

DESTINY MEDIA TECHNOLOGIES INC  
Form 10-Q  
January 14, 2019

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended **November 30, 2018**

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

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

Commission File Number **0-28259**

**DESTINY MEDIA TECHNOLOGIES INC.**

(Exact name of registrant as specified in its charter)

**NEVADA**

(State or other jurisdiction of incorporation or  
organization)

**84-1516745**

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

**1110 885 West Georgia Street,  
Vancouver, British Columbia, Canada**  
(Address of principal executive offices)

**V6C 3E8**  
(Zip Code)

**604-609-7736**

(Registrant's telephone number, including area code)

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

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be

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submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files)

Yes  No

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

Large accelerated filer

Non-accelerated filer

Emerging growth company

Accelerated filer

Smaller reporting company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

**The number of shares outstanding of the registrants common stock, par value \$0.001, as of January 14, 2019 was 55,013,874.**

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**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

Condensed Consolidated Financial Statements

**Destiny Media Technologies Inc.**

(Unaudited)

November 30, 2018

(Expressed in United States dollars)

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## Destiny Media Technologies Inc.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Expressed in United States Dollars)

Unaudited

As at,

|  | November 30,<br>2018 | August 31,<br>2018 |
|--|----------------------|--------------------|
|  | \$                   | \$                 |
| <b>ASSETS</b>  |                      |                    |
| <b>Current</b>   |                      |                    |
| Cash and cash equivalents  | 1,331,065            | 1,097,434          |
| Short-term investments <i>[note 3]</i>   | 1,137,180            | 1,151,952          |
| Accounts receivable, net of allowance for doubtful accounts of \$8,686 [August 31, 2018 \$6,031] <i>[note 9]</i> | 339,130              | 403,801            |
| Other receivables  | 22,949               | 15,902             |
| Prepaid expenses   | 40,751               | 57,252             |
| <b>Total current assets</b>  | <b>2,871,075</b>     | <b>2,726,341</b>   |
| Deposits   | 33,708               | 34,336             |
| Property and equipment, net <i>[note 4]</i>  | 149,362              | 160,273            |
| Intangible assets, net <i>[note 4]</i>   | 35,520               | 41,472             |
| <b>Total assets</b>  | <b>3,089,665</b>     | <b>2,962,422</b>   |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                      |                    |
| <b>Current</b>   |                      |                    |
| Accounts payable   | 152,562              | 141,273            |
| Accrued liabilities  | 172,072              | 226,876            |
| Deferred leasehold inducement  | 50,177               | 51,848             |
| Deferred revenue   | 14,920               | 23,286             |
| Obligation under capital lease   |                      | 2,363              |
| <b>Total liabilities</b>   | <b>389,731</b>       | <b>445,646</b>     |
| Commitments and contingencies <i>[notes 6 and 7]</i>   |                      |                    |
| <b>Stockholders equity</b>   |                      |                    |
| Common stock, par value \$0.001 <i>[note 5]</i>  |                      |                    |
| Authorized: 100,000,000 shares   |                      |                    |
| Issued and outstanding: 55,013,874 shares  |                      |                    |
| [August 31, 2018 issued and outstanding 55,013,874 shares]   | 55,014               | 55,014             |
| Additional paid-in capital <i>[note 5]</i>   | 9,778,718            | 9,766,665          |
| Accumulated deficit  | (6,731,071)          | (6,951,261)        |
| Accumulated other comprehensive loss   | (402,727)            | (353,642)          |
| <b>Total stockholders equity</b>   | <b>2,699,934</b>     | <b>2,516,776</b>   |
| <b>Total liabilities and stockholders equity</b>   | <b>3,089,665</b>     | <b>2,962,422</b>   |
| <i>See accompanying notes</i>  |                      |                    |

## Destiny Media Technologies Inc.

**CONDENSED CONSOLIDATED STATEMENTS OF  
COMPREHENSIVE INCOME**

(Expressed in United States dollars)

Unaudited

Three months ended November 30,

|   | 2018              | 2017       |
|---|-------------------|------------|
|   | \$                | \$         |
| <b>Service revenue</b> <i>[note 9]</i>                | <b>984,019</b>    | 973,798    |
| <b>Operating expenses</b>                             |                   |            |
| General and administrative                            | <b>182,270</b>    | 178,583    |
| Sales and marketing                                   | <b>269,357</b>    | 230,113    |
| Research and development                              | <b>298,012</b>    | 304,438    |
| Depreciation and amortization                         | <b>20,624</b>     | 25,697     |
|   | <b>770,263</b>    | 738,831    |
| Income from operations                                | <b>213,756</b>    | 234,967    |
| <b>Other income (expense)</b>                         |                   |            |
| Interest income                                       | <b>6,434</b>      | 2,325      |
| Other income (expense)                                |                   | (3,802)    |
| <b>Net income</b>                                     | <b>220,190</b>    | 233,490    |
| Foreign currency translation adjustments              | <b>(49,085)</b>   | (52,116)   |
| <b>Total comprehensive income</b>                     | <b>171,105</b>    | 181,374    |
| <b>Net income per common share, basic and diluted</b> | <b>0.00</b>       | 0.00       |
| <b>Weighted average common shares outstanding:</b>    |                   |            |
| Basic   | <b>55,013,874</b> | 55,013,874 |
| Diluted   | <b>55,013,874</b> | 55,013,874 |

*See accompanying notes*

## Destiny Media Technologies Inc.

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

(Expressed in United States dollars)

