounts payable | | 57,308 |
| Gain on disposition of capital assets | 892 | |
| Interest income | 34,491 | |
| Interest and other expense | (13,289) | (22,058) |
| Net loss | (2,096,974) | (485,335) |
| Net loss per common share, basic and diluted | (0.04) | (0.01) |
| Weighted average common shares outstanding, | | |
| basic and diluted | 45,761,879 | 38,991,059 |

See accompanying notes

Destiny Media Technologies Inc.

CONSOLIDATED STATEMENTS OF CHANGE IN STOCKHOLDERS EQUITY

Year ended August 31

(Expressed in United States dollars)

| | Common stock | | Additional | Stock | Deficit | Accumulated | Total |
|--|--------------|--------|------------|----------|-------------|-------------|--------------|
| | Shares | Amount | paid-in | issuable | | other | stockholders |
| | # | \$ | capital | \$ | \$ | loss | equity |
| | | | \$ | | | \$ | \$ |
| Balance, August 31, 2005 | 36,434,223 | 36,436 | 4,022,123 | | (4,635,958) | (114,240) | (691,639) |
| Net loss | | | | | (485,335) | | (485,335) |
| Foreign currency translation loss | | | | | | 2,340 | 2,340 |
| Comprehensive loss | | | | | | | (482,995) |
| Common stock issued on options exercised | 1,742,000 | 1,742 | 315,808 | | | | 317,550 |
| Common stock issued for services rendered | 120,000 | 120 | 23,880 | | | | 24,000 |
| Common stock issued on extinguishment of loans | 1,500,000 | 1,500 | 298,500 | | | | 300,000 |
| Common stock issued through private placement | 2,140,000 | 2,140 | 392,860 | | | | 395,000 |
| Stock based compensation - non-employees | | | 36,589 | | | | 36,589 |
| Balance, August 31, 2006 | 41,936,223 | 41,938 | 5,089,760 | | (5,121,293) | (111,900) | (101,495) |
| Net loss | | | | | (2,096,974) | | (2,096,974) |
| Foreign currency translation loss | | | | | | 147,627 | 147,627 |
| Comprehensive loss | | | | | | | (1,949,347) |
| Common stock issued on options exercised | 604,778 | 605 | 187,395 | | | | 188,000 |

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| | | | | | | |
|---|------------|--------|-----------|-------------|--------|-----------|
| Common stock issued on warrants exercised | 1,975,000 | 1,975 | 503,025 | | | 505,000 |
| Common stock issued through private placement | 5,420,000 | 5,420 | 1,933,840 | | | 1,939,260 |
| Stock based compensation | | | 770,211 | | | 770,211 |
| Balance, August 31, 2007 | 49,936,001 | 49,938 | 8,484,231 | (7,218,267) | 35,727 | 1,351,629 |

See accompanying notes

Destiny Media Technologies Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended August 31

(Expressed in United States dollars)

| | 2007 | 2006 |
|--|--------------------|------------------|
| | \$ | \$ |
| OPERATING ACTIVITIES | | |
| Net loss | (2,096,974) | (485,335) |
| Items not involving cash: | | |
| Amortization | 62,902 | 54,303 |
| Amortization of deferred lease benefit | (33,576) | (27,868) |
| Common stock issued for services rendered | | 24,000 |
| Stock-based compensation | 770,211 | 36,589 |
| Changes in non-cash working capital: | | |
| Accounts and other receivables | (122,488) | (77,897) |
| Inventory | 1,047 | 1,302 |
| Prepaid expenses | (174,736) | (6,298) |
| Accounts payable and accrued liabilities | (48,254) | (33,653) |
| Deferred revenue | (902) | (23,356) |
| Net cash used in operating activities | (1,642,770) | (538,213) |
| INVESTING ACTIVITIES | | |
| Purchase of equipment | (77,849) | (14,859) |
| Net cash used in investing activities | (77,849) | (14,859) |
| FINANCING ACTIVITIES | | |
| Repayments on shareholder loans payable | (16,944) | (62,303) |
| Proceeds from exercise of stock options | 188,000 | 317,550 |
| Proceeds from exercise of warrants | 505,000 | |
| Proceeds from issuance of common stock | 1,954,940 | 395,000 |
| Net cash provided by financing activities | 2,630,996 | 650,247 |
| Effect of foreign exchange rate changes on cash | 148,469 | 28,586 |
| Net increase in cash | 1,058,846 | 125,761 |
| Cash, beginning of year | 156,337 | 30,576 |
| Cash, end of year | 1,215,183 | 156,337 |
| Supplementary disclosure | | |
| Cash paid for interest | 677 | 7,070 |
| Common stock issued on extinguishment of loans | 300,000 | 300,000 |
| <i>See accompanying notes</i> | | |

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2007

1. ORGANIZATION

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

2. GOING CONCERN UNCERTAINTY

The financial statements have been prepared by management in accordance with United States generally accepted accounting principles on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future.

During the year ended August 31, 2007, the Company was successful in raising \$2 million in net cash proceeds in an equity private placement. Additionally, the Company is aggressively implementing its business plan of transitioning new and existing customers (record labels) to transactional based contracts through the full commercial deployment of its Play MPE system. The Company is pursuing transaction fee based agreements with other large record labels and has developed an Indie Uploader system for smaller labels available on www.myplaympe.com. Through the end of the current year, the Company continued to utilize cash in operations (\$1,642,770 for the year ending August 31, 2007). However, management expects revenues, and cashflows, to increase significantly into fiscal 2008. Management believes that current cash resources will be sufficient through fiscal 2008 irrespective of significant revenue growth associated with the Play MPE system.

There are no assurances that the Company will be successful in achieving these goals. In view of these conditions, the ability of the Company to continue as a going concern is not certain. These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2007

3. SIGNIFICANT ACCOUNTING POLICIES

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

Principles of consolidation

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

Use of estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Revenue recognition

The Company recognizes revenue when there is persuasive evidence of an arrangement, delivery has occurred, the fee is fixed or determinable, collectibility is reasonably assured, and there are no significant remaining performance obligations. The Company's revenue recognition policies are in conformity with the AICPA's Statement of Position No. 97-2, *Software Revenue Recognition*, as amended (SOP 97-2).

