UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

☒ **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended October 31, 2007

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission file number: 000-52815

CODA OCTOPUS GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**34-200-8348**
(State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification Number)

164 West, 25th Street, 6th Floor, New York
New York 10001
(Address, Including Zip Code of Principal Executive Offices)

(212) 924-3442
(Issuer's telephone number)

Securities registered under Section 12(b) of the Exchange Act:
NONE
Securities registered under Section 12(g) of the Exchange Act:
COMMON STOCK, $0.001 PAR VALUE PER SHARE

- Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒
- Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒
- Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐
- Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐
- Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. Non-accelerated filer ☒
- Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒
- State issuer's revenues for its most recent fiscal year. $13,853,313
- State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days. (See definition of affiliate in Rule 12b-2 of the Exchange Act.). Based on the closing sale price on the OTC Bulletin Board on January 31, 2008, the aggregate market value of the registrant's common stock held by non-affiliates was approximately $15,414,866. For purposes of this computation, all directors and executive officers of the registrant are considered to be affiliates of the registrant. This assumption is not to be deemed an admission by the persons that they are affiliates of the registrant.
- State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 48,279,056 as of February 15, 2008.

DOCUMENTS INCORPORATED BY REFERENCE:

None

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FORWARD-LOOKING STATEMENTS

This annual report on Form 10-KSB includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, which we refer to in this annual report as the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, which we refer to in this annual report as the Exchange Act. Forward-looking statements are not statements of historical fact but rather reflect our current expectations, estimates and predictions about future results and events. These statements may use words such as "anticipate," "believe," "estimate," "expect," "intend," "predict," "project" and similar expressions as they relate to us or our management. When we make forward-looking statements, we are basing them on our management's beliefs and assumptions, using information currently available to us. These forward-looking statements are subject to risks, uncertainties and assumptions, including but not limited to, risks, uncertainties and assumptions discussed in this annual report. Factors that can cause or contribute to these differences include those described under the headings "Risk Factors" and "Management Discussion and Analysis and Plan of Operation."

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. Any forward-looking statement you read in this annual report reflects our current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us, or individuals acting on our behalf are expressly qualified in their entirety by this paragraph. You should specifically consider the factors identified in this annual report, which would cause actual results to differ before making an investment decision. We are under no duty to update any of the forward-looking statements after the date of this annual report or to conform these statements to actual results.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Overview

Coda Octopus Group, Inc. (“the Company”, “we” or “us”) is engaged in 3-D subsea technology and are the developer and patent holder of real-time 3-D sonar products which we expect to play a critical role in the next generation of underwater port security. We produce hardware, software and fully integrated systems which are sold and supported on a worldwide basis, with wide applications in two distinct market segments:

- marine geophysical survey (commercial), which focuses around oil and gas, construction and oceanographic research and exploration, where we market to survey companies, research institutions, salvage companies. This was our original focus, from founding in 1994. Our current products encompass geophysical data collection and analysis, through to printers to output geophysical data collected by sonar. We believe that our marine geophysical survey markets are experiencing rapid growth due to: 1) successful new product introductions in recent periods; 2) market-proximity benefits derived from 2004 relocation to the United States; 3) initial market penetration into new sub-sectors of the marine geophysical survey markets; 4) the high price of oil and gas in the past few years, resulting in unprecedented exploration and production activity.

- underwater defense/security, where we market to ports and harbors, state and federal government agencies and defense contractors. We started to focus on this market following the acquisition of OmniTech AS, a Norwegian company, in December 2002 (now operating under the name of Coda Octopus Omnitech AS), a Company which had developed a prototype system, the Echoscope™ , a unique, patented instrument which supplies accurate three-dimensional visualization, measurement, data recording and mapping of underwater objects. We have recently completed developing and commenced marketing this first real time, high resolution, three-dimensional underwater sonar imaging device which we believe has particularly important applications in the fields of port security, defense and undersea oil and gas development.

In addition, through our two engineering services subsidiaries, Martech Systems (Weymouth) Ltd, based in Weymouth, England, UK, and Colmek Systems Engineering, based in Salt Lake City, Utah, US, we provide engineering services to a wide variety of clients in the subsea, defense, nuclear and pharmaceutical industries. These engineering capabilities are increasingly being combined with our product offerings, bringing opportunities to provide complete systems, installation and support.

For the foreseeable future, we intend to intensify our focus on port security. We believe that in the post 9/11 era there are significant growth opportunities available in that particular market segment because of increased government expenditures aimed at enhancing security. Specifically, we believe that we have the ability to capitalize on this opportunity as a result of:

- First mover advantage in 3-D sonar markets based on our patented technology, research and development efforts and extensive and successful tests that date back almost two decades as well as the resulting broad customer acceptance , as evidenced by orders for our product and its derivatives from government agencies, research institutes and oil and gas companies, that conduct their own testing prior to placing orders . There is a usually a significant time period between introduction of the product to a prospective customer and the purchase order. Prospective customers need to test the product in the environment in which they intend to use it to ensure that it is suitable for its intended purpose. We hold the patent for a "*Method for Producing a 3D image*" of, for example, a submerged object and/or underwater environment. This patent, first applied for in Norway in 1998, is recorded in the European Patents Register, Australia, Norway and the USA. This method is the culmination of approximately 20 years of research and testing led by the three inventors/scientists, who worked for OmniTech AS which was acquired by us in December 2002. These individuals continue to work for us and are actively involved in producing and advancing the Echoscope™ which incorporates this patent
- Early recognition of need for 3-D real-time sonar in defense/security applications. We believe that we are the first to bring to market a product with capability of producing a 3D image of submerged or underwater objects or environment. Prior to the deployment of this method in the marine environment, producing an image of a submerged or underwater object or environment was accomplished strictly by two-dimensional sonar.
- Expansion into new geographies like North America and Western Europe.
- Expansion into new commercial markets like commercial marine survey with innovative products.

Further, we believe the Echoscope™ will transform certain segments of the sonar product market. In addition, 3-D sonar, currently in the early stages of adoption, has disruptive technology qualities as it has the ability to change industry standard practice in respect of the method for visualization and imaging of underwater objects and environment. Therefore, it will likely change who the suppliers into this market are as well as our market position and that of our competitors. We believe the market opportunity in underwater security and defense could grow at a rapid pace over the next several years.

We also believe that our two recent acquisitions and formation of our wireless video surveillance subsidiary strengthen our capabilities to produce comprehensive security and defense systems and provide new opportunity for us to expand our offerings.

Corporate History

The Company began as Coda Technologies Ltd (now operating under the name of Coda Octopus Products Limited), a UK corporation which was formed in 1994 as a start-up company with its origins as a research group at Herriott-Watt University, Edinburgh, Scotland. Its operations consisted primarily of developing software for subsea mapping and visualization using sidescan sonar, a technology widely used in commercial offshore geophysical survey and naval mine-hunting to detect objects on, and textures of, the surface of the seabed. During the late 1990s we achieved significant market penetration in Europe and Asia, but this was difficult to replicate in the USA due to our being a UK based Company at that time, though we did have a US subsidiary which was established to market and sell our products in North America. The delay in effectively breaking into the US market severely limited our growth since this market constitutes the major portion of the worldwide market for geophysical and hydrographic survey. Management of Coda Technologies Ltd therefore embarked upon a program to expand its capabilities in growing the Company with a focus on strategic markets such as defense, homeland security and port security.

In June 2002, we acquired by way of merger Octopus Marine Systems Ltd, a UK corporation, and changed our name from Coda Technologies Ltd to Coda Octopus Ltd. At the time of its acquisition, Octopus Marine Systems was producing geophysical products broadly similar to those of Coda, but targeted at the less sophisticated, easy-to-use, work-horse market. It was also finalizing the development of a new motion sensing device (the "F180"), which was to be employed aboard vessels conducting underwater surveys to correct sonar measurement by providing precise positioning and compensation for vessel motion.

In December 2002, Coda Octopus Ltd acquired OmniTech AS, a Norwegian company, which became a wholly-owned subsidiary of the Company and now operates under the name Coda Octopus Omnitech AS. Before we acquired OmniTech, it had been engaged for over ten years in developing revolutionary sonar imaging and visualization technology to produce three-dimensional underwater images for use in the subsea construction industry. Marketed by us under the product name "Echoscope", this technology is unique in that it delivers real time 3-D images and visualization with extremely accurate positioning. This is the subject matter of a patent in a number of jurisdictions, including the USA. This technology, which continues to be developed by our Research and Development team in Norway and Edinburgh, allowed the Company to start to shift the original focus on hydrographic and geophysical survey to include port security and defense, with particular emphasis on the US market.

Following the reverse merger and in continuance of our program to capture more of the market in the United States and our focus on port security and defense, we established our headquarters in New York City. We have also subsequently, in May 2006, established a government relations office in Washington, DC.

In June 2006, we acquired a design and engineering firm, Martech Systems (Weymouth) Ltd ("Martech"), which provides high quality bespoke engineering solutions in the fields of electronic data acquisition, transmission and recording, and has links into our existing markets.

In November 2006, we established in New York City a subsidiary, Innalogic, Inc. which provides encrypted wireless video surveillance products and data transmission capability.

In April 2007, we acquired a Utah-based engineering firm, Miller & Hilton, Inc. d/b/a Colmek Systems Engineering, which is a custom engineering service provider of subsea and other engineering solutions, particularly in the fields of data acquisition, storage and display. This company has particular links into the US defense industry, both directly and through its links with prime contractors.

Also in April 2007, we established an assembly and test facility in St. Petersburg, Florida, adding to our existing sales office there, and we now build our Echoscope™ and derivative products from this facility in St. Petersburg.

Strategy

Having started as a products company, we have leveraged our capabilities, technology and market position to allow us to now provide complete systems, combining our subsea technology products, wireless data transmission products and processes, and engineering services. Our strategy is to continue to sell each of our products and services separately, but to increasingly combine our offerings into systems and move into provision of complete solutions, with special focus in the areas of defense, and port and coastal infrastructure security.

We expect increased sales of our current products and their derivatives, especially the Echoscope™ and UIS™ and comprehensive security systems to increase and account for significant growth over the next five years. In the Echoscope™ and UIS™, we have a unique product addressing a significant need in a niche sector of the port security, defense, and oil and gas industries, with potential to greatly enhance subsea visualization. We expect that the key element of our growth strategy will be dominated by our 3-D technology over the near future. Through our Government Relations department in Washington, DC, we have engaged a number of lobbying groups to address the different areas of government, ie. federal, state, government agencies and defense. In addition, we have technology affiliations with organizations such as University of South Florida and PCT, as described elsewhere in this document. We expect growth through both our own internal research and development of products and through strategically relevant acquisitions.

Operations

We are structured as a holding company for a number of operating subsidiaries, providing corporate management, financing and legal services to group companies. As a public company, based in New York City, this is also our administrative center for our investors and shareholders. We currently operate through eight separate subsidiary companies, which are described below.