Unaudited

|  | Common stock<br>Shares<br># | Common stock<br>Amount<br>\$ | Additional<br>paid-in<br>capital<br>\$ | Accumulated<br>Deficit<br>\$ | Accumulated<br>other<br>comprehensive<br>loss<br>\$ | Total<br>stockholders<br>equity<br>\$ |
|--|-----------------------------|------------------------------|--|------------------------------|---|---------------------------------------|
| <b>Balance,<br/>August 31,<br/>2017</b>      | <b>55,013,874</b>           | <b>55,014</b>                | <b>9,712,213</b>                       | <b>(7,607,531)</b>           | <b>(266,891)</b>                                    | <b>1,892,805</b>                      |
| Total<br>comprehensive<br>income             |                             |                              |  | 656,270                      | (86,751)  | 569,519                               |
| Stock based<br>compensation<br><i>Note 5</i> |                             |                              | 54,452                                 |                              |   | 54,452                                |
| <b>Balance,<br/>August 31,<br/>2018</b>      | <b>55,013,874</b>           | <b>55,014</b>                | <b>9,766,665</b>                       | <b>(6,951,261)</b>           | <b>(353,642)</b>                                    | <b>2,516,776</b>                      |
| Total<br>comprehensive<br>income             |                             |                              |  | 220,190                      | (49,085)  | 171,105                               |
| Stock based<br>compensation<br><i>Note 5</i> |                             |                              | 12,053                                 |                              |   | 12,053                                |
| <b>Balance,<br/>November 30,<br/>2018</b>    | <b>55,013,874</b>           | <b>55,014</b>                | <b>9,778,718</b>                       | <b>(6,731,071)</b>           | <b>(402,727)</b>                                    | <b>2,699,934</b>                      |
| <i>See accompanying notes</i>                |                             |                              |  |                              |   |                                       |

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

Three months ended November 30,

(Expressed in United States dollars)

|  | <b>2018</b>      | 2017      |
|--|------------------|-----------|
|  | \$               | \$        |
| <b>OPERATING ACTIVITIES</b>  |                  |           |
| Net income   | <b>220,190</b>   | 233,490   |
| Items not involving cash:  |                  |           |
| Depreciation and amortization                                      | <b>20,624</b>    | 25,697    |
| Stock-based compensation   | <b>12,053</b>    | 13,390    |
| Deferred leasehold inducement                                      | <b>(735)</b>     | 3,133     |
| Unrealized foreign exchange  | <b>(6,385)</b>   | 379       |
| Loss on disposal of property, plant and equipment                  |                  | 3,801     |
| Changes in non-cash working capital:                               |                  |           |
| Accounts receivable  | <b>56,985</b>    | 112,078   |
| Other receivables  | <b>(6,158)</b>   | 9,191     |
| Prepaid expenses and deposits                                      | <b>16,035</b>    | 8,498     |
| Accounts payable   | <b>40,614</b>    | 114,107   |
| Accrued liabilities  | <b>(80,884)</b>  | (21,366)  |
| Deferred revenue   | <b>(8,073)</b>   | (8,220)   |
| Short term receivable  |                  | 32,200    |
| <b>Net cash provided by operating activities</b>                   | <b>264,266</b>   | 526,378   |
| <b>INVESTING ACTIVITY</b>  |                  |           |
| Purchase of property, equipment and intangibles                    | <b>(7,215)</b>   | (74,063)  |
| <b>Net cash used in investing activity</b>                         | <b>(7,215)</b>   | (74,063)  |
| <b>Effect of foreign exchange rate changes on cash</b>             | <b>(23,420)</b>  | (42,680)  |
| <b>Net increase in cash and cash equivalents during the period</b> | <b>233,631</b>   | 409,635   |
| Cash and cash equivalents, beginning of period                     | <b>1,097,434</b> | 1,342,956 |
| <b>Cash and cash equivalents, end of period</b>                    | <b>1,331,065</b> | 1,752,591 |
| <b>Supplementary disclosure</b>                                    |                  |           |
| Interest paid  |                  |           |
| Income taxes paid  |                  |           |
| <i>See accompanying notes</i>                                      |                  |           |



**Destiny Media Technologies Inc.**

**NOTES TO CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS**

November 30, 2018

**1. ORGANIZATION**

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

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

**2. BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated interim financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States for interim financial information pursuant to the rules and regulations of the United States Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended November 30, 2018 are not necessarily indicative of the results that may be expected for the year ended August 31, 2019.

The balance sheet at August 31, 2018 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by United States generally accepted accounting principles for annual financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended August 31, 2018.

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

November 30, 2018

**3. SHORT TERM INVESTMENTS**

The Company's short-term investments consists of one-year Guaranteed Investment Certificates with a major Canadian financial institution that earn interest at variable interest rates ranging from 2.15% to 2.50%.

**4. PROPERTY AND EQUIPMENT AND INTANGIBLES**

|                               | Cost<br>\$     | Accumulated<br>amortization<br>\$ | Net book<br>value<br>\$ |
|-------------------------------|----------------|-----------------------------------|-------------------------|
| <b>November 30, 2018</b>      |                |                                   |                         |
| <b>Property and equipment</b> |                |                                   |                         |
| Furniture and fixtures        | 131,678        | 102,479                           | 29,199                  |
| Computer hardware             | 225,552        | 189,224                           | 36,328                  |
| Computer software             | 209,778        | 200,962                           | 8,816                   |
| Leasehold improvement         | 159,780        | 84,761                            | 75,019                  |
|                               | <b>726,788</b> | <b>577,426</b>                    | <b>149,362</b>          |

**Intangibles**

|                               |         |         |        |
|-------------------------------|---------|---------|--------|
| Patents, trademarks and lists | 408,637 | 373,117 | 35,520 |
|-------------------------------|---------|---------|--------|

|                               | Cost<br>\$     | Accumulated<br>amortization<br>\$ | Net book<br>value<br>\$ |
|-------------------------------|----------------|-----------------------------------|-------------------------|
| <b>August 31, 2018</b>        |                |                                   |                         |
| <b>Property and equipment</b> |                |                                   |                         |
| Furniture and fixtures        | 134,130        | 102,822                           | 31,308                  |
| Computer hardware             | 226,679        | 189,724                           | 36,955                  |
| Computer software             | 213,684        | 203,420                           | 10,264                  |
| Leasehold improvements        | 162,754        | 81,008                            | 81,746                  |
|                               | <b>737,247</b> | <b>576,974</b>                    | <b>160,273</b>          |

**Intangibles**

|                               |         |         |        |
|-------------------------------|---------|---------|--------|
| Patents, trademarks and lists | 412,072 | 370,600 | 41,472 |
|-------------------------------|---------|---------|--------|

Depreciation and amortization for the three months ended November 30, 2018 was \$20,624 (2017: \$25,697)

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

November 30, 2018

**5. STOCKHOLDERS EQUITY****[a] Common stock issued and authorized**

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

During the three months ended November 30, 2018, no shares were issued.