SOP 97-2 generally requires revenue from software arrangements involving multiple elements to be allocated to each element of the arrangement based on the relative fair values of the elements, such as software products, post-contract customer support, installation, or training and recognized as the element is delivered and the Company has no significant remaining performance obligations. The determination of fair value is based on objective evidence that is specific to the vendor. If evidence of fair value for each element of the arrangement does not exist, and the only outstanding deliverable is post-customer support, all revenue from the arrangement is recognized ratably over the term of the arrangement.

License revenue is recognized when there is persuasive evidence of an arrangement and delivery to the customer has occurred, provided the arrangement does not require significant customization of the software, the fee is fixed and determinable, and collectibility is considered probable.

Service revenue from maintenance contracts is recognized ratably over the term of the maintenance contract, on a straight-line basis. Other service revenue is recognized at the time the service is performed.

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (cont d.)

The Company recognizes product revenue upon transfer of title, which occurs on shipment of product, as all other revenue recognition criteria are satisfied. When significant post-delivery obligations exist, revenue is deferred until such obligations are fulfilled. Cash received in advance of meeting the revenue recognition criteria is recorded as deferred revenue.

Royalty revenue from third party sales is recognized when there is persuasive evidence that the arrangement is complete, and only when all deliverables have been performed.

Allowance for doubtful accounts

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

Inventory

Inventory is carried at the lower of cost, determined on a weighted average basis, and net realizable value.

Research and development costs

Research costs are expensed as incurred. Software and related development costs incurred are charged to expense until the technological feasibility of the product has been established. After technological feasibility is established and until the product is available for general release, software development, product enhancements and acquisition costs are capitalized and amortized on a product-by-product basis over the estimated economic life of the product, not to exceed three years. The software development costs that are capitalized are assessed for impairment on a periodic basis.

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

August 31, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (cont d.)**Property and equipment**

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

| | |
|------------------------|-------------------------------|
| Furniture and fixtures | 20% |
| Computer hardware | 30% |
| Computer software | 100% |
| Leasehold improvements | Straight-line over lease term |

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 into U.S. dollars at the rate of exchange in effect at the balance sheet date and revenue and expense items are translated at the average rates for the period. Unrealized gains and losses resulting from the translation of the financial statements are deferred and accumulated in a separate component of stockholders' deficiency as a foreign currency translation loss in accumulated other comprehensive loss.

Advertising

Advertising costs are expensed as incurred and totaled \$188,474 and \$67,564 during the years ended August 31, 2007 and 2006, respectively.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, the deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect for the year in which the differences are expected to reverse.

Capital stock issued for consideration other than cash

Capital stock issued for consideration other than cash is recorded at an estimate of the fair value of the stock issued or issuable or at an estimate of the fair value of the goods or services received, whichever is more readily ascertainable.

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (cont d.)

Stock based compensation

The Company accounts for stock-based employee compensation arrangements in accordance with Statement of Financial Accounting Standards No. 123 Accounting for Stock-Based Compensation (FAS 123), as amended by Statement of Financial Accounting Standards No. 148 Accounting for Stock-Based Compensation-Transition and Disclosure- an amendment of FASB Statement No. 123 (FAS 148). The Company adopted FAS 123R on September 1, 2006. As permitted by FAS 123, the Company currently accounts for share-based payments to employees using APB 25's intrinsic value method. The Company uses the Black-Scholes option pricing model to determine the fair value of stock options granted.

Had the Company adopted FAS 123R in prior periods, the impact of that standard would have approximated the impact of FAS 123 as described in the disclosure of pro-forma net loss and loss per share in note 7[d] to these consolidated financial statements.

Deferred leasehold inducements

The Company has recorded leasehold improvements and deferred lease inducements, representing the value of a leasehold improvement allowance received and the value of six months free rent provided by the Company's landlord. The leasehold improvements and the inducement are amortized on a straight-line basis over the contractual lease term.

Earnings per share

Basic earnings per share is computed by dividing net earnings available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the dilutive potential of outstanding securities using the treasury stock method.

Comprehensive loss

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

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (cont d.)

Recent accounting pronouncements

In July 2006 the FASB issued Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (FIN 48). FIN 48 creates a single model to address uncertainty in income tax positions. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition and, clearly scopes income taxes out of FASB Statement No. 5, Accounting for Contingencies. FIN 48 applies to all tax positions related to income taxes subject to FASB Statement No. 109, Accounting for Income Taxes. This includes tax positions considered to be routine as well as those with a high degree of uncertainty. FIN 48 is effective for fiscal years beginning after December 15, 2006. Differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts recognized after adoption should be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. The cumulative effect adjustment would not apply to those items that would not have been recognized in earnings, such as the effect of adopting FIN 48 on tax positions related to business combinations. The Company will adopt FIN 48 effective September 1, 2007 and does not expect the adoption to have a material impact on the Company's financial statements.

In September 2006, FASB issued SFAS 157 Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company will adopt SFAS 157 effective September 1, 2008 and does not expect the adoption to have a material impact on the Company's financial statements.

In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 159 The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115 (SFAS No. 159) which permits entities to choose to measure many financial instruments and certain other items at fair value. This statement is effective for fiscal periods beginning after November 15, 2007. The Company will adopt SFAS 157 effective September 1, 2008 and does not expect the adoption to have a material impact on the Company's financial statements.

