

**Coda Octopus Group, Inc.**

**Unaudited Consolidated Financial  
Statements for the 9 Months Period  
from November 1, 2010  
to July 31, 2011.**

Coda Octopus Group, Inc

Consolidated Accounts

	<u>Nine Months Ended July 31, 2011</u>	<u>Twelve Months Ended October 31, 2010</u>
<u>Income Statement</u>	<u>Group Totals</u>	<u>Group Totals</u>
Net Revenue	10,306,248	11,509,933
Cost of Revenue	4,913,634	6,175,633
<b>Gross Profit</b>	<b>5,392,614</b>	<b>5,334,300</b>
Research & Development	1,174,768	1,762,035
Selling, General & Administrative	3,756,771	7,652,768
<b>Operating Income/Loss</b>	<b>461,075</b>	<b>- 4,080,503</b>
<b>Other Income (Expense)</b>		
Other Income	814,380	1,562,282
Interest Expense	- 1,394,506	- 2,005,836
Gain (loss) on change in fair value of derivative liability	418,838	2,557,546
Unrealized gain on sale of investment in marketable securities		2,125
Realized gain on the sale of marketable securities		37,000
<b>Total other income (expense)</b>	<b>- 161,288</b>	<b>2,153,117</b>
Income (Loss) before income taxes	299,787	- 1,927,386
Provision for income taxes		- 149,070
<b>Net Income (Loss)</b>	<b>299,787</b>	<b>- 1,778,316</b>
Preferred Stock Dividends		
Series A		-
Series B		
Beneficial Conversion Feature		
Net Income (Loss) Applicable to Common Shares	<u>299,787</u>	<u>- 1,778,316</u>
Income (Loss) per share, basic and diluted	<u>0.00</u>	<u>-0.03</u>
Weighted average shares outstanding	<u>74,313,102</u>	<u>60,614,958</u>
Comprehensive loss		
Net income (loss)	299,787	- 1,778,316
Foreign currency translation adjustment	- 152,031	449,648
Unrealized gain (loss) on investment	-	2,125
Comprehensive income (loss)	<u>147,756</u>	<u>- 1,326,543</u>

See accompanying notes to these unaudited condensed consolidated financial statements

	<u>July 31, 2011</u>	<u>October 31st, 2010</u>
<u>Balance Sheet</u>	<u>Group</u>	<u>Group</u>
	<u>Totals</u>	<u>Totals</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	937,641	215,204
'Restricted Cash, Note 2	-	827,266
Short Term Investments	13,175	14,875
Accounts Receivables, net of allowance for doubtful accounts	2,811,359	1,863,842
Inventory	1,599,683	1,780,114
Unbilled Receivables, Note 3	334,296	587,015
Other current assets, Note 4	772,700	180,597
Prepaid Expenses	436,539	218,059
<b>Total Current Assets</b>	<b>6,905,392</b>	<b>5,686,972</b>
Property and Equipment, net, Note 5	153,240	114,469
Goodwill and other intangibles, net, Note 6	3,853,879	3,921,847
<b>Total Assets</b>	<b>10,912,512</b>	<b>9,723,288</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts Payable, trade	2,509,947	2,036,340
Accrued Expenses and other current liabilities	2,687,130	4,057,951
Short term loan payable	-	452,119
Loans and note payable, long term, Note 12	15,761,419	14,131,747
Warrant liability, Note 10	54,546	473,384
Deferred revenues, Note 3	2,361,905	1,214,183
Sundry Creditors	281,062	394,213
<b>Total Current Liabilities</b>	<b>23,656,010</b>	<b>22,759,937</b>
Loans and note payable, long term, Note 12	-	-
<b>Total Liabilities</b>	<b>23,656,010</b>	<b>22,759,937</b>
Contingencies and Commitments, Note 11		
Stockholders' deficiency:		-
Preferred stock, \$.001 par value; 5,000,000 shares authorized, 6,287 Series A issued and outstanding, as of July 31, 2010 and October 31, 2009, respectively	6	6
Nil shares Series B issued and outstanding as of July 31, 2010 and October 31, 2009, respectively		
Common stock, \$.001 par value; 150,000,000 shares authorized, 74,313,102 and 60,614,958 shares issued and outstanding as of July 31, 2011 and October 31, 2010, respectively	74,313	60,615
Additional paid-in capital	47,436,190	47,167,905
Accumulated other comprehensive loss	- 1,131,373	- 979,342
Accumulated deficit / surplus	- 59,122,634	- 59,285,833
Treasury Stock		
Capital Surplus		
Currency Translation Adjustments	-	
<b>Total Stockholder's Equity</b>	<b>- 12,743,498</b>	<b>- 13,036,649</b>
<b>Total liabilities and stockholders' deficit</b>	<b>10,912,512</b>	<b>9,723,288</b>

