

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

**Directors’ report and audited financial statements
for the year ended 30 April 2013**

**Chairman’s Statement
For the year ended 30 April 2013**

During the 12 months under review net assets have decreased from 0.67 pence per share to 0.65 pence per share.

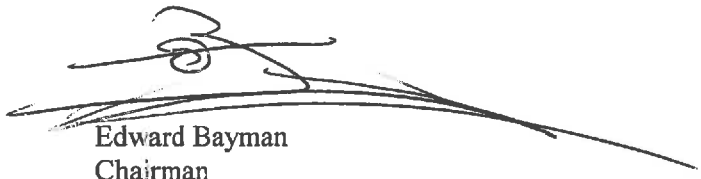
Whilst this outcome represents a negligible change in Net Asset Value, the composition of the portfolio has altered materially. We have sold a substantial proportion of our quoted positions during the period, and have also sold our entire position in Immedia Group Plc since the period end. This leaves the portfolio with only two quoted shareholdings, ASX listed Royal Resources Limited and AIM listed Strategic Minerals PLC.

Turning to our remaining private shareholding, Atlantic Healthcare plc (“Atlantic Healthcare”), we are happy to report that the company continues to progress very well. In March 2013 we announced that the company had completed a fundraising which increased the holding value of our investment in the company. Subsequent to that fundraising Atlantic Healthcare also announced that it had been awarded £1.9 million by the Technology Strategy Board (on behalf of the UK Government). Awards are granted to applicants demonstrating significant commercial and scientific potential, which reinforces our confidence in the progress made by Atlantic Healthcare to date. The award will contribute to the development cost of the company’s core product, alicaforsen, in its forthcoming US/EU Phase 3 clinical study in pouchitis. In addition alicaforsen has been granted orphan designation in Europe and the United States for treatment of this disease, reflecting the fact that alicaforsen addresses an area of high unmet medical need. We shall continue to update shareholders on progress.

Finally, we note the reduced proportion of listed shareholdings and hence liquidity within the portfolio. This reflects disappointing results from a number of AIM investments alongside the cost of maintaining Draganfly’s AIM quoted status.

The Board believes that the company is able to meet its financial obligations for the next 12 months, and subject to the performance of the unquoted holdings, an even longer period. However there is uncertainty and this has been raised in the notes to the accounts and the Audit Report. We are reviewing strategies which we hope can provide improved scale and investment performance, and your Board will be updating investors in due course.

May I take this opportunity to thank investors for their support.



Edward Bayman
Chairman

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**Profit and loss account
for the year ended 30 April 2013**

	Notes	Continuing Operations	
		Year End 30/4/13	Year End 30/4/12
		£	£
Realised and unrealised change in Fair Value of investments		68,527	(353,680)
Income		5	34
		<hr/>	<hr/>
		68,532	(353,646)
Administrative expenses		(85,996)	(94,445)
Operating loss		<hr/>	<hr/>
		(17,464)	(448,091)
		<hr/>	<hr/>
Loss on ordinary activities		<u>(17,464)</u>	<u>(448,091)</u>

There are no recognised gains or losses other than those included in the profit and loss account.
There is no requirement to present a note of historical cost profits and losses.

Loss per share (pence)

Basic	2	<hr/>	<hr/>
		(0.01)	(0.38)
Diluted	2	<hr/>	<hr/>
		(0.01)	(0.38)

Balance sheet
as at 30 April 2013

	Notes	30/04/13		30/04/12	
		£	£	£	£
Fixed assets					
Investment	3		839,436		859,900
Current assets					
Debtors		5,407		5,150	
Cash at bank and in hand		<u>10,170</u>		<u>3,121</u>	
		<u>15,577</u>		<u>8,271</u>	
Creditors: amounts falling due within one year					
		<u>(32,924)</u>		<u>(28,618)</u>	
Net current (liabilities)			<u>(17,347)</u>		<u>(20,347)</u>
Total assets less current liabilities			822,089		839,553
Net assets			<u>822,089</u>		<u>839,553</u>
Capital and reserves					
Called up share capital			1,256,270		1,256,270
Share premium account			1,980,303		1,980,303
Profit and loss account			<u>(2,414,484)</u>		<u>(2,397,020)</u>
Equity shareholders' funds			<u>822,089</u>		<u>839,553</u>

