

Draganfly Investments Limited (“Draganfly” or the “Company”)

**Directors’ report and audited financial statements
for the year ended 30 April 2012**

**Chairman’s Statement
Year Ending 30 April 2012**

During the 12 months under review net assets have decreased from 1.03 pence per share to 0.67 pence per share, a decline of 35%.

This represents significant underperformance compared with the wider AIM market during the period under review, and reflects the stock specific and concentrated nature of the portfolio. Consequently, portfolio liquidity has reduced following heavy declines amongst the quoted stocks in the portfolio, most notably Motive Television PLC.

Trading activity during the period was characterised by two-way trade in Sirius Minerals PLC and URU Metals Limited. In addition we increased shareholdings in Motive Television PLC, and Royal Resources Limited (ASX), and closed our positions in Sino Gas and Energy, Petaquilla Minerals LTD, and Microsaic Systems PLC. The core quoted portfolio during the period under review constituted of Immedia PLC, URU, MTV, Sirius Minerals, and Royal Resources.

Whilst we are disappointed with the share price performance of our quoted shareholdings, we believe prospects for the portfolio remain encouraging. Our media shareholdings are pushing hard on new business leads, and our mining stocks continue to demonstrate high growth potential.

Turning to our remaining private shareholding, Atlantic Healthcare, we are happy to report that the company is progressing very well against its objectives. The company continues to demonstrate high levels of investor support and confidence, and in April 2012, successfully closed a £1.0m funding round for the continued commercialisation of its core gastro-intestinal product, alicaforsen, and the further development of out-licensing agreements for the USA. Last year we announced that the company had begun treating patients and generating revenues, and we are delighted that this trend has continued throughout the period under review and beyond.

We remain very excited by the strong progress made by Atlantic, and look forward to keeping shareholders up to date with the next phase of the company’s development. Since the period end we have continued to trade URU, closed our position in Sirius Minerals, and added a new shareholding in the form of Strategic Minerals PLC. Despite the disappointing year, we continue looking forward to the future with optimism and thank our shareholders for their support.

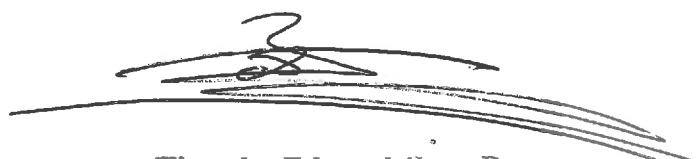
Finally, we would like to express our heartfelt condolences to the family and friends of our colleague, Roy Pitcher, who passed away in August 2012. Roy will be sadly missed.

Mark Horrocks
Chairman

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Timothy Edward Gray Bayman
Director

Profit and loss account

for the year ended 30 April 2012

	Notes	Continuing Operations	
		Year End 30/4/12 £	Year End 30/4/11 £
Realised and unrealised change in Fair Value of investments		(353,680)	359,129
Income		34	31
		<u>(353,646)</u>	<u>359,160</u>
Administrative expenses		(94,445)	(97,175)
Operating (loss)/profit		<u>(448,091)</u>	<u>261,985</u>
Interest payable and similar charges		-	-
(Loss)/profit on ordinary activities		<u>(448,091)</u>	<u>261,985</u>

There are no recognised gains or losses other than those included in the profit and loss account.

(Loss)/earnings per share (pence)

Basic	2	<u>(0.38)</u>	<u>0.23</u>
Diluted	2	<u>(0.38)</u>	<u>0.23</u>

**Balance sheet
as at 30 April 2012**

	Notes	30/04/12		30/04/11	
		£	£	£	£
Fixed assets					
Investments	3		859,900		1,065,802
Current assets					
Debtors		5,150		6,004	
Cash at bank and in hand		3,121		116,114	
		<u>8,271</u>		<u>122,118</u>	
Creditors: amounts falling due within one year		<u>(28,618)</u>		<u>(14,276)</u>	
Net current (liabilities)/ assets			<u>(20,347)</u>		<u>107,842</u>
Total assets less current liabilities			839,553		1,173,644
Net assets			<u>839,553</u>		<u>1,173,644</u>
Capital and reserves					
Called up share capital			1,256,270		1,142,270
Share premium account			1,980,303		1,980,303
Profit and loss account			<u>(2,397,020)</u>		<u>(1,948,929)</u>
Equity shareholders' funds			<u>839,553</u>		<u>1,173,644</u>

**Cash flow statement
for the year ended 30 April 2012**

Notes	Year ended 30/04/12	Year ended 30/04/11
	£	£
Reconciliation of operating (loss)/ profit to net		
cash outflow from operating activities		
Operating (loss)/profit	(448,091)	261,985
Realised (loss)/profit on sale of investments	4,170	375,955
Unrealised (loss)/gain on revaluation of investments	349,510	(735,084)
Decrease/(increase) in debtors	854	(1,928)
Increase/(decrease) in creditors	14,342	(39,279)
Net cash outflow from operating activities	<u>(79,215)</u>	<u>(138,351)</u>
 Cash flow statement		
Net cash outflow from operating activities	(79,215)	(138,351)
Capital expenditure and financial investment	(147,778)	248,635
Financing issue of ordinary share capital	114,000	-
(Decrease)/increase in cash in the year	<u>(112,993)</u>	<u>110,284</u>
 Reconciliation of net cash flow to movement in net funds		
(Decrease)/increase in cash in the year	(112,993)	110,284
Net funds at 1 May 2011	116,114	5,830
Net funds at 30 April 2012	<u>3,121</u>	<u>116,114</u>

**Notes to the financial statements
for the year ended 30 April 2012**

1. Accounting policies

1.1. Accounting convention

The financial statements are prepared under the historical cost convention modified to include the revaluation of fixed asset investments, and in accordance with applicable accounting standards.