Coda Octopus Products Ltd/Coda Octopus Products, Inc.

Coda Technologies Ltd, a UK corporation, was formed in 1994 as a start-up company with its origins as a research group at Herriott-Watt University, Edinburgh, Scotland. Its operations consisted primarily of developing software for subsea mapping and visualization using sidescan sonar, a technology widely used in commercial offshore geophysical survey and naval mine-hunting to detect objects on, and textures of, the surface of the seabed. During the late 1990s we achieved significant market penetration in Europe and Asia, but this was difficult to replicate in the USA due to our being a UK based company at that time, though we did, and still do, have a US subsidiary which was established to market and sell our products in North America. The delay in effectively breaking into the US market severely limited our growth since such market constitutes the major portion of the worldwide market for geophysical and hydrographic survey. Management of Coda Technologies Ltd therefore embarked upon a program to expand its capabilities, expanding from the original focus on the survey, research, hydrography, and search and recovery sectors of the subsea imaging industry. Coda Technologies Limited has since changed its name to Coda Octopus Limited and more recently to Coda Octopus Products Limited. This company also has a sister company in the US, Coda Octopus Products, Inc., selling the same product range to the North American market.

The Company markets and sells a number of sonar-related products, focused on the marine hydrographic and geophysical survey markets (see 'Products and Services').

Coda Octopus Omnitech AS/Coda Octopus R&D Ltd.

Coda Octopus Omnitech AS is a Norwegian corporation. Coda Technologies Limited (now Coda Octopus Products Limited) acquired Coda Octopus Omintech AS in 2002. At the time of its acquisition by Coda, OmniTech had been engaged for over ten years in developing sonar imaging technology to produce three-dimensional (3-D) underwater images for use in the subsea construction industry, which we have since our acquisition further developed and marketed as our flagship product "Echoscope" which produces and delivers real-time 3-D images and visualization in the subsea environments. The focus of Coda Octopus Omnitech operation is on research and development of this technology. Alongside this, our UK subsidiary, Coda Octopus R&D Ltd, focuses on research and development activities, primarily based on software and focused for now on our Echoscope technology.

Martech Systems (Weymouth) Ltd.

Martech is a company incorporated under the laws of the UK operating under its own brand name in a very specialized niche of high quality design and manufacturing services to the UK defense, nuclear and pharmaceutical industries. We acquired this entity in June 2006. Its services are provided on a custom sub-contract basis where high quality and high integrity devices are required in very small numbers.

As a result of Martech's knowledge of the defense industry and the UK government procurement market place, the Company becomes aware of upcoming opportunities, allowing an expression of interest and subsequent listing for the appropriate invitations to tender. The Company enjoys certain pre-approvals to allow it to be short-listed for certain types of Government work. Much of the more significant business gained by Martech is gained this way through the formal Government or government contractor tendering process.

Innalogic, Inc.

Co-located with our corporate headquarters at our 25th Street offices in Manhattan, Innalogic, Inc., a Delaware corporation, provides wireless encrypted video surveillance products for commercial organizations (domestic and international) and local and Federal government agencies. Innalogic completed in the last fiscal year customer contracts ranging in value from $40k to $320k.

Miller & Hilton, Inc. d/b/a Colmek Systems Engineering ("Colmek")

Colmek, a Utah corporation which we acquired in April 2007, is a service provider of deep ocean and other engineering solutions, particularly in the fields of data acquisition, storage, transmission and display. Founded in 1977, it has grown and diversified since its inception and now provides services and products to a wide range of defense, research and exploration organizations in the US. For more than a quarter century, Colmek has been solving system- and mission-critical problems for its customers. It designs, manufactures and supports systems that are reliable and effective in multiple military and commercial applications where ruggedness and reliability under extreme operational conditions are paramount and where lives depend on accurate and precise information.

Port Security Group, Inc.

We have recently formed this subsidiary to spearhead our drive into port and coastal infrastructure security markets, selling our products, systems and solutions. This will be a key part of the Group through which we will focus our move into complete solutions, with the products and engineering services being provided to this company via our existing capabilities, to avoid duplication. Effectively, Port Security Group will be a bidding and project management company, providing solutions in partnership with other Group entities, as well as products and services from outside the Group.

We also own separate entities both in the United Kingdom and in the United States that are specifically designed to complete corporate acquisitions, Coda Octopus (UK) Holdings Ltd and Coda Octopus (US) Holdings, Inc.

Our Products

Our products are marketed under two brands, **Coda™** and **Octopus™**. Coda brand products are high-end, enhanced, feature-rich products. They are designed to be used in the most exacting underwater survey, inspection and monitoring requirements. The Octopus brand instruments are rugged, simple-to-use work-horse products used by survey companies, navies and academic organizations, where simple installation and minimal training is required.

Coda™ Brand Products

Coda GeoSurvey Data Acquisition
Our initial focus was the development of systems for use in geophysical services. This entails the visualization and analysis of the seabed which is performed in two forms: *sidescan* using a towfish which generates sonar signals allowing imaging of the seabed itself, highlighting different surface types, textures and objects, and *shallow seismic* which uses low frequency sonar to penetrate through the seabed generating data depicting the below seabed structure. This developed into the Coda GeoSurvey system which acquires both types of data, allowing digital storage of the data and further analysis within the software. This system was launched in 1995 and remains one of our core products. The system operates on both Windows and Linux operating systems and is usually supplied on ruggedized PC type hardware, and is designed to interface with most popular third-party sonar systems. Since developing the initial software, we have implemented a number of additional software modules to allow analysis of the data in a variety of ways. Today, Coda GeoSurvey is widely used throughout the world by commercial survey organizations and research institutes. Specific products include: the DA 2000, for simultaneous acquisition of sidescan and shallow seismic data, the DA 1000, for acquisition of either sidescan or shallow seismic data, and the DA 500, a portable version of the DA 1000. The price for this product ranges from $2,400 to $47,200 per unit.

Coda GeoSurvey Productivity Suite
The GeoSurvey Productivity Suite is a software product enabling acquired sidescan and seismic data to be processed, cleaned, analyzed and interpreted for inclusion in reports and charts. GeoSurvey Productivity Suite comprises an integrated suite of software modules for different tasks according to the needs of the user and can be run on the same hardware as GeoSurvey Acquisition or on a standard PC or laptop. The end products are typically a cleaned image depicting the seabed and its surface features or its underlying layers and features, together with information such as co-ordinates, annotations and interpretations, for integration into geographical information systems. ("GIS"). The price for this product ranges from $8,000 to $46,000 per software module or bundle.

Coda Echoscope™

The Echoscope™ is a unique sonar device which embodies a patented invention for a method of producing a 3-D Sonar Image that permits real time, three-dimensional viewing, imaging and data recording of underwater scenes and objects. The 3-D aspect enables the high resolution visualization to be performed from multiple perspectives. It is able to detect moving as well as fixed objects, and unlike optical sensors can detect and image objects in zero visibility water. Unlike conventional 2D sonars that generate narrow beams or fan shaped beams, the Echoscope™ uses advanced beam forming techniques to generate over 16,000 individual beams to create instantaneous high resolution 3-D images. The Echoscope™ is compact, measuring about the size of an average briefcase, thus enabling it to be used from small vessels. It is suitable for over-the-side or bow mounting on vessels of any size or on remotely operated underwater vehicles ("ROV") and autonomous underwater vehicles ("AUV"). The price for this product ranges from $250,000 to $340,000 per device depending on depth rating.

The Echoscope™ has a very wide range of applications including:

- inspection of harbor walls.
- inspection of ship hulls,
- inspection of bridge pilings;
- ROV navigation (obstacle avoidance);
- AUV navigation and target recognition (obstacle avoidance);
- construction - pipeline touchdown placement and inspection;
- obstacle avoidance navigation;
- bathymetry (measurement of water depth to create 3-D terrain models);
- monitoring underwater construction;
- underwater intruder detection;
- dredging and rock dumping;
- contraband detection;
- locating and identifying objects undersea, including mines.

Considerable interest in the Echoscope™ has been shown by the United States Coast Guard, NAVSEA, the Office for Naval Research (ONR), the Office for Naval Intelligence (ONI), the Department of Homeland Security and various other defense agencies and as is more fully described later on.

The Echoscope™, in its simplest form as a stand alone product, is priced at $250,000. We have delivered 20 of these to customers since its introduction. In addition, a number of these devices are on long term rental in places like the Gulf of Mexico. Among the first purchasers have been United States naval agencies, the United States Coast Guard, research institutions and a construction company in Japan.

Coda Underwater Inspection System (UIS)™

The Coda Underwater Inspection System or UIS™ is the world's first, and we believe only, fully integrated high resolution real-time 3-D inspection system. It delivers precise and intuitive 3-D images in real-time, and is designed to inspect large areas with 100% coverage and 98% probability of detection. We are currently implementing a substantial order for the US Coast Guards.

At the heart of every UIS™ is the unique Echoscope™ real-time 3-D sonar incorporating our cutting edge phased array technology to simultaneously generate over 16,000 beams. This results in an instant three dimensional sonar image where the position of every data point is accurately known, producing detailed images from a single sonar ping,

To ensure accurate positioning the Echoscope™ is integrated with the Octopus F180™ in the UIS™, giving series precision attitude and positioning. This provides absolute positioning at accuracies of up to 10cm (4"), with heading better than 0.05°. High accuracy is the key to ensuring that all data is correctly geo-referenced, enabling real-time mosaicing as well as quick relocation of areas of interest from previous inspections.

As part of a small boat package, the UIS™ includes a ruggedized digital video camera or optional night vision camera to provide a separate and immediately obvious above water reference. For remotely operated vehicle (ROV) installations, the latest laser scaling camera provides an accurate visual cross reference.

Depending on the application and platform, the UIS™ can be combined with a wide range of additional sensors and other sonars to create a fully integrated bespoke package. Centered around the unique and powerful Echoscope™ 3-D sonar, the integrated UIS™ solution offers significant advantages and superior performance over systems using 2D sonar, sector scan sonar, acoustic lens sonars or underwater video cameras alone.

The price for this product is approximately $495,000.

In July 2007, we received a $2.59 million order from the U.S. Department of Defense to build and deliver over a period of six months three next generation prototype UIS™ for the US Coast Guard and other potential users, to enable rapid underwater searches in the nation's ports and waterways. The contract includes additional options, exercisable at the sole discretion of the U.S. Department of Defense. If exercised, these options would require us to make enhancements to the existing systems and deliver a further seven UIS™ systems within six months from the time the option is exercised.

The contract was awarded to us on a sole source basis, which means that the product is considered to be available from one source only and under Federal rules may be acquired from that source without competitive bidding process.

