DESTINY MEDIA TECHNOLOGIES INC
Form 10KSB
November 30, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

(Mark One)

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

For the fiscal year ended **August 31, 2006**

[   ] 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.)
1055 West Hastings Street, Suite 1040 **Vancouver, British Columbia, Canada** (Address of principal executive offices)	**V6E 2E9** (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. [ ]

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

State issuer's revenues for its most recent fiscal year: **$884,082**

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.) **$10,484,056 as of November 21 ,2006**

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

41,936,223 Shares of Common Stock as of November 21, 2006

Transitional Small Business Disclosure Format (check one): **Yes [ ] No [X]**

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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

We develop and market digital software tools for providing media content on the internet.

There are two main ways that content is accessed by users:

1. Technologies such as television or radio allow users to experience the content as it is broadcast. The analogous technique on the internet is to stream the media to the users.
2. Consumers can own content which they can experience at any time. For example, they may buy a music CD or a DVD. The analogous process on the internet is to securely download the content from a remote site to a local hard drive.

The company has developed branded solutions to facilitate both streaming media and secure media distribution .

1. Streaming Media

A) Clipstream

The Clipstream suite of streaming media products are built around Sun Java, so they play instantly when a web page loads or an email opens. Clipstream reliably reaches more viewers on more operating systems than other solutions and it has a high level of security. Because it is compatible with standards based web servers and caching infrastructure, it is uniquely easy to deploy, it uses up to 90% less bandwidth than competing solutions and it plays more reliably.

Clipstream is available in on demand and live versions.

We are working on a major upgrade of Clipstream which should launch by the end of 2006.

B) Radio Destiny

Radio Destiny allows consumers to start their own internet based radio station from their PC. Content is automatically aggregated on our site: http://www.stationdirectory.com

We are developing a social network based around real time audio and video broadcasting which we expect to launch in spring 2007.

Secure Media Distribution

A) Promo Only MPE System

In October 2004, we launched a complete solution for assisting record labels in securely moving content to trusted third parties, including radio stations. As of November 2006, we have delivered 30,000 songs, generating 27 million transactions. This service has been available on a low cost / free pilot basis, but we are in process of implementing a transaction based pricing model. This system is expected to become one of our dominant sources of revenue in fiscal 2007.

The system recognizes authorized computers and content is received in an encrypted secure form. If the content owner allows export, the system embeds a tracking signature or watermark into the music that identifies that user. The watermark survives duplication to analog devices and compression.

The system consists of servers at two hosting facilities, encoding tools, list management tools, a Mac and PC player application and custom database applications.

B) Promo Only Digital Download Service

We have developed our own iTunes style online store application and accompanying server and encoder software. Users can securely purchase digital music directly from a player application which they download to their computer. We expect to license this software to third parties that want to offer digital audio content for sale.

Our marketing partner, Promo Only licensed catalogue music from the five major record labels that we are selling to commercial users and digital jukeboxes using our download service.

These technologies rely on proprietary algorithms, compression and watermarking technologies that were developed internally.

CORPORATE BACKGROUND

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

We were 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.

Our principal executive office is located at #1040-1055 West Hastings Street, Vancouver, British Columbia V6E 2E9. 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 the Berlin exchange in Germany under the symbol DME .

Our corporate website is located on the Internet 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.

Since then, the Company has developed three broad product lines: Clipstream   playerless streaming media, the MPE media distribution system and Pirate Radio Internet broadcasting software.

Clipstream   is a mature product suite that is typically licensed to media content owners. Research and Development efforts on Clipstream   are focused on expanding the potential customer applications and improving the quality of the compression codecs. During the year, the company released a Japanese language version, a stand alone audio-mail server that facilitates automated encoding of telephone calls and a new remote TV tuner to facilitate remote viewing of IP TV signals. The company also released a new high quality audio codec this year. A new high end video codec is expected to be released in December 2006.

MPE   is a security system for protecting the movement of digital content through the Internet. It also incorporates a proprietary watermarking technology that encodes a signal into audio that identifies the user that created it. The technology is unique in that the watermarking can not be heard, it can be applied in near real time and it survives filtering, analogue duplication and compression. This watermarking technology was developed and released this year and a provisional patent has been filed in the US

Two products are based on the MPE   security engine:

1. Promo Only MPE   is a system that record labels use to securely move music to trusted third parties. The system is in a pilot phase with the labels and the system was heavily enhanced through the year as requests and issues became apparent as usage levels increased. We   ve expanded the pilot to include testing in Europe and Australia and we added an offsite hosting facility to improve reliability. Servers are now located at two physical locations.

We extended our contract with the Universal Music Group until 2007 and we entered into usage based contracts with a number of independent labels and sublabels of Sony BMG and Warner.

2. PODDS is a software based online music store, which we launched this year.

We are developing a new social network based on Radio Destiny and Clipstream   Live Video which will allow users to broadcast their own content in a high quality format. We expect this to launch by spring 2007.

OUR PRODUCTS

Clipstream Suite http://www.clipstream.com

We have developed a suite of four distinct software products that incorporate our Clipstream technology and are marketed under our Clipstream brand name:

1. Clipstream Audio
   (http://www.streaming-audio.com)
   Software for embedding pre-recorded streaming audio into web pages and emails.

2. Clipstream Video
   (http://www.clipstream.com)
   Software for embedding pre-recorded streaming video into web pages and emails.

3. Clipstream Live
   (http://live.clipstream.com)
   Software for broadcasting live audio or video streams and for remotely accessing TV signals.

4. Clipstream Audiomail
   http://www.audio-mail.com
   Server system for automatically converting a telephone based recording into streaming audio content.

Each of our Clipstream products is fully developed and is commercially available through our web site at: http://www.clipstream.com. Our Clipstream products have been commercially available since 1999.

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. We will adapt Clipstream in the spring of 2007 to work on devices such as cell phones that currently don t have the resources to play back content in our format.

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 PDA s, 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 is not downloadable, even with screen scraper programs.

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.

Our Radio Destiny software has been commercially available since 1996.

Our Destiny Media Player software product is a combination MP3/Music player and radio receiver that can be installed on a user s personal computer. This software features a radio mode and a music mode. In the radio mode, a user is able to listen to radio broadcasts from any of stations on the RadioDestiny Broadcast Network . The Destiny Media Player features a live directory of stations with direct e-mail and web links to these broadcasters. In the MP3 mode, a user can play MP3 files directly from the user s library of MP3 files. The Destiny Media Player automatically scans the user s hard drive for existing music files and creates an MP3 library for access by the Destiny Media Player . The Destiny Media Player also features a list of MP3 web sites that allows a user to easily click a link to access MP3 sources. The Destiny Media Player also supports playback of streaming MP3 s, .wav and midi files, as well as music CDs. The Destiny Media Player is a small, yet powerful, application and can be downloaded from the Internet and can be installed by a user within two minutes.