See accompanying notes to these unaudited condensed consolidated financial statements

<b>Cash Flow</b>	<b>Nine Months Ended July 31, 2011</b>	<b>Twelve Months Ended October 31st, 2010</b>
<b>Cash Flows from Operating Activities</b>		
Net income/(loss)	299,789	- 1,778,313
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	134,277	7,656
Stock based compensation	-	66,771
Change in fair value of warrant liability	- 582,037	- 1,810,757
Financing costs	244,180	898,224
Impairment of investment of marketable securities	1,700	- 2,125
Bad debt expense	-	-
Gain on sale of investment in marketable securities	-	- 37,000
Loss on sale of assets		-
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Short-Term Investments		
Accounts receivable	- 947,515	170,036
Inventory	180,432	1,018,311
Prepaid expenses	- 218,480	18,574
Unbilled receivables and Other assets	47,097	208,421
Intercompany receivables	-	-
Increase (decrease) in current liabilities:		
Accounts payable and accrued expenses	- 234,002	- 939,423
Deferred revenues	- 328,754	809,909
Due to related parties	-	-
Net cash (used)/generated by operating activities	- 1,403,314	- 1,369,716
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	- 128,194	- 12,954
Purchases of intangible assets	- 8,652	1,720,393
Acquisitions Payments		-
Cash subject to restriction	827,266	166,815
Cash acquired from acquisitions	-	-
Net cash provided by/(used in) investing activities	690,420	1,874,254
<b>Cash Flows from Financing Activities</b>		
Proceeds from/(repayments of) loans	1,418,372	452,091
Proceeds for sale of marketable security	-	49,750
Shares issued for warrants and services	281,983	- 677,766
Common stock subscribed	-	- 96,350
Deferred payment related to acquisitions	- 112,993	- 10,218
Preferred stock dividend		-
Net cash (used)/provided by financing activities	1,587,362	- 282,493
Effect of exchange rate changes on cash	- 152,031	- 282,726
Net (decrease)/increase in cash	<b>722,437</b>	<b>- 60,681</b>
Cash and cash equivalents, beginning of period	215,204	275,885
Cash and cash equivalents, end of period	<b>937,641</b>	<b>215,204</b>

See accompanying notes to these unaudited condensed consolidated financial statements

CODA OCTOPUS GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows.

General

The accompanying are unaudited condensed consolidated financial statements. As such they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Accordingly, the results from operations for the nine month period ended July 31, 2011, are not necessarily indicative of the results that may be expected for the year ended October 31, 2011. The unaudited condensed financial statements should be read in conjunction with the consolidated unaudited financial statements of October 31, 2010 and footnotes thereto.

Business and Basis of Presentation

Coda Octopus Group, Inc. ( "we ", "us", " our company " or "Coda" ) was formed under the laws of the State of Florida in 1992 and re-domiciled following a reverse merger with The Panda Project to Delaware in 2004. We are a developer of underwater technologies and equipment for imaging, mapping, defense and survey applications. We are based in Florida, with research and development, sales and manufacturing facilities located in the United Kingdom and Norway. We also have our marine engineering operations in the State of Utah, USA and United Kingdom.