**[b] Stock option plans**

The Company has two existing stock option plans (the Plans), namely the 2006 Stock Option Plan and the 2015 Stock Option Plan, under which up to 7,750,000 shares of the common stock, has been reserved for issuance. A total of 1,415,681 common shares remain eligible for issuance under the Plans. The options generally vest over a range of periods from the date of grant, some are immediate, and others are 12 or 24 months. Any options that do not vest as the result of a grantee leaving the Company are forfeited and the common shares underlying them are returned to the reserve. The options generally have a contractual term of five years.

*Stock-Based Payment Award Activity*

A summary of option activity under the Plans as of November 30, 2018, and changes during the period then ended is presented below:

| <b>Options</b>                          | <b>Shares</b>    | <b>Weighted<br/>Average<br/>Exercise Price<br/>\$</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Term</b> | <b>Aggregate<br/>Intrinsic<br/>Value<br/>\$</b> |
|---|------------------|---|--|---|
| <b>Outstanding at August 31, 2018</b>   | <b>1,631,250</b> | <b>0.39</b>   | <b>3.49</b>  |   |
| Granted                                 |                  |   |  |   |
| Forfeited                               |                  |   |  |   |
| Expired                                 | (43,750)         | 0.40  |  |   |
| <b>Outstanding at November 30, 2018</b> | <b>1,587,500</b> | <b>0.39</b>   | <b>3.33</b>  |   |
| <b>Exercisable at November 30, 2018</b> | <b>1,147,916</b> | <b>0.39</b>   | <b>3.20</b>  |   |

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock for the options that were in-the-money at November 30, 2018.

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

November 30, 2018

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

The following table summarizes information regarding the non-vested stock purchase options outstanding as of November 30, 2018 and changes during the period then ended:

|  | Number of Options | Weighted<br>Average<br>Grant Date<br>Fair Value<br>\$ |
|--|-------------------|---|
| <b>Non-vested options at August 31, 2018</b>   | <b>614,584</b>    | <b>0.07</b>   |
| Granted  |                   |   |
| Forfeited                                      |                   |   |
| Vested   | (175,000)         | 0.07  |
| <b>Non-vested options at November 30, 2018</b> | <b>439,584</b>    | <b>0.07</b>   |

As of November 30, 2018, there was \$30,605 of total unrecognized compensation cost related to non-vested stock-based compensation awards. The unrecognized compensation cost is expected to be recognized over a weighted average period of 0.82 years.

During the three months ended November 30, 2018, the total stock-based compensation expense of \$12,053 (2017: \$13,390) is reported in the statement of comprehensive income as follows:

|                                       | 2018<br>\$    | 2017<br>\$    |
|---------------------------------------|---------------|---------------|
| Stock-based compensation              |               |               |
| General and administrative            | 7,151         | 8,023         |
| Sales and marketing                   | 2,451         | 1,540         |
| Research and development              | 2,451         | 3,827         |
| <b>Total stock-based compensation</b> | <b>12,053</b> | <b>13,390</b> |

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

November 30, 2018

**5. STOCKHOLDERS EQUITY (cont d.)****[c] Employee Stock Purchase Plan**

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

During the three months ended November 30, 2018, the Company recognized compensation expense of \$10,683 (2017: \$7,126) in salaries and wages on the consolidated statement of comprehensive income in respect of the Plan, representing the Company's employee matching of cash contributions to the Plan. The shares were purchased on the open market at an average price of \$0.19 (2017: \$0.21). The shares are held in trust by the Company for a period of one year from the date of purchase.

**6. COMMITMENTS**

The Company entered into a new lease agreement commencing July 1, 2017 and expiring June 30, 2022 for the same premise consisting of approximately 6,550 square feet. The Company has fiscal year payments committed as follows:

\$

|      |         |
|------|---------|
| 2019 | 186,397 |
| 2020 | 255,165 |
| 2021 | 260,557 |
| 2022 | 222,315 |

During the year ended August 31, 2018, the Company became entitled to a leasehold improvement allowance from its landlord in the amount of \$45,341, in connection with certain office leasehold improvements completed. This amount was recorded as a deferred leasehold inducement and is being amortized against rent expense over the remaining term of the lease.

During the three months ended November 30, 2018 the Company incurred rent expense of \$61,583 (2017 - \$65,774) which has been allocated between general and administrative expenses, research and development and sales and marketing on the consolidated statement of comprehensive income. The rent expense during the three months ended November 30, 2018 has included the amortization of deferred lease inducements on a straight-line basis over the term of the lease.

**Destiny Media Technologies Inc.**

**NOTES TO CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS**

November 30, 2018

**7. CONTINGENCIES**

The Company is subject to claims and legal proceedings that arise in the ordinary course of business. Such matters are inherently uncertain, and there can be no guarantee that the outcome of any such matter will be decided favorably to the Company or that the resolution of any such matter will not have a material adverse effect upon the Company's financial statements. The Company does not believe that any of such pending claims and legal proceedings will have a material adverse effect on its consolidated financial statements.

On September 5, 2017, the Company's former President and Chief Executive Officer filed a Notice of Civil Claim in the Supreme Court of British Columbia against the Company, its subsidiaries, independent directors and current Chief Executive Officer, claiming damages for conspiracy, breach of contract, wrongful dismissal, defamation and aggravated and punitive damages. The Company believes the claims are without merit and is defending itself against the claims. The quantum of loss, if any, is not determinable at this time and management believes it is unlikely that the outcome of this matter will have an adverse impact on its results of operations, cash flows and financial condition.

**8. NEW ACCOUNTING PRONOUNCEMENTS**

*Recently Adopted Accounting Standards*

*ASU No. 2014-09 Revenue from Contracts with Customers*

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). ASU 2014-09 provides a five-step analysis of transactions to determine when and how revenue is recognized. The premise of ASU 2014-09 is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted this standard on September 1, 2018 using the modified retrospective method applied to open contracts at the date of transition. Under this approach, the Company is not required to restate the prior financial statements presented. The provisions under this ASU were applied to all contracts at the date of initial adoption.