MPE
http://www.destinympe.com
http://www.promoonlympe.com
http://www.podds.ca

MPE is a software engine for encapsulating, protecting and marking digital content. The system recognizes attributes of the user computer to uniquely identify it. Content intended for that user is encrypted to lock playback to that particular machine only. Various media files are combined together into a single package. If the content owner allows the media package to be exported into an unlocked common file format, then the media is marked with a proprietary digital watermark that identifies the user and machine responsible for the export. This mark survives even if the file is compressed or converted to an analogue format.

Destiny operates MPE services based on the various encoder, player and server modules. The main server facility is offsite and consists of multiple redundant 1 gigabit / second connections to the Internet backbone. The secondary backup facility is onsite at Destiny s offices and consists of a 100 megabit / second connection to the Internet.

Two products have been developed using the MPE engine. The first, the Promo Only MPE music pre-release service is currently being used by major label groups. The second, the MPE online store service is being used for a service marketed as PODDS (Promo Only Digital Download Service).

Both products have been built out for music, but the basic software engines are compatible with any media type, such as video, documents, software, etc.

Our MPE products are marketed by Promo Only, Inc. in the US using their trademark Promo Only , They receive a sales commission as our marketing partner.

1. Promo Only MPE Service

The Promo Only MPE system enables a content owner to securely move content through the Internet to a trusted end user.

The content owner 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, such as the customers at Mediabase.

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 can it 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.

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 a fingerprint of 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.

2. MPE Online Store Software

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 the Promo Only Digital Download Service . 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.

Promo Only secures the rights to the music which is sold to their customers using our technology.

OUR TARGETED MARKETS

Clipstream Audio and Video

Clipstream Audio and Video on demand offer compelling advantages to anyone with video content they want to put on the Internet. Clipstream uses up to 90% less bandwidth because of our support for caching and we reach significantly more users as there is no player to download or configure. Finally, the security Clipstream provides to content owners protects them from piracy.

Although any owner of video content is a potential Clipstream customer, we tend to target the customers that most benefit from our core advantages.

These customers include:

1. Advertisers
   Since an advertiser typically pays the web portal based on the number of times the advertisement is displayed, it is important to the advertiser that that user is technically able to see the advertisement. Web portal owners don t

want their users being requested to install a player every time the ad is shown, so they like that Clipstream natively plays 98% of the time without any action on the part of the web visitor. Ad usage tends to be high volume, so our bandwidth savings because of caching can represent a significant savings to the advertiser.

2. Market Research Companies

Market research companies will often test market video content that they don t want widely viewed. They appreciate that Clipstream content is more difficult to pirate as it can be locked to a particular host site. It is costly for them to identify people to answer video surveys, so the higher play rate means that more of those users will see the content without outside technical assistance.

3. Web Portals

Websites with a lot of video or audio content appreciate that the Clipstream encoding process can be automated in a batch process through our command line interface. It is common for these sites to host on a distributed caching network such as Akamai or Speedera. Clipstream content can be uploaded to these networks without requiring the dedicated streaming server infrastructure and expertise required by competing systems.

4. Distance Learning

Clipstream has dozens of parameters that allows extensive customization to the video playback. In addition, the video applet is able to communicate with other components on the web page using Javascript. Finally, Clipstream content can be stored directly in a web database instead of in a remote streaming server. These combinations of features make it easy for educators to create interactive presentations where different snippets of video are streamed together depending on the user s interactions. This results in a customized experience for each user. Besides traditional distance learning, there is demand for product video manuals and corporate training.

5. Email Marketing

Destiny has developed a send to a friend feature that allows marketers to send video content, such as movie trailers or product advertisements by email to a list of users. If that content is interesting and users forward it to their friends, the marketer is able to capture email addresses of the people that the content is forwarded to. This application is less successful than in past years as increased email security has blocked Clipstream in some cases.

6. Corporate Communications

Many companies only want a single video on their site, such as their company corporate video, annual meeting or a message from the CEO. We ve developed licensing for a small number of clips to target this market vertical.

7. Audio Site Navigation

Because of Clipstream s ability to interact with other web content using Javascript, site owners can tie specific audio information to different aspects of their site. For example, they can have a welcome message when the page loads, then more targeted messages as the user moves the mouse around the screen. If the mouse hovers over a product, the audio might direct them to the correct button to press. Some sites are under a mandate to become accessible to the blind and our audio navigation can help accomplish that goal.

8. Audio Previews

Clipstream can be configured to begin playing instantly, so users can listen to previews of music or other content by clicking or hovering over album covers or play buttons. Site owners like that the streaming content can be seamlessly integrated into the website without popping up a large external player window.

Clipstream Live

Clipstream Live requires server software to be installed on the originating computer. That computer can support up to 400 simultaneous viewers. To support more than that, repeater software is installed on other computers, which grab the signal from the originating computer and forward it to recipients. There is no limit to this process and the number of viewers that can be reached, but there is a requirement for an investment in hardware and bandwidth to reach more than a small number of viewers.

For that reason, we have targeted applications that require few viewers, events where the customer rents existing equipment and large corporate webcasts.

One application that has one or a small number of viewers is surveillance and remote diagnostics. One technician or security analyst will watch a screen which monitors a remote camera through the internet. We ve targeted military users and security companies for this application. Another common example is a consumer user who broadcasts to friends or family or a small number of viewers as a hobby.

For events, we have targeted ISP s who can license our software for a large number of simultaneous users, then resell access to our software and their equipment and bandwidth at an hourly rate.

Large corporate users tend to be technology companies communicating with their employees, investors and customers. They are willing to incur a significant investment to showcase their early adoption of advanced technology.

Other larger users include television stations that want to make their live content web accessible.

We also offer an audio only version of live, which we are targeting to commercial radio stations that would like to be web accessible. They appreciate that our technology allows listeners to hear their content without leaving their web page or switching to another internet radio station.

Clipstream Audiomail

This product allows a user to leave a message on a telephone answering machine. Our server infrastructure instantly returns the content as a Clipstream streaming audio clip by email. Users can forward this message to an email mailing list rather than phoning each person on that list directly.

The system can also have that message embed automatically into a pre-specified spot in their website. This allows someone who isn t technical to update web content in real time. One example is providing a report on ski conditions remotely from the ski hill. A person out on the hill can call in the report by cell phone and have it instantly appear as a link in their website. Other examples include users that provide daily commentary that they want to include in their website without approaching a technical person for constant updates.

We are also targeting large sites where users can call in to market their own products. These applications run from classified sites that include audio to dating sites where users can call in and talk about themselves.

