

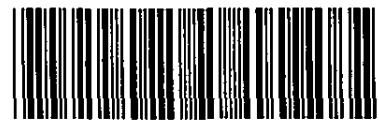
Registered no. 05834897

**CODA OCTOPUS (UK) HOLDINGS
LIMITED**

FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009

TUESDAY



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COMPANIES HOUSE

**LUBBOCK FINE
Chartered Accountants
Russell Bedford House
City Forum, 250 City Road
London EC1V 2QQ**

CODA OCTOPUS (UK) HOLDINGS LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009

CONTENTS	PAGE
Officers and professional advisers	1
The directors' report	2
Independent auditor's report to the shareholders	4
Profit and loss account	7
Balance sheet	8
Notes to the financial statements	9

CODA OCTOPUS (UK) HOLDINGS LIMITED
OFFICERS AND PROFESSIONAL ADVISERS

The board of directors	B G Cunningham G Turner
Company secretary	W W Grant
Registered office	14 Albany Road Granby Industrial Estate Weymouth DT4 9TH
Auditor	Lubbock Fine Chartered Accountants & Statutory Auditor Russell Bedford House City Forum, 250 City Road London EC1V 2QQ

CODA OCTOPUS (UK) HOLDINGS LIMITED

THE DIRECTORS' REPORT

YEAR ENDED 31 OCTOBER 2009

The directors have pleasure in presenting their report and the financial statements of the company for the year ended 31 October 2009

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company during the year was that of a management and holding company. The results for the year and the financial position at year end were in line with the expectations of the directors.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties are integrated with the principal risks and uncertainties of the Group and are not managed separately. These are detailed in the annual report of the Group.

FUTURE DEVELOPMENTS

The future developments of the business are in line with those described in the annual report of the group.

RESULTS AND DIVIDENDS

The profit for the year amounted to £397,426. The directors have not recommended a dividend.

FINANCIAL INSTRUMENTS

The company's financial instruments comprise borrowings, cash and liquid resources. The main risks arising from the company's financial instruments are interest rate risk, cash flow risk and liquidity risk.

The company has regular management meetings and board meetings to continually monitor these risks and takes action as is deemed necessary.

DIRECTORS

The directors who served the company during the year were as follows:

B G Cunningham
A S Davis (retired 16 January 2010)
G Turner
J E Frank (retired 18 September 2009)
J L Reid (retired 25 September 2009)

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' Report and the 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 the 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 those financial statements, the directors are required to

CODA OCTOPUS (UK) HOLDINGS LIMITED

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 OCTOBER 2009

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

In so far as the directors are aware

- there is no relevant audit information of which the company's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

AUDITOR

Lubbock Fine are deemed to be re-appointed under section 487(2) of the Companies Act 2006.

Signed on behalf of the directors


Geoff Turner
Director

Approved by the directors on

10 December 2010.

CODA OCTOPUS (UK) HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CODA OCTOPUS (UK) HOLDINGS LIMITED

YEAR ENDED 31 OCTOBER 2009

We have audited the financial statements of Coda Octopus (UK) Holdings Limited for the year ended 31 October 2009. 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 shareholders, as a body, in accordance with Chapter 3 of Section 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on pages 2 to 3, 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 OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by directors, and the overall presentation of the financial statements.

CODA OCTOPUS (UK) HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CODA OCTOPUS (UK) HOLDINGS LIMITED (continued)

YEAR ENDED 31 OCTOBER 2009

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 October 2009 and of its profit 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 Act 2006

EMPHASIS OF MATTER - GOING CONCERN

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to these financial statements concerning the ability of the company to continue as a going concern

The financial statements of the company have been prepared on a going concern basis which assumes the continued support of the ultimate parent company and the group's loan note holder

The group is in breach of the conditions set out in the loan note agreement as detailed in note 1 to these financial statements, and as such, the loan note holder is able to enforce its rights under the terms of the loan note agreement and foreclose on the group's assets

The group's breach of the conditions of the loan note agreement indicate the existence of a material uncertainty and casts significant doubt as to the ability of the company to continue as a going concern