In order to comply with the guidance, beginning on September 1, 2018, the Company amended its revenue recognition policy and performed estimates as outlined below. The adoption of ASU 2014-09 did not result in any adjustment to the Company's consolidated balance sheet on the date of adoption. Refer to the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2018 for a description of the Company's revenue recognition policy prior to September 1, 2018.

**Destiny Media Technologies Inc.**

**NOTES TO CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS**

November 30, 2018

**8. NEW ACCOUNTING PRONOUNCEMENTS**    *Continued*

*Recently Adopted Accounting Standards*    *Continued*

*ASU No. 2014-09 Revenue from Contracts with Customers*    *Continued*

Revenue Recognition Policy

The Company's revenue is derived from software as a service (SaaS) arrangements. The Company accounts for revenue in accordance with ASC 606, which the Company adopted on September 1, 2018 using the modified retrospective method.

The core principle of ASC 606 is to recognize revenue upon the transfer of products or services to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those products or services. ASC 606 prescribes a five-step model for recognizing revenue from contracts with customers: (1) identify the contract(s) with customers; (2) identify the separate performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the separate performance obligations in the contract; and (5) recognize revenue when (or as) the performance obligations are satisfied.

The Company applies the five-step model to recognize revenue as follows:

*Identification of the contract, or contracts, with the customer*

The Company considers the terms and conditions of written contracts and its customary business practices in identifying its contracts under ASC 606. The Company determines that it has a contract with a customer when the contract is approved, the Company can identify each party's rights regarding the services to be transferred, the Company can identify the payment terms for the services, the Company has determined that the customer has the ability and intent to pay, and the contract has commercial substance. In general, contract terms will be reflected in a written document that is signed by both parties.

*Identification of the performance obligation in the contract*

Performance obligations are promises in a contract to transfer distinct products or services to a customer, and is the unit of account under ASC 606. A contract's transaction price is allocated to each distinct performance obligation and revenue is recognized when the performance obligation is satisfied. A product or service is a distinct performance obligation if the customer can both benefit from the product or service either on its own or together with other resources that are readily available to the customer, and it is separately identifiable from other items within the context of the contract. Performance obligations are satisfied by transferring control of the product or service to the customer. Control of the product or service is transferred either at a point in time or over time depending on the performance obligation.

**Destiny Media Technologies Inc.**

**NOTES TO CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS**

November 30, 2018

**8. NEW ACCOUNTING PRONOUNCEMENTS**    *Continued*

*Recently Adopted Accounting Standards*    *Continued*

*ASU No. 2014-09 Revenue from Contracts with Customers*    *Continued*

To the extent a contract includes multiple promised services or products, the Company applies judgment to determine whether promised services or products are capable of being distinct and distinct in the context of the contract. If these criteria are not met the promised services are accounted for as a combined performance obligation.

The Company generates revenue primarily from usage fees for the Company's digital media distribution service. Usage fees are generally recognized as they are billed based on volume and size of distribution services provided in a given month. The Company's other performance obligations include maintenance services, email and phone support, and unspecified software updates released when, and if, available. Under the guidance of ASC 606, the Company has concluded that maintenance services and unspecified software upgrades are not distinct in the context of the Company's contracts because the Company's service is considered a multi-tenant software environment, and these activities represent a single combined performance obligation in connection with the Company's digital media distribution service, recognized at a point in time when the service is delivered to the customer. Support activities are considered a separate performance obligation which is satisfied over time; however, such activities are performed substantially concurrently with the satisfaction of digital media distribution services and as such, deferred revenue associated with such activities is immaterial at any given point in time.

Support activities are considered a separate performance obligation which is satisfied over time; however, such activities are performed substantially concurrently with the satisfaction of digital media distribution services.

From time to time, certain of the Company's contracts contain additional separate performance obligations, including specific enhancements and upgrades.

*Determination of the transaction price*

The transaction price is determined based on the consideration to which the Company expects to be entitled in exchange for providing services to the customer.



**Destiny Media Technologies Inc.**

**NOTES TO CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS**

November 30, 2018

**8. NEW ACCOUNTING PRONOUNCEMENTS**    *Continued*

*Recently Adopted Accounting Standards*    *Continued*

*ASU No. 2014-09 Revenue from Contracts with Customers*    *Continued*

Digital media distribution services may be subject to either fixed or variable pricing. Variable consideration is allocated entirely to distinct service periods when it can be tied to a single performance obligation. Variable consideration is estimated and included in the transaction price if, in the Company's judgment, it is probable that there will not be a significant future reversal of cumulative revenue under the contract. When variable consideration is contingent and cannot be tied to a single performance obligation performed in a particular billing period, the Company estimates contingent variable consideration using the most likely method and recognizes consideration to the extent that the estimate for variable consideration is not constrained pursuant to the guidance provided in ASU 606.

A significant financing component generally does not exist under the Company's standard contracting and billing practices.

*Allocation of the transaction price to the performance obligations in the contract*

If the contract contains a single combined performance obligation, the entire transaction price is allocated to the single combined performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on its standalone selling price ("SSP") in relation to the total fair value of all performance obligations in the arrangement. The majority of the Company's contracts contain two separate performance obligations that are performed concurrently. The Company allocates consideration to each performance obligation under the guidance of ASC 606 on a relative standalone selling price (SSP) basis. Where SSP is not directly observable, the Company determines the SSP using information that may include market conditions and other observable inputs.

Consideration associated with support activities is estimated using a cost-plus reasonable margin approach, as there is no observable SSP.

Consideration associated with specified enhancements and upgrades is estimated using a cost-plus reasonable margin approach, as there is no observable SSP.

*Recognition of revenue when, or as, the Company satisfies a performance obligation*

The Company recognizes revenue when the services are delivered to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services. The Company is principally responsible for the satisfaction of its distinct performance obligations, which are satisfied either at a point in time or over a period of time.

