

17 September 2010

**Draganfly Investments Limited**  
**("Draganfly" or the "Company")**

**Final results**

**for the year ended 30 April 2010**

**Chairman's Statement**

During the 12 months under review net assets have fallen from 1.57 pence per share to 0.80 pence per share, a decline of 49%.

The decline primarily reflects falling values with two specific portfolio holdings, and whilst the stock market backdrop has been more benign during the year, securing access to capital for smaller companies remains difficult to achieve.

As a consequence, two portfolio companies for which we had high hopes during the period, Sino Gas and Energy, and Microsaic Systems, successfully conducted deeply discounted rights issues. In the case of Microsaic Systems, which remains unquoted, the net reduction in holding value is £144,178. In the case of Sino Gas and Energy, which successfully floated in the autumn of 2009, a sequence of rights issues has left the company well-funded to achieve its growth objectives. However, these events have resulted in significant shareholder dilution, and a reduced portfolio holding value for the initial amount purchased in excess of £600,000 from flotation to year end. This is particularly disappointing since we had hoped to achieve a successful liquidity event from an unquoted investment whose management team have consistently delivered at the operational level. Indeed, the company continues to make excellent progress in terms of portfolio development, having recently announced highly commercial gas flow-rates on developing wells within its acreage. We continue to believe in the company's prospects.

Elsewhere amongst the private holdings, Continental Petroleum continues to seek the extension to its exploration and production licence, and recently raised new capital at a price equivalent to the current holding value. This investment remains under close review. Meanwhile, Atlantic Healthcare is making excellent progress, having strengthened its management team and its Medical Advisory Board. Moreover, the company is moving into the commercial phase with its core gastro-intestinal product, alicaforsen. The company is in the process of raising further funds to progress manufacture and product supply of alicaforsen across Europe, and has exciting plans for future development. We look forward to keeping shareholders abreast of events.

During the period under review we have sold our holdings in Medicsight and reduced our position in other quoted holdings, including Iofina, Rheochem, and Sino Gas and Energy. In turn this has allowed us to maintain portfolio liquidity. We continue to hold Sirius Exploration and Immedia PLC.

We continue to seek the most effective method of enlarging the asset base in order to achieve the best blend of scale and return for shareholders, but this has proved challenging in the current environment. As part of this initiative, the Investment Advisor and various Directors have either waived or reduced their fees, with effect from April 2010 which will result in a saving of in excess of £140,000 per



**Profit and loss account  
for the year ended 30 April 2010**

	Notes	Continuing Operations	
		Year End 30/4/10	Year End 30/4/09
		£	£
Realised and unrealised change in Fair Value of investments	3	(613,908)	(749,404)
Income		-	7,482
		(613,908)	(741,922)
Administrative expenses		(262,837)	(258,449)
<b>Operating loss</b>		<b>(876,745)</b>	<b>(1,000,371)</b>
Interest payable and similar charges		-	(10,665)
<b>Loss for the year</b>		<b>(876,745)</b>	<b>(1,011,036)</b>

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

Loss per share (pence)	2		
Basic		(0.77)	(0.89)
Diluted		(0.77)	(0.89)

**Balance Sheet  
as at 30 April 2010**

	Notes	30/04/10		30/04/09	
		£	£	£	£
<b>Fixed assets</b>					
Investments	3		955,308		1,777,000
<b>Current assets</b>					
Debtors		4,076		9,369	
Cash at bank and in hand		5,830		15,895	
		<u>9,906</u>		<u>25,264</u>	
<b>Creditors: amounts falling due within one year</b>					
Creditors			(53,555)		(13,860)

<b>Net current (liabilities)/ assets</b>	(43,649)	11,404
<b>Total assets less current liabilities</b>	911,659	1,788,404
<b>Net assets</b>	<u>911,659</u>	<u>1,788,404</u>
<b>Capital and reserves</b>		
Called up share capital	1,142,270	1,142,270
Share premium account	1,980,303	1,980,303
Profit and loss account	<u>(2,210,914)</u>	<u>(1,334,169)</u>
<b>Equity shareholders' funds</b>	<u>911,659</u>	<u>1,788,404</u>