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

August 31, 2007

4. PROPERTY AND EQUIPMENT

| | Cost \$ | Accumulated amortization \$ | Net book value \$ |
|------------------------|----------------|-----------------------------------|-------------------------|
| 2007 | | | |
| Furniture and fixtures | 91,709 | 63,354 | 28,355 |
| Computer hardware | 250,966 | 177,808 | 73,158 |
| Computer software | 27,637 | 22,899 | 4,738 |
| Leasehold improvements | 5,656 | | 5,656 |
| | 375,968 | 264,061 | 111,907 |
| 2006 | | | |
| Furniture and fixtures | 72,892 | 57,576 | 15,316 |
| Computer hardware | 186,936 | 149,846 | 37,090 |
| Computer software | 21,269 | 21,269 | |
| Leasehold improvements | 36,834 | 28,267 | 8,567 |
| | 317,931 | 256,958 | 60,973 |

5. SHAREHOLDER LOANS PAYABLE

| | 2007 \$ | 2006 \$ |
|---|------------|------------|
| Loans payable, due to shareholders, unsecured, due on demand, non-interest bearing | | 17,142 |
| | | 17,142 |

6. OBLIGATION FOR SHARE SETTLEMENT

During the fiscal year ended August 31, 2003, the Company issued 133,333 common shares to be delivered in settlement for proceeds of \$100,000 received in respect of a private placement that was not completed in August of 2000. As the private placement was not completed and although management expects that the amount ultimately will be settled through the release of the shares, the obligation for share settlement is recorded as a liability until a settlement is finalized between the Company and parties involved in the August 2000 private placement.

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2007

7. SHARE CAPITAL

[a] Authorized

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

**[b] Common stock issued
2007**

During the year ended August 31, 2007, the Company completed a private placement which consisted of the issuance of 5,400,000 units at \$0.40 for net cash proceeds of \$1,954,940. Each unit consists of one common share and one warrant exercisable into one common share at \$0.50 expiring February 28, 2012. In connection with the private placement, the Company incurred \$220,740 of financing and share issue costs (of which \$15,681 is included in accounts payable at the end of the year) and issued as compensation an additional 20,000 common shares, 361,000 warrants exercisable into common shares at \$0.40 expiring February 28, 2012, and 400,000 warrants exercisable into common shares at \$0.50 expiring February 28, 2012.

During the year ended August 31, 2007, 604,778 stock options were exercised during the year ended August 31, 2007 for cash proceeds of \$188,000, 1,750,000 \$0.25 warrants were exercised for gross proceeds of \$437,500 and 225,000 \$0.30 warrants were exercised for gross proceeds of \$67,500.

2006

[i] Common stock issued on options exercised:

During the year ended August 31, 2006, 1,742,000 stock options were exercised for cash proceeds of \$317,550.

[ii] Common stock issued for services rendered:

During the year ended August 31, 2006, the Company issued 120,000 common shares to a third party for consulting services. The common shares issued have been valued at their market value of \$24,000 on the date the services were provided.

[iii] Common stock issued on extinguishment of loans:

During the year ended August 31, 2006, the Company issued 1,350,000 common shares in settlement of a shareholder loan with a fair market value of \$270,000. In a separate transaction

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

August 31, 2007

7. SHARE CAPITAL (cont d.)

the Company issued 150,000 common shares in settlement of an advance from our marketing representative with a fair market value of \$30,000.

[iv] Common stock issued through private placement:

During the year ended August 31, 2006, the Company completed a series of private placements, which consisted of the issuance of 2,140,000 common shares for net cash proceeds of \$395,000. The private placement included a finders fee of 140,000 of the 2,140,000 common shares and \$5,000 of the gross proceeds of \$400,000. The private placement also included the issuance of 1,750,000 warrants exercisable into common shares at \$0.25 expiring August 24, 2007 and 250,000 warrants exercisable into common shares at \$0.30 expiring February 28, 2008.

[c] Stock options

The Company had previously reserved a total of 8,850,000 common shares for issuance under its existing stock option plans, of which, 1,035,597 remain available for future option issuance. 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, 2007, and changes during the twelve-month period ended is presented below:

| Options | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Intrinsic Value \$ |
|---------------------------------------|---------------|--|--|-----------------------------------|
| Outstanding at August 31, 2006 | 2,129,000 | 0.39 | | |
| Granted | 2,912,778 | 0.51 | | |
| Exercised | (604,778) | (0.31) | | |
| Expired | (150,000) | 0.25 | | |
| Outstanding at August 31, 2007 | 4,287,000 | 0.42 | 3.64 | 796,210 |
| Vested or expected to vest at | | | | |
| August 31, 2007 | 4,287,000 | 0.42 | 3.64 | 796,210 |
| Exercisable at August 31, 2007 | 3,788,459 | 0.44 | 3.59 | 758,564 |

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Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2007

7. SHARE CAPITAL (cont d.)

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, 2007.

Impact of Adoption of FAS 123(R)

At August 31, 2007, the Company has two stock-based employee compensation plans. Prior to September 1, 2006, the Company accounted for the plan under the recognition and measurement provisions of APB Opinion No.25, *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by FASB Statement No 123, *Accounting for Stock-Based Compensation*. No stock-based employee compensation cost was recognized in the Consolidated Statements of Operations for the year ended August 31, 2006, as all options granted under the plan had an exercise price equal to, or greater than, the market value of the underlying common stock on the date of grant. Effective September 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), *Share-Based Payment*, using the modified-prospective-transition method. Under that transition method, compensation cost recognized in the year ended August 31, 2007 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of September 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payments granted, modified or cancelled, subsequent to September 1, 2006. Results for prior periods have not been restated.

As FAS123(R) requires that stock-based compensation expense be based on awards that are ultimately expected to vest, stock-based compensation expense for the year ended August 31, 2007 has considerations for estimated forfeitures. When estimating forfeitures, the Company considers voluntary termination behavior as well as trends of actual option forfeitures.

As a result of adopting Statement 123(R) on September 1, 2006, the Company's net loss for the year ended August 31, 2007, is \$328,155 higher than if it had continued to account for stock-based compensation under Opinion 25.