The unaudited condensed consolidated financial statements include the accounts of Coda and our domestic and foreign subsidiaries that are more than 50% owned and controlled. All significant intercompany transactions and balances have been eliminated in the consolidated financial statements.

Accounts Receivable

We periodically review our trade receivables in determining our allowance for doubtful accounts. Allowance for doubtful accounts was \$10,000 for the period ended July 31, 2011 and \$10,000 for the year ended October 31, 2010.

Inventory

Inventory is stated at the lower of cost or market using the first-in first-out method. Inventory is comprised of the following components at July 31, 2011 and October 31, 2010:

	Jul 31 2011	Oct 31 2010
Raw materials	\$ 725,710	\$ 855,211
Work in process	\$ 65,214	\$ 132,993
Finished goods	\$ 808,759	\$ 791,910
Total inventory	\$ 1,599,683	\$ 1,780,114

Earnings Per Share ("EPS")

Net income (loss) per share

Dilutive common stock equivalents consist of shares issuable upon conversion of warrants and the exercise of the Company's stock options and warrants. Common stock equivalents derived from shares issuable in conversion of the warrants are not considered in the calculation of the weighted average number of common shares outstanding

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because the adjustments in computing income available to common stockholders would result in a loss. Accordingly, the diluted EPS would be computed in the same manner as basic earnings per share.

The following reconciliation of net income and share amounts used in the computation of loss per share for the nine months ended July 31, 2011

	Nine Months Ended July 31, 2011
Net income used in computing basic net income per share	\$ 299,787
Impact of assumed assumptions:	
Gain on warrant liability marked to fair value	\$ 418,838
Net income in computing diluted net loss per share:	\$ 299,787

Per share basic and diluted net income amounted to \$0.004 for the period ended July 31, 2011. Per share basic and diluted net loss amounted to \$0.05 for the period ended October 31, 2010.

#### Liquidity

As of July 31, 2011, we had cash and cash equivalents of \$937,641, a working capital deficit of \$16,750,618 and a deficiency in stockholders' equity of \$12,743,498. For the nine month period ended July 31, 2011, we had a net income of \$299,789 and negative cash flow from operations of \$1,403,314. We also have an accumulated deficit of \$59,122,634 at July 31, 2011. The Company is dependent upon its ability to generate revenue from the sale of its products and services to generate cash to cover operations.

If the Company's financial resources from operations are insufficient, the Company will require additional financing in order to execute its operating plan and continue as a going concern. The Company may not be able to obtain the necessary additional capital on a timely basis, on acceptable terms, or at all. In any of these events, the Company may be unable to repay its debt obligations, implement its current plans for reorganization, or respond to competitive pressures, any of which circumstances would have a material adverse effect on its business, prospects, financial condition and results of operations.

#### NOTE 2 – RESTRICTED CASH

Under terms of the Company's secured convertible debenture dated February 21, 2008, we maintained a \$1,000,000 interest-bearing deposit in a restricted bank account until such time as advances under an accounts receivable factoring agreement were repaid in full and the agreement and related liens were terminated. As of October 31, 2008, the Company had \$1,017,007 in the restricted cash account, which was released to the Company in December 2008 after the factoring agreement was terminated and settled in full in October 2008 and the debenture holders perfected their security in December 2008.

On March 16, 2009, the Company and the holder of the secured convertible debenture ("The Noteholder") entered into a Cash Control Framework Agreement pursuant to which it is assumed that, subject to the Company being fully compliant with the terms of this agreement and those set out in the Transaction Documents entered into between the Company and the Noteholder on February 21, 2008, no adverse actions will be taken by the Noteholder. The agreement provided, among other things, for the placement of approximately \$2.15 million into a segregated cash account. Under the terms of the agreement, the Company could request release of funds from the account from time to time for working capital purposes, subject to the Noteholder's consent and agreed upon terms and conditions.