The systems were delivered over the period October to December 2007, with final sign-off of the order received towards the end of December 2007. Under the terms of the agreement, we provided, among other things, operator training and a one year guarantee for each system supplied. The agreement also grants to the purchaser a non-exclusive, non-transferable, irrevocable, paid-up license to practise or have practised for or on behalf of the United States any invention conceived in the performance of the agreement throughout the world. In addition, a further order was made (and completed) for additional development work of $100,000. Under the option provisions further options may be exercised by the US Coast Guard under the contract for up to $4,107,132.

The following table sets forth a brief description of the enhancements to the existing systems, their respective purchase prices and the allotted time period for each. Per the terms of the agreement, payments for the product enhancements will be made by the U.S. Department of Defense pending the development and delivery of those enhancements. Since exercise of the options is at the sole discretion of the U.S. Department of Defense, there can be no assurance that the options will be exercised.

Option	Description	Estimated Purchase Price	Time Period for Delivery
Option 1 RANGE RESOLUTION ENHANCEMENT	Development of core beam forming hardware and related technology to improve the current 3 or 4cm range resolution to 1 or 2cm, and increase target detection of objects on harbor walls and other close range applications.	$ 634,065	Six months from date of exercise
Option 2 INCREASE ECHOSCOPE FREQUENCY	Development of new transducer and channel board hardware to allow operation at higher frequencies (up to 500KHz) which will increase the resolution of the data	$ 378,084	Six months from date of exercise
Option 3 AUTOMATED CHANGE DETECTION	Development of software compatible with the UIS platform and designed for on-line detection and post-processing analysis of captured Echoscope data. In essence, the software will have the capability of registering any changes of new data collected against a baseline survey and automatically end-user to the changes (i.e the presence of something that was not there on the last inspection - example of a harbor wall).	$ 1,122,948	18 months from date of exercise
Option 4 ADVANCED PROTOTYPE UIS SYSTEM	Building of up to seven (7) additional UIS Systems to agreed USCG specifications.	$ 3,291,750	Six months from date of exercise
Option 5 DEVELOPMENT OF ONE PIECE F190	Development of a F190 Positioning System to replace the standard two piece system currently used in the UIS.	$ 247,434	Six months from date of exercise

On February 19, 2008, a contract amendment was awarded to us. Under this amendment a number of the options listed above were exercised. These are Option 1 (contract value $634,065), Option 2 (contract value $378,084) and a portion of Option 4. The total value of the contract amendment is US$1,527,149.

***Octopus*® Brand Products**

Octopus F180™ Precision Attitude & Positioning System

The Octopus F180™ integrates GPS with aerospace motioning sensing devices (gyroscopes and accelerometers) to provide high-accuracy measurements of geographical position and motion in the most dynamic environment at sea, and includes position, heading, heave, pitch and roll as its primary outputs. The primary application is to compensate for the effects of motion on single beam and multibeam echosounders where it is critical to know where the instruments are pointing when depth soundings are being taken in order to ensure accuracy of depth and position.

Developed originally for motor sport (measuring vehicle motion and position) the F180™ is manufactured under license pursuant to which CodaOctopus has exclusive rights to the products so developed. Since its launch in August 2003, the F180™ has become a popular and well regarded sensor with a growing number of customers in the commercial marine survey industry around the world, because of its simplicity of operation and accuracy at a relatively low cost. Modifications and enhancements have resulted in a simple-to-use product that brings highly accurate positioning and motion data into extreme offshore conditions for precision marine survey applications. Variants within the F180™ series include the F190, exclusively configured for use 'inland', eg. within ports and harbors, and the F185, with enhanced precision positioning to 1cm accuracy. Also available is Octopus iHeave, a software product for dealing with long period ocean swell compensation, fully integrated with the F180™ series. The price for this product ranges from $2,700 to $112,000 per unit.

Octopus 760 Series Geophysical Acquisition System

The 760 series is a range of geophysical data acquisition systems for sidescan sonar and shallow seismic profiling. In common with the Coda GeoSurvey product line, the Octopus 760 integrates with third party sonars and sensors to acquire, display and record data. However, it is designed to be simple to operate and requires minimal training. The 760series is a self contained instrument rather than software and a PC. There are four variants of the 760 series - the 760D which combines simultaneous acquisition of sidescan sonar and sub-bottom profiler; the 760S which provides 'either/or' sidescan sonar and sub-bottom profiler data acquisition; the 460+ for sidescan only; and the 360+ for shallow seismic only. There is also a variant of the 760 series, the 460P, which is re-packaged into a splash-proof hand-portable carry-case for operation in the most demanding of environments such as in small open boats. Combined with compact dual-frequency sidescan sonar and an optional battery pack, the 460P is also available as a complete portable sidescan sonar system and has been supplied to the British Royal Navy amongst other naval and commercial customers. The price for this product ranges from $2,000 to $43,000 per system.

Octopus 361/461 Analysis Software

The 361/461 Analysis Software is a low-cost, reduced capability alternative to the Coda GeoSurvey Productivity suite, providing an entry level product for less demanding sidescan sonar and sub-bottom profiler users. The price for this product ranges from $500 to $10,000 per software bundle.

Octopus® Thermal Printers

In June 2004, the Company acquired a thermal printer product line from Ultra Electronics plc, which we rebranded under the "Octopus" brand name. Octopus® printers are used to produce high quality grayscale continuous images onto thermal paper or film and are ideal for producing hard copy output of geophysical data and other continuous data. They are widely used in the geophysical survey industry in conjunction with other Coda and Octopus products, as well as in defense applications as part of surface ship and submarine detection systems. The price for this product ranges from $100 to $26,500 per printer.

Our Services

With our recent acquisitions of Martech Systems (Weymouth) Limited and Colmek Systems Engineering, we have moved from being a pure "products" company to being a comprehensive provider of systems and solutions.

Both these entities focus on producing specific low volume, high value solutions, bringing Coda Octopus Group firmly into the services sector in the defense and homeland security markets. The addition of these design and "bespoking" capabilities to the Company's Echoscope™ product set gives enormous added strength to the Business.

Martech

Martech Systems, based in Weymouth on the South Coast of England, is a team of highly skilled and specialized electronic, software and mechanical design engineers providing bespoke design and manufacturing services. It operates in the very specialized niche of high quality design and manufacturing services mainly to the United Kingdom defense, nuclear and pharmaceutical industries. Its services are provided on a custom sub-contract basis where high quality and high integrity devices are required, but in quite small amounts, sometimes less than a dozen.

Accredited to ISO 9001-2000 and Tick-IT, Martech focuses on providing low risk, high integrity solutions to difficult engineering problems and applications where repeatability and reliability is of paramount importance.

An example of the type of business conducted by Martech is a contract with a prime defense contractor for the design and supply of special type test equipment (STTE), which cannot be purchased off the shelf since it is to be used to test equipment being newly developed. Martech has designed and built numerous items of STTE to support UK sonar systems. Another example of Martech's design and engineering services is the development of a ruggedized display unit in military vehicles capable of displaying variables such as wind speed, air temperature and humidity independent of the vehicle's computer.

In the past, the Company has also designed products such as an air traffic management software system, military sonar test equipment, and equipment for production testing of sensors used in blood analysis equipment. Contracts ranged in amounts between a few thousand dollars up to around a million dollars. The Company is currently bidding on and obtaining contracts in the $500,000 - $1,000,000 range in addition to continuing to seek smaller contracts. During the most recent fiscal year approximately 19% of Martech's revenues were generated through services performed for Canberra Harwell Ltd. In addition, approximately 14% of its sales were made to the Ministry of Defense or its subdivisions.

Martech's Competition

Martech's competition is from the larger contractors in the defense industry. Typical amongst these are Ultra Electonics, BAE Systems, and Thales , all of whom are also partners on various projects . Martech is like many smaller companies a competitor to its customers, who have in-house design facilities, and has to manage these relationships carefully.

Martech's Strategy

Martech's business strategy is to continue to grow profitably in its established niche. It has established credentials with many of the bigger industry players and is well known as a reliable contractor who delivers service and products to the high specifications involved in defense, nuclear and pharmaceutical industries. This business strategy has worked well, and should continue to work well in the foreseeable future.

A part of Coda Octopus Group, Inc strategy in acquiring Martech is that it will seek to utilize Martech's high quality design and manufacturing workforce in its pre-existing businesses. As a result of the implementation of this strategy, we recently moved the production and development of our printer range to Martech.

This acquisition provides Coda Octopus with a revenue-generating company and an enhanced presence in the United Kingdom defense sector. It also provides Coda Octopus with a backbone of experienced technical resource founded on the requirement of producing high quality product that is resilient in adverse operating conditions.

In short Martech can provide Coda Octopus with the skills, practices and knowledge to expand its foothold in the UK defense sector and ensure that it can substantiate its credibility as a defense and homeland security supplier.

Colmek

Colmek operates in the same specialized niche of high quality design and manufacturing services as Martech but to the US defense sector mainly, though also in commercial sectors in the US. Its services are also provided on a custom sub-contract basis where high quality and high integrity devices are required.

An example of the type of business conducted by Colmek is a contract to produce a system to monitor the build-up of ice on the bows of oil tankers in use in the Barents Sea. Colmek staff developed a monitoring system using strain-gauge sensors, attached directly to the hull of the vessel. Environmental concerns were of paramount importance, as much of the monitoring equipment was to be located in the hull of the ship, where temperatures could drop well below the specifications of standard, off-the-shelf, equipment. Colmek created a system where the captain can monitor actual ice load as measured by the various strain-gauges on the ship's hull.

In the past, the Company has also been engaged on projects such as the design and production of a pipeline inspection vehicle and helicopter-based mine hunting system incorporating sonar, laser, and acoustic payload configurations. Contracts ranged in amounts from very low values to around $1,000,000. For the future Colmek will seek the larger engagements in addition to continuing to seek smaller contracts. Colmek's revenues for the full year to October 31, 2006 were $2,969,164.

Similarly to Martech, Colmek Systems Engineering intends to continue to grow in its existing established niche. It has long standing relationships with many of the major companies in the industry, such as Northrop Grumman and Raytheon. During the fiscal year ended October 31, 2007 these companies accounted for approximately 41% and 30% of Colmek's sales, respectively. Colmek is a trusted supplier, as well as sometimes being a competitor to these big organizations. We trust that these long term relationships will continue to serve Colmek well.

We acquired Colmek for three reasons. First, for access to Colmek's customer base, both Government Agencies and the type of organization indicated above. We hope to realize synergies between Colmek's customers and the customers of the Company. The second reason was for the intrinsic skills and knowledge that Colmek staff can bring to bear on the Coda Octopus business. Third, for the synergies with our prior acquisition, Martech Systems, in the UK, essentially, a buy and build strategy, with basic business synergies to be gained between the two companies.

Thus, Colmek provides a growing revenue stream in the defense sector, opportunities for cross-selling, raw skills that can be applied across the Group, and the operating synergies to be gained between Martech and Colmek.

Research and Development

The scientists and engineers who worked for OmniTech AS (now operating under the name of Coda Octopus Omnitech AS) have become the nucleus for our research and development center, based in Bergen, Norway. Our research and development division also includes a team of six software engineers based in Edinburgh, Scotland, two of whom are original founders of the Coda Octopus Products business.