Furthermore, as a result of the breach of the terms of the loan note agreement, there remains a material uncertainty as to whether the loan note holder will continue and extend the original cash control framework agreement, as disclosed in note 1 to these financial statements, or whether the loan note holder will request immediate repayment of the remaining amounts due to it

A material uncertainty exists as to the recoverability of any amounts due from group undertakings as disclosed in note 1 to the accounts

The financial statements do not include the adjustments that would result if the company or group undertakings were unable to continue as a going concern

Our opinion is not qualified in this respect

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

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CODA OCTOPUS (UK) HOLDINGS LIMITED

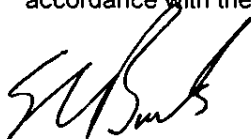
**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CODA OCTOPUS (UK)
HOLDINGS LIMITED (continued)**

YEAR ENDED 31 OCTOBER 2009

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 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, or
- the directors were not entitled to prepare the financial statements and the directors' report in accordance with the small companies regime



Stephen Banks
Senior Statutory Auditor
For and on behalf of

Lubbock Fine
Chartered Accountants &
Statutory Auditor

Russell Bedford House
City Forum, 250 City Road
London EC1V 2QQ

Date 15/12/2010

51

CODA OCTOPUS (UK) HOLDINGS LIMITED**PROFIT AND LOSS ACCOUNT****YEAR ENDED 31 OCTOBER 2009**

		2009	2008
	Note	£	£
TURNOVER	2	600,000	600,000
Administrative expenses		(204,411)	(858,419)
OPERATING PROFIT/(LOSS)	3	395,589	(258,419)
Interest receivable		2,472	2,318
Interest payable and similar charges	5	(635)	(830)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		397,426	(256,931)
Tax on profit/(loss) on ordinary activities	6	—	—
PROFIT/(LOSS) FOR THE FINANCIAL YEAR		397,426	(256,931)
Balance brought forward		(334,869)	(77,938)
Balance carried forward		<u>62,557</u>	<u>(334,869)</u>

All of the activities of the company are classed as continuing

The company has no recognised gains or losses other than the results for the year as set out above

The notes on pages 9 to 17 form part of these financial statements.

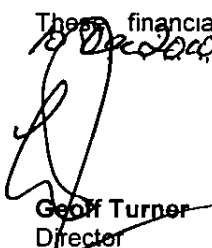
CODA OCTOPUS (UK) HOLDINGS LIMITED

BALANCE SHEET

AS AT 31 OCTOBER 2009

	Note	2009 £	2008 £
FIXED ASSETS			
Tangible assets	7	5,029	3,149
Investments	8	844,576	844,576
		<u>849,605</u>	<u>847,725</u>
CURRENT ASSETS			
Debtors	9	1,770,828	1,137,013
Cash at bank		593,166	338,990
		<u>2,363,994</u>	<u>1,476,003</u>
CREDITORS Amounts falling due within one year	10	(3,124,942)	(2,638,521)
NET CURRENT LIABILITIES		(760,948)	(1,162,518)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>88,657</u>	<u>(314,793)</u>
CAPITAL AND RESERVES			
Called-up equity share capital	14	100	100
Share options reserve	15	26,000	19,976
Profit and loss account		62,557	(334,869)
SHAREHOLDERS' FUNDS/(DEFICIT)	16	<u>88,657</u>	<u>(314,793)</u>

These financial statements were approved by the directors and authorised for issue on 18 Dec 2009, and are signed on their behalf by


Geoff Turner
Director

Company Registration Number 05834897

The notes on pages 9 to 17 form part of these financial statements

CODA OCTOPUS (UK) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards

Going Concern

The financial statements of the company have been prepared on a going concern basis which assumes the continued support of the ultimate parent company and therefore the group's loan note holder

On 21 February 2008, the group issued senior secured convertible loan notes in the amount of \$12m ("the loan notes") to The Royal Bank of Scotland plc ("the loan note holder") The loan notes are secured on all the assets of the group Of the proceeds received, \$6m constituted a specific purpose loan and in the event that the group was unable to use these proceeds as agreed within 12 months of the issue, then unless alternative investments were approved by the loan note holder, \$6m was repayable in in in February 2009