**Cash flow statement  
for the year ended 30 April 2010**

	Year ended 30/04/10 £	Year ended 30/04/09 £
<b>Reconciliation of operating loss to net cash outflow from operating activities</b>		
Operating loss	(876,745)	(1,000,371)
Realised (gain) / loss on sale of investments	(68,654)	423,865
Unrealised loss on revaluation of investments	682,562	325,539
Decrease / (increase) in debtors	5,293	(4,347)
Increase / (decrease) in creditors	39,695	(5,563)
<b>Net cash outflow from operating activities</b>	<u>(217,849)</u>	<u>(260,877)</u>
<b>Cash flow statement</b>		
Net cash outflow from operating activities	(217,849)	(260,877)
Servicing of finance	-	(10,665)
Capital expenditure and financial investment	207,784	471,485
<b>(Decrease) / increase in cash in the year</b>	<u>(10,065)</u>	<u>199,943</u>
<b>Reconciliation of net cash flow to movement in net funds/(debt)</b>		
(Decrease) / increase in cash in the year	(10,065)	199,943
<b>Net funds / (debt) at 1 May</b>	<u>15,895</u>	<u>(184,048)</u>
<b>Net funds at 30 April</b>	<u>5,830</u>	<u>15,895</u>

**Notes to the financial statements  
for the year ended 30 April 2010**

**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 has incurred an overall loss for the year of £876,745 but the directors have considered whether the going concern basis of accounting is appropriate and have concluded that the company has sufficient liquid assets in the form of listed investments to meet its obligations as they fall due for a period of at least twelve months from the date of approval of these financial statements. The costs of administration of the company have been reduced and are expected to be approximately £8,000 per month for the foreseeable future. The value of the listed investments at the date of approval of these financial statements is approximately £400,000. This provides sufficient readily realisable resources for the company to continue in operation for the foreseeable future and for at least twelve months from the date of approval of the financial statements, assuming there are no unforeseen costs or falls in value of the investments. Further, it is anticipated that over the next year to eighteen months some of the unquoted stocks will come to market giving further liquidity, and the directors are working on a strategy to increase the asset base and the liquidity within it.

**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**

With effect from the 2009 year of assessment, Jersey abolished the exempt company regime for the existing companies. Profits arising in the company in the 2009 year of assessment and subsequent periods will be subject to tax at 0%. In the year before this the company was exempt from taxation under the provisions of Article 123A of the Income Tax (Jersey) Law 1961 (as amended).

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 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 (IPEV Guidelines), published in September 2009. No change in the actual bases of valuation has been made.

- (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 company's performance against plan is significantly different from expectations, when an impairment provision is made.

### *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 are comprised of 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.

## **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:

<i>Loss</i>	<b>2010</b> £	<b>2009</b> £
loss for the purposes of basic loss per share and diluted earnings per share	<u>(876,745)</u>	<u>(1,011,036)</u>
<i>Number of shares</i>	<b>2010</b>	<b>2009</b>
Basic weighted average number of shares	<u>114,227,000</u>	<u>114,227,000</u>
Weighted average number of shares for the purposes of diluted loss per share	<u>114,227,000</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

<b>The carrying value of investments is stated as follows:</b>	<b>Quoted</b> £	<b>Unquoted</b> £	<b>Total</b> £
Fair value of investments at 1 May 2009	357,687	1,419,313	1,777,000
Transfers	829,894	(829,894)	-
Cost of investments purchased in the year	127,250	109,894	237,144
Disposals of investments sold in the period at fair value	(376,274)	-	(376,274)
Unrealised change in fair value of investments	(538,384)	(144,178)	(682,562)
Fair value of investments at 30 April 2010	<u>400,173</u>	<u>555,135</u>	<u>955,308</u>

Realised and unrealised change in fair value comprises:

Realised gains on sale of investments included in the profit and loss account	68,654	-	68,654
Unrealised change in fair value of investments held at 30 April 2010 included in the profit and loss account	(538,384)	(144,178)	(682,562)
	<u>(469,730)</u>	<u>(144,178)</u>	<u>(613,908)</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 will shortly be sent to shareholders and will be available to view and download from the Company's website [www:draganflyinvestments.com](http://www.draganflyinvestments.com)