This area also benefits from strong and long lasting links with the University of Bergen. We have also developed close links to the University of South Florida (USF) in St Petersburg, Florida. Our strategic relationship with these institutions has facilitated the development of our UIS™ system to meet key requirements of government agencies such as the US Coast Guard.

In Bergen, we have two chief engineers, who between them led the hardware and software development of the Echoscope™, and three other engineers who support this activity, covering mechanical design and engineering and software.

The key drivers for our research and development activities are the lead we believe we have in 3-D acoustic imaging and which we aim to maintain over the coming years. Our aim and strategy is to stay at the forefront of this technology, allowing us to generate strong earnings growth from regular new products.

We have recently been investing over $3 million annually in our research and development activities and expect to continue this level of investment during the current year in order to continue the current pace of research and development, as well as product and intellectual property rights development. Our products are developed in-house by our team of software design, hardware design and engineering, and support staff. In the year to October 31, 2007, we spent $3,019,090 on research and development.

Production and Manufacturing

Our production process consists of supply chain management, product assembly, testing and calibration. We do not undertake any metal fabrication or electronic circuit board manufacture and all components are manufactured outside of the Company, bought in as raw materials and then assembled into finished goods.

Assembly of our products is carried out in four places at present. Our data acquisition products and motion sensors are produced and distributed in the UK from our Edinburgh production facility. Our printers are currently produced in Weymouth, where Martech systems also undertake any production required as part of their engineering design services. Similarly, Colmek undertake any production required as part of their engineering projects in Salt Lake City, Utah. Finally, the production of our Echoscope™ product is now located at our facility in St. Petersburg, Florida..

Marketing

We conduct worldwide sales and marketing through each company individually, with our synergies, national and international exposure sought geographically by our Presidents of European and US Operations. This structure provides dedicated sales effort in each of the Group companies, and encourages cross-selling and marketing of other Group companies' products and services. The companies are staffed as follows:

- Coda Octopus Products - eight persons distributed between the UK and Florida, USA
- Martech Systems (Weymouth) - two full time and one part time based in Weymouth, UK
- Colmek Systems Engineering - two full time staff, one in California and one in Washington state
- Innalogic, Inc. - one staff member based in New York City, USA
- Port Security Group - currently being developed by Group-level staff
- Group level – one member of staff, based in New York City, USA

We plan to add into the current structure at least five more staff members during the current year, and in addition, we are planning to open sales offices in the Middle East and Far East, within the next 18-24 months.

Generally, our focus is on widening our market reach and selling broader services, systems and solutions within our existing customer base. Specifically, we have a key focus on Port and Harbor Security, leading with our flagship 3-D sonar product Echoscope™, and its added value derivative, the UIS™. Our marketing effort is dedicated to enhancing, reinforcing, and protecting the value of our lead in this huge emerging market, broadening out our current product and systems-based offerings to be able to offer complete solutions. However, within that we have the following supporting marketing sub-strategies:

- Product: The extension of our product line (particularly Echoscope™) through adding value to produce higher added functionality products (eg. UIS™, the Company's Underwater Inspection System).

- Price: The maintenance and enhancement of profit margin through value add (as described above).

- Place: The use of strategic partnerships, at the higher value end of the market, particularly to provide solutions rather than product (eg. the provision, through partnership, of a complete port security solution to a major port), and the use of existing and new sales agents to provide sales leads for lower value but very important "pure" product sales.

- Promotion: The attendance and illustration of our capabilities at trade shows, use of customer mailing, advertising and trade public relations.

Each of the Group companies have a number of external agents and representatives, who are distributed globally for Coda Octopus Products, within the UK for Martech and within the USA for Colmek Systems Engineering and Innalogic.

Suppliers

Most of the materials and components used in our products are readily available in the market place and are delivered pursuant to simple purchase orders. We do not have long term supply contracts with our suppliers with the exception of a three year agreement with Oxford Technical Solutions dated July 1, 2006, pursuant to which that entity delivers licensed technology for use in our F180 product line. Other than this specific technology we are not dependent on any materials that could not be obtained from alternative sources if our current suppliers cease to make deliveries to us for any reason.

Government Regulation

Because of the nature of some of our products, they may be subject to United States and other export controls and may be exported outside the United States or the United Kingdom only with the required level of export license or through an export license exception.

In addition, as a provider for the U.S. Government we may be subject to numerous laws and regulations relating to the award, administration and performance of U.S. Government contracts, including the False Claims Act. Non-noncompliance found by any one agency could result in fines, penalties, debarment, or suspension from receiving additional contracts with all U.S. Government agencies. Given our dependence on U.S. Government business, suspension or debarment could have a material adverse effect on our business and results of operations.

Government Relations

As government has become a primary focus of our marketing of the Echoscope™, we have established an office in Washington so that we can reach the different levels of government and have employed a very experienced individual to develop this presence. In addition, we have engaged a number of lobbying firms to assist us with this task:

- PMA, a lobbying firm based in Washington, DC, is assisting in reaching congressional members to assit with government funding towards the use of our products in port security applications;
- CJ Strategies, a lobbying firm based in Washington, DC, is assisting in reaching the US Navy and has strong connections with the state of California;
- The Johnson Group, a company based in Washington, DC, is assisting in reaching individual ports and other end-users, as well as helping with funding for these end-users from Homeland Security.
- The Grossman Group, LLC, a lobbying firm based in Washington, D.C, is assisting in helping to gain governmental support for our operations in Utah.

Intellectual Property

The Coda Octopus technologies and products are underpinned by strong intellectual property rights including trademarks, copyrights and patents ("IPRS"). We are in the process of augmenting our IPRS portfolio, including rationalizing our brands, seeking to register in the US and other jurisdictions certain trademarks and the filing of a number of new patents in key areas of our business activities. We have a number of fundamental patents including a patent covering the stitching together of acoustic imagery (valid in the US, Europe, Australia and Norway). This covers the real time acoustic image generation element of what we do, and we believe it provides us with a competitive advantage.

Our patented inventions along with our strategy to enhance these are at the heart of the Company's strategy for growth and development. In recognition of this, the Company's Board has adopted for implementation by the Company a Corporate Patent Strategy. This provides for the effective management and organization of our patents and other intellectual property rights. The main goals of our Corporate Patent Strategy are to (i) protect value; (ii) create value and (iii) extract value. Protecting value entails implementing measures aimed at protecting the Company's existing patents and other intellectual property rights. Creating Value aims at, working closely with our Research and Development Division to remain at the forefront of 3-D Sonar Technology by ensuring that we make the necessary technological advancement in the market spaces in which we operate and obtain the right legal protection by filing quality new patents. Extract value entails ensuring that our Patents and other Intellectual Property Rights work for us and generate premium revenues.

In order to ensure the full and effective implementation of our Corporate Patent Strategy, a Patent Committee has been established, and the Board has approved a budget for fiscal year 2007-08 of $400,000 to fully support the strategy's implementation.

Patents

We have been granted two patents:

- Patent No. 6,438,071 concerns the "Method for Producing a 3-D Image" and is recorded in the European Patents Register File #SH-44923; Australia #55375/99; Norway #307014 and US Patent Office # 6,438,071. This patent relates to the method for producing an image of a submerged object (3), e.g. a shipwreck or the sea bottom, comprising the steps of emitting acoustic waves from a first transducer toward a first chosen volume.

- Patent No. 6,532,192 concerns "Subsea Positioning System and Apparatus", recorded in the US Patent Office. This patent relates to subsea positioning system and apparatus.

Trademarks

In marketing and branding our products and services we use the following registered and unregistered trademarks:

Coda ™
Octopus®
Octopus & Design®
F-180 ™
Echoscope ™

In addition, we have registered the internet domain names "codaoctopus.com", "codaoctopusgroup.com", "theportsecuritygroup.com", "3dsonar.com", "portsecurity.com", martechsystems.co.uk and colmek.com with various ICANN-certified domain name registrars.

Competition

We compete with numerous companies, some of which are much larger than we are with much greater financial, technical and human resources.

Products

The sonar equipment industry is fragmented with several companies occupying niche areas, and we face specific competition from different competitors with respect to our different products. In the field of geophysical products Triton Imaging International, Inc., a California based company, and Oceanic Imaging Consultants, Hawaii, USA, dominate the market with an estimated 30% each of world sales, while we believe that we are just behind this with 25%.

In the field of motion sensing equipment, we believe that we have four principal competitors - TSS (International) Ltd in Watford, England which is focused on the mid-performance segments with about 30% of the world market; Ixsea, a French company which covers all segments, with about 25% of the market; Seatex, a Norwegian company, part of Kongsberg Simrad which has products across all segments, with about 20% of the market; and Applanix, a Canadian company, now part of Trimble which has one major product focused on the high end of the market, with about 15% of the market. We believe that our market share in the field of motion sensing equipment is only about 10% at present.

In the area of grayscale thermal printers, there are two companies besides us who compete in this small market. EPC Labs, Mass., USA, have around 40% of the market, mainly in the USA; iSys of Canada have around 20% of the market; we have around 40% of the market, mainly in Europe and Asia.

In the field of 3-D real time imaging, we believe that we have no direct competition at present since no other companies offer such a product. There is, however, no assurance that others will not enter this area with competing products.

We seek to compete on the basis of producing quality products employing cutting edge technology. We intend to continue our research and development activities to continually improve our products, seek new applications for our existing products and to develop new innovative products.

Services

We are involved in custom engineering for the defense industry in the US, and for the defense, nuclear and pharmaceutical industries in the UK. The size of these companies means that there is significant competition provided by other small engineering contracting firms, but the largest competition comes from the decision by larger companies to proceed with a project in-house instead of outsourcing to a sub-contractor like Martech or Colmek. In essence, the potential of each company is determined by their ability to be known and trusted by potential clients, and the make or buy decisions made by those potential clients.

Employees

As of the date hereof, we have 99 employees:

- 6 are employed in research and development in our Bergen facility
- 4 are employed in production, marketing and administration at our Edinburgh facility
- 22 are employed in software development, marketing and administration at our Edinburgh office
- 9 are employed in management and administration at our New York City office
- 7 are employed in product development, sales and support in New York City
- 4 are employed in sales and marketing at our Florida office
- 2 are employed in Government Relations at our Washington office
- 23 are employed in Martech in Weymouth, of which 20 are full time employees and 3 are part time (paid on an hourly basis)
- 22 are employed in Colmek in Salt Lake City, the main categories of employees being engineers and technician.

Seventy-Percent of our employees have a background in science, technology and engineering, with a substantial part being educated to degree and PhD level. We expect to relocate much of our senior management staff to the US over the next 6 -12 months. None of our employees are members of any union, and we have not experienced any labor difficulties in the past.

