

Draganfly Investments Limited
Directors' report and financial statements
for the year ended 30 April 2009

Draganfly Investments Limited

Company information

| | | |
|-------------------|---|----------|
| Directors | T E G Bayman R L Pitcher J P Hamilton D Edmonds M Horrocks | Chairman |
| Secretary | Liburna Secretaries Limited | |
| Company number | 89889 | |
| Nominated Adviser | Finncap 4 Coleman Street London EC2R 5TA | |
| Registered office | Pentera Chambers PO Box 79 Century Buildings, Patriotic Place St Helier Jersey JE4 8PS, Channel Islands | |
| Auditor | Baker Tilly UK Audit LLP Chartered Accountants 12 Gleneagles Court Brighton Road Crawley West Sussex RH10 6AD | |
| Bankers | Standard Bank Jersey Limited Standard Bank House PO Box 583, 47-49 La Motte Street St. Helier Jersey JE4 8XR | |

Draganfly Investments Limited

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Draganfly Investments Limited

Chairman's Statement Year Ending 30 April 2009

During the 12 months under review net assets have fallen from 2.45 pence per share on 30th April 2008 to 1.57 pence per share on 30th April 2009, a decline of 36% compared with the wider AIM market's decline of 51% during the same period. Details of the results for the year are given in the directors' report.

This performance primarily reflects the general weakness of global stock markets and, in particular, that of the AIM market during the period.

An additional factor was the Board's decision, in April 2009, to review the holding values of two private investments, Continental Petroleum Limited, and Finance Ireland. The holding value in Continental Petroleum Limited was reduced to the original entry price, reflecting the weakness in Russian markets and the protracted process for extending the company's exploration license. The company is due to update shareholders in the coming weeks. The holding in Finance Ireland was written off, resulting from a lack of access to capital in the wholesale money markets. This is very disappointing since the management team of Finance Ireland has an outstanding reputation and track record in Irish financial services and the Irish mortgage market in particular. However, since the year end, the company has communicated to shareholders that value remains within the business and we look forward to further news in due course. The net impact of these events is a reduced portfolio holding value of £265,420.76.

Elsewhere amongst the private holdings, Microsaic Systems and Atlantic Healthcare continue to develop their businesses, and we look forward to significant progress from these companies during the coming year. Moreover, Sino Gas and Energy is in the process of preparing for a float on the Australian ASX market, and is making great strides in the development of its Chinese gas portfolio. Our research suggests that the company has resources significantly in excess of the valuation implied by the current holding price and we look forward to updating shareholders once further information is revealed. The impending flotation of Sino Gas and Energy is expected to make a significant positive impact on the overall liquidity position within our company's portfolio.

During the period under review we have sold our holdings in Braemore Resources and GB Group, and traded Rheochem, Medicsight, and Iofina where we retain shareholdings. Since the year end we have added Sirius Exploration, a potash exploration and development company, to the portfolio, participating in the recent 2p placing round.

Overall, the general picture remains similar to the previous twelve months. The portfolio continues to outperform a difficult smaller company marketplace, but remains exposed to the harsh realities of the world economy and international stock markets. We remain confident that our shareholdings carry material value and re-rating potential, and hold true to the strategy of investing in companies with significant unrealised value, and cash/profit generating ability.

In our previous communication we referred to unprecedented levels of fund redemptions, and dislocation amongst the shareholder base of many of our investee companies, and the impact this has had on the portfolio performance. Whilst this pressure may have eased, the opportunity remains to seek out investments in companies which continue to suffer from distressed selling and a lack of access to capital for growth and restructuring. This position is enhanced by the acute lack of competition for deals in the current environment.

Draganfly Investments Limited

Given the extent of this opportunity and the current scale of the Company's asset base, your Board is seeking opportunities to attract further funds and enlarge the business.

May I take this opportunity to thank shareholders for their continued support.

Mark Horrocks

Chairman

Draganfly Investments Limited

Directors' Report For the year ended 30 April 2009

The directors present their report and the financial statements for the year ended 30 April 2009.

Principal activity

The principal activity of the company was as an investment trading and holding company.