Radio Destiny

The next version of the Radio Destiny internet radio software is being launched as part of a social network , where broadcasters pay a monthly fee to participate. Users include commercial radio stations and Internet radio enthusiasts that seek a means to broadcast their personal radio broadcasts to the world through the Internet. The purchase process has been automated. Purchases are made online via credit card.

MPE

The online preview service (Promo Only MPE) is free to recipients including radio users. Our customers are the major record labels (UMG, EMI, Sony BMG, Warner Music Group) and the larger independents. We are delivering most new songs that become available to radio in the US.

The online music store software will be licensed to other groups wanting a player based mechanism to sell music to their customers.

The online music service is being offered commercially to digital jukebox users, DJ s and club owners.

OUR REVENUE MODEL

Clipstream

We license our Clipstream products to our customers and recognize the revenue in accordance with SOP 97-2 as disclosed to the notes of our financial statements. In addition, we offer annual maintenance contracts whereby service revenues are recognized ratably over the term of the maintenance contract. Other service revenue is recognized at the time services are performed including all custom development work performed and integrated services performed.

We charge a flat monthly rate to customers who incorporate our Clipstream software technology into their e-mail campaigns. The price is a flat rate for an unlimited number of impressions or e-mails.

Web advertising requires a fixed set up fee per campaign and a license per thousand impressions served. Market research surveys are priced per survey. Each survey allows the user to include up to ten videos. Clipstream Live is priced based on the number of recipient streams.

We charge web site portals an annual license fee that is based on the number of clips that are used. We also offer a fixed license for 2 ½ times the annual license price.

We typically charge corporate intranets that have licensed our Clipstream software products a fixed annual fee based on the number of employees who will have access to the technology. Usage on the intranet is unlimited.

We offer the software on an annual or unlimited basis. The term of the contract is encoded in the code key we sell. The software will automatically stop playing at the end of this license period.

Radio Destiny

The new version of Radio Destiny will be offered on a flat monthly subscription based pricing model. The subscription gives the user the right to use the software and interact with our site for that period of time.

MPE

Our customers (the record labels) will pay a transaction fee based on the number of recipients of each track.

Music in the online store will be sold on a credit system. The cost of a credit will depend on the number of credits purchased at once, in advance. We recognize revenue when the credits are used to actually purchase songs.

OUR MARKETING PLAN

We generate the majority of our software sales through automated online sales, our employee sales network and our reseller network. We employ sales staff in our Vancouver, British Columbia office to market our software products to our current customers and to our targeted potential customers. In addition, we have established a network of resellers. We charge our reseller partners an annual partner fee that buys them varying levels of support and service from Destiny Media. In general, a higher level of support and a higher partner fee commitment achieves a higher margin for the partners. Reseller partners receive a direct commission, which varies and is in line with standard software commission rates.

We advertise on other websites and advertising networks such as Google s ad network. We also attend and present at industry trade shows where appropriate.

Clipstream is generally sold through telephone sales from our office and through our resellers and through automated online sales.

Radio Destiny is sold nearly exclusively through automated online sales.

MPE is generally represented through our resellers. In North America, the audio implementation of our MPE is marketed by Promo Only, Inc. on a commissioned basis.

OUR BUSINESS OPERATIONS

Our head office and business operations are carried out in leased premises in Vancouver, British Columbia, Canada. We lease 5,734 square feet of office space and we have twelve full time employees. Our employees include our president and chief executive officer, our vice-president of operations, our VP finance, our controller, two direct sales employees, four support personnel and four 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 Flash and Microsoft Corporation. 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.

Our main competition for broadcasting audio over the internet is Live 365.

In the US, our main competitor for our MPE preview service is in-house hand delivery of music CDs. We are unaware of a digital delivery competitor with a significant presence in the US Market. Our main competitor in the Canadian market is Musicrypt.

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 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.

TRADEMARKS AND INTELLECTUAL PROPERTY

We have been granted a trademark for Clipstream in Canada, Japan and Europe in connection with our software products.

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 in the US for MPE . 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.

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 1040, 1055 West Hastings Street, Vancouver, British Columbia, Canada V6E 2E9. Our principal business operations are carried out from head office. Our leased premises consist of approximately 5,734 square feet. We pay rent of approximately $14,000 Canadian (equal to approximately $12,600 US) per month. The lease expires August 31, 2007. We consider our leased premises adequate for our current business purposes.

ITEM 3. LEGAL PROCEEDINGS.

During the year, we resolved the two legal proceedings outstanding at August 31, 2005 as described in Notes 10(a) and 10(b) of the financial statements.

On March 7, 2006 we filed a Statement of Claim in the Federal Court of Canada against Musicrypt Inc. to assert that our MPE system, as marketed under Promo Only MPE, 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 Promo Only 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.

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, 2006.

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 ($)	LOW ($)
1st Quarter 2005	$0.63	$0.31
2nd Quarter 2005	$0.47	$0.27
3rd Quarter 2005	$0.45	$0.30
4th Quarter 2005	$0.37	$0.19
1st Quarter 2006	$0.35	$0.10
2nd Quarter 2006	$0.35	$0.12
3rd Quarter 2006	$0.39	$0.21
4th Quarter 2006	$0.33	$0.18

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 21, 2006 we had 41,936,223 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, 2006, we issued 1,750,000 for total proceeds of $350,000. As part of the sale we issued 140,000 shares in respect of fees associated with the transaction, and 1,750,000 warrants with an exercise price of $0.25. We issued an additional 250,000 for net proceeds of $45,000 and 1,500,000 shares in settlement of a loan for $300,000.

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, 2006.

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, 2006

Revenue

Our revenues increased to $884,082 for the year ended August 31, 2006 from $769,067 for the year ended August 31, 2005, representing a increase of $115,015 or 15%.

Approximately 64% of our revenues are derived from sales of our Clipstream software. Revenue associated with our MPE technology has grown by approximately 140% and represents approximately 32% of our total revenue. Though the revenue associated with our MPE technology remains modest as we gain acceptance in the market, the growth in our revenue is due to an increase of 218% in system access fees, a 23% increase to our development revenue, and new revenue associated with Jukebox distribution of revenue which represents approximately 8% of our total MPE revenue.

Radio Destiny sales have risen 20% and represent 4.3% of our total revenue.

Operating Expenses

General and administrative	August 31, 2006	August 31, 2005	$ Change	% Change
Wages and benefits	215,241	189,496	25,745	13.59%
Rent	32,023	28,545	3,478	12.18%
Telecommunications	17,809	12,086	5,723	47.35%
Bad debt	11,448	24,699	(13,251)	(53.65%)
Office and miscellaneous	92,021	75,832	16,189	21.35%
Professional fees	140,495	146,800	(6,305)	(4.29%)
	509,037	477,458	31,579	6.61%

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. General and administrative costs increased to $509,037 for the year ended August 31, 2006 from $477,458 for the year ended August 31, 2005, an increase of $31,579 or 6.61% .