ITEM 2. DESCRIPTION OF PROPERTY

New York City, New York, USA. Our corporate offices are located at 164 West 25th Street, 6th (6F) Floor, New York, NY 10001. We lease premises comprising 1,000 sq. ft pursuant to a renewable lease which expires on November 30, 2007. The lease provides for a monthly rental of $2,500. We are currently in negotiations with the landlord for the extension of this lease.

New York City, New York, USA. Our wholly owned subsidiary, Innalogic, Inc, has its business premises at 164 West 25th Street, 6th (6R) Floor, New York, NY 10001. It leases premises adjoining our corporate offices. These premises comprise 2,700 sq. ft. pursuant to a renewable lease which expires on November 30, 2007, at a rental of $7,250 per month. We are currently in negotiations with the landlord for the extension of this lease.

St Petersburg, Florida, USA . We lease 3,200 sq. ft. of business premises (comprising assembly, testing facilities and office space) located at 100 14th Avenue South, St Petersburg, Florida. The space houses our US Sales, Marketing and Production staff and is located close to the University of South Florida, which is convenient for conducting trials and demonstrations of our products. The lease , which is renewable at the option of the tenant, expires on March 31, 2008 and provides for a rental of $44,940 per annum (excluding utilities).

Washington, DC, USA. We lease office premises located at 700 13 th Street, N.W, Washington, D.C. 20005 (10 th Floor). This space comprises 186 square feet and houses our Government Relations operations. The lease provides for a rental of $854.37 per month and expires on January 31, 2012 but can be terminated by us with 30 days' notice at any point.

Salt Lake City, Utah, US A. Our wholly owned subsidiary, Miller & Hilton d/b/a Colmek Systems Engineering, leases 6,500 sq. ft. of business premises at 2001 South 3400 West, Salt Lake City, Utah comprising both office space, manufacturing and testing facilities. The lease provides for a monthly rental of $3,795 (with an annual rental increase of 3%) . The lease expires in April 2012.

Edinburgh, Scotland, UK. Our wholly owned UK subsidiary, Coda Octopus Products Limited, leases business premises comprising 4,099 sq. ft. and located at First Floor, Anderson House, Breadalbane Street, Edinburgh. The space comprises a main floor which houses sales and support staff and our software product development team. The building is located close to the Port of Leith and Firth of Forth, which is convenient for conducting trials and demonstrations of our products. The lease provides for an annual rental of £65,583.96 (equivalent to $131,168 based on an exchange rate of $2.00) and expires on September 26, 2016. Pursuant to the provisions of the lease, we may terminate the lease without penalty on or after the fifth anniversary of the lease agreement, which is September 26, 2011.

Edinburgh, Scotland, UK. Our wholly owned UK Subsidiary, Coda Octopus Products Limited, leases workshop and manufacturing facilities at Units 3, 8 and 10 Corunna Place, Edinburgh comprising 2,798 square feet and used as workshop space. The lease provides for a rental of £19,805 per annum (£1,650 per month - equivalent to $3,300 based on an exchange rate of $2.00). There are two lease agreements in place for these premises. One expires on 31 July 2009 and is subject to a 4 months notice period and the other expires 20 July 2010 and is fixed for a period of 3 years.

Weymouth, England, UK. Our UK wholly owned Subsidiary, Martech Systems (Weymouth) Limited also leases business premises located at 14 Albany Road, Granby Industrial Estate, Weymouth, Dorset DT4 9TH comprising 5,000 sq. ft. This space comprises both office space and manufacturing and testing facilities. The lease provides for an annual rent of £29,984.74 (equivalent of $59,969 based on an exchange rate of $2.00) and expires on September 30, 2013. The lease provides for an annual rent increase of 3% of the last annual rent.

Bergen, Norway. Our Norwegian wholly owned Subsidiary, Coda Octopus Omnitech AS, leases an 800 sq. ft. of business premises directly on the waterway connected to Bergen harbor. These premises are located at Sandviksboder 77C, 5035 Bergen and house our research and development team. They are well located for developing and testing new products, and for transport links to the rest of Europe. The lease provides for a rental of NOK 165,295 per annum (equivalent of $27,808 based on an exchange rate of NOK 5.944 to $1) and expires on July 1, 2008. In light of the newly acquired lease premises, within 6 months we will terminate the lease on these premises. We have now moved to the premises stated below and are seeking to sub-contract these premises in accordance with our contractual obligations.

Bergen, Norway. Our Norwegian subsidiary, Coda Octopus Omnitech AS, also recently leased 2,370 sq. ft. of business premises in a recently refurbished maritime business center directly on the waterway connected to Bergen harbor. This will serve as our new Research and Development center with purpose-built laboratories for electronic and mechanical development. The lease provides for a rental of NOK 440,500 per annum (equivalent of $74,107 based on an exchange rate of NOK 5.944 to $1) and expires in May 31, 2012. We have the option to terminate this after 5 years without incurring any penalties.

ITEM 3. LEGAL PROCEEDINGS

We are not a party to any material legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our security holders in the fourth quarter of 2007.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDERS MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock has been traded on the OTC Bulletin Board under the symbol CDOC since October 3, 2007. Prior thereto our stock was traded in the pink sheets.

The following table shows the reported high and low closing bid quotations per share for our common stock based on information provided by the OTC Bulletin Board fort the period starting October 3, 2007. Information for the prior periods was obtained from the Pink Sheets Quotation Service. Particularly since our common stock is traded infrequently, such over-the-counter market quotations reflect inter-dealer prices, without markup, markdown or commissions and may not necessarily represent actual transactions or a liquid trading market.

Year Ended October 31, 2006	HIGH	LOW
First Quarter	$ 0.65	$ 0.45
Second Quarter	$ 0.75	$ 0.40
Third Quarter	$ 1.40	$ 0.65
Fourth Quarter	$ 1.50	$ 1.00

Year Ended October 31, 2007	HIGH	LOW
First Quarter	$ 1.55	$ 0.72
Second Quarter	$ 1.70	$ 1.05
Third Quarter	$ 1.72	$ 1.50
Fourth Quarter	$ 1.50	$ 0.80

Year Ended October 31, 2008	HIGH	LOW
First Quarter	$ 0.88	$ 0.45

We have not declared or paid any cash dividends on our common stock, and we currently intend to retain future earnings, if any, to finance the expansion of our business, and we do not expect to pay any cash dividends in the foreseeable future. The decision whether to pay cash dividends on our common stock will be made by our board of directors, in their discretion, and will depend on our financial condition, operating results, capital requirements and other factors that the board of directors considers significant. As of February 1, 2008, we had approximately 599 shareholders of record, not including persons who hold their shares through a nominee.

Recent Sales of Unregistered Securities

During January 2008, we issued to the holders of our 12% Preferred Stock, all of whom are affiliates of the Company, an aggregate of 28,288 shares of Common Stock in payment of cumulative dividends due on the Preferred Stock between 2006 and 2007. All shares were issued at a price ranging from $1.07 to $1.55 per share, representing the average stock price relevant for the period.

On February 21, 2008 we entered into and completed the transactions contemplated under a series of agreements providing for the issuance to a London based institutional investor, The Royal Bank of Scotland plc ("RBS") of secured convertible notes in the principal amount of $12,000,000 (the "Notes"). The Notes are secured by all of the assets of the Company and its subsidiaries and mature 84 months after the date of issuance at which time they are redeemable at 130% of the face amount of the Notes. The Notes accrue interest at the annual rate of 8.5% which is payable semi-annually in arrears. The Notes also stipulate additional interest payments of 2% per annum above the base rate quoted by RBS from time to time, in the event that the semi-annual interest payments are not paid by us on the due dates. All of these amounts are payable by us in cash. Of the proceeds, $6 million constitutes a specific purpose loan and in the event that we fail to use the proceeds as agreed within 12 months from the closing, then, unless alternative investments are approved by the holders of the Notes, this $6 million must be repaid to the holders within 30 days of the end of the 12 months. In such case there will be a partial redemption of 60 of the notes (having an aggregate nominal value of $6 million). Pursuant to the terms of the agreement, a further $1 million of the proceeds has been retained by RBS to secure the performance of certain contractual obligations o f the Company. Upon performance of these by us, this will be released. We expect such release to occur no later than February 2009. During the period within which this $1million is retained we will earn interest on this at RBS's internal overnight funds rate. During the term, the Notes are convertible into our common stock at the option of the Noteholders 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.

The placement agent received two five-year warrants for the purchase of up to 600,000 shares of common stock at an exercise price of $1.30 per share with respect to 50% of the shares and $1.70 per share with respect to the balance. In addition, they received a cash commission in the amount of $600,000.

The members of the Company's Board of Directors were required to enter into lock-up agreements under which they agree not to sell any of their securities in excess of the agreed amounts during the term of the Note.

The issuance of the Notes and warrants constituted a private placement and therefore was exempt from registration in accordance with Regulation D of the Securities Act of 1933 as amended.

Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Forward-Looking Statements

The information herein contains forward-looking statements. All statements other than statements of historical fact made herein are forward looking. In particular, the statements herein regarding industry prospects and future results of operations or financial position are forward-looking statements. These forward-looking statements can be identified by the use of words such as "believes," "estimates," "could," "possibly," "probably," anticipates," "projects," "expects," "may," "will," or "should" or other variations or similar words. No assurances can be given that the future results anticipated by the forward-looking statements will be achieved. Forward-looking statements reflect management's current expectations and are inherently uncertain. Our actual results may differ significantly from management's expectations.

The following discussion and analysis should be read in conjunction with our financial statements, included herewith. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best present assessment of our management.

General Overview

On July 13, 2004, pursuant to the terms of a share exchange agreement between The Panda Project, Inc., a Florida corporation, and Fairwater Technology Group Ltd. ("Fairwater"), Panda acquired the shares of Coda Octopus Limited, a UK corporation and Fairwater's wholly-owned subsidiary, in consideration for the issuance of a total of 20,050,000 shares of common stock to Fairwater and other shareholders of Coda Octopus Limited. The shares issued represented approximately 90.9% of the issued and outstanding shares of Panda. The share exchange was accounted for as a reverse acquisition of Panda by Coda. Subsequently, Panda was reincorporated in Delaware and changed its name to Coda Octopus Group, Inc.

We are a developer of underwater technologies and equipment for imaging, mapping, defense and survey applications. We are based in New York, with research and development, sales and manufacturing facilities located in the United Kingdom, United States and Norway as well as two engineering companies located in the United States and the United Kingdom.

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. Although these estimates are based on management's best knowledge of current events and actions that we may undertake in the future, actual results may differ from those estimates.