Review of the business

The original investment brief is to run a small and focused portfolio of investments. The balance sheet total has fallen from £2,799,440 (2.45p per share) on 30 April 2008, to £1,788,404 (1.57p per share) on 30 April 2009. For year ended 30 April 2009 the company made a loss of £1,011,036 (2008 - loss of £212,189), which includes a realised net loss on sale of investments of £423,865 (2008 - gain of £183,212) and an unrealised loss on the company's investments of £325,539 (2008 - loss of £127,257).

The key performance indicator used to monitor the progress of the business is assets per share.

At 30 April 2009, the company held nine investments, down from thirteen at 30 April 2008. Of these nine holdings, five were pre-IPO investments.

The company has a credit facility to allow it to deliver continued improved returns to the shareholders. At 30 April 2009 the credit facility was not being utilised. The board is always alert to fresh investment opportunities but does not anticipate materially increasing the number of holdings at this stage. The board believes the current environment for small companies and pre-IPO investments remains very encouraging.

Dividends

The directors are unable to recommend payment of a dividend.

Risk management

Risks are considered across the following broad categories:

| | |
|----------------------|---|
| Strategic | Risks arising from the analysis, design and implementation of the company's business model, and key decisions on investment levels and capital allocation. |
| Investment | Risks in respect of specific asset investment decisions, the subsequent performance of an investment or exposure concentrations across business sectors. |
| Treasury and funding | Risks arising from (i) uncertainty in market prices and rates, (ii) an inability to raise adequate funds to meet investment needs or meet obligations as they fall due, or (iii) inappropriate capital structure. |
| Operational | Risks arising from inadequate or failed processes, people and systems or from external factors affecting these. |

Risk management is managed and monitored by the board. Given their fundamental significance to the company, investment and treasury and funding risks are managed by specific processes which are described below.

Draganfly Investments Limited

Investment risk

The company invests across a range of economic sectors. The portfolio is subject to periodic reviews to ensure there is no undue exposure to any one sector. The valuation of the company's unquoted portfolio and opportunities for realisation depend to some extent on stock market conditions and the buoyancy of the wider mergers and acquisitions market.

Treasury and funding risk

The company's funding objective is that the funding of investment assets are primarily met from shareholders' funds.

Credit Risk

The company's financial assets are unsecured investments, in which the board considers the maximum credit risk to be the carrying value of the asset. The portfolio is diversified and credit risk is managed on an asset specific basis.

Liquidity risk

At 30 April 2008 the company had an overdrawn position of £184,048. During the financial period the company realised some of its investments but also responded to investment opportunities and as a result has cash at bank of £15,895 at 30 April 2009. The board continues to monitor the position closely.

Price risk

The valuation of unquoted investments depends upon a combination of market factors and the performance of the underlying asset. The company currently does not hedge the market risk inherent in the portfolio but manages asset performance risk on an asset specific basis.

Interest rate risk

The company invests in shares and other securities. The assets are funded with a mixture of mainly shareholders' funds and a bank overdraft. The board seeks to minimise interest rate exposure by minimising credit funding.

Currency exchange risk

The company holds investments in different countries and currencies. There is therefore an inherent risk that exchange rate fluctuations will adversely affect the portfolio value. The board does not hedge this risk specifically as it believes that there is no exposure to any particular currency.

Payments of creditors

The company aims to pay all suppliers within the payment terms negotiated with each individual supplier. At 30 April 2008 and 2009, there were no trade creditors payable.

Draganfly Investments Limited

Directors and their interests

The directors who served during the year and their interests in the company are as stated below:

| | Class of share | 30/04/09 | 30/04/08 |
|--------------|-----------------|-----------|-----------|
| T E G Bayman | Ordinary shares | - | - |
| R L Pitcher | Ordinary shares | - | - |
| J P Hamilton | Ordinary shares | - | - |
| D Edmonds | Ordinary shares | - | - |
| M Horrocks | Ordinary shares | 5,666,667 | 5,666,667 |

Directors' responsibilities

The directors are responsible for preparing the directors' report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement as to disclosure of information to Auditor

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditor is unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

This report was approved by the Board on

28 JUL 2009

and signed on its behalf by


T E G Bayman

Director

Draganfly Investments Limited

Independent auditor's report to the members of Draganfly Investments Limited

We have audited the financial statements on pages 9 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Article 10 of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As more fully explained in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 April 2009 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit



John Warner (Senior Statutory Auditor)

For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor

Chartered Accountants

12 Gleneagles Court

Brighton Road

Crawley

West Sussex

RH10 6AD

29 July 2009

Draganfly Investments Limited

Profit and loss account for the year ended 30 April 2009

| | | Continuing Operations | |
|--------------------------------------|---------|----------------------------|----------------------------|
| | | Year End 30/4/09 | Year End 30/4/08 |
| | | £ | £ |
| (Losses)/ gains on investments | Notes 9 | (749,404) | 55,955 |
| Income | 2 | 7,482 | 6,971 |
| | | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |
| Administrative expenses | | (741,922) | 62,926 |
| Operating loss | 3 | <u>(258,449)</u> | <u>(258,042)</u> |
| | | (1,000,371) | (195,116) |
| Interest payable and similar charges | 4 | (10,665) | (17,073) |
| Loss on ordinary activities | | <u>(1,011,036)</u> | <u>(212,189)</u> |

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

Loss per share (pence)

| | | | |
|---------|---|---------------|---------------|
| Basic | 7 | (0.89) | (0.19) |
| Diluted | 7 | <u>(0.89)</u> | <u>(0.19)</u> |

Draganfly Investments Limited

Balance sheet as at 30 April 2009

| | | 30/04/09 | | 30/04/08 | |
|---|-------|----------|-------------|-----------|-----------|
| | Notes | £ | £ | £ | £ |
| Fixed assets | | | | | |
| Investments | 8 | | 1,777,000 | | 2,997,889 |
| Current assets | | | | | |
| Debtors | 9 | 9,369 | | 5,022 | |
| Cash at bank and in hand | | 15,895 | | — | |
| | | 25,264 | | 5,022 | |
| Creditors: amounts falling due within one year | | | | | |
| Creditors | 10 | (13,860) | | (19,423) | |
| Bank overdraft | 10 | — | | (184,048) | |
| | | (13,860) | | (203,471) | |
| Net current assets/ (liabilities) | | | 11,404 | | (198,449) |
| Total assets less current liabilities | | | 1,788,404 | | 2,799,440 |
| Net assets | | | 1,788,404 | | 2,799,440 |
| Capital and reserves | | | | | |
| Called up share capital | 12 | | 1,142,270 | | 1,142,270 |
| Share premium account | 13 | | 1,980,303 | | 1,980,303 |
| Profit and loss account | 13 | | (1,334,169) | | (323,133) |
| Equity shareholders' funds | 14 | | 1,788,404 | | 2,799,440 |

The financial statements were approved and authorised for issue by the Board on and signed on its behalf by

28 JUL 2009

Director

T E G Bayman

Draganfly Investments Limited

Cash flow statement for the year ended 30 April 2009

| | Notes | Year ended 30/04/09 £ | Year ended 30/04/08 £ |
|---|-------|--------------------------|--------------------------|
| Reconciliation of operating loss to net cash outflow from operating activities | | | |
| Operating loss | | (1,000,371) | (196,462) |
| Realised loss /(gain) on sale of investments | | 423,865 | (183,212) |
| Unrealised loss on revaluation of investments | | 325,539 | 127,257 |
| (Increase) in debtors | | (4,347) | (865) |
| (Decrease) in general creditors | | (5,563) | (9,087) |
| Net cash outflow from operating activities | | (260,877) | (262,369) |

Cash flow statement

| | | | |
|--|----|----------------|------------------|
| Net cash outflow from operating activities | | (260,877) | (262,369) |
| Servicing of finance | 16 | (10,665) | (15,473) |
| Interest received | | - | 1,346 |
| Capital expenditure and financial investment | 16 | 471,485 | (224,334) |
| Increase / (Decrease) in cash in the year | | 199,943 | (500,830) |

Reconciliation of net cash flow to movement in net funds/(debt)

| | | | |
|---|----|---------------|------------------|
| Increase / (Decrease) in cash in the year | 17 | 199,943 | (500,830) |
| Net (debt) / funds at 1 May 2008 | 17 | (184,048) | 316,782 |
| Net funds /(debt) at 30 April 2009 | 17 | 15,895 | (184,048) |

Draganfly Investments Limited

Notes to the financial statements for the year ended 30 April 2009

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 £1,011,036 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 are stable at approximately £260,000 per annum, and the value of the listed investments at the date of approval of these financial statements is approximately £426,000. This provides sufficient readily realisable resources for the company to continue in operation for about 20 months from balance sheet date, 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. Investments

After initial recognition, investments, which are classified as held for trading, are measured at fair value. Gains or losses on investments held for trading are recognised in the profit and loss account.