The Cash Control Framework Agreement was terminated by mutual consent in March 1, 2011.

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NOTE 3 - CONTRACTS IN PROGRESS

Costs and estimated earnings in excess of billings on uncompleted contracts represent accumulated project expenses and fees which have not been invoiced to customers as of the date of the balance sheet. These amounts are stated on the balance sheet as Unbilled Receivables of \$334,296 and \$587,015 as of July 31, 2011 and October 31, 2010 respectively.

Our Deferred Revenue of \$2,361,905 consist of the categories below.

Billings in excess of cost and estimated earnings on uncompleted contracts represent project invoices billed to customers that have not been earned as of the date of the balance sheet. These amounts are stated on the balance sheet as Deferred Revenue of \$1,835,656 and \$898,091 as of July 31, 2011 and October 31, 2010 respectively.

Revenue received as part of sales of equipment includes a provision for warranty and is treated as deferred revenue, sales prepayments, along with extended warranty sales, with these amounts amortized over 12 months from the date of sale. These amounts are stated on the balance sheet as Deferred Revenue of \$ 526,249 and \$341,794 as of July 31, 2011 and October 31, 2010 respectively.

NOTE 4 - OTHER CURRENT ASSETS

Other current assets on the balance sheet total \$786,548 and \$180,597 at July 31, 2011 and October 31, 2010 respectively. These totals comprise the following:

	Jul 31 2011	Oct 31 2010
Deposits	\$ 23,315	\$ 98,704
Value added tax (VAT)	\$ 278,194	\$ 22,582
Other receivable	\$ 471,191	\$ 59,311
<b>Total</b>	<b>\$ 772,700</b>	<b>\$ 180,597</b>

NOTE 5 - FIXED ASSETS

Property and equipment at July 31, 2011 and October 31, 2010 is summarized as follows:

	Jul 31 2011	Oct 31 2010
Machinery and equipment	\$ 768,942	\$ 849,583
Accumulated depreciation	\$ (615,702)	\$ (735,113)
<b>Net property and equipment assets</b>	<b>\$ 153,240</b>	<b>\$ 114,470</b>

Depreciation expense recorded in the statement of operations for the period ended July 31, 2011 and year ended October 31, 2010 is \$56,115 and \$95,858, respectively.

NOTE 6 - INTANGIBLE ASSETS AND GOODWILL

Goodwill and Other Intangible Assets are evaluated on an annual basis, and when there is reason to believe that their values have been diminished or impaired write-downs will be included in results from operations. We have conducted a goodwill assessment in this period and based on the methodology used by the Company we have concluded that goodwill was not impaired as at July 31, 2011 and therefore remains unchanged.

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The identifiable intangible assets acquired and their carrying value at July 31, 2011 and October 31, 2010 is:

	Jul 31 2011	Oct 31 2010
Customer relationships (weighted average life of 10 years)	\$ 784,243	\$ 784,243
Non-compete agreements (weighted average life of 3 years)	278,651	278,651
Patents (weighted average life of 10 years)	95,191	76,539
Licenses (weighted average life of 2 years)	0	0
Total amortized identifiable intangible assets - gross carrying value	1,158,085	1,139,433
Less accumulated amortization	(686,314)	(630,384)
Net	471,771	509,049
Residual value	<u>\$ 471,771</u>	<u>\$ 509,049</u>

Estimated annual amortization expense as of July 31, 2011 is as follows:

2011	\$ 20,766
2012	\$ 76,696
2013	\$ 76,696
2014	\$ 76,696
2015 and thereafter	\$ 220,917
Total	<u>\$ 471,771</u>

Amortization of patents, customer relationships, non-compete agreements and licenses included as a charge to income amounted to \$55,930 and \$350,588 for the period ended July 31, 2011 and year ended October 31, 2010, respectively. Goodwill is not being amortized.

