

Registration number 89889

Draganfly Investments Limited
Directors' report and financial statements
for the period ended 30 April 2006

Draganfly Investments Limited

Company information

Directors	P C Harris J D Melia J F Bale D Edmonds M Horrocks (Chairman) C F Cowan (Alternate)	Appointed 7 April 2005 Appointed 7 April 2005 Appointed 7 April 2005 Appointed 21 April 2005 Appointed 21 April 2005 Appointed 17 May 2005
Secretary	Crills Secretaries Limited	
Company number	89889	
Registered office	44 Esplanade St Helier Jersey JE4 8PN	
Auditors	Baker Tilly 12 Gleneagles Court Brighton Road Crawley West Sussex RH10 6AD	
Business address	44 Esplanade St Helier Jersey JE4 8PN	

Draganfly Investments Limited

Company information

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Bankers

Standard Bank Jersey Limited
Standard Bank House
PO Box 583, 47-49 La Motte Street
St. Helier
Jersey JE4 8XR

The Royal Bank of Scotland International Limited
PO Box 64
71 Bath Street
St Helier
Jersey JE4 8PJ

Draganfly Investments Limited

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Draganfly Investments Limited

Directors' Report for the period ended 30 April 2006

The directors present their report and the financial statements for the period ended 30 April 2006.

Incorporation

The company was incorporated on 7 April 2005 as Draganfly Investments Limited. The company commenced trading on 29 April 2005.

Principal activity

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

Review of the business

The investment brief is to run a small portfolio of investments. At the balance sheet date, net assets were £3,162,111 (2.77p per share). For the period ended 30 April 2006, the company made a profit of £39,603 which included unrealised gains on investments of £230,567.

Subsequent to the balance sheet date, the company's unaudited net asset value had decreased to £2,481,309 (2.11p per share) but the directors are confident with the potential of the current portfolio. The board believes that the current environment for small companies and pre-IPO investments remains very encouraging. The board is always alert to fresh investment opportunities, but does not anticipate materially increasing the number of holdings at this stage.

Post balance sheet events

Details of post balance sheet events are given in note 15 to the accounts.

Dividends

The directors do not recommend payment of a final 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.

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.

Draganfly Investments Limited

Directors' Report for the period ended 30 April 2006

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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

During the financial period the company made a profit of £39,603 from its investing and administration activities and had an overdrawn bank position of £270,733 at the end of the period. The company has a further overdraft facility of £129,267 available.

Price risk

The valuation of unquoted investments depends upon a combination of market factors and the performance of the underlying asset. The company 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. 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.

Payments of creditors

The company aims to pay all suppliers within the payment terms negotiated with each individual supplier. At 30 April 2006, there were no trade creditors payable.

Directors and their interests

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

		Class of share	30/04/06	07/04/05 or date of appointment
P C Harris	Appointed 7 April 2005	Ordinary shares	-	-
J D Melia	Appointed 7 April 2005	Ordinary shares	-	-
J F Bale	Appointed 7 April 2005	Ordinary shares	-	-
D Edmonds	Appointed 21 April 2005	Ordinary shares	-	-
M Horrocks	Appointed 21 April 2005	Ordinary shares	4,666,667	-
C F Cowan	Appointed 17 May 2005	Ordinary shares	-	-
M C Stone	Appointed 17 May 2005, resigned 9 June 2006	Ordinary shares	-	-

Draganfly Investments Limited

**Directors' Report
for the period ended 30 April 2006**

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Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and General Accepted Accounting Practice.

The directors are responsible for preparing financial statements for each financial period which give a true and fair view of the state of the 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

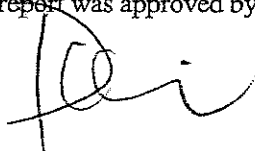
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding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

The directors of a company must, in determining how amounts are presented within items in the profit and loss account and balance sheet, have regard to the substance of the reported transaction or arrangement, in accordance with generally accepted accounting principles and practice.

Statement as to disclosure of information to Auditors

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 auditors are 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 31 October 2006 and signed on its behalf by



P C Harris
Director

Draganfly Investments Limited

**Independent Auditors' Report To The Members Of
Draganfly Investments Limited**

We have audited the financial statements on pages 6 to 18

This report is made solely to the company's members, as a body, in accordance with Article 110 of 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with Companies (Jersey) Law 1991. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition, we also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Draganfly Investments Limited

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs at 30 April 2006 and of its profit for the period then ended and have been properly prepared in accordance with Companies (Jersey) Law 1991;
- the information given in the Directors' Report is consistent with the financial statements.