1.4. 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.

1.5. Taxation

Following changes in legislation the company is treated as an International Service Entity ("ISE"). In order to be an ISE a company has to not form a link in a value chain belonging to the consumption of goods and services by individuals belonging to Jersey and must be included in a private list of ISE's maintained by a Jersey Trust Company being regulated by the JFSC under the financial services law. Pentera Trust Company Limited, administrators of the company, maintains a list which includes the company.

This status is renewable on an annual basis upon payment of a fee to the Controller of Income Tax in Jersey, and it is the company's intention to maintain this status.

Consequently, no provision for taxation, either current or deferred has been made in these financial statements.

Draganfly Investments Limited

Notes to the financial statements for the year ended 30 April 2009

1.6. Financial instruments

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 October 2006, which have superseded the BVCA guidelines previously used. 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 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 and creditors are measured at cost and are excluded from the financial instrument disclosures.

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Notes to the financial statements for the year ended 30 April 2009

2. Income

The income of the company for the year has been derived from its principal activity and comprises:

| | Year ended 30/04/09 £ | Year ended 30/04/08 £ |
|--|--------------------------------|--------------------------------|
| Dividends receivable | 7,482 | 5,625 |
| Other interest receivable and similar income | - | 1,346 |
| | <u>7,482</u> | <u>6,971</u> |

3. Operating loss

| | Year ended 30/04/09 £ | Year ended 30/04/08 £ |
|--|--------------------------------|--------------------------------|
| Operating loss is stated after charging: | | |
| Auditor remuneration | <u>10,983</u> | <u>12,774</u> |

Remuneration paid to auditor is solely in respect of audit services.

4. Interest payable and similar charges

| | Year ended 30/04/09 £ | Year ended 30/04/08 £ |
|---|--------------------------------|--------------------------------|
| Included in this category is the following: | | |
| Interest payable on bank overdrafts | <u>10,665</u> | <u>17,073</u> |

5. Employees

There were no employees during the year apart from the directors.

Draganfly Investments Limited

Notes to the financial statements for the year ended 30 April 2009

6. Directors' remuneration

| | Year ended 30/04/09 | Year ended 30/04/08 |
|---|------------------------|------------------------|
| | £ | £ |
| The company paid consultancy fees as follows: | | |
| M Horrocks | 12,500 | 12,500 |
| D Edmonds | 25,000 | 25,000 |
| | 37,500 | 37,500 |

7. Earnings per share

The basic earnings per ordinary share is calculated by dividing profit for the year less non-equity dividends and other appropriations in respect of non-equity shares by the weighted average number of equity shares outstanding during the year.

The diluted earnings per ordinary share is calculated by dividing profit for the year less non-equity dividends and other appropriations in respect of non-equity shares 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 basic earnings per ordinary share is based upon the following data:

| <i>Earnings</i> | 2009 | 2008 |
|--|-------------|-------------|
| | £ | £ |
| Earnings for the purposes of basic earnings per share and diluted earnings per share | (1,011,036) | (212,189) |
| <i>Number of shares</i> | 2009 | 2008 |
| | £ | £ |
| Basic weighted average number of shares | 114,227,000 | 114,227,000 |
| Weighted average number of shares for the purposes of diluted earnings per share | 114,227,000 | 114,227,000 |

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

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Notes to the financial statements for the year ended 30 April 2009