Total stock-based compensation for the year ended August 31, 2007 includes stock-based compensation expense related to employees of \$328,155 and stock-based-compensation expense related to consultants of \$442,056 reported in the statement of operations as follows:

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

August 31, 2007

7. SHARE CAPITAL (cont d.)

| | 2007 | 2006 |
|--------------------------------|---------|--------|
| | \$ | \$ |
| Stock-based compensation: | | |
| General and administrative | 97,100 | 13,793 |
| Sales and marketing | 513,182 | 12,390 |
| Research and development | 159,929 | 10,406 |
| Total stock-based compensation | 770,211 | 36,589 |

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:

| | 2007 | 2006 |
|--|---------------|-----------|
| | \$ | \$ |
| Expected term of stock options (years) | 2.5-5.0 years | 2.5 years |
| Expected volatility | 85%-94% | 99% |
| Risk-free interest rate | 3.9%-5.04% | 4.85% |

Dividend yields

The weighted-average grant-date fair value of options granted during the year ended August 31, 2007 and 2006 was \$0.22 and \$0.22, respectively.

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.

Pro forma Information for Periods Prior to the Adoption of FAS 123(R)

Prior to the adoption of FAS No. 123(R), the Company provided the disclosures required under FAS No. 123, as amended by FAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosures. Employee stock-based compensation expense recognized under FAS 123(R) was not reflected in the results of operations for the year ended August 31, 2006 for employee stock option awards as all options were granted with an exercise price equal to, or

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

August 31, 2007

7. SHARE CAPITAL (cont d.)

greater than, the market value of the underlying common stock on the date of grant. Previously reported amounts have not been restated. The pro forma information for the year ended August 31, 2006 is as follows:

| | |
|---|------------------|
| | 2006 |
| | \$ |
| Net loss as reported | (485,335) |
| Add: Stock-based employee compensation expense included in reported net loss | |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards | (65,998) |
| Pro forma net loss | (551,333) |
| Loss per share | |
| Basic and diluted as reported | (0.01) |
| Basic and diluted pro forma | (0.01) |

[d] Warrants

As at August 31, 2007, the Company has the following common stock warrants outstanding:

| | Number of Common Shares Issuable | Exercise Price \$ | Date of Expiry |
|-----------------|---|----------------------------------|---------------------------|
| \$0.22 Warrants | 950,000 | 0.22 | August 25, 2011 |
| \$0.40 Warrants | 361,000 | 0.40 | February 28, 2012 |
| \$0.50 Warrants | 5,800,000 | 0.50 | February 28, 2012 |
| \$0.70 Warrants | 500,000 | 0.70 | April 9, 2012 |
| | 7,611,000 | | |

5,400,000 of the \$0.50 warrants have a forced conversion feature by which the Company can demand exercise of the share purchase warrants if the common stock trades at a price equal to or greater than \$1.25 if certain conditions are met.

During the year ended August 31, 2007, 1,750,000 \$0.25 warrants were exercised for gross proceeds of \$437,500. 225,000 \$0.30 warrants were exercised for gross proceeds of \$67,500. Another 25,000 \$0.30 warrants expired.

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

August 31, 2007

7. SHARE CAPITAL (cont d.)

The \$0.40 and \$0.50 share purchase warrants were issued in connection with the private placement transaction described in Note 7[b].

On September 11, 2006, the Company entered into an agreement with Bryant Park Capital to act as an exclusive financial advisor to provide strategic assistance and maximize shareholder value. As part of the agreement, the Company has issued 950,000 warrants with a strike price of \$0.22. On April 9, 2007, the Company modified and expanded its agreement with Bryant Park Capital to include additional services not previously contemplated in the original agreement. As compensation, the company paid Bryant Park Capital \$7,500 per month to the end of August 2007 and issued an additional 500,000 warrants exercisable into common shares at a price of \$0.70. The warrants vest monthly over the six months following the signing of the agreement.

The fair value of 950,000 \$0.22 warrants and 416,667 \$0.70 warrants, which vested during the year ended August 31, 2007, was measured using the Black-Scholes option-pricing model and amounted to \$366,110. This amount was expensed to sales and marketing in the statement of operations.

8. INCOME TAXES

The Company is subject to United States federal and state income taxes at an approximate rate of 39.63% and to Canadian federal and British Columbia provincial taxes in Canada. 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:

| | 2007 | 2006 |
|--|------------------|-------------|
| | \$ | \$ |
| Tax recovery at U.S. statutory rates | (833,000) | (170,000) |
| Permanent differences | 375,000 | 38,000 |
| Effect of lower foreign tax | 50,000 | |
| Other adjustments to valuation allowance | 408,000 | 132,000 |

Income tax expense (recovery)

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.

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

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

August 31, 2007

8. INCOME TAXES (cont d.)

| | 2007 | 2006 |
|--------------------------------------|--------------------|-------------|
| | \$ | \$ |
| Deferred tax assets: | | |
| Net operating loss carryforwards | 1,732,000 | 1,654,000 |
| Excess of book over tax depreciation | 70,000 | 52,000 |
| Total deferred tax asset | 1,802,000 | 1,706,000 |
| Valuation allowance | (1,802,000) | (1,706,000) |
| Net deferred tax asset | | |

The reconciliation of (losses) earnings from operations by geographic region is as follows:

| | 2007 | 2006 |
|---------------|--------------------|-------------|
| | \$ | \$ |
| United States | (1,129,942) | (255,065) |
| Canada | (967,032) | (230,270) |
| | (2,096,974) | (485,335) |

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

| | Canada | United States |
|---------------------|------------------|----------------------|
| | \$ | \$ |
| 2008 | 940,000 | |
| 2009 | 109,000 | |
| 2019 and thereafter | 1,343,000 | 2,455,000 |
| | 2,392,000 | 2,455,000 |

Pursuant to Section 382 of the Internal Revenue Code, use of the Company's net operating loss carry forwards may be limited if the Company experiences a cumulative change in ownership of greater than 50% in a moving three year period. Ownership changes could impact the Company's ability to utilize net operating losses and credit carry forwards remaining at the ownership change date. The limitation will be determined by the fair market value of common stock outstanding prior to the ownership change, multiplied by the applicable federal rate.

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2007

9. COMMITMENTS

The Company is committed to payments under its premises lease, which expires on August 30, 2010 as follows:

| | |
|------|---------|
| | \$ |
| 2008 | 245,146 |
| 2009 | 245,146 |
| 2010 | 245,146 |
| | 735,438 |

The company has entered into sublease agreements to offset the cost commitments above which have not been reflected in the above amounts.