Background

We are engaged in 3-D subsea technology and are the developer and patent holder of real-time 3-D sonar products which we expect to play a critical role in the next generation of underwater port security. We produce hardware, software and fully integrated systems which are sold and supported on a worldwide basis, with wide applications in two distinct market segments:

- marine geophysical survey (commercial), which focuses around oil and gas, construction and oceanographic research and exploration, where we market to survey companies, research institutions, salvage companies. This was our original focus, from original founding in 1994, with current products spanning geophysical data collection and analysis, through to printers to output geophysical data collected by sonar. We believe that our marine geophysical survey markets are experiencing rapid growth due to: 1) successful new product introductions in recent periods; 2) market-proximity benefits derived from our 2004 relocation to the United States; 3) initial market penetration into new sub-sectors of the marine geophysical survey markets; 4) the high price of oil and gas in the past few years, resulting in unprecedented exploration and production activity.

- underwater defense/ security, where we market to ports and harbors, state and federal government agencies and defense contractors. We started to focus on this market following the acquisition of OmniTech AS, a Norwegian Company, in December 2002, a company which had developed a prototype system, the **Echoscope™**, a unique, patented instrument which permits accurate three-dimensional visualization, measurement, data recording and mapping of underwater objects. We have recently completed developing and commenced marketing this first real time, high resolution, three-dimensional underwater sonar imaging device which we believe has particularly important applications in the fields of port security, defense and undersea oil and gas development.

In addition, through our two engineering services subsidiaries, Martech Systems (Weymouth) Ltd, based in Weymouth, England, UK, and Colmek Systems Engineering, based in Salt Lake City, Utah, USA , we provide engineering services to a wide variety of clients in the subsea, defense, nuclear, government and pharmaceutical industries. These engineering capabilities are increasingly being combined with our product offerings, bringing opportunities to provide complete systems, installation and support.

For the foreseeable future, we intend to intensify our focus on port security. We believe that in the post 9/11 era there are significant growth opportunities available in that particular market segment because of increased government expenditures aimed at enhancing security. Specifically, we believe that we have the ability to capitalize on this opportunity as a result of:

- First mover advantage in 3-D sonar markets based on our patented technology, our research and development efforts and extensive and successful testing in this area that date back almost two decades as well as broad customer acceptance.
- Early recognition of need for 3-D real-time sonar in defense/security applications.
- Expansion into new geographies like North America and Western Europe.
- Expansion into new commercial markets like commercial marine survey with innovative products.
- Recent sole source classification for one of our products and its derivatives by certain government procurement agencies.

Further, we believe the Echoscope™ will transform certain segments of the sonar products market. In addition, 3-D sonar, currently in the early stages of adoption, has disruptive technology qualities as it has the ability to change industry standard practice in respect of the method for visualization and imaging of underwater objects and environment. Therefore, it will likely change who the suppliers into this market are as well as our market position and that of our competitors. We believe the market opportunity in underwater security and defense could grow at a rapid pace over the next several years.

Approximately 54% of our 2007 revenues of $13,853,313 were attributable to pure products business. On a pro-forma basis, adding the acquired business last year (Colmek) would have given us revenues of $14,757,876 and around 47% of our revenues would have been generated from engineering services.

To this established base of business, we now plan to add other sub-sections:

- we are now starting to bid (sometimes in partnership, where areas of focus other than underwater sonar and wireless video surveillance capability are demanded) for complete port security and other solutions. We have bid on a small number of these in the last six months and hope for our first successes shortly. We have not yet been awarded any contracts for the purchase of complete solutions. However, in July 2007, we received a $2.59 million order from the U.S. Department of Defense to build and deliver three next- generation Underwater Inspection System (UIS)™ for the US Coast Guard and other potential users, to enable rapid underwater searches in the nation's ports and waterways. These units were accepted by the US Coast Guard on December 15, 2007. The contract includes additional options which, if fully funded, would require us to deliver an additional seven UIS™ systems, or other development options which they may select. Pursuant to a contract amendment on February 19, 2008, options with a contract value of US$1,527,149 were exercised. The contract was awarded to us on a sole source basis, which means that the product is considered to be available from one source only and under Federal rules may be acquired from that source without competitive bidding process. Although this is not a complete port security system, it represents the first step towards achieving this.

- we are currently reviewing the possibility of launching next year, in partnership with others, a services business based on our product set. This business will be port based and will, for example, provide ship hull inspections by way of rental of equipment and provision of a team to operate the equipment for any ship entering that particular port.

Critical Accounting Policies

This discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements that have been prepared under accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements in conformity with US GAAP requires our management to make estimates and assumptions that affect the reported values of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported levels of revenue and expenses during the reporting period. Actual results could materially differ from those estimates.

Below is a discussion of accounting policies that we consider critical to an understanding of our financial condition and operating results and that may require complex judgment in their application or require estimates about matters which are inherently uncertain. A discussion of our significant accounting policies, including further discussion of the accounting policies described below, can be found in Note 3, "Summary of Significant Accounting Policies" of our Consolidated Financial Statements.

Revenue Recognition

We record revenue in accordance with the guidance of the SEC's *Staff Accounting Bulletin SAB No. 104* (SAB 104), which supersedes SAB No. 101 in order to encompass EITF No. 00-21 , *Revenue Arrangements with Multiple Deliverables* (EITF 00-21).

Revenue is derived from sales of underwater technologies and equipment for imaging, mapping, defense and survey applications. Revenue is also derived through contracts gained by our Martech, Colmek and Innalogic businesses.

Revenue is recognized when conclusive evidence of firm arrangement exists, delivery has occurred or services have been rendered, the contract price is fixed or determinable, and collectability is reasonably assured. No right of return privileges are granted to customers after shipment.

For arrangements with multiple deliverables, we recognize product revenue by allocating the revenue to each deliverable based on the fair value of each deliverable in accordance with EITF No. 00-21 and SAB No. 104, and recognize revenue for equipment upon delivery and for installation and other services as performed. EITF No. 00-21 was effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003.

Our contracts typically require customer payments in advance of revenue recognition. These deposit amounts are reflected as liabilities and recognized as revenue when the Company has fulfilled its obligations under the respective contracts.

Revenues derived from our software license sales are recognized in accordance with Statement of Position (SOP) SOP No. 97-2, "Software Revenue Recognition," and SOP No. 98-9, "Modifications of SOP No. 97-2, Software Revenue Recognition with Respect to Certain Transactions". For software license sales for which any services rendered are not considered essential to the functionality of the software, we recognize revenue upon delivery of the software, provided (1) there is evidence of an arrangement, (2) collection of our fee is considered probable and (3) the fee is fixed and determinable.

Recoverability of Deferred Costs

We defer costs on projects for service revenue. Deferred costs consist primarily of direct and incremental costs to customize and install systems, as defined in individual customer contracts, including costs to acquire hardware and software from third parties and payroll costs for our employees and other third parties.

We recognize such costs in accordance with our revenue recognition policy by contract. For revenue recognized under the completed contract method, costs are deferred until the products are delivered, or upon completion of services or, where applicable, customer acceptance. For revenue recognized under the percentage of completion method, costs are recognized as products are delivered or services are provided in accordance with the percentage of completion calculation. For revenue recognized ratably over the term of the contract, costs are recognized ratably over the term of the contract, commencing on the date of revenue recognition. At each balance sheet date, we review deferred costs, to ensure they are ultimately recoverable. Any anticipated losses on uncompleted contracts are recognized when evidence indicates the estimated total cost of a contract exceeds its estimated total revenue.

Stock Based Compensation

SFAS No. 123, "Accounting for Stock-Based Compensation," established and encouraged the use of the fair value based method of accounting for stock-based compensation arrangements under which compensation cost is determined using the fair value of stock-based compensation determined as of the date of the grant or the date at which the performance of the services is completed and is recognized over the periods in which the related services are rendered. The statement also permitted companies to elect to continue using the current intrinsic value accounting method specified in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," to account for stock-based compensation to employees. Prior to the adoption of SFAS 123(R) we elected to use the intrinsic value based method for grants to our employees and directors and have disclosed the pro forma effect of using the fair value based method to account for our stock-based compensation to employees.

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123R (revised 2004), "Share-Based Payment" ("Statement 123R") which is a revision of SFAS No. 123.

Statement 123R supersedes APB opinion No. 25 and amends SFAS No. 95, "Statement of Cash Flows". Generally, the approach in Statement 123R is similar to the approach described in Statement 123. However, Statement 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro-forma disclosure is no longer an alternative. This statement does not change the accounting guidance for share based payment transactions with parties other than employees provided in SFAS No. 123(R). This statement does not address the accounting for employee share ownership plans, which are subject to AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans." On April 14, 2005, the SEC amended the effective date of the provisions of this statement. The effect of this amendment by the SEC is that the Company had to comply with Statement 123R and use the Fair Value based method of accounting no later than the first quarter of 2006. We implemented SFAS No. 123(R) on November 1, 2004 using the modified prospective method. The fair value of each option grant issued after November 1, 2004 will be determined as of grant date, utilizing the Black-Scholes option pricing model. The amortization of each option grant will be over the remainder of the vesting period of each option grant. We use the fair value method for equity instruments granted to non-employees and use the Black Scholes model for measuring the fair value. The stock based fair value compensation is determined as of the date of the grant or the date at which the performance of the services is completed (measurement date) and is recognized over the periods in which the related services are rendered.

Income Taxes

Deferred income taxes are provided using the asset and liability method for financial reporting purposes in accordance with the provisions of Statements of Financial Standards No. 109, "Accounting for Income Taxes". Under this method, deferred tax assets and liabilities are recognized for temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, and for operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be removed or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of operations in the period that includes the enactment date.

Purchase price allocation and impairment of intangible and long-lived assets

Intangible and long-lived assets to be held and used, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset, and its eventual disposition. Measurement of an impairment loss for intangible and long-lived assets that management expects to hold and use is based on the fair value of the asset as estimated using a discounted cash flow model.

We measure the carrying value of goodwill recorded in connection with the acquisitions for potential impairment in accordance with SFAS No. 142, Goodwill and Other Intangible Assets." To apply SFAS 142, a company is divided into separate "reporting units," each representing groups of products that are separately managed. For this purpose, we have one reporting unit. To determine whether or not goodwill may be impaired, a test is required at least annually, and more often when there is a change in circumstances that could result in an impairment of goodwill. If the trading of our common stock is below book value for a sustained period, or if other negative trends occur in our results of operations, a goodwill impairment test will be performed by comparing book value to estimated market value. To the extent goodwill is determined to be impaired, an impairment charge is recorded in accordance with SFAS 142.

Results of Operations

Comparison of fiscal year ended October 31, 2007, compared to fiscal year ended October 31, 2006.

Introduction

Due to the acquisition of Colmek in April 2007, the financial information presented for Coda Octopus for the year ended October 31, 2007 (the "2007 Period"), includes activity in Colmek for the respective period, combined with revenue, other income and SG&A expenses of the rest of Coda Octopus Group, Inc. for the fiscal year ending October 31, 2007. Also contributing for the first time in 2007 was Innalogic, Inc., a new business formed at the beginning of November 2006, the start of our fiscal year. The financial information presented ("2007 Period") does not include any revenues and expenses for Colmek from the period before the acquisition which occurred on April 6, 2007. As a result, the sharply increased revenues and expenses in the accompanying audited consolidated statements of operations in 2007 compared to those in 2006 may not be a meaningful comparison.