In August 2008, the group informed the loan note holder that they did not believe they would be able to use the \$6m in accordance with the terms of the loan notes The loan note holder verbally consented to the use of an additional \$2m out of the \$6m for general working capital purposes Under the terms of the loan notes, all amendments to the agreement should be in writing and signed by the parties As written consent was not obtained the agreement is void

In January 2009, the group notified the loan note holder that the balance of \$6m had fallen below \$4m On 16 March 2009, the group entered into a Cash Control Framework Agreement ("CCFA") with the loan note holder for a term of 12 months This agreement places restrictions on the group's funds and demands a reduction in costs

The CCFA was renewed for 12 months on 16 March 2010 and was due to expire on the 15 March 2011 This was subsequently extended to 30 June 2011

On 23 August 2010, the group failed to make scheduled interest payments due to the loan note holder breaking the terms of the CCFA The loan note holder has demanded repayment of the \$6m specific purpose loan advanced to the group under the original loan note agreement The group has 120 days from 23 August 2010 to satisfy this demand

Failure to satisfy this demand entitles the loan note holder to enforce its rights under the original terms of the loan notes which includes foreclosure on the group's assets

The directors believe that it is appropriate to prepare the financial statements on a going concern basis which assumes that the demand will be satisfied, the lender will continue and extend the CCFA and not exercise any right to demand immediate repayment of any further amounts due to it under the original loan note agreement The directors have not therefore reclassified the balances outstanding as due within one year as the directors believe the loan note holder will continue to support the group

A material uncertainty exists as to the recoverability of amounts due from group undertakings as disclosed in note 9 to these financial statements If the loan note holder were to withdraw its support and demand immediate repayment of the \$6m specific purpose loan, the amounts due from group undertakings may not be recoverable

If the company is no longer a going concern adjustments would have to be made to reclassify creditors as due within one year, reduce the balance sheet values of the assets to their recoverable amounts, provide for further liabilities that might arise and reclassify fixed assets as current assets

CODA OCTOPUS (UK) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009

1. ACCOUNTING POLICIES *(continued)*

Consolidation

The company was, at the end of the year, a wholly-owned subsidiary of another company incorporated outside the EEA and in accordance with Section 401 of the Companies Act 2006, is not required to produce, and has not published, consolidated accounts

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes a consolidated cash flow statement

Related parties transactions

The company is a wholly owned subsidiary of Coda Octopus Group Inc and is included in the consolidated financial statements of Coda Octopus Group Inc, which are publicly available. As a result the company is exempt under the terms of Financial Reporting Standard No 8 from disclosing related party transactions with entities that are part of Coda Octopus Group Inc

Turnover

Turnover represents amounts receivable for services, net of VAT and trade discounts

Fixed assets

All fixed assets are initially recorded at cost

Investments

Fixed asset investments are stated at cost, less provision for diminution in value

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Plant & Machinery - 33% on cost

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease

Pension costs

The company operates a defined contribution pension scheme. Contributions payable to the company's pension scheme are charged to the profit and loss account in the period to which they relate

CODA OCTOPUS (UK) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009

1 ACCOUNTING POLICIES *(continued)*

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exception

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit

Share-based payments

The company issues equity-settled payments to certain employees (including directors). Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, together with a corresponding increase in equity, based on the company's estimate of the shares that will eventually vest

Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Where the terms of an equity-settled transaction are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification

Where an equity-settled transaction is cancelled, it is treated as if it had vested on the date of the cancellation, and any expense not yet recognised for the transaction is recognised immediately. However, if a new transaction is substituted for the cancelled transaction, and designated as a replacement transaction on the date that it is granted, the cancelled and new transactions are treated as if they were a modification of the original transaction, as described in the previous paragraph

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities

CODA OCTOPUS (UK) HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 OCTOBER 2009

2. TURNOVER

The turnover and profit before tax are attributable to the one principal activity of the company

An analysis of turnover is given below

	2009	2008
	£	£
United Kingdom	<u>600,000</u>	<u>600,000</u>

3. OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after charging

	2009	2008
	£	£
Depreciation of owned fixed assets	2,104	1,263
Loss on disposal of fixed assets	530	—
Operating lease costs		
- Other	3,725	7,828
Net loss on foreign currency translation	21,715	231,335
Auditor's remuneration - audit of the financial statements	3,495	3,500
Auditor's remuneration - other fees	<u>500</u>	<u>500</u>