10. CONTINGENCIES

On March 7, 2006 the Company filed a statement of claim in the Federal Court of Canada against Yangaroo Inc. (formerly Musicrypt Inc.) (the Defendant) to assert that the Company's technology does not infringe on the stated patent owned by the Defendant and to further declare that Defendant's patent is invalid. This statement of claim was initiated by the Company as a result of the Defendant's statements to the contrary. On June 7, 2006, the Company's counsel received a statement of defense and counterclaim from the defendant, requesting specified damages or audited Canadian profits from the Play MPE system if it is offered in Canada.

On January 11, 2007 the Federal Court of Canada issued a bifurcation order of the issues included in the action. Accordingly, only the issues of infringement and validity of the patent raised in the claim will be addressed in the current proceeding. The remaining issues including the counterclaim for specified damages will be subject of a separate determination to be conducted after the trial if it then appears that such issues need to be decided.

On May 3, 2007 the Company filed a statement of claim in Ontario Superior Court for damages against the defendant (Yangaroo Inc.), and executives of the Defendant, John Heaven and Clifford Hunt (collectively the Defendants) in the amount of \$25,000,000 caused by the Defendants making statements constituting defamation and injurious falsehood, making false or misleading statements tending to discredit the business, making false or misleading representations contrary to the Competition Act of Canada, and unlawful interference with the Company's economic relations. The statement further requests an injunction from continuing the actions instigating the statement of claim.

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2007

10. CONTINGENCIES (cont d.)

On June 7, 2007 the defendant filed a statement of defense, denying the allegations set out in the statement of claim dated May 3, 2007, and counterclaim against the Company and our CEO, Steve Vestergaard, also in the amount of \$25,000,000, for making statements constituting defamation and injurious falsehood, making false or misleading statements tending to discredit the business, making false or misleading representations contrary to the Competition Act, and unlawful interference with the defendant's economic relations. The Company further requests an injunction from continuing the defamatory actions.

No amount has been recognized as a receivable for damages as outlined in the statement of claim. The amount of damages awarded, if any, in relation to either counterclaim cannot be reasonably estimated and no amount has been recognized. Management does not believe that the outcome of this matter will have an adverse impact on its result of operations and financial condition.

11. FINANCIAL INSTRUMENTS

Fair value disclosures

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of the instruments.

Foreign currency risk

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.

12. SEGMENTED INFORMATION

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

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

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

August 31, 2007

12. SEGMENTED INFORMATION (cont d.)

| | 2007 | 2006 |
|--------------------|----------------|-------------|
| | \$ | \$ |
| MPE® | | |
| United States | 442,053 | 238,487 |
| Canada | 64,603 | 12,654 |
| Total MPE® Revenue | 506,656 | 251,141 |

Clipstream ® & Pirate Radio

| | | |
|---|----------------|---------|
| United States | 311,862 | 424,107 |
| Canada | 34,355 | 56,296 |
| Other | 22,671 | 152,538 |
| Total Clipstream ® & Pirate Radio Revenue | 368,888 | 632,941 |
| Total Revenue | 875,544 | 884,082 |

During the year ended August 31, 2007, one customer represented 31% of the total revenue balance [2006 - one customer represented 18%].

As at August 31, 2007, one customer represents 62% of the trade receivables balance of \$147,656 [2006 - three customers represented 45%].

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

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

ITEM 8A. CONTROLS AND PROCEDURES.

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (the Exchange Act), we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures within the 90 days prior to the filing date of this report. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer, Mr. Steven Vestergaard, and our Chief Financial Officer, Mr. Frederick Vandenberg. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting management to material information relating to us required to be included in our periodic SEC filings. There have been no material changes in our internal controls or in other factors that could materially affect internal controls subsequent to the date we carried out our evaluation.

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

ITEM 8B. OTHER INFORMATION.

None.

PART III**ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.**

The following table sets forth the names, positions and ages of our executive officers and directors. All our directors serve until the next annual meeting of shareholders or until their successors are elected and qualify. The Board of Directors elects officers and their terms of office are, except to the extent governed by employment contract, at the discretion of the Board of Directors.

| Name | Position Held with the Company | Age | Date First Elected or Appointed |
|-----------------------------------|--|------------|--|
| Steven Vestergaard ⁽¹⁾ | <i>Chief Executive Officer and Director</i> | 41 | <i>January 1999</i> |
| Frederick Vandenberg | <i>Chief Financial Officer and Corporate Secretary</i> | 39 | <i>July 2007</i> |
| Edward Kolic ⁽¹⁾ | <i>Director</i> | 46 | <i>February 1999</i> |
| Lawrence J. Langs | <i>Director</i> | 46 | <i>November 2000</i> |
| Yoshitaro Kumagai | <i>Director</i> | 61 | <i>August 2001</i> |
| Wayne Koshman ⁽¹⁾ | <i>Director</i> | 45 | <i>May 2002</i> |

(1) Members of our Audit Committee

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

Steven Vestergaard. Mr. Vestergaard is our President, Chief Executive Officer and is one of our directors. Mr. Vestergaard has been our Chief Executive Officer from May 1999, when we began negotiations to purchase our operating subsidiary, Destiny Software, from Mr. Vestergaard, to January 2001 and then again from February 2002 to present. Mr. Vestergaard's responsibilities include overall management of our business and coordinating strategy, planning, and product development. Mr. Vestergaard started Destiny Software as a private company owned by Mr. Vestergaard in 1991 and

developed its business through to 1999 when it was acquired by us. At Destiny Software, Mr. Vestergaard was responsible for overall business management and supervision of the development of computer games. During this period, Destiny Software was successful in the production of a dozen successful video games, including Blood Bowl, Creepers and Dark Seed II, for major publishers, including Microleague, Sony and MGM. Mr. Vestergaard has been involved in the software development industry since 1982 when he founded a private company called Tronic Software. Tronic Software was a developer of computer games which were sold by mail order. In 1990 he became employed as a software engineer by Distinctive Software Inc., a company that later changed its name to Electronic Arts Canada, where he was involved in developing game products. Mr. Vestergaard holds an International Baccalaureate Degree and a Bachelor of Science Degree in Computer Science from the University of British Columbia.