1.2. Going concern basis of accounting

The company's business activities, together with the factors likely to affect its future development and financial position are set out in the Chairman's statement, the review of the business on page 4 and in the risk management disclosures on pages 4 to 5 and in note 10.

The company's investments in quoted securities, which are readily realisable, enable the company to maintain its liquidity and it is therefore well placed to manage its financial risks and in ensuring it can meet its obligations as they fall due.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for a minimum period of at least 12 months from the date of approval of the financial statements. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

1.3. Foreign currencies

The company's accounts are presented in sterling which is its functional currency. Transactions in foreign currencies are initially recorded at the rate of exchange prevailing at the date of the transaction. Assets and liabilities denominated in foreign currencies are retranslated at the balance sheet date with any exchange differences charged or credited to the profit and loss account.

1.4. Taxation

The Company is eligible to pay Jersey tax at the standard rate of 0% and consequently, no provision for taxation, either current or deferred, has been made in these financial statements.

1.5. Financial instruments

Financial assets and liabilities are recognised in the balance sheet when the company has become party to the contractual provisions of the instrument.

Investments

The company manages its investments with a view to profiting from the receipt of dividends and changes in fair value of investments. Therefore all quoted investments and unquoted equity investments are designated as at fair value through the profit or loss and carried in the balance sheet at fair value. All investments are initially recognised at the fair value of the consideration given plus acquisition costs associated with the investment and held at this value until it is appropriate to measure fair value on a different basis.

Investments are fair valued using quoted market prices, independent appraisals, discounted cash flow analysis or other appropriate valuation models at the balance sheet date.

Quoted investments are stated at bid prices at the balance sheet date.

Unlisted investments are stated at 'price of recent investment', reflecting the early stage nature of the investment. The following considerations are used when calculating the 'price of recent investment' in accordance with the International Private Equity and Venture Capital Valuation Guidelines, published in September 2009.

- (i) Where the investment being valued was itself made recently, its cost will generally provide a good indication of fair value.
- (ii) Where there has been a recent investment by third parties, the price of that investment will provide a basis of the valuation.
- (iii) Where a fair value cannot be estimated reliably, the investment is reported at cost or the carrying value at the previous reporting date, unless there is evidence that the investment has since been impaired.

Cash and cash equivalents

Cash and cash equivalents are included in the balance sheet at cost. Cash and cash equivalents comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

Interest-bearing loans and borrowings

All loans and borrowings are recognised initially at cost, which is the fair value of the consideration received.

Short term debtors and creditors

Short term debtors are comprised wholly of prepayments and as such do not satisfy the definition of a financial asset as a prepayment does not give the company right to receive cash in the future.

Short term creditors comprise accrued costs at the year end, which do satisfy the definition of a financial liability as they create an obligation for the company to pay cash in the future, and are recognised at cost.

1.6. Income

Interest income is recognised on a time apportionment basis. Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

2.(Loss)/earnings per share

The basic (loss)/earnings per ordinary share is calculated by dividing the (loss)/profit for the year by the weighted average number of equity shares outstanding during the year.

The diluted (loss)/earnings per ordinary share is calculated by dividing the (loss)/profit for the year by the weighted average number of equity shares outstanding during the year (after adjusting both figures for the effect of dilutive potential ordinary shares).

The calculation of the basic (loss)/earnings per ordinary share is based upon the following data:

(Loss)/earnings

30/04/12

30/04/11

	£	£
(Loss)/earnings for the purposes of basic earnings per share and diluted earnings per share	<u>(448,091)</u>	<u>261,985</u>

<i>Number of shares</i>	30/04/12	30/04/11
Basic weighted average number of shares	<u>119,100,770</u>	<u>114,227,000</u>
Weighted average number of shares for the purposes of diluted earnings per share	<u>119,100,770</u>	<u>114,227,000</u>

There have been no transactions involving ordinary shares or potential ordinary shares since the reporting date and before the approval of these financial statements.

3. Fixed asset investments

The carrying value of investments is stated as follows:

	Quoted £	Unquoted £	Total £
Fair value of investments at 1 May 2011	681,407	384,375	1,065,782
Costs of investment purchases in the period	597,302	-	597,302
Disposals of investments sold in the period at fair value	(419,078)	(30,446)	(449,524)
	<u>859,631</u>	<u>353,929</u>	<u>1,213,560</u>
Realised (losses) /profits on sale of investments included in the profit and loss account	(34,616)	30,446	(4,170)
Unrealised change in fair value of investments held at 30 April 2012 included in the profit and loss account	(349,510)	-	(349,510)
	<u>(384,126)</u>	<u>30,446</u>	<u>(353,680)</u>
Fair value of portfolio investments at 30 April 2012	475,505	384,375	859,880
Millpath Limited	-	20	20
Fair value of total investments at 30 April 2012	<u>475,505</u>	<u>384,395</u>	<u>859,900</u>

None of the investments were 20% or more of the nominal value of any class of shares held, except for Millpath Limited.

4. Annual Report and Accounts

Copies of the annual report and accounts for the year ended 30 April 2012 will shortly be sent to shareholders and will be available to view and download from the Company's website www.draganflyinvestments.com