Sales and marketing	August 31, 2006	August 31, 2005	$ Change	% Change
Wages and benefits	277,336	227,028	50,308	22.16%
Rent	32,023	28,546	3,477	12.18%
Telecommunications	17,809	12,086	5,723	47.35%
Meals and entertainment	-	1,594	(1,594)	(100.00%)
Travel	15,058	28,452	(13,394)	(47.08%)
Advertising and marketing	115,040	86,102	28,938	33.61%
	457,266	383,808	73,458	19.14%

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. Sales and marketing costs were $457,266 for the year ended August 31, 2006 compared to $383,808 for the year ended August 31, 2005, representing an increase of $73,458 or 19.14% .

Research and development	August 31, 2006	August 31, 2005	$ Change	% Change
Wages and benefits	311,651	315,827	(4,176)	(1.32%)
Rent	46,367	47,576	(1,209)	(2.54%)
Telecommunications	25,786	20,144	5,642	28.01%
Repairs and maintenance	257	-	257	
	384,061	383,547	514	0.13%

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. Research and development costs slightly increased to $384,061 for the year ended August 31, 2006 from $383,547 for the year ended August 31, 2005, representing an increase of $514 or 0.13% .

Amortization. Amortization expense arose from fixed assets and other assets. Amortization decreased to $54,303 for the fiscal year ended August 31, 2006 from $56,878 for the fiscal year ended August 31, 2005, a decrease of $2,575 or 4.53% .

Other earnings and expenses

Interest expense increased to $22,058 for the fiscal year ended August 31, 2006 from $14,840 for an effective increase of $7,218.

Gain on settlement of accounts payable

The gain on settlement of accounts payable of $57,308 includes a gain on settlement of the legal services dispute of approximately $23,500, miscellaneous disputed accounts payable, net of a loss of $6,500 on settlement of our dispute with Impatica.

Losses

Our loss from operations decreased to $520,585 for the year ended August 31, 2006 from $532,624 for the year ended August 31, 2005, representing a decrease of $12,039. Our net loss decreased to $485,335 for the year ended August 31, 2006 from $547,464 for the year ended August 31, 2005, representing an decrease of $62,129 or 11.35% .

For our fiscal year ending August 31, 2007, our management plans on concentrating its efforts in the following areas in order to achieve profitability:

1. Commercial deployment and full scale marketing of MPE .

2. Increase sales of the Clipstream technology by focusing on our area of strength undertaking marketing the Clipstream java based streaming solution. Development has been completed and we are now embarking on a marketing and sales program to fully exploit and maximize revenue from this product. Our sales group includes both inside and outside sales and a network of ninety resellers in eleven countries. License agreements and partnership opportunities will be sought with larger content providers, aggregators and resellers.

3. Strategic allocation of current resources to optimize overall ROI.

We will have to raise additional funds to complete our business plan due to our significant working capital deficit. Our goal is to obtain these funds through an optimal mix of internal and external financing opportunities including cash flows from operations, strategic partnerships and equity financings. There is no assurance that we will achieve the required financing.

RESULTS OF OPERATIONS FOR THE YEAR ENDED AUGUST 31, 2005

Revenue

Approximately 81% of our revenues continue to be derived from sales of our Clipstream software, with the balance being comprised of sales of our MPE secure distribution system and sales of our PirateRadio software. For sales of our Clipstream software, our revenues are primarily attributable to revenues from license fees. Revenues associated with maintenance agreements for our Clipstream software, which include updates, upgrades, support and training services, accounted for approximately 4% of Clipstream revenues.

Our revenues increased to $769,067 for the year ended August 31, 2005 from $751,914 for the year ended August 31, 2004, representing a increase of $17,153 or 2%.

Operating Expenses

General and administrative	August 31, 2005	August 31, 2004	$ Change	% Change
Wages and benefits	184,899	159,689	25,210	15.79%
Consulting	4,597	-	4,597	100.00%
Rent	28,545	24,045	4,500	18.72%
Telecommunications	12,086	9,996	2,090	20.91%
Bad debt	24,699	31,745	(7,046)	(22.20%)
Office and miscellaneous	75,832	198,363	(122,531)	(61.77%)
Professional fees	146,800	86,236	60,564	70.23%
	477,458	510,074	(32,614)	(6.39%)

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. General and administrative costs decreased to $477,458 for the year ended August 31, 2005 from $510,074 for the year ended August 31, 2004, a decrease of $32,614 or 6.39% .. The decrease in general and administrative costs is primarily due to a decrease of $7,046 for bad debt expense and a decrease of $122,531 for office and miscellaneous expenses. In fiscal 2004, a one time charge of $80,000 related to business development activities did not exist in fiscal 2005. The decrease to general and administrative costs was partially offset by an increase to professional fees of approximately $60,000 and an increase to wages and benefits of approximately $25,000

Sales and marketing	**August 31, 2005**	**August 31, 2004**	**$ Change**	**% Change**
Wages and benefits	222,431	302,568	(80,137)	(26.49%)
Consulting	4,597	-	4,597	-
Rent	28,546	32,664	(4,118)	(12.61%)
Telecommunications	12,086	13,578	(1,492)	(10.99%)
Meals and entertainment	1,594	4,174	(2,580)	(61.81%)
Travel	28,452	15,242	13,210	86.67%
Advertising and marketing	86,102	77,281	8,821	11.42%
	383,808	445,507	(61,699)	(13.85%)

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. Sales and marketing costs were $383,808 for the year ended August 31, 2005 compared to $445,507 for the year ended August 31, 2004, representing a decrease of $61,699 or 13.85% . The decrease to sales and marketing is attributed to a decrease of $80,138 to wages and benefits due to a smaller sales force and lower commissions paid.

Research and development	**August 31, 2005**	**August 31, 2004**	**$ Change**	**% Change**
Wages and benefits	308,165	206,882	101,283	48.96%
Consulting	7,662	-	7,662	-
Rent	47,576	33,461	14,115	42.18%
Telecommunications	20,144	13,910	6,234	44.82%
Repairs and maintenance	-	4,108	(4,108)	(100.00%)
	383,547	258,361	125,186	48.45%

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. Research and development costs increased to $383,547 for the year ended August 31, 2005 from $258,361 for the year ended August 31, 2004, representing an increase of $125,186 or 48.45% . Research and development increased over prior year because of an increase of $101,283 to wages and benefits and an increase of $14,115 to rent.

Amortization. Amortization expense arose from fixed assets and other assets. Amortization decreased to $56,878 for the fiscal year ended August 31, 2005 from $92,638 for the fiscal year ended August 31, 2004, an decrease of $35,760 or 39%.