Baker Tilly
Registered Auditors
Chartered Accountants
12 Gleneagles Court
Brighton Road
Crawley
West Sussex
RH10 6AD

31 October 2006

Draganfly Investments Limited

**Profit and Loss Account
for the period ended 30 April 2006**

		Continuing operations
		Period ended 30/04/06
		£
	Notes	
Turnover	2	355,140
Administrative expenses		(332,692)
Operating profit	3	22,448
Other interest receivable and similar income		20,412
Interest payable and similar charges	4	(3,257)
Profit on ordinary activities before taxation		39,603
Tax on profit on ordinary activities		-
Profit on ordinary activities after taxation		39,603
Retained profit for the period	12	39,603
There are no recognised gains or losses other than the profit or loss for the above financial period.		
Earnings per share (pence)		
Basic	7	0.03
Diluted	7	0.03

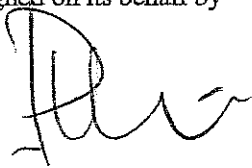
The notes on pages 9 to 18 form an integral part of these financial statements.

Draganfly Investments Limited

Balance Sheet
as at 30 April 2006

	Notes	30/04/06	
		£	£
Current assets			
Investments	8	3,445,409	
		<u>3,445,409</u>	
Creditors: amounts falling due within one year	9	(283,233)	
		<u>(283,233)</u>	
Net current assets			<u>3,162,176</u>
Total assets less current liabilities			<u>3,162,176</u>
			<u>3,162,176</u>
Net assets			<u>3,162,176</u>
Capital and reserves			
Called up share capital	11		1,142,270
Share premium account	12		1,980,303
Profit and loss account	12		39,603
			<u>3,162,176</u>
Equity shareholders' funds	13		<u>3,162,176</u>

The financial statements were approved and authorised for issue by the Board on 31 October 2006 and are signed on its behalf by



P C Harris
Director

The notes on pages 9 to 18 form an integral part of these financial statements.

Draganfly Investments Limited

**Cash Flow Statement
for the period ended 30 April 2006**

	Notes	Period ended 30/04/06 £
Reconciliation of operating profit to net cash outflow from operating activities		
Operating profit		22,448
Realised profit on sale of investments		(112,673)
Unrealised profit on revaluation of investments		(230,567)
Increase in creditors		12,500
Net cash outflow from operating activities		<u>(308,292)</u>
 Cash flow statement		
Net cash outflow from operating activities		(308,292)
Returns on investments and servicing of finance	16	17,155
Capital expenditure	16	(3,102,169)
		<u>(3,393,306)</u>
Financing	16	3,122,573
Decrease in cash in the period		<u>(270,733)</u>
 Reconciliation of net cash flow to movement in net funds (Note 17)		
Decrease in cash in the period		<u>(270,733)</u>
Net debt at 30 April 2006		<u>(270,733)</u>

Draganfly Investments Limited

Notes to the financial statements for the period ended 30 April 2006

1. Accounting policies

1.1. Accounting convention

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

1.2. Taxation

The company has been granted exempt company status within the meaning of Article 123A of the Income Tax (Jersey) Law 1961 (as amended). The effect of such special status is that the company is treated as a non-resident company for the purposes of Jersey tax laws and is therefore exempt from Jersey income tax on its profits arising outside Jersey and, by concession, on bank deposit interest arising in Jersey (and from any obligation to withhold Jersey income tax from any interest or dividend payments made by it). 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 period ended 30 April 2006

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1.3. Financial instruments

Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition costs associated with the investment. All purchases and sales of investments are recognised using trade date accounting.

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

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 mid-market 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' as recommended by the British Venture Capital Association valuation guidelines, published August 2003:

(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.

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.

2. Turnover

The total turnover of the company for the period has been derived from its principal activity and includes dividends received from investments and unrealised profit on revaluation of investments.

Draganfly Investments Limited

Notes to the financial statements
for the period ended 30 April 2006

..... continued

3. Operating profit	Period ended 30/04/06 £
Operating profit is stated after charging: Auditors' remuneration	<u>10,000</u>
4. Interest payable and similar charges	Period ended 30/04/06 £
Included in this category is the following: On overdrafts	<u>3,257</u>
5. Employees	
There were no employees during the period apart from the directors.	
6.1. Directors' remuneration	Period ended 30/04/06 £
M Horrocks remuneration	12,500
D Edmonds remuneration	25,000
	<u>37,500</u>

Draganfly Investments Limited

Notes to the financial statements
for the period ended 30 April 2006

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6.2. Directors' interest in warrants

Director	Number of warrants			Exercise price	Date		
	7 April 2005	Granted	Exercised		30 April 2006	from which exercisable	Expiry date
M Horrocks	-	3,000,000	-	3,000,000	3p	29/04/2005	29/4/2008
D Edmonds	-	850,000	-	850,000	3p	29/04/2005	29/4/2008
	-	3,850,000	-	3,850,000			

Draganfly Investments Limited

Notes to the financial statements
for the period ended 30 April 2006

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7. Earnings per share

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

The diluted earnings per ordinary share is calculated by dividing profit for the period over 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>	2006 £
Earnings for the purposes of basic earnings per share and diluted earnings per share	<u>39,603</u>