#### NOTE 7 - CAPITAL STOCK

During the period ended January 31, 2011 the Company issued 12,648,114 shares of our common stock to a number of investors in exchange for the (i) surrender of a number of warrants and (ii) cancellation of the securities purchase agreements which contained anti-dilution and price protection provisions (and which served as barriers to new investment in the Company). We also issued 1,050,000 shares of our common stock for services rendered.

#### Other Equity Transactions

During the period from November 1, 2010 to the end of the period ended July 31, 2011, we did not issue any common share purchase options.

Common share purchase options have lapsed under the terms of their issue or been cancelled in connection with staff departure as follows:



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Period	Number of Options Cancelled
Period ended January 31, 2011	10,000 options
Period ended April 30, 2011	499,900 options
Period ended July 31, 2011	300,000
Total	809,900 expired or cancelled in the 9 months period ended July 31, 2011

NOTE 8 - WARRANTS AND STOCK OPTIONS

Transactions involving stock options and warrants issued are summarized as follows:

Warrants	Nine months ended July 31, 2011		Year ended October 31, 2010	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding at beginning of the period	24,119,418	\$ 1.47	32,583,418	\$ 1.42
Granted during the period	—	—	—	—
Terminated during the period	(14,900,000)	1.46	(8,464,000)	1.27
Outstanding at the end of the period	9,219,418	\$ 1.49	24,119,418	\$ 1.47
Exercisable at the end of the period	9,219,418	\$ 1.49	24,119,418	\$ 1.47

The number and weighted average exercise prices of warrants outstanding as of July 31, 2011 are as follows:

Range of Exercise Prices	Number Outstanding	Weighted Average Contractual Life (Yrs)	Total Exercisable
0.50	-	-	-
0.58	-	-	-
1.00	150,000	0.35	150,000
1.30	4,534,709	0.42	4,534,709
1.70	4,534,709	0.42	4,534,709
Totals	9,219,418	0.52	9,219,418

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Stock Options	Nine months ended July 31, 2011		Year ended October 31, 2010	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding at beginning of the period	1,539,900	\$ 1.19	5,595,900	\$ 1.18
Granted during the period	—	—	50,000	1.05
Terminated during the period	(809,900)	1.00	(4,106,000)	1.18
Outstanding at the end of the period	730,000	\$ 1.40	1,539,900	\$ 1.19
Exercisable at the end of the period	730,000	\$ 1.40	1,522,900	\$ 1.19

The number and weighted average exercise prices of stock purchase options outstanding as of July 31, 2011 are as follows:

Range of Exercise Prices	Number Outstanding	Weighted Average Contractual Life (Yrs)	Total Exercisable
1.00	30,000	0.75	30,000
1.05	50,000	3.85	50,000
1.30	375,000	2.01	375,000
1.50	65,000	0.67	65,000
1.70	210,000	0.92	210,000
Totals	730,000	1.65	730,000

#### NOTE 9 – DERIVATIVE LIABILITY

The Company has assessed its outstanding equity-linked financial instruments and has concluded that, effective November 1, 2009, the value of our warrants will need to be recorded as a derivative liability due to the fact that the conversion price is subject to adjustment based on subsequent sales of securities.

The cumulative effect of the change in accounting principle on November 1, 2009 includes an increase in our derivative liability related to the fair value of the conversion feature of \$2,353,893. Fair value at November 1, 2009 was determined using the Black-Scholes method based on the following assumptions: (1) risk free interest rate of 1.06%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 302.22%; (4) an average expected life of the warrants of 2.22 years and (5) estimated fair value of common stock of \$0.08 per share.

At July 31, 2011 we recalculated the fair value of the conversion feature subject to derivative accounting and have determined that the fair value at July 31, 2011 is \$54,546. The fair value of the conversion features was determined using the Black-Scholes method based on the following assumptions: (1) risk free interest rate of 0.84%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 316.88%; (4) an average expected life of the conversion feature of 1.49 years and (5) estimated fair value of common stock of \$0.16 per share.