Other earnings and expenses

Interest expense increased to $14,840 for the fiscal year ended August 31, 2005 from $6,197 for an effective increase of $8,643. Interest and other income decreased to $nil for the 12 months ended August 31, 2005 from $12,205 for August 31, 2004. The change over prior year is primarily due to the Company ceasing to earn rental income on excess space sublet during the year.

Losses

Our loss from operations increased to $532,624 for the year ended August 31, 2005 from $504,665 for the year ended August 31, 2004, representing an effective increase of $27,959. Our net loss increased to $547,464 for the year ended August 31, 2005 from $419,436 for the year ended August 31, 2004, representing an effective increase of $128,028 or 31%.

LIQUIDITY AND FINANCIAL CONDITION

We had cash of $156,337 as at August 31, 2006 compared to cash of $30,576 as at August 31, 2005. We had a working capital deficiency of $59,429 as at August 31, 2006 compared to a working capital deficiency of $657,601 as at August 31, 2005

Working Capital Deficiency

The decrease in our working capital deficiency is attributed to a significant decrease to shareholder loans payable and an increase to cash and accounts receivable.

Our accounts payable and accrued liabilities decreased to $328,773 as at August 31, 2006 from $369,085 at August 31, 2005, representing a decrease of $40,312 or 11%. Included in our accounts payable and accrued liabilities balance as at August 31, 2006 is $56,531 of disputed payables, $148,465 of accrued liabilities and $123,777 trade accounts payable. We are currently considering all options available to extinguish these liabilities.

Our shareholder loans payable significantly decreased to $17,142 as at August 31, 2006 from $337,773 as at August 31, 2005.

Our current deferred revenues decreased to $10,469 as at August 31, 2006 from $32,329 as at August 31, 2005, representing a total decrease of $21,860 or 68%.

Cash Flows

Net cash used in operating activities decreased to $538,213 for the year ended August 31, 2006 compared to $587,132, representing a decrease of $48,919 or 8%. The cash used in operating activities was off-set by net cash provided by financing activities in the amount of $650,247 for the year ended August 31, 2006 compared to $599,530 for the year ended August 31, 2005.

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, 2006 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, 2006 in respect of our financing activities:

1. We issued 1,742,000 common shares pursuant to option agreements exercised during the year at a weighted average exercise price of $0.18 for net proceeds of $317,550.

2. $270,000 of shareholder loans were extinguished by the agreement to issue 1,350,000 common shares with a fair value of $270,000. In addition, a $30,000 advance from our marketing representative was extinguished with the issuance of 150,000 common shares.

3.

The company received $395,000 in private placements during the year for which the company issued 2,140,000 shares and 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.

Going Concern

We have incurred recurring losses from operations and we have a working capital and stockholders deficiency. Our operating losses to date have been primarily financed by equity transactions and shareholder loans. Depending on our ability to grow sales and related cash flows, we may need additional capital through public or private financings that may not be available on reasonable terms. Accordingly, we will require the continued financial support of our shareholders and creditors until we are able to generate sufficient cash flows from operations on a sustained basis. There can be no assurances that we will be successful. If we are not, we will be required to reduce operations or liquidate assets. Our 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 we be unable to continue as a going concern. Our auditors have referred to the substantial doubt about our ability to continue as a going concern in their audit report on our financial statements included with this Annual Report on Form 10-KSB.

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 December 2004, the FASB issued Statement of Financial Accounting Standards 123R Share-Based Payment, a revision to FAS 123. FAS 123R replaces existing requirements under FAS 123 and APB 25, and requires public companies to recognize the cost of employee services received in exchange for equity instruments, based on the grant-date fair value of those instruments, with limited exceptions. FAS 123R also affects the pattern in which compensation cost is recognized, the accounting for employee share purchase plans, and the accounting for income tax effects of share-based payment transactions. For small-business filers, FAS 123R will be effective for annual periods beginning after December 15, 2005. 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. Accordingly, the adoption of FAS 123R s fair value method will have a significant impact on the Company s statement of earnings, although it will have no impact on the Company s overall financial position. The impact of adoption of FAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, 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.

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.

ITEM 7. FINANCIAL STATEMENTS.

Index to Audited Consolidated Financial Statements for the Year Ended August 31, 2006:

Consolidated Financial Statements

Destiny Media Technologies Inc.

August 31, 2006 and 2005
(Expressed in United States dollars)

**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, 2006 and 2005 and the related consolidated statements of operations, stockholders deficiency 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, 2006 and 2005 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 2006 financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Vancouver, Canada,
October 25, 2006.

/s/ ERNST & YOUNG LLP
Chartered Accountants

Destiny Media Technologies Inc.

CONSOLIDATED BALANCE SHEETS
[See Note 2 - Going Concern Uncertainty]

As at August 31 (Expressed in United States dollars)

	2006 $	2005 $
ASSETS		
Current		
Cash	**156,337**	30,576
Accounts and other receivables, net of allowance for doubtful accounts of $8,615 [2005 - $7,000]	**130,537**	46,437
Inventory	**1,059**	2,246
Prepaid expenses	**9,022**	2,327
Total current assets	**296,955**	81,586
Software development costs, net of accumulated amortization of $61,859 [2005 - $29,346]	**30,929**	58,693
Property and equipment, net of accumulated amortization of $256,958 [2005 - $216,202] *[note 4]*	**60,973**	65,863
Total assets	**388,857**	206,142
LIABILITIES AND STOCKHOLDERS DEFICIENCY		
Current		
Accounts payable *[note 10]*	**180,308**	277,512
Accrued liabilities	**148,465**	91,573
Shareholder loans payable *[note 5]*	**17,142**	337,773
Deferred revenue	**10,469**	32,329
Total current liabilities	**356,384**	739,187
Deferred leasehold inducements, net of accumulated amortization of $46,730 [2005 - $22,104]	**33,968**	58,594
Obligation for share settlement *[note 6]*	**100,000**	100,000
Total liabilities	**490,352**	897,781
Commitments and contingencies *[notes 9 and 10]*		
Stockholders deficiency *[note 7]*		
Common stock, par value $0.001		
Authorized: 100,000,000 shares		
Issued and outstanding: 41,936,223 shares August 31, 2005 - 36,434,223 shares]	**41,938**	36,436
Issued and held for settlement: 133,333 shares		
Additional paid-capital	**5,089,760**	4,022,123
Deficit	**(5,121,293)**	(4,635,958)
Accumulated other comprehensive loss	**(111,900)**	(114,240)
Total stockholders deficiency	**(101,495)**	(691,639)
Total liabilities and stockholders deficiency	**388,857**	206,142

See accompanying notes

Destiny Media Technologies Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

Year ended August 31 (Expressed in United States dollars)

	2006 $	2005 $
Revenue *[note 12]*	**884,082**	769,067
Operating expenses		
General and administrative	**509,037**	477,458
Sales and marketing	**457,266**	383,808
Research and development	**384,061**	383,547
Amortization	**54,303**	56,878
	1,404,667	1,301,691
Loss from operations	**(520,585)**	(532,624)
Other earnings (expenses)		
Gain on settlement of accounts payable *[note 10[d]]*	**57,308**	
Interest and other expense	**(22,058)**	(14,840)
Net loss	**(485,335)**	(547,464)
Net loss per common share, basic and diluted	**(0.01)**	(0.01)
Weighted average common shares outstanding, basic and diluted	**38,991,059**	36,183,543

See accompanying notes

Destiny Media Technologies Inc.