Fred Vandenberg, B. Comm. MBA, CA Mr. Vandenberg is our Chief Financial Officer and Corporate Secretary. Mr. Vandenberg's core responsibilities include leading the accounting, treasury, strategic planning, financial controls and financial reporting functions of our company. With over 14 years of public accounting experience, Mr. Vandenberg brings a wealth of experience in tax, financial reporting and mergers and acquisitions. Mr. Vandenberg completed the Canadian Institute of Chartered Accountants' In-depth taxation program while with Ernst & Young in 1998. Mr. Vandenberg holds a Bachelor of Commerce degree and a Master of Business Administration (Finance) from McMaster University and a Chartered Accountant designation.

Edward Kolic. Mr. Edward Kolic has been one of our directors since February 1999. Mr. Kolic served as our chief operating officer from February 1999 to October 2001 during which time he was responsible for our overall product strategy and development of our core technologies. Mr. Kolic currently consults to senior management of companies developing Internet media technologies and distributing digital content. Mr. Kolic served as our secretary from February 1999 to July 2007. From 1997 until June of 1999, Mr. Kolic was the president of WonderFall Productions Inc., a computer game development company built by Mr. Kolic and which we purchased in June 1999. From 1993 until 1997, Mr. Kolic was a partner in a private company called Jacqueline Conoir Designs Ltd. which is a fashion design house. At Jacqueline Conoir Designs Ltd., Mr. Kolic was general manager and vice-president of marketing and developed all of the marketing, communications and image strategies for the company. From 1988 until 1995, Mr. Kolic was employed as the president of Target Canada Production Ltd., a company engaged in the development and distribution of educational video resources to the North American schools market. His experience includes the production of documentary television, educational and information programming for the Canadian Educational Television Networks, large screen interactive presentation media for international conferences and a range of communication programs for corporate, government and institutional clients.

Lawrence J. Langs. Mr. Langs has been one of our directors since November 2000. Mr. Langs most recently worked as vice-president of business development at MP3.com. Prior to MP3.com, Mr. Langs had a variety of experience as a technology and entertainment lawyer and a senior management consultant as well as a technology advocate. Mr. Langs worked with his associates at Interactive Media Consulting as legal and business counsel exclusively to clients in the interactive media industry since 1991. Projects undertaken by Mr. Langs included joint ventures, mergers and acquisitions, corporate structuring, intellectual property, licensing and royalties, venture funding and finance. From 1995 to 1996, Mr. Langs was acting business development manager for the New Media Division of Sybase, where he was involved with strategic interactive television initiatives and with developing and executing strategic relationships with Internet companies. Prior experience also includes several years as an Investment Banker for Chemical Bank in New York, and as a Senior Strategic Consultant for Arthur D. Little in Boston. Mr. Langs holds a Juris Doctorate from Boston University School of Law, and a Master's Degree in Finance and Management of Technology from the Sloan School of Management at M.I.T. Mr. Langs is a member of the New York Bar.

Yoshitaro Kumagai. Mr. Kumagai was appointed as one of our directors in August of 2001. Mr. Kumagai is a highly respected executive in the high-technology industry with over twenty years of experience in the electronics and consumer fields. Mr. Kumagai is currently the interim chief executive officer of Display Research Laboratories, a company involved in the development of organic flat panel display technologies. Mr. Kumagai was the interim chief

executive officer and president of Onna.com, a company engaged in the development of a Japanese portal web site targeted at Japanese women, from 1999 to 2001 when the business was acquired in an acquisition. Mr. Kumagai was the chairman and chief executive officer of Vivitar Corporation from 1997 to 1999. Vivitar is a global consumer electronics corporation. Mr. Kumagai was responsible for the management of global operations throughout the United States, Europe and Asia. Mr. Kumagai was an advisor and a corporate director of Plaza Create Ltd., a Japanese company engaged in franchising an innovative photograph processing store chain, from 1995 to 1999. Mr. Kumagai has also held key management positions in the following companies: IDEC Corporation (from 1991 to 1993), the Mead Corporation (from 1984 to 1991) and the Singer Company (from 1981 to 1986). Mr. Kumagai holds a bachelor of science degree from Georgia State University and a BSME from Hosei University in Tokyo, Japan.

Wayne Koshman. Mr. Koshman was appointed as one of our directors on May 29, 2002. Mr. Koshman has been a director and the chief executive officer of Terrawest Management Inc., a company engaged in mining and exploration in China, from June 2002 to present. Mr. Koshman was the director of GIS Technologies, a company engaged in the development of smartcard technology, from November 2000 to March 2002. Mr. Koshman was a project consultant for Zatec Technologies Inc., a Japanese hard disk technology firm, from March 1999 to April 2000. Mr. Koshman was the head of corporate development for international sales for Moduline Industries Ltd., a subsidiary of Champion Industries, a large home manufacturer, from March 1998 to June 1999. Mr. Koshman was the international sales manager for Asia for Nortec Design group from November 1996 to February 1998. Mr. Koshman is a founder of Skytech Bio Conversion Inc., a biotechnology company working with the National Research Council of Canada and the University of British Columbia on phase one trials of microbial technology for treating organic solids.

ELECTION OF DIRECTORS AND OFFICERS

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

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

COMPENSATION OF DIRECTORS

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

AUDIT COMMITTEE

Our audit committee consists of Mr. Steven Vestergaard, our Chief Executive Officer, Mr. Edward Kolic, and Mr Koshman. We currently do not have a financial expert on the audit committee.

FAMILY RELATIONSHIPS

There are no family relationships among our officers and directors.

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT

Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who beneficially own than ten percent of our equity securities, to file reports of ownership and changes in ownership with the Securities Exchange Commission. Officers, directors and greater than ten percent shareholders are required by SEC regulation furnish us with copies of all Section 16(a) forms they file. Based on its review of the copies of such forms received we believe that during the fiscal year ended August 31, 2007 all such filing requirements applicable to our officers directors were complied with.