**Destiny Media Technologies Inc.**

**NOTES TO CONDENSED CONSOLIDATED INTERIM  
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November 30, 2018

**8. NEW ACCOUNTING PRONOUNCEMENTS**    *Continued*

*Recently Adopted Accounting Standards*    *Continued*

*ASU No. 2014-09 Revenue from Contracts with Customers*    *Continued*

*Performance obligations satisfied at a point in time*

*Media distribution services*

Media distribution services comprise the majority of distinct performance obligations that are satisfied at a point in time, and revenue is recognized at the point in which the distribution service has been completed. Consideration for these services is typically billed in the same period that the service has been delivered to the customer.

*Performance obligations satisfied over a period of time*

Customer support activities comprise the majority of distinct performance obligations that are satisfied over a period of time.

*Revenue from support activities is recognized over an estimated support period since this activity is considered a 'stand-ready obligation'. This support period is substantially concurrent with the performance of media distribution services, as these services are performed substantially in conjunction with the related distribution. Any support activities provided outside of this billing period are not considered material.*

Revenue from specified enhancements and upgrades is recognized over an estimated performance period.

***Contract Costs***

Contract costs consists of two components, customer acquisition costs and costs to fulfill a contract. Customer acquisition costs are capitalized only if the costs are incrementally incurred to obtain a customer contract and may consist of sales commissions paid to sales personnel or third-party resellers. Generally, the Company does not incur any contract costs outside of the period that the related revenue is recognized.

**Destiny Media Technologies Inc.**

**NOTES TO CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS**

November 30, 2018

**8. NEW ACCOUNTING PRONOUNCEMENTS**    *Continued*

*Recently Adopted Accounting Standards*    *Continued*

*ASU No. 2014-09 Revenue from Contracts with Customers*    *Continued*

*Contract Modifications*

Contract modifications may create new, or change existing, enforceable rights and obligations of the parties to the contract. We generally modify an existing contract using an addendum or signed change order. A contract modification is accounted for as a new contract if it reflects an increase in scope that is regarded as distinct from the original contract and is priced in-line with the standalone selling price for the related product or services obligated. If a contract modification is not considered a new contract, the modification is combined with the original contract and the impact on the revenue recognition profile depends on whether the remaining products and services are distinct from the original contract. If the remaining goods or services are distinct from those in the original contract, all remaining performance obligations will be accounted for on a prospective basis with unrecognized consideration allocated to the remaining performance obligations. If the remaining goods or services are not distinct, the modification will be treated as if it were a part of the existing contract, and the effect that the contract modification has on the transaction price, and on our measure of progress toward satisfaction of the performance obligations, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) at the date of the contract modification on a cumulative catch-up basis.

*ASU 2016-15 Statement of Cash Flows*

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). ASU 2016-15 reduces the existing diversity in practice in financial reporting across all industries by clarifying certain existing principles in ASC 230, Statement of Cash Flows, ("ASC 230") including providing additional guidance on how and what an entity should consider in determining the classification of certain cash flows. In addition, in November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230), Restricted Cash ("ASU 2016-18"). ASU 2016-18 clarifies certain existing principles in ASC 230, including providing additional guidance related to transfers between cash and restricted cash and how entities present, in their statement of cash flows, the cash receipts and cash payments that directly affect the restricted cash accounts. This amendment was effective for the Company beginning on September 1, 2018. The adoption of ASU 2016-15 and ASU 2016-18 did not have any material effect on the Company's consolidated financial statements.

**Destiny Media Technologies Inc.**

**NOTES TO CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS**

**8. NEW ACCOUNTING PRONOUNCEMENTS**    *Continued*

*Accounting Standards Not Yet Effective*

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* ( ASU 2016-02 ). The amendments in this update increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 will be effective for the Company beginning on September 1, 2019. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

November 30, 2018

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

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* ( ASU 2018-02 ), which provides financial statement preparers with an option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. The amendments in this ASU are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of ASU 2018-02 is permitted, including adoption in any interim period for the public business entities for reporting periods for which financial statements have not yet been issued. The amendments in this ASU should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company does not expect that the adoption of this guidance will have a material impact on its consolidated financial statements.

**Destiny Media Technologies Inc.**

**NOTES TO CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS**

November 30, 2018

**8. NEW ACCOUNTING PRONOUNCEMENTS**    *Continued*

*Accounting Standards Not Yet Effective – Continued*

In June 2018, the FASB issued ASU 2018-07, Compensation-Stock Compensation (Topic 718), Improvements to Nonemployee Share-based Payments ( ASU 2018-07 ). This ASU expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The effective date for the standard is for interim periods in fiscal years beginning after December 15, 2018, with early adoption permitted, but no earlier than the Company's adoption date of Topic 606. The new guidance is required to be applied retrospectively with the cumulative effect recognized at the date of initial application. The Company will not early adopt this standard and is currently evaluating the effect ASU 2018-07 will have on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement - Disclosure Framework (Topic 820). The updated guidance improves the disclosure requirements on fair value measurements. The updated guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for any removed or modified disclosures. The Company is currently assessing the timing and impact of adopting the updated provisions to its consolidated financial statements.

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

November 30, 2018

**9. CONCENTRATIONS AND ECONOMIC DEPENDENCE**

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

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

|                                   | 2018           | 2017    |
|-----------------------------------|----------------|---------|
|                                   | \$             | \$      |
| <b>Play MPE®</b>                  |                |         |
| United States                     | 455,225        | 438,139 |
| Europe                            | 429,996        | 436,143 |
| Australia                         | 84,207         | 73,333  |
| <b>Total Play MPE® Revenue</b>    | <b>969,428</b> | 947,615 |
| <b>Clipstream ®</b>               |                |         |
| United States                     | 14,591         | 26,183  |
| <b>Total Clipstream ® Revenue</b> | <b>14,591</b>  | 26,183  |
| <b>Total Revenue</b>              | <b>984,019</b> | 973,798 |

Revenue in the above table is based on location of the customer's billing address. Some of these customers have distribution centers located around the globe and distribute around the world. During the three months ended November 30, 2018, the Company generated 37% of total revenue from one customer [2017 - 39%].

