

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

**Directors’ report and audited financial statements
for the year ended 30 April 2014**

**Chairman’s Statement
Year Ending 30 April 2014**

Last year we noted the reduced proportion of listed shareholdings and liquidity within the portfolio. Our remaining private shareholding, Atlantic Healthcare plc (“Atlantic”) continues to issue positive news but has not had a crystallising event that would assist us with liquidity for Draganfly.

In order to maximise returns for the existing shareholders our intention is to distribute the holding in Atlantic to our shareholders subject to any necessary capital re-organisation. At the same time we are proposing to raise up to an additional £400,000 by subscription at a price based on a valuation of the Company, pre investment and excluding the Atlantic holding, of £200,000. This would mean our shareholders would obtain 100% of the value of Atlantic, effectively the only material asset of Draganfly, and they would also remain shareholders of Draganfly on a diluted basis which would give them the opportunity to share in the future success of Draganfly.

The Board believes that on this basis, the Company is able to meet its financial obligations for at least the next 12 months. However there is no certainty that this strategy can be implemented and this has been raised in the notes to the accounts and the Independent Auditor’s report. The strategy outlined above is intended to provide improved scale and investment performance, and your Board will be updating investors in relation to the proposed fundraise and distribution of Atlantic shares 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 2014**

	Notes	Continuing Operations	
		Year End 30/4/14	Year End 30/4/13
		£	£
Realised and unrealised change in Fair Value of investments		(38,714)	68,527
Income		<u>8</u>	<u>5</u>

Administrative expenses		(38,706)	68,532
Operating loss		(87,665)	(85,996)
Taxation	1.4	-	-
Loss on ordinary activities		(126,371)	(17,464)

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	(0.10)	(0.01)
Diluted	2	(0.10)	(0.01)

Balance sheet as at 30 April 2014

	Notes	30/04/14		30/04/13	
		£	£	£	£
Fixed assets					
Investments	3		696,037		839,436
Current assets					
Debtors		8,858		5,407	
Cash at bank and in hand		6,499		10,170	
		<u>15,357</u>		<u>15,577</u>	
Creditors: amount falling due within one year					
		<u>(15,676)</u>		<u>(32,924)</u>	
Net current (liabilities)			<u>(319)</u>		<u>(17,347)</u>
Total assets less current liabilities			<u>695,718</u>		<u>822,089</u>
Net assets			<u>695,718</u>		<u>822,089</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			(2,540,855)		(2,414,484)
Equity shareholders' funds			<u>695,718</u>		<u>822,089</u>

Cash flow statement for the year ended 30 April 2014

Notes	Year ended 30/04/14 £	Year ended 30/04/13 £
Reconciliation of operating loss to net cash outflow from operating activities		
Operating loss	(126,371)	(17,464)
Realised (profit)/loss on sale of investments	(22,920)	350,435
Unrealised loss /(gain) on revaluation of investments	61,634	(418,962)
(Increase) in debtors	(3,451)	(257)
(Decrease)/increase in creditors	(17,248)	4,306
Net cash outflow from operating activities	(108,356)	(81,942)
Cash flow statement		
Net cash outflow from operating activities	(108,356)	(81,942)
Capital expenditure and financial investment	104,685	88,991
(Decrease)/ increase in cash in the year	(3,671)	7,049
Reconciliation of net cash flow to movement in net funds		
(Decrease)/ increase in cash in the year	(3,671)	7,049
Net funds at 1 May 2013	10,170	3,121
Net funds at 30 April 2014	6,499	10,170

**Notes to the financial statements
for the year ended 30 April 2014**

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 is now dependent on realisation of sufficient cash from its unquoted investments or raising new funds 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.

Should the company be unable to raise additional funds then it is unlikely to be able to meet its operating expenses. The ability of the company to realise its unlisted investments is also uncertain due to the illiquid nature of such investments and any value realised may not equal the carrying amount.

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 raise additional funds, or to realise its assets to 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 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:

	30/04/14	30/04/13
	£	£
Loss for the purposes of basic earnings per share and diluted earnings per share	<u>(126,371)</u>	<u>(17,464)</u>
<i>Number of shares</i>	30/04/14	30/04/13
Basic weighted average number of shares	<u>125,627,000</u>	<u>125,627,000</u>
Weighted average number of shares for the purposes of diluted earnings per share	<u>125,627,000</u>	<u>125,627,000</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 2013	159,728	679,708	839,436
Costs of investment purchases in the period	35,000	-	35,000
Disposals of investments sold in the period at fair value	(139,685)	-	(139,685)
	55,043	679,708	734,751
Realised gains/(losses) on sale of investments included in the profit and loss account	22,940	(20)	22,920
Unrealised change in fair value of investments held at 30 April 2014 included in the profit and loss account	(61,165)	(469)	(61,634)
	(38,225)	(489)	(38,714)
Fair value of total investments at 30 April 2014	16,818	679,219	696,037

None of the investments were 20% or more of the nominal value of any class of shares held.

The historical cost of the investments at the balance sheet date was £376,799 (2013: £458,563).

4. Related party disclosures

During the year the company paid fees of £22,475 (2013 - £20,475) to Pentera Trust Company Limited for administration and bookkeeping services under an administration agreement dated 30 June 2008. Pentera Trust Company Limited is a company of which T E G Bayman and J P Hamilton are directors and majority shareholders.

On 14 June 2013 the company appointed Intrinsic Capital LLP as investment advisors, which is under the control of Dusko Lukic and Mark Horrocks.

As at 30 April 2013 Mark Horrocks, a former director who resigned on 13 June 2013, had personal and family holdings in Immedia Group plc amounting to 21.7% of the share capital. On 21 August 2013 the company announced that it had sold its entire holding of 1,108,000 ordinary shares in Immedia Group plc, relating to 7.6% of the share capital, to Mark Horrocks at the mid-market price of 8.75 pence per share.

5. Availability of Annual Reports and Accounts

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.