CONSOLIDATED STATEMENTS OF CHANGE IN STOCKHOLDERS DEFICIENCY

Year ended August 31 (Expressed in United States dollars)

	Common stock Shares #	Amount $	Additional paid-in capital $	Stock issuable $	Deficit $	Accumulated other comprehensive loss $	Total stockholders deficiency $
Balance, August 31, 2004	35,316,098	35,318	3,688,208	25,000	(4,088,494)	(80,348)	(420,316)
Net loss					(547,464)		(547,464)
Foreign currency translation loss						(33,892)	(33,892)
Comprehensive loss							(581,356)
Common stock issued on options exercised	1,118,125	1,118	317,059	(25,000)			293,177
Stock based compensation - non-employees			16,856				16,856
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	1,500,000	1,500	298,500				300,000

of loans						
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, 2005	41,936,223	41,938	5,089,760	(5,121,293)	(111,900)	(101,495)

See accompanying notes

Destiny Media Technologies Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended August 31 (Expressed in United States dollars)

	2006	**2005**
	$	$
OPERATING ACTIVITIES		
Net loss	**(485,335)**	(547,464)
Items not involving cash:		
Amortization	**54,303**	56,878
Amortization of deferred lease benefit	**(27,868)**	(21,493)
Common stock issued for services rendered	**24,000**	
Stock-based compensation - non-employees	**36,589**	16,856
Changes in non-cash working capital:		
Short term investments		9,301
Accounts and other receivables	**(77,897)**	27,315
Inventory	**1,302**	1,553
Prepaid expenses	**(6,298)**	17,975
Accounts payable and accrued liabilities	**(33,653)**	(112,579)
Deferred revenue	**(23,356)**	(35,474)
Net cash used in operating activities	**(538,213)**	(587,132)
INVESTING ACTIVITIES		
Purchase of equipment	**(14,859)**	(7,591)
Net cash used in investing activities	**(14,859)**	(7,591)
FINANCING ACTIVITIES		
Net (repayments) proceeds on shareholder loans payable	**(62,303)**	306,353
Proceeds from exercise of stock options	**317,550**	293,177
Proceeds from issuance of common stock	**395,000**	
Net cash provided by financing activities	**650,247**	599,530
Effect of foreign exchange rate changes on cash	**28,586**	8,246
Net increase in cash	**125,761**	4,807
Cash, beginning of year	**30,576**	17,523
Cash, end of year	**156,337**	30,576
Supplementary disclosure		
Cash paid for interest	**7,070**	5,254
Common stock issued on extinguishment of loans	**300,000**	

See accompanying notes

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2006

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.

The Company incurred a net loss of $485,335 for the year ended August 31, 2006 [2005 - $547,464], has incurred cumulative losses of $5,121,293 at August 31, 2006, has a working capital deficiency of $59,429, and has a stockholders deficiency of $101,495 that raises substantial doubt about its ability to continue as a going concern. Management has been able, thus far, to finance the operations through a series of equity financings and shareholder loans. Management plans to continue to seek sources of financing on favorable terms; however, there are no assurances that any such financing can be obtained on favorable terms, if at all. Management expects to keep its operating costs to a minimum until cash is available through financing or operating activities. 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 in substantial doubt and dependent upon achieving a profitable level of operations and on the ability of the Company to obtain necessary financing to fund ongoing operations. 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, 2006

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 and its wholly owned subsidiary, Destiny Software Productions 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, 2006

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, 2006

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 $67,564 and $83,253 during the years ended August 31, 2006 and 2005, 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, 2006

3. SIGNIFICANT ACCOUNTING POLICIES (cont d.)

Stock based compensation

The Company accounts for stock-based employee compensation arrangements using the intrinsic value method in accordance with the provisions of Accounting Principles Board Opinion No. 25 Accounting for Stock Issued to Employees (APB 25) and complies with the disclosure provisions of 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 pro-forma disclosure of stock based compensation is included in note 7[d].

The Company accounts for stock issued to non-employees at fair value in accordance with FAS 123. The Company uses the Black-Scholes option pricing model to determine the fair value of stock options granted to non-employees.

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, 2006
3. SIGNIFICANT ACCOUNTING POLICIES (cont d.)

Recent accounting pronouncements

In December 2004, the FASB issued Statement of Financial Accounting Standards 123R Share-Based Payment, a revision to FAS 123. FAS 123R replaces existing requirements under FAS 123 and APB 25, and requires public companies to recognize the cost of employee services received in exchange for equity instruments, based on the grant-date fair value of those instruments, with limited exceptions. FAS 123R also affects the pattern in which compensation cost is recognized, the accounting for employee share purchase plans, and the accounting for income tax effects of share-based payment transactions. For small-business filers, FAS 123R will be effective for annual periods beginning after December 15, 2005. 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. Accordingly, the adoption of FAS 123R s fair value method will have a significant impact on the Company s statement of earnings, although it will have no impact on the Company s overall financial position. The impact of adoption of FAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, 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.

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.

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2006

4. PROPERTY AND EQUIPMENT

	Cost $	Accumulated amortization $	Net book value $
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**
2005			
Furniture and fixtures	67,956	50,108	17,848
Computer hardware	159,919	127,955	31,964
Computer software	19,829	19,829	
Leasehold improvements	34,361	18,310	16,051
	282,065	216,202	65,863

5. SHAREHOLDER LOANS PAYABLE

	2006 $	2005 $
Loans payable, due to shareholders, unsecured, due on demand, non-interest bearing	**17,142**	328,357
Loans payable, due to shareholder, unsecured, due on demand, interest bearing at 18.9%		9,416
	17,142	337,773

On November 23, 2005, $270,000 of non-interest bearing shareholder loans were extinguished by the issuance of 1,350,000 common shares with a fair value of $270,000.

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, 2006

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

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 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.

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2006
7. SHARE CAPITAL (cont d.)

2005

During the year ended August 31, 2005, the Company issued 1,118,125 common shares pursuant to the exercise of employee stock options for gross proceeds of $318,177. Included in this amount is $25,000 for 100,000 common shares that remained issuable at August 31, 2004 so that the net cash proceeds received by the Company during the year was $293,177.