	2009	2008
	£	£
Auditor's remuneration - audit of the financial statements	<u>3,495</u>	<u>3,500</u>
Auditor's remuneration - other fees		
- Taxation services	<u>500</u>	<u>500</u>

4. PARTICULARS OF EMPLOYEES

The average number of staff employed by the company during the financial year amounted to

	2009	2008
	No	No
Number of management staff	<u>1</u>	<u>2</u>

The aggregate payroll costs of the above were

	2009	2008
	£	£
Wages and salaries	33,889	25,498
Social security costs	5,019	3,914
Other pension costs	1,463	10,115
Equity-settled share-based payments	6,025	365
	<u>46,396</u>	<u>39,892</u>

CODA OCTOPUS (UK) HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 OCTOBER 2009

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2009	2008
	£	£
Other similar charges payable	<u>635</u>	<u>830</u>

6. TAXATION ON ORDINARY ACTIVITIES

Factors affecting current tax charge

The tax assessed on the profit/(loss) on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 28% (2008 - 28%)

	2009	2008
	£	£
Profit/(loss) on ordinary activities before taxation	<u>397,426</u>	<u>(256,931)</u>
Profit/(loss) on ordinary activities by rate of tax	111,279	(71,941)
Capital allowances in excess of depreciation	(734)	(49)
Expenses not deductible for UK tax	1,687	1,370
Losses brought forward utilised	(22,593)	-
Losses carried forward	-	70,620
Group relief claimed	<u>(89,639)</u>	<u>-</u>
Total current tax	<u>-</u>	<u>-</u>

Factors that may affect future tax charges

There are potential deferred tax assets of approximately £64,000 (2008 - £87,000) in respect of losses carried forward. These have not been recognised in the financial statements due to the uncertainty concerning the time scale of its recoverability. It is anticipated that the deferred tax assets will be recovered when the company makes sufficient taxable profits.

7. TANGIBLE FIXED ASSETS

	Plant & Machinery
	£
COST	
At 1 November 2008	4,412
Additions	4,696
Disposals	(928)
At 31 October 2009	<u>8,180</u>
DEPRECIATION	
At 1 November 2008	1,263
Charge for the year	2,104
On disposals	(216)
At 31 October 2009	<u>3,151</u>
NET BOOK VALUE	
At 31 October 2009	<u>5,029</u>
At 31 October 2008	<u>3,149</u>

CODA OCTOPUS (UK) HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 OCTOBER 2009

8. INVESTMENTS

	Shares in group undertakings £
COST	
At 1 November 2008 and 31 October 2009	<u>844,576</u>
NET BOOK VALUE	
At 31 October 2009 and 31 October 2008	<u>844,576</u>

The company owns 100% of the issued ordinary share capital of the following companies

	2009 £	2008 £
Coda Octopus Martech Limited		
Country of incorporation	England and Wales	
Nature of business	Electronic and electrical designers and engineers	
Aggregate capital and reserves	61,700	113,637
Profit for the year	<u>(51,937)</u>	<u>69,868</u>
Coda Octopus R&D Limited.		
Country of incorporation	England and Wales	
Nature of business	Research and development	
Aggregate capital and reserves	(1,172,434)	(535,682)
Profit for the year	<u>(641,807)</u>	<u>(273,177)</u>

Additionally, the company indirectly owns 100% of the issued ordinary share capital of the following company, acquired by Coda Octopus Martech Limited on 14 December 2008

Dragon Design Limited		
Country of incorporation	England and Wales	
Nature of business	Dormant at balance sheet date, (previously Electronic and electrical designers and engineers)	
Aggregate capital and reserves	100	(4,670)
Profit for the year	<u>4,770</u>	<u>(21,294)</u>

9. DEBTORS

	2009 £	2008 £
Amounts owed by group undertakings	1,767,596	1,134,229
Prepayments and accrued income	3,232	2,784
	<u>1,770,828</u>	<u>1,137,013</u>

CODA OCTOPUS (UK) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009

10. CREDITORS: Amounts falling due within one year

	2009	2008
	£	£
Trade creditors	12,990	14,628
Amounts owed to group undertakings	2,957,700	2,527,683
PAYE and social security	27,599	9,949
VAT	77,831	54,246
Other creditors	25,386	126
Accruals and deferred income	23,436	31,889
	<u>3,124,942</u>	<u>2,638,521</u>

11. SHARE-BASED PAYMENTS

Equity-settled share-based payments

Employees of the company participate in a share option plan established by the ultimate parent company. The ultimate parent company's current share option plan is the Common Share Option Plan ('the Plan').