8. Fixed asset investments

The carrying value of investments is stated as follows:

| | Quoted £ | Unquoted £ | Total £ |
|--|-----------------------|-------------------------|-------------------------|
| Fair value of investments at 1 May 2008 | 1,404,266 | 1,593,623 | 2,997,889 |
| Transfers | 79,973 | (79,973) | - |
| Costs of investment purchases in the period | 571,815 | 7 | 571,822 |
| Sale proceeds of investments sold in the period | (1,043,327) | - | (1,043,327) |
| | <u>1,012,727</u> | <u>1,513,657</u> | <u>2,526,384</u> |
| Realised losses on sale of investments included in the profit and loss account | (423,865) | - | (423,865) |
| Unrealised change in fair value of investments held at 30 April 2009 included in the profit and loss account | (231,175) | (94,364) | (325,539) |
| | <u>(655,040)</u> | <u>(94,364)</u> | <u>(749,404)</u> |
| Fair value of portfolio of investments at 30 April 2009 | <u>357,687</u> | <u>1,419,293</u> | <u>1,776,980</u> |
| Millpath Limited (note 15) | - | 20 | 20 |
| Fair value of total investments at 30 April 2009 | <u>357,687</u> | <u>1,419,313</u> | <u>1,777,000</u> |

9. Debtors

| | 30/04/09 £ | 30/04/08 £ |
|--------------------------------|---------------|---------------|
| Prepayments and accrued income | 9,369 | 5,022 |

10. Creditors: amounts falling due within one year

| | 30/04/09 £ | 30/04/08 £ |
|------------------------------|---------------|----------------|
| Bank overdraft | - | 184,048 |
| Accruals and deferred income | 13,860 | 19,423 |
| | <u>13,860</u> | <u>203,471</u> |

During the year there was a bank overdraft facility available, the conditions being that the sterling equivalent value of the portfolio, excluding any securities deemed to be unsuitable as collateral by the bank, must exceed the total current drawing under the facility by a margin of not less than 300%. The facility was not being utilised as at 30 April 2009 and the facility ceased on 30 June 2009.

Draganfly Investments Limited

Notes to the financial statements for the year ended 30 April 2009

11. Financial risk management objectives and policies

The company's risk management objective is that the funding of investment assets is primarily met from shareholders' funds.

Interest Rate Risk

The company invests in shares and other securities. The assets are funded with a mixture of mainly shareholders' funds and a bank overdraft. The board seeks to minimise interest rate exposure by minimising the credit funding.

Credit Risk

The company's financial assets are unsecured investments, in which the board considers the maximum credit risk to be the carrying value of the asset. The portfolio is diversified and credit risk is managed on an asset specific basis by the board.

Cash is held with at least AA rated institutions.

Liquidity Risk

As at 30 April 2008 the company had an overdrawn bank position of £184,048. During the financial period the company mindful of the liquidity risk and the state of the market has been managing this down. As at 30 April 2009 the company had a facility with Standard Bank but had cash at bank of £15,895. The Board continues to monitor the position closely.

Currency exchange risk

The company holds investments in different countries and currencies. There is therefore an inherent risk that exchange rate fluctuations will adversely affect the portfolio value. The board does not hedge this risk specifically as it believes that there is no exposure to any particular currency.

Draganfly Investments Limited

Notes to the financial statements for the year ended 30 April 2009

15. Related party transactions

The company owns a 20% holding in Millpath Limited, a company incorporated in England, which provides investment advice to Draganfly Investments Limited, for which it has been paid £120,000 (2008:£120,000). The company has no influence over Millpath Limited and has waived any entitlement to dividend. Millpath Limited is not therefore treated as an associated company.

During the year the company paid fees of £19,708 (2008-£5,823) 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, R L Pitcher and J P Hamilton are directors and majority shareholders.

16. Gross cash flows

| | 30/04/09 | 30/04/08 |
|---|------------------|------------------|
| | £ | £ |
| Servicing of finance | | |
| Interest paid | <u>(10,665)</u> | <u>(15,473)</u> |
| Capital expenditure and financial investment | | |
| Payment for current asset investment | (571,842) | (1,590,157) |
| Receipts from sales of investments | <u>1,043,327</u> | <u>1,365,823</u> |
| | <u>471,485</u> | <u>(224,334)</u> |

17. Analysis of changes in net funds/(debt)

| | Opening balance | Cash flows | Closing balance |
|---------------------------|--------------------|----------------|--------------------|
| | £ | £ | £ |
| Cash at bank and in hand | - | 15,895 | 15,895 |
| Overdrafts/ cash | <u>(184,048)</u> | 184,048 | - |
| Net funds / (debt) | <u>(184,048)</u> | <u>199,943</u> | <u>15,985</u> |