Revenue. Total revenue for the 2007 Period and the 2006 Period was $13,853,313 and $7,291,291, respectively, representing an increase of 90.0%. Compared with the 2006 Period, contributions from Martech (acquired in June of 2006 and contributing $661,589 in that year) were $2,492,895 and from Colmek were $2,439,241 in the 2007 Period (against nil for 2006). The contribution from Innalogic was $1,166,681 in 2007 (a new business which did not contribute in 2006). Subtracting the contribution from the acquisitions and the new business, there was a 17% increase in our original businesses. This was due to a strong demand for our traditional products in the geophysical and hydrographic survey markets.

Gross Margins. Margins were weaker in the 2007 Period at 53.8% compared with 64.2% for the 2006 Period, reflecting a different mix of sales in the new businesses. These new businesses represented 44% of our business in 2007 and are not expected to contribute as high a percentage going forward as our UIS systems business (with a higher margin) gains traction.

Research and Development (R&D). R&D spending decreased slightly to $3,019,090 in the 2007 Period from $3,130,821 in the 2006 Period as we continue to focus considerable effort into enhancing the Echoscope™ and releasing other products in our suite of marine geophysical offerings. In particular, work focused on delivering our Underwater Inspection System (UIS), a turnkey system built around the Echoscope™ platform.

Selling, General and Administrative Expenses (SG&A). SG&A expenses for the 2007 Period increased to $12,385,250 from $7,453,946 during the 2006 Period. Of the 2007 costs, $3,318,460 was attributable to non-cash charges relating to stock and options issued, compared to $2,005,056 in the 2006 Period, an increase of $1,313,404. Excluding non-cash charges, the SG&A for the 2007 Period would have been $9,066,790, compared to $5,448,890 for the 2006 Period, an increase of $3,617,900 or 66.3%. Of this increase, $2,508,463 was attributable to the acquisition of Martech, Colmek and the formation of Innalogic. This meant that core comparable expenses increased by $1,109,437 or 16.9% over the 2006 Period.

Key areas of expenditure include wages and salaries, where we spent $4,715,936 or 38% of our SG&A costs (2006 Period was $3,196,429 or 43%), due to the additions of Martech, Colmek and Innalogic; legal and professional fees, including accounting, audit and investment banking services, where we spent $851,450, or 6.8% of our SG&A costs compared to the 2006 Period spending of $1,272,086, or 17% - this reduction is due to reduced costs for investment banking, legal fees and accounting; travel costs decreased as a percentage to $560,472 or 4.5% of SG&A in 2007 from $397,137 and 5.33% of SG&A in 2006, with the increased outlay due to the increased staff from acquisitions; rent for our various locations increased to $519,162 (4.2% of SG&A) in 2007 from $86,330 (1.16% of SG&A) in 2006, with this increase due to the acquired businesses and moving offices in England, Scotland, Norway and New York, which gave duplicate rent costs for certain periods; and marketing increased to $471,049 (3.8% of SG&A) in 2007 from $315,265 (4.23% of SG&A) in 2006, due to the growth in the business through acquisition.

Other Operating Expenses. We incurred costs of $435,000 as non-recurring fees and expenses in connection with our financings, which are also included in our loss from operations, and shown separately under Other Operating Expenses. These fees covered equity fund raising during the 2007 Period. This compares with $447,750 of similar fees incurred during 2006.

Operating Loss. As a result of the foregoing, the Company incurred a loss from operations of $8,384,069 during the 2007 Period, compared to a loss from operations of $6,352,816 during the 2006 Period. Removing non-cash expenses and non-recurring expenses, the comparison shows a loss from operations of $4,505,492 for 2007 against a loss of $3,900,010 for 2006, an increase of $605,482 or 15.5%. This increased loss is entirely attributable to increased SG&A expenses for the period.

Interest Expense. Interest expense for the 2007 Period increased to $6,568,140 from $1,200,678 during the 2006 Period. Of the 2007 number, $6,105,918 was attributable to the valuation of warrants issued as part of our financing, booked as a financing charge and a non-cash item, against $784,873 in 2006. Removing this item, the comparison shows $462,222 for 2007 against the $418,817 recorded in 2006, or an increase of $43,405.

Dividends and Other Stock Charges. During the 2007 Period, dividends of $388,969 were declared in the 2007 Period on preferred stock (most of the preferred stock was converted into common stock prior to the end of the 2007 Period), compared to $384,044 in the 2006 Period. The 2007 amount includes redemption premium of $181,810 paid on the Series B preferred stock. This took the net loss applicable to common shares to $16,141,284 or $0.42 per share for the 2007 Period, based on an average of 38,476,352 shares outstanding over the period, compared to a loss of $12,096,014 or $0.50 per share for the 2006 Period, based on an average of 24,030,423 shares outstanding over the period.

Liquidity and Capital Resources

The Company generated a deficit in cash flow from operations of $10,088,405 in the 2007 Period. This deficit is due to increases in inventory of $975,125, accounts receivable of $1,800,802, other receivables of $672,216 and decreases in payables and accrued expenses of $1,033,074.

Cash from the sale of our securities was also used in our investing activities, with $288,803 spent on property, plant and equipment and patents in the 2007 Period. In addition, we acquired a business, Miller & Hilton, Inc. d/b/a Colmek Systems Engineering ("Colmek") for a cash outlay of $800,000 during the period. During the period, $884,405 of debt was also repaid, and $1,818,100 of preferred stock was redeemed.

With the $12,000,000 debt financing supplied in February by the institutional investor for, amongst other specified uses, working capital (discussed below in greater detail), an improved sales pipeline, and the interest the US Coast Guard has shown in the UIS system, we fully expect to improve our cash flow results in fiscal 2008. We expect this financing to be adequate to allow the company to carry on its business for the next 12 months.

While we have raised capital to meet our working capital and financing needs in the past, additional financing may be required in order to meet our current and projected cash flow requirements from operations and development. While we believe we have sufficient cash on hand as of February 21, 2008 to meet our working capital needs and requirements for the next twelve (12) months, we may seek additional financing, which may take the form of debt, convertible debt or equity, in order to provide the additional working capital and funds for expansion. We currently have no commitments for financing. There is no guarantee that we will be successful in raising any funds required. In addition, any additional financing will require approval from the holders of the convertible loan note under the financing concluded by us on February 21, 2008. Under the terms of this transaction we can neither sell new securities including common stock, nor incur further indebtedness above $2 million during the term of this transaction without the prior approval of the holders of the loan note. Furthermore, we will no longer be able to finance our receivables after February 2009 without prior approval from the holders of the loan note.

Our plan to move from loss to profit is based upon intensifying our focus on port security. We believe that in the post 9/11 era there are significant growth opportunities available in the market segment in which we operate because of increased government expenditures aimed at enhancing security. As part of this plan, in July 2007, we received a $2.59 million order 27: from the U.S. Department of Defense to build and deliver over a period of six months three next-generation Coda Underwater Inspection System, or UIS™, for the US Coast Guard and other potential users, to enable rapid underwater searches in the nation's ports and waterways. The contract includes additional options exercisable at the sole discretion of the U.S. Department of Defense, which, if exercised, would require us to make technical enhancements to the existing system and deliver a further seven UIS™ systems as further detailed on page 23. Pursuant to a contract amendment on February 19, 2008, options with a contract value of US$1,527,149 were exercised.

In the short term, our plan involves, specifically:

- Continue to sell our current range of products into a mixture of commercial and government markets, increasing sales of these products over the course of this financial year - we are expecting previous growth trends broadly to continue over the course of the year;
- Start to sell complete turnkey systems based around our leading Echoscope™ 3-D technology, to open markets in law enforcement and inspection - a great deal of our R&D expenditure has been directed towards the launch of these systems earlier this year, and we expect to sell a small number of high-value systems before the end of the current financial year;
- Complete additional government sales in the US;
- Gain our first port security solution contracts through the provision of our unique 3-D technology and other products and services, enabling us to provide complete solutions;
- Integrate our latest acquisition, Colmek Systems Engineering, which will add to profitability this year through its current order book and performance;
- Continue to review and refocus our cost base where necessary to achieve a cost base commensurate with our current level of activity.

Through these measures, we aim to move from cash negative for last year to cash positive. We also aim to move from heavily loss-making for the past 18 months to profitability in the final two quarters of this year and at least break-even for the year, prior to any non-cash charges made to our income statement. Based on this, we aim to be profitable over the course of the next year. Although we intend to pursue aggressively our plans as set forth in the previous paragraph, there can be no assurance that we will be successful in our attempt to make the company profitable.

Inflation and Foreign Currency

The Company maintains its books in local currency: US Dollars for its US operations, Pounds Sterling and Norwegian Kroner for its United Kingdom and Norwegian operations, respectively.

Until the beginning of this year, the Company's operations were conducted primarily outside the United States through its wholly-owned subsidiaries. As a result, fluctuations in currency exchange rates may significantly affect the Company's sales, profitability and financial position when the foreign currencies of its international operations are translated into U.S. dollars for financial reporting. In additional, we are also subject to currency fluctuation risk with respect to certain foreign currency denominated receivables and payables. Although the Company cannot predict the extent to which currency fluctuations may or will affect the Company's business and financial position, there is a risk that such fluctuations will have an adverse impact on the Company's sales, profits and financial position. Because differing portions of our revenues and costs are denominated in foreign currency, movements could impact our margins by, for example, decreasing our foreign revenues when the dollar strengthens and not correspondingly decreasing our expenses. The Company does not currently hedge its currency exposure. In the future, we may engage in hedging transactions to mitigate foreign exchange risk.

The translation of the Company's UK operations' pound sterling denominated balance sheets into US dollars, as of October 31, 2007, has been affected by the weakening of the US dollar against the British pound sterling from $1.91 at October 31, 2006, to $2.08 at October 31, 2007, an approximate 8% depreciation in value. The average British pound sterling/US dollar exchange rates used for the translation of the UK operations' pound sterling denominated statements of operations into US dollars, for the years to October 31, 2007 and 2006 were $1.98 and $1.81, respectively.

The translation of the Company's Norwegian operation's Kroner denominated balance sheets into US dollars, as of October 31, 2007, has not been materially affected by the currency fluctuations of the US dollar against the Kroner from $0.153 as of October 31, 2006, to $0.186 as of October 31, 2007, an approximate 21% change in value. The average Kroner/US dollar exchange rates used for the translation of the Norwegian operation's Kroner denominated statements of operations into US dollars, for the years to October 31, 2007 and 2006 were $0.167 and $0.154, respectively.