The Plan provides that options may be granted to any employee, director, consultant or contractor of the group pursuant to approval by the Board of Directors of the ultimate parent company. The exercise prices for such options are in US dollars and therefore the exercise price and fair value references in the note below are also stated in US dollar.

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows:

	No.	2009 WAEP \$	No.	2008 WAEP \$
Outstanding at the beginning of the year	75,000	1.32	65,000	1.32
Granted during the year	—	—	10,000	1.30
Cancelled during the year	15,000	1.00	—	—
Outstanding at the end of the year	<u>60,000</u>	<u>1.40</u>	<u>75,000</u>	<u>1.32</u>
Exercisable at the year end	<u>56,700</u>	<u>1.41</u>	<u>58,500</u>	<u>1.26</u>

No share options were exercised in the year ended 31 October 2009 - (2008 - Nil)

CODA OCTOPUS (UK) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009

11. SHARE-BASED PAYMENTS *(continued)*

The share options outstanding at the end of the year have a weighted average remaining contractual life of 2.1 years (2008 - 2.9 years) and have the following exercise prices

	\$	2009 No.
1 May 2010	1.00	20,000
1 July 2012	1.70	30,000
14 August 2013	1.30	10,000
		<u>60,000</u>

The fair values were calculated using the Black-Scholes pricing model. The inputs into the model were as follows

Expected volatility	222%-697%
Expected life	2 years
Risk free rate	3.89%-4.90%

12. CONTINGENT LIABILITIES

Coda Octopus (UK) Holdings Limited has provided guarantees in respect of building rental leases in subsidiary company Coda Octopus Martech Limited. The maximum potential liability as at 31 October 2010 in respect of these leases was £305,627 (2008 - £168,888)

Coda Octopus Group, Inc., the ultimate parent company of the group, has issued convertible notes in the principal amount of US\$12 million secured on all assets of the group, including the assets of Coda Octopus (UK) Holdings Limited

13. TRANSACTIONS WITH THE DIRECTORS

During the year the company was charged £115,419 (2008 - £134,265) in respect of management services and reimbursement of expenses by Taktos Limited, a company in which Geoffrey Turner, a director of the company, is also a director. At the balance sheet date £9,157 (2008 - £21,040) was outstanding

14. SHARE CAPITAL

Authorised share capital

	2009 £	2008 £
100 Ordinary shares of £1 each	<u>100</u>	<u>100</u>

Allotted, called up and fully paid

	2009		2008	
	No	£	No	£
100 Ordinary shares of £1 each	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

CODA OCTOPUS (UK) HOLDINGS LIMITED**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED 31 OCTOBER 2009****15. SHARE OPTIONS RESERVE**

	2009	2008
	£	£
Balance brought forward	19,976	19,976
Recognition of equity-settled share-based payments in the year	6,024	—
Balance carried forward	<u>26,000</u>	<u>19,976</u>

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2009	2008
	£	£
Profit/(Loss) for the financial year	397,426	(256,931)
Recognition of equity-settled share-based payments in the year	6,024	—
Net addition/(reduction) to shareholders' deficit	403,450	(256,931)
Opening shareholders' deficit	(314,793)	(57,862)
Closing shareholders' funds/(deficit)	<u>88,657</u>	<u>(314,793)</u>

17. ULTIMATE PARENT COMPANY

The parent undertaking of the smallest group of undertakings for which group financial statements are drawn up and of which the company is a member is Coda Octopus Group Inc, a company incorporated in the United States of America. Copies of group financial statements are available from 164 West 25th Street, 6th Floor, New York, NY 10001, USA.

Coda Octopus Group Inc is a publicly owned company and is considered to be the ultimate parent company for Coda Octopus Products Limited.