CODE OF ETHICS

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

ITEM 10. EXECUTIVE COMPENSATION.
COMPENSATION OF EXECUTIVE OFFICERS

The following table sets forth certain compensation information as to Mr. Steven Vestergaard, our Chief Executive Officer and Mr. Vandenberg, our Chief Financial Officer. No person other than Mr. Vestergaard acted as our Chief Executive Officer during our last fiscal year ended August 31, 2007. No other compensation was paid to Mr. Vestergaard other than the compensation set forth below.

| SUMMARY COMPENSATION TABLE | | | | | | | | | |
|-----------------------------------|------------------------------|------|----------------------------|-------|---------------------------|---|--------------------|-------------------|------------------------|
| Name | Title | Year | ANNUAL COMPENSATION | | | LONG TERM COMPENSATION⁽³⁾ | | | |
| | | | Salary | Bonus | Other Annual Compensation | AWARDS | | PAYOUTS | All Other Compensation |
| | | | | | | Restricted Stock Awarded | Options/SARs * (#) | LTIP payouts (\$) | |
| Steven Vestergaard (1), (2) | Director | 2007 | \$113,666 | 0 | 0 | 0 | 300,000 | 0 | 0 |
| | President | 2006 | \$83,848 | 0 | 0 | 0 | 0 | 0 | 0 |
| | CEO, CFO | 2005 | \$78,508 | 0 | 0 | 0 | 0 | 0 | 0 |
| Frederick Vandenberg (4) | CFO & Corporate Secretary | 2007 | \$27,869 | 0 | 0 | 0 | 0 | 0 | 0 |

Notes to Summary Compensation Table:

- (1) All salaries paid to Mr. Vestergaard are paid in Canadian dollars.
- (2) Compensation is stated in United States dollars and is based on an exchange rate of \$0.8918 US dollars for each \$1.00 Canadian dollar.
- (3) The value of benefits that do not exceed 10% of total annual salary are not reported herein.
- (4) All salaries paid to Mr. Vandenberg are paid in Canadian dollars. Mr. Vandenberg became an employee of the Company on June 1, 2007 and assumed the position of Chief Financial Officer effective July 16, 2007. All shares owned by Mr. Vandenberg upon joining the Company were acquired in purchases by Mr. Vandenberg in fair market value transactions prior to joining the company as an employee.

STOCK OPTION GRANTS

300,000 options were granted to Mr. Vestergaard, our named executive officer, during our most recent fiscal year ending August 31, 2007.

EXERCISES OF STOCK OPTIONS AND YEAR-END OPTION VALUES

None.

LONG-TERM INCENTIVE PLANS

We do not have any long-term incentive plans other than the registered stock option plans.

EMPLOYMENT CONTRACTS AND CHANGE IN CONTROL ARRANGEMENTS

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

We are not aware of any arrangement that might result in a change in control in the future.

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

We are not aware of any arrangement that might result in a change in control in the future.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table sets forth certain information concerning the number of shares of our common stock owned beneficially as of November 15, 2007 by: (i) each person (including any group) known to us to own more than five percent (5%) of any class of our voting securities, (ii) each of our directors and each of our named executive officers, and (iii) officers and directors as a group. Unless otherwise indicated, the shareholders listed possess sole voting and investment power with respect to the shares shown.

| Title of class | Name and address of beneficial owner | Number of Shares of Common Stock | Percentage of Common Stock ⁽¹⁾ |
|--------------------------------|---|----------------------------------|---|
| DIRECTORS AND OFFICERS: | | | |
| Common Stock | Steven Vestergaard President, Chief Executive Officer c/o 800-570 Granville St. Vancouver, BC, V6C 3P1 | 10,454,655 | 20.9% |
| Common Stock | Frederick Vandenberg Chief Financial Officer and Corporate Secretary c/o 800-570 Granville St. Vancouver, BC, V6C 3P1 | 615,000(2) | 1.2% |
| Common Stock | Edward Kolic Director c/o 800-570 Granville St. Vancouver, BC, V6C 3P1 | 461,300 (3) | 0.9% |
| Common Stock | Lawrence J. Langs Director c/o 800-570 Granville St. Vancouver, BC, V6C 3P1 | 300,000 (4) | 0.6% |
| Common Stock | Yoshitaro Kumagai Director c/o 800-570 Granville St. Vancouver, BC, V6C 3P1 | 400,000 (5) | 0.8% |
| Common Stock | Wayne Koshman Director c/o 800-570 Granville St. Vancouver, BC, V6C 3P1 | 355,000 (6) | 0.7% |
| Common Stock | All Officers and Directors as a Group (5 persons) | 12,585,955 | 25.2% |
| 5% SHAREHOLDERS | | | |
| Common Stock | Sabre Value Fund LP | 2,612,700 | 5.2% |

- (1) Under Rule 13d-3 of the Securities Exchange Act of 1934, a beneficial owner of a security includes any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares: (i) voting power, which includes the power to vote, or to direct the voting of shares; and (ii) investment power, which includes the power to dispose or direct the disposition of shares. Certain shares may be deemed to

be beneficially owned by more than one person (if, for example, persons share the power to vote or the power to dispose of the shares). In addition, shares are deemed to be beneficially owned by a person if the person has the right to acquire the shares (for example, upon exercise of an option) within 60 days of the date as of which the information is provided. In computing the percentage ownership of any person, the amount of shares outstanding is deemed to include the amount of shares beneficially owned by such person (and only such person) by reason of these acquisition rights. As a result, the percentage of outstanding shares of any person as shown in this table does

not necessarily reflect the person's actual ownership or voting power with respect to the number of shares of common stock actually outstanding on November 15, 2007. As of November 15, 2007, there were 49,936,223 shares of our common stock issued and outstanding.