**Cash flow statement
for the year ended 30 April 2013**

Notes	Year ended 30/04/13 £	Year ended 30/04/12 £
Reconciliation of operating loss to net cash outflow from operating activities		
Operating loss	(17,464)	(448,091)
Realised profit on sale of investments	350,435	4,170
Unrealised (loss)/gain on revaluation of investments	(418,962)	349,510
(Increase)/decrease in debtors	(257)	854
Increase in creditors	4,306	14,342
Net cash outflow from operating activities	<u>(81,942)</u>	<u>(79,215)</u>
Cash flow statement		
Net cash outflow from operating activities	(81,942)	(79,215)
Capital expenditure and financial investment	88,991	(147,778)
Financing - issue of ordinary share capital	-	114,000
Increase/(decrease) in cash in the year	<u>7,049</u>	<u>(112,993)</u>
Reconciliation of net cash flow to movement in net funds		
Increase/(decrease) in cash in the year	7,049	(112,993)
Net funds at 1 May 2012	<u>3,121</u>	<u>116,114</u>
Net funds at 30 April 2013	<u>10,170</u>	<u>3,121</u>

**Notes to the financial statements
for the year ended 30 April 2013**

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 investments are readily realisable and at current share prices will enable the company to meet its obligations as they fall due for a period of approximately twelve months from the date of approval of these financial statements.

Subsequent to that however, the company will be dependent on the realisation of sufficient cash from its unquoted investments, or from raising funds from another source, to be able to meet its operating expenses. The directors have a reasonable expectation that this will be possible, but there can be no certainty of being able to sell unquoted shares, or of being able to raise funds from an alternative source.

The directors have concluded that these circumstances represent a material uncertainty that casts significant doubt upon the company's ability to continue as a going concern because the company may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless after making enquiries and considering the uncertainties described above, the directors have a reasonable expectation that the resources to continue in operational existence for the foreseeable future will become available. For these reasons they continue to adopt the going concern basis of accounting in preparing the annual 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 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 December 2012.

- (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 the 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 per share

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

The diluted loss per ordinary share is calculated by dividing the loss 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 per ordinary share is based upon the following data:

	30/04/13	30/04/12
	£	£
Loss for the purposes of basic earnings per share and diluted earnings per share	<u>(17,464)</u>	<u>(448,091)</u>
<i>Number of shares</i>	30/04/13	30/04/12
Basic weighted average number of shares	<u>125,627,000</u>	<u>119,100,770</u>
Weighted average number of shares for the purposes of diluted earnings per share	<u>125,627,000</u>	<u>119,100,770</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 2012	475,505	384,375	859,880
Costs of investment purchases in the period	114,747	-	114,747
Disposals of investments sold in the period at fair value	(203,738)	-	(203,738)
	<u>386,514</u>	<u>384,375</u>	<u>770,889</u>
Realised losses on sale of investments included in the profit and loss account	(350,435)	-	(350,435)
Unrealised change in fair value of investments held at 30 April 2013 included in the profit and loss account	123,649	295,313	418,962
	<u>(226,786)</u>	<u>295,313</u>	<u>68,527</u>
Fair value of portfolio investments at 30 April 2013	159,728	679,688	839,416
Millpath Limited	-	20	20

Fair value of total investments at 30 April 2013	<u>159,728</u>	<u>679,708</u>	<u>839,436</u>
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None of the investments were 20% or more of the nominal value of any class of shares held, except for Millpath Limited (see note 14).

The historical cost of the investments at the balance sheet date was £458,563 (2012: £897,988).

4. Annual Report and Accounts and Notice of AGM

Copies of the annual report and accounts for the year ended 30 April 2013 will shortly be sent to shareholders and will be available to view and download from the Company's website www.draganflyinvestments.com.

The Company will also post its notice of Annual General Meeting ("AGM") to shareholders shortly. The document will be available to view on the Company's website www.draganflyinvestments.com.

The AGM will be held at 11 am on 27 November 2013 at the offices of Pentera Chambers, Century Buildings, Patriotic Street Buildings, St Helier, Jersey, JE4 8PS.