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

As at November 30, 2018, two customers represented \$206,827 (61%) of the trade receivables balance [August 31, 2018 - one customer represented \$102,313 (25%)].

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

**10. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to the current period's presentation. These reclassifications did not affect prior periods' net earnings.

## **Item 2. Managements Discussion and Analysis of Financial Condition and Results of Operations.**

### **FORWARD LOOKING STATEMENTS**

The following discussion should be read in conjunction with the accompanying financial statements and notes thereto included within this Quarterly Report on Form 10-Q. In addition to historical information, the information in this discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act ), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ). These forward-looking statements involve risks and uncertainties, including statements regarding the Companys 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 , intend , anticipate , believe , estimate , predict , potential or continue , the negative of such terms or other terminology. Actual events or results may differ materially. In evaluating these statements, you should consider various factors described in this Quarterly Report, including the risk factors under Item 1A. Risk Factors. of part II, and, from time to time, in other reports the Company files with the Securities and Exchange Commission. These factors may cause the Companys actual results to differ materially from any forward-looking statement. The Company disclaims any obligation to publicly update these statements, or disclose any difference between its actual results and those reflected in these statements. Such information constitutes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

### **OVERVIEW AND CORPORATE BACKGROUND**

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

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

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

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

### **OUR PRODUCTS AND SERVICES**

Destiny develops and markets software as a service (SaaS) solutions that solve critical problems in digital distribution and promotion for businesses in the music industry. The core of our business is the Play MPE® promotional music marketing and digital distribution service. Play MPE® is a service for promoting and securely distributing broadcast quality audio, video, images, promotional information and other digital content through the internet. The system is currently used by the recording industry for transferring pre-release broadcast quality music, radio shows, and music videos to trusted recipients such as radio stations, media reviewers, VIPs, DJs, film and TV personnel, sports stadiums and retailers. The system replaces the physical distribution (mail, courier or hand delivery) of CDs.

Our customers range from small independent artists, small to large independent record labels ( Indies ), to promoters, to the worlds largest record labels (the Major Record Labels ) (Universal Music Group, Warner Music Group and Sony Music Entertainment). Our Major Record Label clients have offices around the world and typically represent the worlds largest recording artists. All three Major Record Labels, and thousands of Indies use Play MPE® for promotional distribution.

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## Play MPE®

Play MPE® is a cloud-based enterprise SaaS service providing tiered, permission based, access allowing our clients to assign varying rights, capabilities and responsibilities to different members of their staff. For example, some customer staff may manage assets (album cover imagery, music videos, the raw music, promotional information and other metadata), while others manage hierarchical permission-based lists of recipients. Larger labels are normally structured into sublabel groups, each with their own labels with varying access (permissions) to various subsets of the master recipient lists.

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

While many clients are set up to manage and upload recipient lists, many rely on the proprietary lists provided within the service. Our staff manages lists of recipients in various formats and geographies and those lists are made available to our customers using the Play MPE® system. The Play MPE® system provides Play MPE® staff with the feedback and resources necessary to manage and maintain this network of recipients, which is not available with physical distribution or by smaller competitors. Customers select lists of recipients within the proprietary network based on music format and geography.

When the release is sent, the send appears in the available tracks section of a recipients account. Recipients can access these tracks through proprietary iPhone, Android, Mac and Windows based players, or through partner sites. Our servers also generate a marketing website (<http://daily.plaympe.com>) which promotes new music. The system automatically generates charts of the most popular music on the system. These charts can be syndicated to third parties.

All exported songs are marked in real time with Destinys watermark technology, which has received three US patents and a number of analogous patents globally. Songs that appear on the internet are scanned by the International Federation of the Phonographic Industrys ( IFPI ) for our watermark. Headquartered in London, UK, the IFPI is the organization that represents the interests of the recording industry worldwide and one of its missions is to safeguard the rights of record producers. IFPI web crawlers visit torrents, peer to peer networks and websites searching for unauthorized content. When problem files are identified, the IFPI software looks for Destinys watermark in the content to identify the originating source.

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

During fiscal 2018, we launched version 8 of our release publishing tools for Play MPE®. These new browser-based tools are accessible on any computer without installation and completely replace the Windows based desktop tools previously used by our customers. It is expected that this new solution will increase usage of Play MPE® by providing an easier to use, faster, more intuitive and streamlined experience, access to both Mac and PC users, new release creation workflows, and more configuration options. It also allows for easy translation into multiple languages to accelerate international expansion. The new encoder has been fully adopted by our sales department and is being integrated by our customers into their own internal workflows.

We continue to invest in additional development of Play MPE® Version 8 and related tools and applications, which should lead to higher usage.

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## Clipstream®

The Company also has a legacy business, Clipstream®, in the online video industry for which it is pursuing strategic alternatives. The Clipstream® Online Video Platform (OVP) is a self-service system, for encoding, hosting and reporting on video playback which can be embedded in third party websites or emails. Playback is currently through the Companys proprietary JavaScript codec engine, which is only available on the internet through the Company. The unique software-based approach to rendering video, is protected by over two dozen patents claiming initial priority to 2011. This product is marketed in a limited way and has incidental revenues.

## RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED NOVEMBER 30, 2018 AND NOVEMBER 30, 2017

### Revenue

Total revenue for the three months ended November 30, 2018 increased by 1.0% over the comparable quarter in 2017, to \$984,019 (2017 - \$973,798). Play MPE® revenue accounted for 99% of the Company's revenue (2017 - 97%) and increased by 2.3% over the comparable period in 2017. Removing the effect of foreign exchange fluctuations, our Play MPE® revenue growth was 4.1% over the comparable quarter in 2017. An increase in revenue from a Major Record Label customer in the United States and Europe, along with an increase in revenue from Independent customers in Australia were largely offset by negative foreign exchange fluctuations in the Euro and Australian Dollar.

During the three months ended November 30, 2018, 44% of our Play MPE® revenues were denominated in Euros and 8% were denominated in Australian Dollars (2017: 46% and 7%, respectively).