- (2) Consists of 277,500 shares held by Mr. Vandenberg and 300,000 shares that are immediately acquirable upon the exercise of stock options held by Mr. Vandenberg within 60 days of November 15, 2007 and 37,500 shares that are immediately acquirable upon the exercise of warrants held by Mr. Vandenberg within 60 days of November 15, 2007.
- (3) Consists of 161,300 shares held by Mr. Kolic and 300,000 shares that are immediately acquirable upon the exercise of stock options held by Mr. Kolic within 60 days of November 15, 2007.
- (4) Consists of 300,000 shares that are immediately acquirable upon the exercise of stock options held by Mr. Langs within 60 days of November 15, 2007.
- (5) Consists of 100,000 shares held by Mr. Kumagai and 300,000 shares that are immediately acquirable upon the exercise of stock options held by Mr. Kumagai within 60 days of November 15, 2007.
- (6) Consists of 205,000 shares held by Mr. Koshman and 150,000 shares that are immediately acquirable upon the exercise of stock options held by Mr. Koshman within 60 days of November 15, 2007.

EQUITY COMPENSATION PLAN INFORMATION

We have two equity compensation plans, namely our Amended 1999 Stock Option Plan and our Amended 2006 Stock Option Plan, under which up to 3,750,000 and 5,100,000 shares of our common stock, respectively, have been authorized for issuance to our officers, directors, employees and consultants. Our plans have been approved by the Company's stockholders. The following summary information is presented for our plans on an aggregate basis as of August 31, 2007.

| | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in column (a)) |
|--|---|---|---|
| Plan Category | (a) | (b) | (c) |
| Equity Compensation Plans Approved By Security Holders | 4,287,000 Shares of Common Stock | \$0.42 per Share | 1,035,597 Shares of Common Stock |
| Equity Compensation Plans Not Approved By Security Holders | Not Applicable | Not Applicable | Not Applicable |

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Except as described under Item 11 and under the title of executive compensation, none of the following persons has any direct or indirect material interest in any transaction to which we were or are a party during the past two years, or in any proposed transaction to which the Company proposes to be a party:

- (A) any director or officer;
- (B) any proposed nominee for election as a director;
- (C) any person who beneficially owns, directly or indirectly, shares carrying more than 5% of the voting rights attached to our common stock; or
- (D) any relative or spouse of any of the foregoing persons, or any relative of such spouse, who has the same house as such person or who is a director or officer of any parent or subsidiary.

SHARE ISSUANCES

During the year ended August 31, 2007 we issued 50,000 shares to our CFO, Frederick Vandenberg, pursuant to a warrant agreement for proceeds of \$15,000, and 55,000 shares pursuant to an option agreement for gross proceeds of \$13,750.

ITEM 13. PRINCIPAL ACCOUNTANT FEES AND SERVICES*Audit Fees*

Our independent registered public accounting firm, Ernst & Young LLP, provided audit and other services during the years ended August 31, 2007 and 2006 as follows:

| | 2007 | 2006 |
|---------------------------|-------------|-------------|
| Audit Fees | \$ 63,500 | \$ 55,500 |
| Audit Related Fees | - | - |
| Tax Fees | - | - |
| All Other Fees | 14,000 | - |
| Total Fees | \$ 77,500 | \$ 55,500 |

Audit Fees. This category includes the fees for the audit of our consolidated financial statements and the quarterly reviews of interim financial statements. This category also includes advice on audit and accounting matters that arose during or as a result of the audit or the review of interim financial statements and services in connection with SEC filings.

Audit Related Fees. There were no audited related fees paid to Ernst & Young LLP.

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

All Other Fees. Those were the fees in connection with SB-2 and S-8 SEC filings paid to Ernst & Young LLP.

Effective May 6, 2003, the Securities and Exchange Commission adopted rules that require that before Ernst & Young LLP is engaged by the company or its subsidiaries to render any auditing or permitted non-audit related service, the engagement be:

- approved by the company's audit committee; or
- entered into pursuant to pre-approval policies and procedures established by the audit committee, provided the policies and procedures are detailed as to the particular service, the audit committee is informed of each service, and such policies and procedures do not include delegation of the audit committee's responsibilities to management.

The audit committee requires advance approval of all audit, audit-related, tax, and other services performed by the independent auditor. Unless the specific service has been previously pre-approved with respect to that year, the audit committee must approve the permitted service before the independent auditor is engaged to perform it. The audit committee has delegated to the chair of the audit committee authority to approve permitted services provided that the chair reports any decisions to the committee at its next scheduled meeting.

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

ITEM 14. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

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EXHIBIT DESCRIPTION
NUMBER

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(1)

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(1)

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(1)

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(1)

23.1 Consent of Independent Registered Public Accounting Firm(1)

(1) Filed as an exhibit to this Annual Report on Form 10-KSB

(b) Reports on Form 8-K.

During the year we filed Form 8-K.

On March 1, 2007 we announced the Unregistered Sales of Equity Securities which is outlined in Note 7 (b) to the year ended August 31, 2007 financial statements.

On March 8, 2007 we filed Form 8-K outlining a letter agreement with Universal Music Group (UMG). The Company is UMG's primary method for online distribution of promotional music, video and other content and will be the only company-wide method for such distribution in the United States. The term of the letter agreement is a period of 13 months, commencing on March 1, 2007, and ending on March 31, 2008.

On July 19, 2007, we filed Form 8-K outlining Mr. Steven Vestergaard resigned as the Chief Financial Officer of the company and Mr. Frederick Vandenberg was appointed as the Chief Financial Officer of the company effective July 16, 2007. Mr. Vestergaard will remain as Chief Executive Officer.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DESTINY MEDIA TECHNOLOGIES, INC.

By: /s/ Steven Vestergaard
Steven Vestergaard, President
Chief Executive Officer
Director
Date: November 29, 2007

/s/ Frederick Vandenberg
Frederick Vandenberg, Chief Financial Officer
Date: November 29, 2007

In accordance with the Securities Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: Steven Vestergaard
Steven Vestergaard, President
Chief Executive Officer
(Principal Executive Officer)
Director
Date: November 29, 2007

By: Frederick Vandenberg
Frederick Vandenberg, Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
Date: November 29, 2007

By: Edward Kolic
Edward Kolic
Director
Date: November 29, 2007

By: /s/ Wayne Koshman
Wayne Koshman
Director
Date: November 29, 2007