[c] Stock options

The Company has reserved 6,250,000 common shares for future issuance under its existing stock option 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 option activity is presented below:

		Options outstanding	
	Shares available for grant	**Number of shares**	**Weighted average exercise price**
	#	#	$
Outstanding, August 31, 2004	460,500	3,127,000	0.49
Granted	(658,125)	658,125	0.47
Exercised		(1,018,125)	(0.29)
Forfeited	663,000	(663,000)	(0.50)
Outstanding, August 31, 2005	465,375	2,104,000	0.38
Additional allotment	2,500,000		
Granted	(2,727,000)	2,727,000	0.26
Exercised		(1,742,000)	(0.18)
Forfeited	960,000	(960,000)	(0.41)
Outstanding, August 31, 2006	1,198,375	2,129,000	0.39

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2006

7. SHARE CAPITAL (cont d.)

The following table summarizes information concerning outstanding and exercisable options at August 31, 2006:

Exercise prices $	**Options outstanding** #	**Options outstanding weighted average remaining contractual life (in years)**	**Options exercisable** #
0.25	1,359,000	3.24	1,359,000
0.50	720,000	3.84	490,834
1.80	50,000	4.08	50,000
	2,129,000	3.46	1,899,834

Of the total options outstanding at year end, 1,755,000 [2005 - 1,630,000] were granted to employees and 374,000 [2005 - 474,000] were granted to non-employees of the Company. The compensation expense related to employees was $nil [2005 - $nil]. The compensation expense related to options granted to non-employee was $36,589 [2005 - $16,856].

[d] Pro-forma disclosure of stock based compensation

Pro-forma information regarding results of operations and loss per share is required by FAS 123, as amended by FAS 148, for stock-based awards to employees as if the Company had accounted for such awards using the fair value method.

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2006

7. SHARE CAPITAL (cont d.)

For pro-forma purposes, the estimated value of the Company s stock-based awards to employees is amortized over the vesting period of the underlying options. The effect on the Company s net loss and loss per share of applying FAS 123 to the Company s stock-based awards to employees would approximate the following:

	2006	**2005**
	$	$
Net loss as reported	**(485,335)**	(547,464)
Compensation expense included in net loss		
Compensation expense based on fair value method	**(65,998)**	(13,189)
Pro-forma net loss	**(551,333)**	(560,653)
Net loss per common share, basic and diluted:		
As reported	**(0.01)**	(0.01)
Pro-forma	**(0.01)**	(0.01)

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

	2006	**2005**
Expected dividend yield		
Risk-free interest rate	**4.85%**	5.5%
Volatility	**99%**	99%
Expected lives	**2.5 years**	2.42 years
Per share weighted - average fair value of stock options granted	**$0.09**	$0.09

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2006

8. INCOME TAXES

The Company is subject to United States federal and state income taxes at an approximate rate of 35% 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:

	2006 $	2005 $
Tax recovery at U.S. statutory rates	**(170,000)**	(192,000)
Permanent differences	**38,000**	17,000
Difference in asset amortization	**19,000**	21,000
Operating losses not recognized for tax	**113,000**	154,000
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 December 31 are as follows:

	2006 $	2005 $
Deferred tax assets:		
Net operating loss carryforwards	**1,654,000**	1,568,000
Excess of book over tax depreciation	**52,000**	52,000
Total deferred tax asset	**1,706,000**	1,620,000
Valuation allowance	**(1,706,000)**	(1,620,000)
Net deferred tax asset		

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Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2006

8. INCOME TAXES (cont d.)

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

	2006	**2005**
	$	$
United States	**(255,065)**	(340,777)
Canada	**(230,270)**	(206,687)
	(485,335)	(547,464)

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

	Canada	**United States**
	$	$
2007	669,000	
2008	782,000	
2009	163,000	
2014	14,000	
2015	187,000	
2016 and thereafter	229,000	2,912,000
	2,044,000	2,912,000

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.

9. COMMITMENTS

The Company is committed to payments under its premises lease, which expires on September 1, 2007 as follows:

	$
2007	152,774
	152,774

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2006

10. CONTINGENCIES

[a] On March 31, 2006, a settlement has been reached in the dispute as outlined below. On June 6, 2001, a wholly owned subsidiary of the Company, Destiny Software Productions Inc. (Destiny Software) commenced legal proceedings in the Supreme Court of British Columbia against Impatica.com Inc., (Impatica) for payment of approximately $512,500 in unpaid technology licensing fees. Impatica filed a counterclaim against Destiny Software seeking return of $162,500 advanced to Destiny Software on an alleged good faith agreement. Destiny Software paid $6,500 ($7,500 CDN) to Impatica as consideration for the settlement. A consent dismissal order without costs has been filed with the court registry.

[b] On April 18, 2006, a settlement has been reached in the dispute as outlined below. On September 14, 2004, a statement of claim had been filed against the Company by its former solicitor for fees and accrued interest of $145,978 CDN relating to legal services provided in connection with a failed transaction in 2001 and other general corporate matters. A consent dismissal order without costs will be filed with the court registry. As consideration for settlement, a wholly owned subsidiary of the Company (Destiny Software) will pay a total of $90,000 CDN (approximately $80,000 USD) to the plaintiff over a period of 14 months ending July 1, 2007. At August 31, 2006, $55,000 CDN of the settlement has been paid and the remaining $35,000 CDN will be paid at the rate of $3,500 CDN per month for 10 months following the fiscal year end.

[c] On July 25, 2005 the Company was issued a letter on behalf of Musicrypt Inc. (Musicrypt) indicating a possible infringement of a biometric security system patent. The Company has denied any patent infringement and believes the allegations are without merit. On March 7, 2006 the Company filed a statement of claim in the Federal Court of Canada against Musicrypt to assert that the Company s technology does not infringe on the stated patent owned by Musicrypt and to further declare that Musicrypt s patent is invalid. On June 7, 2006, the Company 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 Promo Only system if it is offered in Canada. The amount of loss, if any, in relation to this counterclaim cannot be reasonably estimated. Management does not believe that the outcome of this matter will have an adverse impact on its result of operations and financial condition.

[d] The total accounts payable of $180,308 includes approximately $56,531 of amounts the company has disputed and approximately $31,500 ($35,000 CDN) payable pursuant to the settlement arrangement discussed in paragraph (b) above payable over the next 10 months. Management plans to resolve these disputed balances in the current year; however the outcome of these negotiations is not determinable.

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2006

10. CONTINGENCIES (cont d.)

The gain on settlement of accounts payable of $57,308 includes a gain on settlement of the legal services dispute outlined in (b) above of approximately $23,500, net of a loss of $6,500 ($7,500 CDN) on settlement of our dispute with Impatica outlined in (a) above.

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. Due to the related party nature of the shareholder loans payable, it is not practicable to estimate their fair value.