<i>Number of shares</i>	2006 £
Basic weighted average number of shares	114,227,000
Dilutive potential ordinary shares: 6,850,000 warrants held at an average share price of 3.06p	<u>134,314</u>
Weighted average number of shares for the purposes of diluted earnings per share	<u>114,361,314</u>

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

Draganfly Investments Limited

**Notes to the financial statements
for the period ended 30 April 2006**

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8. Current asset investments	Quoted £	Unquoted £	Total £
The carrying value of investments is stated as follows:			
Costs of investment purchases in the period	3,659,304	465,537	4,124,841
Sale proceeds of investments sold in the period	(1,022,672)	-	(1,022,672)
Realised gains on sale of investments included in turnover	112,673	-	112,673
	<hr/>	<hr/>	<hr/>
Cost of investments held at 30 April 2006	2,749,305	465,537	3,214,842
Unrealised change in fair value of investments held at 30 April 2006 included in turnover	230,567	-	230,567
	<hr/>	<hr/>	<hr/>
Fair value of investments at 30 April 2006	<u>2,979,872</u>	<u>465,537</u>	<u>3,445,409</u>
			30/04/06
9. Creditors: amounts falling due within one year			£
Bank overdraft			270,733
Accruals and deferred income			12,500
			<hr/>
			<u>283,233</u>

The bank overdraft totalling £270,733 is secured by a debenture on the bank's standard form, and a charge over a portfolio of the company's securities held by the bank which at 30 April 2006 had a value of £2,629,442.

Draganfly Investments Limited

**Notes to the financial statements
for the period ended 30 April 2006**

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10. 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. 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.

Liquidity Risk

During the financial period the company made a profit of £39,603 from its investing and administration activities and had an overdrawn bank position of £270,733 at the end of the period. The company has a further overdraft facility of £129,267 available.

Draganfly Investments Limited

Notes to the financial statements
for the period ended 30 April 2006

..... continued

11. Share capital		30/04/06
		£
	Authorised equity	
	1,000,000,000 Ordinary shares of £0.01 each	<u>10,000,000</u>
	Allotted, called up and fully paid equity	
	114,227,000 Ordinary shares of £0.01 each	<u>1,142,270</u>
	Equity Shares	
	114,227,000 Ordinary shares of £0.01 each	<u>1,142,270</u>

The company was incorporated on 7 April 2005 with an authorised share capital of £10,000,000 divided into 1,000,000,000 shares of 1p each. Two shares were issued at par on incorporation and a further 11,999,998 were issued at a price of 1p per share on 21 April 2005 to provide initial working capital. On admission of those shares to the Alternative Investment Market on 29 April 2005, a further 102,227,000 shares were issued at 3p per share, in order to raise funds for additional working capital and investment.

At 30 April 2006 there existed the following warrants for unissued ordinary shares.

	Number of options						
7 April 2005	Granted	Exercised	30 April 2006	Exercise price	Date from which exercisable	Expiry Date	
-	6,850,000	-	6,850,000	3p	29/04/2005	29/04/2008	
-	6,850,000	-	6,850,000				

Draganfly Investments Limited

Notes to the financial statements
for the period ended 30 April 2006

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12. Equity Reserves	Share premium account £	Profit and loss account £	Total £
Premium on issue of shares	1,980,303		1,980,303
Retained profit for the period		39,603	39,603
At 30 April 2006	1,980,303	39,603	2,019,906

Expenses relating directly to the issue of shares amounting to £64,237, have been set directly against the share premium account.

Included in the balance of £39,603 is unrealised increases in the fair value of investments of £230,567.

13. Reconciliation of movements in shareholders' funds	30/04/06 £
Profit for the period	39,603
Net proceeds of equity share issue	3,122,573
Net addition to shareholders' funds	3,162,176

14. Related party transactions

During the period the company paid fees of £42,568 to Walkers a firm in which P Harris and J Melia, directors of the company, are partners. They are also directors of Crills Limited, the parent company of Crills Secretaries Limited, the company secretary. At the balance sheet date no sums remained payable.

15. Post balance sheet events

At 30 September 2006 the unaudited net asset value had fallen to £2,481,309 (2.17p per share).

Draganfly Investments Limited

Notes to the financial statements
for the period ended 30 April 2006

..... continued

16. Gross cash flows

	30/04/06 £
Returns on investments and servicing of finance	
Interest received	20,412
Interest paid	(3,257)
	<u>17,155</u>
Capital expenditure	
Cost of current asset investment	4,124,841
Receipts from sales of investments	(1,022,672)
	<u>3,102,169</u>
Financing	
Issue of ordinary share capital	<u>3,122,573</u>

17. Analysis of changes in net debt

	Cash flows £	Closing balance £
Overdrafts	(270,733)	(270,733)
Net debt	<u>(270,733)</u>	<u>(270,733)</u>