We have recorded a positive value of \$418,838.36 during the nine months ended July 31, 2011 related to the change in fair value during this period.

#### NOTE 10 - INCOME TAXES

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The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statement or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Temporary differences between taxable income reported for financial reporting purposes and income tax purposes are insignificant.

For income tax reporting purposes, the Company's aggregate U.S. unused net operating losses approximate \$25,549,246 as of October 31, 2010, which expire through 2029, subject to limitations of Section 382 of the Internal Revenue Code, as amended. The deferred tax asset related to the carry forward is approximately \$9,607,000, as of October 31, 2010. The Company has provided a valuation reserve against the full amount of the net operating loss benefit, because in the opinion of management which is based upon the earning history of the Company it is more likely than not that the benefits will not be realized.

For income tax reporting purposes, the Company's aggregate UK unused net operating losses approximate \$3,202,189 with no expiration. The deferred tax asset related to the carry-forward is approximately \$923,746. The Company has provided a valuation reserve against the full amount of the benefits, because in the opinion of management based upon the earning history of the Company it is more likely than not that the benefits will not be realized.

Components of deferred tax assets as of July 31, 2011 and October 31, 2010 are as follows:

Non-Current	2011	2010
Net Operating Loss Carry Forward	\$ 10,931,124	\$ 10,931,124
Valuation Allowance	\$(10,931,124)	\$(10,931,124)
Net Deferred Tax Asset	<u>\$ —</u>	<u>\$ —</u>

#### NOTE 11 - CONTINGENCIES AND COMMITMENTS

##### Litigation

As of the date of this filing we have no litigation pending.

##### Operating Leases

We occupy our various office and warehouse facilities pursuant to both term and month-to-month leases. Our term leases expire at various times through September 2015. Future minimum lease obligations are approximately \$1,313,518, with the minimum future rentals due under these leases as of July 31, 2011 as follows:

	\$ 78,397
2011	
2012	306,360
2013	296,527
2014	250,084
2015 and thereafter	164,670
Total	<u>\$ 1,313,518</u>

##### Concentrations

We had no concentrations of purchases or sales of over 5% during the period ended July 31, 2011.

#### NOTE 12 - NOTES AND LOANS PAYABLE

A summary of notes payable at July 31, 2010 and October 31, 2009 is as follows:

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	July 31, 2011	October 31, 2010
<p>On February 21, 2008 the Company issued a convertible secured debenture with a face value of \$12M (“Secured Debenture”). The Secured Debenture matures on February 21, 2015 at 130% of its face value. The Secured Debenture attracts interest of 8.5% payable every six months, starting from February 21, 2009. During the term the Secured Debenture is convertible into shares of our common stock, at the option of the Debenture holder, at a conversion price of \$1.05. We may also force the conversion of these Notes into our common stock after two years in the event that we obtain a listing on a national exchange and our stock price closes on 40 consecutive trading days at or above \$2.50 between the second and third anniversaries of this agreement; \$2.90 between the third and fourth anniversaries of this agreement; and \$3.50 after the fourth anniversary of this agreement or where the daily volume weighted average price of our stock as quoted on OTCBB or any other US National Exchange on which our securities are then listed has, for at least 40 consecutive trading days closed at the agreed price</p>	\$ 14,212,929	\$13,966,153
<p>The Company, through its UK subsidiary Coda Octopus Products Ltd has a 7 year unsecured loan note for £100,000; interest rate of 12% annually; repayable at borrower’s instigation or convertible into common stock when the share price reaches \$3.</p>	156,043	165,594
<p>Total</p>	\$ 14,368,972	\$14,131,747
<p>Current portion &amp; other loan notes</p>	1,584,490	
<p>Total long-term borrowings</p>	\$15,761,419—	\$14,131,747