### Operating Expenses

#### Overview

As our technologies and products are developed and maintained in-house, the majority of our expenditures are on salaries and wages and other associated expenses such as office space, supplies and benefits. Our operations are primarily conducted in Canada. Our costs are primarily incurred in Canadian dollars while our revenues are primarily denominated in Euros and US dollars. Thus, operating expenses and the results of operations are impacted, to the extent they are not hedged, by the rise and fall of the relative values of the Canadian dollar to these currencies. The Company maintains a large portion of its financial reserves in Canadian dollars to mitigate the downside risk of adverse exchange rates.

Overall operating costs during the three months ended November 30, 2018 increased by 4.3% to \$770,263 (2017 – \$738,831). This increase is primarily the result of an increased staffing costs.

Salaries and wages increased by 9.6% over the comparative fiscal quarter as a result of additions to our marketing and business development staff, salary adjustments, non-recurring recruitment charges and added skills in UX design and QA review.

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| General and administrative | 30-Nov     | 30-Nov     | Change  | Change |
|----------------------------|------------|------------|---------|--------|
|                            | 2018       | 2017       |         |        |
|                            | (3 months) | (3 months) |         |        |
|                            | \$         | \$         | \$      | %      |
| Bad debt                   | 2,651      | -          | 2,651   | 0.0%   |
| Office and miscellaneous   | 29,169     | 24,948     | 4,221   | 16.9%  |
| Professional fees          | 54,009     | 44,908     | 9,101   | 20.3%  |
| Rent                       | 8,543      | 8,449      | 94      | 1.1%   |
| Telecommunications         | 817        | 1,076      | (259)   | -24.1% |
| Travel                     | 1,041      | 4,467      | (3,426) | -76.7% |
| Wages and benefits         | 86,040     | 94,735     | (8,695) | -9.2%  |
|                            | 182,270    | 178,583    | 3,687   | 2.1%   |

Our general and administrative expenses consist of salaries and related personnel costs including overhead, office rent, and general office supplies. General and administrative costs also include professional fees and general travel expenditures. The decrease in wages and benefits is a result of general and administrative staffing reductions. The increase in office and miscellaneous costs is primarily due to transitional costs in respect of administrative software services. The increase in professional fees has been incurred in connection with employment litigation matters.

| Sales and marketing       | 30-Nov     | 30-Nov     | Change  | Change |
|---------------------------|------------|------------|---------|--------|
|                           | 2018       | 2017       |         |        |
|                           | (3 months) | (3 months) |         |        |
|                           | \$         | \$         | \$      | %      |
| Advertising and marketing | 26,588     | 32,367     | (5,779) | -17.9% |
| Rent                      | 23,744     | 25,502     | (1,758) | -6.9%  |
| Telecommunications        | 34,214     | 37,635     | (3,421) | -9.1%  |
| Wages and benefits        | 184,811    | 134,609    | 50,202  | 37.3%  |
|                           | 269,357    | 230,113    | 39,244  | 17.1%  |

Sales and marketing expenses consist of salaries and related personnel costs including overhead, office rent, and telecommunications costs. Sales and marketing also includes advertising and marketing expenses, which consist of promotional materials, online or print advertising, business development tools, and marketing or business development related travel costs including attendance at conference or trade shows, and label visits. The increase in staffing costs relates to the addition of marketing and business development staff, as well as an increase in wages to existing staff. The decrease in advertising and marketing expenses is related to savings realized in connection with seasonal promotional costs.

| Research and development | 30-Nov     | 30-Nov     | Change  | Change |
|--------------------------|------------|------------|---------|--------|
|                          | 2018       | 2017       |         |        |
|                          | (3 months) | (3 months) |         |        |
|                          | \$         | \$         | \$      | %      |
| Rent                     | 29,296     | 32,509     | (3,213) | -9.9%  |
| Research and development | 17,498     | 18,398     | (900)   | -4.9%  |
| Telecommunications       | 21,099     | 25,603     | (4,504) | -17.6% |
| Wages and benefits       | 230,119    | 227,928    | 2,191   | 1.0%   |
|                          | 298,012    | 304,438    | (6,426) | -2.1%  |

Research and development costs consist primarily of salaries and related personnel costs including overhead and consulting fees with respect to product development and deployment. An increase in development staff and related recruitment charges in the current quarter of fiscal 2019 was largely offset by a reduction to Clipstream related staffing costs over the comparable quarter in fiscal 2018.

## Depreciation and Amortization

Depreciation and amortization expense arises from property and equipment, and from patents and trademarks. Amortization decreased to \$20,624 for the three months ended November 30, 2018 from \$25,697 for the three months ended November 30, 2017, a decrease of \$5,073 or 19.7% from an overall reduction in spending on patent and trademark costs.

## Other earnings and expenses

Interest income increased to \$6,434 for the three months ended November 30, 2018 from \$2,325 for the three months ended November 30, 2017, an increase of \$4,109. The interest income is derived from the investment of excess cash in one-year Guaranteed Investment Certificates.

## Net income

During the three months ended November 30, 2018 we had net income of \$220,190 (2017 \$233,490). The decrease in net income is attributable to unfavorable foreign exchange fluctuations affecting our revenues, as well as an increase in operating expenditures, as discussed in detail above.

For the three months period ended November 30, 2018, adjusted EBITDA decreased to \$245,698 (2017 \$273,385). Adjusted EBITDA is not defined under generally accepted accounting principles ( GAAP ) and it may not be comparable to similarly titled measures reported by other companies. We used Adjusted EBITDA, along with other GAAP measures, as a measure of profitability because Adjusted EBITDA helps us to compare our performance on a consistent basis by removing from our operating results the impact of our capital structure, the effect of operating in different tax jurisdictions, the impact of our asset base, which can differ depending on the book value of assets, the accounting methods used to compute depreciation and amortization, the existence or timing of asset impairments and the effect of non-cash stock-based compensation expense. We believe Adjusted EBITDA is useful to investors as it is a widely used measure of performance and the adjustments we make to Adjusted EBITDA provide further clarity on our profitability. We remove the effect of non-cash stock-based compensation from our earnings which can vary based on share price, share price volatility and expected life of the equity instruments we grant. In addition, this stock-based compensation expense does not result in cash payments by us. Adjusted EBITDA has limitations as a profitability measure in that it does not include the interest expense on our debts, our provisions for income taxes, the effect of our expenditures for capital assets, the effect of non-cash stock-based compensation expense and the effect of asset impairments. The following is a reconciliation of net income from operations to Adjusted EBITDA over the eight most recently completed fiscal quarters:

|  | 2019 Q1 | 2018 Q4 | 2018 Q3 | 2018 Q2 | 2018 Q1 | 2017 Q4 | 2017 Q3 | 2017 Q2  |
|--|---------|---------|---------|---------|---------|---------|---------|----------|
|  | \$      | \$      | \$      | \$      | \$      | \$      | \$      | \$       |
| <b>Net Income (Loss)</b>   | 220,190 | 171,775 | 183,629 | 67,376  | 233,490 | 86,635  | 166,223 | (68,205) |
| Amortization,<br>stock-<br>based<br>compensation<br>and deferred<br>leasehold<br>inducements | 31,942  | 38,108  | 42,103  | 43,496  | 42,220  | 40,664  | 40,998  | 45,404   |
| Interest income  | (6,434) | (4,940) | (1,628) | (1,704) | (2,325) | (2,243) | (3,437) | (3,871)  |
| <b>Adjusted EBITDA</b>   | 245,698 | 204,943 | 224,104 | 109,168 | 273,385 | 125,056 | 203,784 | (26,672) |

## LIQUIDITY AND FINANCIAL CONDITION

Our cash and cash equivalents and short-term investments balance increased by \$218,859 during the three months ended November 30, 2018 to \$2,468,245 (August 31, 2018 \$2,249,386). At November 30, 2018, we held \$1,331,065 (August 31, 2018 - \$1,097,434) in cash and cash equivalents and \$1,137,180 (2018 - \$1,151,952) in short term investments consisting of one-year Guaranteed Investment Certificates held through a major Canadian financial institution.

At November 30, 2018, we had working capital of \$2,481,344, compared to \$2,280,695 as at August 31, 2018. The increase in our working capital was primarily due to net income during the period.

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## **CASH FLOWS**

Net cash provided by operating activities for the three months ended November 30, 2018 was \$264,266, compared to \$526,378 for the three months ended November 30, 2017. The decrease in net cash flows provided in the operating activities was most notably due to changes in non-cash working capital items, most notably a larger decrease in accrued liabilities during the current quarter combined with a larger decrease in accounts receivable balance in the comparable quarter of 2017.

Net cash used in investing activities for the three months ended November 30, 2018 was \$7,215, compared to \$74,063 for the three months ended November 30, 2017. The decrease in net cash used in investing activities is largely attributable to expenditures on leasehold improvements during the comparative period in 2017, related to office renovations associated with a renewal in our office premises.

There were no cash flows from financing activities during the three months ended November 30, 2018 and 2017.

## **CRITICAL ACCOUNTING POLICIES**

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

There have been no significant changes in the critical accounting policies and estimates described in our Annual Report on Form 10-K for the year ended August 31, 2018 as filed with the SEC on November 27, 2018 except for those described in Note 8, Recently Accounting Pronouncements in the notes to our Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

Please refer to Note 8 Recently Accounting Pronouncements in notes to our Interim Condensed Consolidated Financial Statements included in this Form 10-Q.

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

### **Foreign Exchange Risk**

Our revenues are primarily in United States dollars and Euros while our operating expenses are primarily in Canadian dollars. Thus, operating expenses and the results of operations are impacted to the extent they are not hedged by the rise and fall of the relative values of Canadian dollar to these currencies. During the three months ended November 30, 2018, as a result of fluctuations in the Euro, and the Australian, Canadian, and US dollars, the Company recognized a negative impact on reported revenues and a positive impact on reported operating expenditures, for an overall positive impact on reported net income.

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

### **Disclosure Controls and Procedures**

Disclosure controls and procedures and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time period specified in the SEC's rules and forms. Disclosure controls and

procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is accumulated and communicated to management including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In connection with this quarterly report, as required by Rule 13a-15 under the Securities Exchange Act of 1934, we have carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures.

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This evaluation was carried out under the supervision and with the participation of our company's management, including our company's Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, our company's Chief Executive Officer and Chief Financial Officer concluded that as of November 30, 2018, our disclosure controls and procedures were effective as at the end of the period covered by this report.

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

There were no changes in our internal control over financial reporting identified in managements evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the quarter ended November 30, 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

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

On September 5, 2017, the Companys former President and Chief Executive Officer, Mr. Steve Vestergaard, filed a Notice of Civil Claim in the Supreme Court of British Columbia against the Company, its subsidiaries, independent directors and current Chief Executive Officer, claiming damages for conspiracy, breach of contract, wrongful dismissal, defamation and aggravated and punitive damages. The Company believes the claims are without merit and will defend itself against the claims.

### **Item 1A. Risk Factors.**

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Item 1 Risk Factors in our Form 10-K for the fiscal year ended August 31, 2018 filed with the SEC on November 27, 2018. These risks could materially and adversely affect our business, financial condition and results of operations. The risks described in our Form 10-K have not changed materially, however, they are not the only risks we face. Our operations could also be affected by additional factors that are not presently known to us or by factors that we currently consider immaterial to our business.

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

None.

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

None.

### **Item 4. Mine Safety Disclosures.**

Not Applicable.

### **Item 5. Other Information.**

None.

### **Item 6. Exhibits.**

31.1\* Section 302 Certification of Chief Executive Officer

31.2\* Section 302 Certification of Chief Financial Officer

32.1\* Section 906 Certification of Chief Executive Officer and Chief Financial Officer

101\* Interactive Data File

\* Filed herewith

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**SIGNATURES**

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

**DESTINY MEDIA TECHNOLOGIES, INC.**

By: /s/Frederick Vandenberg  
Frederick Vandenberg  
Chief Executive Officer, President  
(Principal Executive Officer)  
Date: January 14, 2019

By: /s/Sandra Boenisch  
Sandra Boenisch, CPA, CGA  
Chief Financial Officer, Treasurer  
(Principal Financing and Accounting Officer)  
Date: January 14, 2019

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