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:

	2006	**2005**
	$	$
United States	**662,594**	414,396
Canada	**68,950**	112,900
Other	**152,538**	241,771
Total revenue	**884,082**	769,067

Destiny Media Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2006

12. SEGMENTED INFORMATION (cont d.)

During the year ended August 31, 2006, one customer represented 18% of the total revenue balance [2005 - one customer represented 15%].

As at August 31, 2006, three customers represent 45% of the trade receivables balance of $130,537 [2005 - two customers represented 71%].

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 and Chief Financial Officer, Mr. Steven Vestergaard. 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 significant changes in our internal controls or in other factors that could significantly 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 to be disclosed 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)	*Chief Executive Officer and Director*	*40*	*January 1999*
Edward Kolic(1)	*Corporate Secretary and Director*	*45*	*February 1999*
Lawrence J. Langs	*Director*	*45*	*November 2000*
Yoshitaro Kumagai	*Director*	*60*	*August 2001*
Wayne Koshman(1)	*Director*	*44*	*May 2002*

(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 chief financial 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. In addition, Destiny Software completed work under contract for innovative computer software projects, including the development of the prototype for the first Internet casino and a high performance HTTP server/ client test software suite for use in the development of a proprietary web page caching machine. 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.

Edward Kolic. Mr. Edward Kolic has been one of our directors since February 1999 and is our secretary. 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 has served as our secretary since February 1999. 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 Zaatec 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 annual general meeting or until the director resigns or is removed in accordance with our bylaws. We do not have a classified board of directors.

Our officers serve at the discretion of our board of directors.

COMPENSATION OF DIRECTORS

We do not compensate our directors for acting on our board of directors. Our directors are reimbursed for reasonable out-of-pocket expenses in connection with attendance at board of director and committee meetings. In addition, our directors are eligible for grants of options to purchase shares of our common stock at the discretion of our board of directors.

AUDIT COMMITTEE

Our audit committee consists of Mr. Steven Vestergaard, our chief executive officer, Mr. Edward Kolic, our secretary and Mr. Wayne Koshman, one of our directors. We anticipate modifying our audit committee during the current fiscal year in order to ensure that all members of our audit committee are independent members of our board of directors. In addition, 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 more than ten percent of our equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and greater than ten percent shareholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file. Based on its review of the copies of such forms received by us, we believe that during the fiscal year ended August 31, 2006 all such filing requirements applicable to our officers and directors were complied with.

CODE OF ETHICS

The Company s code of ethics is available on our website at http://www.dsny.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. Mr. Vestergaard is our sole named executive officer . None of our executive officers earned more than $100,000 during our last fiscal year ended August 31, 2005. No person other than Mr. Vestergaard acted as our chief executive officer during our last fiscal year ended August 31, 2005. No other compensation was paid to Mr. Vestergaard other than the compensation set forth below.

SUMMARY COMPENSATION TABLE									
			ANNUAL COMPENSATION			LONG TERM COMPENSATION(3)			
						AWARDS		PAYOUTS	All Other Compen-sation
Name	Title	Year	Salary	Bonus	Other Annual Compensation	Restricted Stock Awarded	Options/ SARs * (#)	LTIP payouts ($)	
Steven Vestergaard (1), (2)	Director President CEO, CFO	2006	$83,848	0	0	0	0	0	0
		2005	$78,508	0	0	0	0	0	0
		2004	$78,506	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 $0.8705 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.

STOCK OPTION GRANTS

No options were granted to named executive officer during our most recent fiscal year ending August 31, 2006.

EXERCISES OF STOCK OPTIONS AND YEAR-END OPTION VALUES

Mr. Vestergaard, our sole named executive officer, exercised no stock options and did not sell any common shares during our most recent fiscal year ended August 31, 2006.

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.

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 21, 2006 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 and Chief Financial Officer c/o 1040-1055 West Hastings St. Vancouver, BC, V6E 2E9	10,454,655	24.9%
Common Stock	Edward Kolic Secretary Director c/o 1040-1055 West Hastings St. Vancouver, BC, V6E 2E9	311,300 (2)	0.7%
Common Stock	Lawrence J. Langs Director c/o 1040-1055 West Hastings St. Vancouver, BC, V6E 2E9	150,000 (3)	0.4%
Common Stock	Yoshitaro Kumagai Director c/o 1040-1055 West Hastings St. Vancouver, BC, V6E 2E9	225,000 (4)	0.5%
Common Stock	Wayne Koshman Director c/o 1040-1055 West Hastings St. Vancouver, BC, V6E 2E9	205,000 (5)	0.5%
Common Stock	All Officers and Directors as a Group (5 persons)	11,345,955	27.1%
5% SHAREHOLDERS			
Not applicable	Not applicable	Not applicable	Not applicable

(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 21, 2006. As of November 21, 2006, there were 41,936,223 shares of our common stock issued and outstanding.

(2) Consists of 161,300 shares held by Mr. Kolic and 150,000 shares that are immediately acquirable upon the exercise of stock options held by Mr. Kolic within 60 days of November 21, 2006.

(3) Consists of 150,000 shares that are immediately acquirable upon the exercise of stock options held by Mr. Langs within 60 days of November 21, 2006.

(4) Consists of 100,000 shares held by Mr. Kumagai and 125,000 shares that are immediately acquirable upon the exercise of stock options held by Mr. Kumagai within 60 days of November 21, 2006.

(5) 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 21, 2006.

EQUITY COMPENSATION PLAN INFORMATION

We have two equity compensation plans, namely our Amended 1999 Stock Option Plan and our 2006 Stock Option Plan, under which up to 3,750,000 and 2,500,000 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, 2006.

	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	2,129,000 Shares of Common Stock	$0.39 per Share	1,198,375 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, 2006 we issued 1,350,000 shares to our CEO, Steve Vestergaard in settlement of a loan in the amount of $270,000 and 205,000 shares pursuant to an option agreement to one of our directors Wayne Koshman.

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, 2006 and 2005 (included in the fees for 2005 are fees paid to Grant Thornton LLP for the first and second quarter reviews) as follows:

	2006	**2005**
Audit Fees	$55,500	$52,500
Audit Related Fees	-	-
Tax Fees	-	-
All Other Fees	-	-
Total Fees	$55,500	$52,500

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. There were no other fees 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

EXHIBIT NUMBER	DESCRIPTION
31.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(1)
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 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 quarter we did not file any form 8-K s.

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 and Chief Financial Officer
Director
Date: November 30, 2006

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: /s/ *Steven Vestergaard*
Steven Vestergaard, President
Chief Executive Officer and Chief Financial Officer
(Principal Executive Officer)
(Principal Financial Officer and Principal Accounting Officer)
Director
Date: November 30, 2006

By: /s/ *Edward Kolic*
Edward Kolic
Director
Date: November 30, 2006

By: /s/ *Wayne Koshman*
Wayne Koshman
Director
Date: November 30, 2006