The impact of these currency fluctuations is shown below:

	Pound Sterling		Norwegian Kroner		
	Actual Results	Constant Rates	Actual Results	Constant Rates	Total Effect
Revenues	$ 11,256,485	$ (10,268,005)	$ 1,058,181	$ (978,214)	$ 1,068,447
Costs	11,824,358	(10,786,011)	1,057,910	(977,964)	1,118,293
Profits/(Losses)	(567,873)	517,994	271	(250)	(49,858)
Assets	11,347,451	(10,422,812)	758,499	(625,504)	1,057,634
Liabilities	11,922,351	(10,950,866)	442,274	(364,726)	1,049,033
Net Assets/(Liabilities)	(574,900)	528,054	316,225	(260,778)	8,601

This table shows that the effect of constant exchange rates, versus the actual exchange rate fluctuations, resulted in a increase in losses for the year of $49,858 and an increase in net assets of $8,601. Both of these amounts are immaterial overall in our financial results.

It is the opinion of the Company that inflation has not had a material effect on its operations.

Financing Activities

On April 30, 2006, we issued 2,377 shares of our Series A Preferred Stock to a group of individual investors for total cash consideration of $407,100. An additional 4,943.88 shares of our Series A Preferred Stock were issued to various individuals as repayment of $734,628 in debt. The aggregate value of these issuances was $1,141,728 for a total of 7320.88 shares .

In June 2006, we issued to one institutional investor units consisting of 23,000 shares of our Series B Preferred Stock and two five-year warrants to purchase 4.6 million shares of our common stock at a price ranging from $1.30 to $2.00 per share for total cash consideration of $2,300,000. Of these shares of Series B Preferred Stock, 4,819 were converted into 481,900 shares of common stock in April 2007 and 18,181 shares of Series B Preferred Stock were repurchased by us. These repurchased shares have now been cancelled.

In July 2006, we issued to two individual investors 820 shares of our Series A Preferred Stock for a total cash consideration of $82,000. These have since been converted into 82,000 shares of our common stock.

From September 2006 through January 2007, we issued to one institutional investor units consisting 23,000 shares of our Series B Preferred Stock and four five year warrants to purchase 4.6 million shares of our common stock at a price ranging from $1.3 to $2.00 per share and 650,000 shares of our Common Stock for a total cash consideration of $2,300,000. The 23,000 shares of Series B Preferred Stock were converted into 2,300,000 shares of our common stock in March 2007.

On October 31, 2006, we issued to one investor 500 shares of our Series A Preferred Stock for a total consideration of $50,000. These have since been converted into 50,000 shares of our common stock.

In January 2007, we issued to one investor 3,000 shares of our Series B Preferred Stock plus five-year warrants to purchase 300,000 shares of our common stock at $1.30 per share and five-year warrants to purchase 300,000 shares of our common stock at $1.70 per share for a total cash consideration of $300,000. The 3000 shares of Series B Preferred Stock have since been converted into 300,000 shares of our common stock.

In April 2007 we issued to an individual investor 25,000 shares of our common stock plus five-year warrants to purchase the same amount of shares of common stock (of which 12,500 may be purchased at $1.30 and the balance at $1.70 per share) for a total of $25,000.

In April and May, 2007, the company consummated a series of securities purchase agreements with a group of accredited individual and institutional investors providing for the sale and issuance of 15,025,000 shares of our common stock and five-year warrants to purchase 7,512,400 shares of common stock at $1.30 per share and five-year warrants to purchase 7,512,500 shares of common stock at $1.70 per share. Gross proceeds from the offering amounted to $15,025,000, generating $13,877,980 after costs. Also, in the period, we raised $800,000 from the sale of preferred stock and warrants, with the preferred stock since converted into common stock. We also issued five-year warrants to purchase 2,400,000 shares of our common stock at $1.00 per share as part of placement agent fees.

On February 21, 2008 we entered into and completed the transactions contemplated under a series of agreements providing for the issuance to a London based institutional investor, The Royal Bank of Scotland plc of senior secured convertible notes in the principal amount of $12,000,000 (the "Notes"). The Notes are secured by all of the assets of the Company and its subsidiaries and mature 84 months after the date of issuance at which time they are redeemable at 130% of the face amount of the Notes. The Notes accrue interest at the annual rate of 8.5% which is payable in semi-annually in arrears. The Notes also stipulate additional interest payments of 2% per annum above the base rate quoted by The Royal Bank of Scotland plc from time to time, in the event that the semi-annual interest payments are not paid by us on the due dates. All of these amounts are payable by us in cash. Of the proceeds, $6 million constitutes a specific purpose loan and in the event that we fail to use the proceeds as agreed within 12 months from the closing, then, unless alternative investments are approved by the holders of the Notes, this $6 million must be repaid to the holders within 30 days of the end of the 12 months. In such case there will be a partial redemption of 60 of the notes (having an aggregate nominal value of $6 million). Pursuant to the terms of the agreement, a further $1 million of the proceeds has been retained by RBS to secure the performance of certain contractual obligations of the Company. Upon performance of these by us, this will be released. We expect such release to occur no later than February 2009. During the period within which this $1million is retained we will earn interest on this at RBS's internal overnight funds rate. During the term, the Notes are convertible into our common stock at the option of the Noteholders 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.

Off-Balance Sheet Arrangements

We do not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, results of operations, liquidity or capital expenditures.

ITEM 7. FINANCIAL STATEMENTS

Reference is made to the Index of Financial statements following Part III of this Report for a listing of the Company's financial statements and notes thereto.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 8A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report, we conducted an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer, of our disclosure controls and procedures (as defined in Rules Rules 13a-14(c) and 15d-14(c) of the Exchange Act). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective in ensuring that information required to be disclosed by us in our periodic reports is recorded, processed, summarized and reported, within the time periods specified for each report and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our management is in the process of identifying deficiencies with respect to our disclosure controls and procedures and implementing corrective measures, which includes the establishment of new internal policies related to financial reporting.

Changes in Internal Controls

There have not been any significant changes in our internal controls that could significantly affect those controls subsequent to the date of their last valuation.

Limitations on the Effectiveness of Controls

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving its objectives. Our Principal Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures are effective at that reasonable assurance level.

We May Not Be Able to Implement Section 404 of the Sarbanes-Oxley Act of 2002 on a Timely Basis.

The SEC, as directed by Section 404 of the Sarbanes-Oxley Act, adopted rules generally requiring each public company to include a report of management on the company's internal controls over financial reporting in its annual report on Form 10-KSB that contains an assessment by management of the effectiveness of the company's internal controls over financial reporting. This requirement will first apply to our annual report on Form 10-KSB for the fiscal year ending October 31, 2008. Under current rules, commencing with our annual report for the fiscal year ending October 31, 2009 our independent registered accounting firm must attest to and report on management's assessment of the effectiveness of our internal controls over financial reporting.

We have not yet developed a Section 404 implementation plan. We have in the past discovered, and may in the future discover, areas of our internal controls that need improvement. How companies should be implementing these new requirements including internal control reforms to comply with Section 404's requirements and how independent auditors will apply these requirements and test companies' internal controls, is still reasonably uncertain.

We expect that we will need to hire and/or engage additional personnel and incur incremental costs in order to complete the work required by Section 404. We may not be able to complete a Section 404 plan on a timely basis. Additionally, upon completion of a Section 404 plan, we may not be able to conclude that our internal controls are effective, or in the event that we conclude that our internal controls are effective, our independent accountants may disagree with our assessment and may issue a report that is qualified. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations.

ITEM 8B. OTHER INFORMATION

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Directors and Executive Officers

The following persons are our executive officers and directors as of the date hereof:

Name	Age	Position(s)
Jason Reid	41	President, Chief Executive Officer and Director
Paul Nussbaum	60	Chairman of the Board of Directors
Rodney Peacock	61	Director
Jody E. Frank	55	Chief Financial Officer
Blair Cunningham	38	Chief Technology Officer
Anthony Davis	41	President US Operations
Frank B. Moore	72	Senior Vice President - Government Relations
Geoff Turner	54	President European Operations
Angus Lugsdin	31	Senior Vice President, Market Development
Scott Debo	37	President and CEO , Colmek Systems Engineering

Jason Reid has served since June, 2004 as a director, President and Chief Executive Officer of Coda Octopus Group, Inc. Mr. Reid has been affiliated with Coda Octopus Products Ltd., the current key operating subsidiary, since 1994, initially as a founder and independent director and, since 2002, as Managing Director. Mr. Reid is a director of the Company's subsidiaries, Coda Octopus Products Ltd., Coda Octopus Omnitech AS (Norway), Coda Octopus Products, Inc., Innalogic, Inc., Port Security Group, Inc. and Martech Systems (Weymouth) Limited. He is also a director of Fairwater Holdings Ltd. and Fairwater Technology Group Ltd, a principal stockholder of the Company. He was a founding partner, in 1984, of Weight Management Group Ltd, a $20m Scottish company which competes directly with Weight Watchers International, Inc., and which is market leader in Scotland. From 1992-2004, he was Managing Director of Weight Management Group Ltd, acquiring, in 2001, Green Meadow Foods Ltd, which distributed controlled dietary foods throughout Scotland to the major retail trade. In 2003, he oversaw the successful national UK launch of a new magazine title, published by Weight Management Group Ltd. He became a non-executive director of both companies when he assumed the role of President and CEO of Coda Octopus Group, Inc. in 2004. Between 1993 and 2004 he was also chairman of a software development company in Scotland, Softworks Business Systems Solutions Ltd., producing commercial software for public companies, including Bulthaup and Manchester Ship Canal, part of Peel Holdings plc. In 1997, he was a Director of William Grant Mining Ltd. In the past, he also served as a director of Slimmer Clubs Ltd.

Paul Nussbaum has served since January 2005 as Chairman of the Board of Directors of Coda Octopus Group, Inc. in a non-executive capacity. He is the chairman of the Waramaug Partners Group, a private real estate and special situations equity firm. He is the former Chairman Emeritus of Wyndham International, Inc., (NYSE:WYN), successor to Patriot American Hospitality, Inc. From 1991 to 1999 he served as Founder, Chairman & Chief Executive Officer for the Patriot American Group of Companies, including Patriot American Hospitality, Inc., a paired share real estate investment trust which owned the Wyndham, Grand Bay, Malmaison, Summerfield Suites, and Clubhouse Inn proprietary hotel brands. From 1979 to 1991, Mr. Nussbaum served as chairman of the real estate practice group of Schulte Roth & Zabel, a law firm in New York. From 1971 to 1979, he was an associate and later a partner in the Dreyer & Traub law firm in New York. Mr. Nussbaum earned his B.A. degree from the State University of New York at Buffalo and his J.D. degree from Georgetown University Law Center.

Rodney Peacock has served as a Director of Coda Octopus Group, Inc. since January 2005. He has been Managing Director of Axiom Marketing & Management Ltd, a consultancy firm , since November 1997. From 1990 to 1997, he served as Joint Managing Director of the Brand Development Company and from 1985-90, Managing Director of NPL, an Addison Group Subsidiary. He was, from 1981-85, head of the Marketing Group of Arthur Young Consultancy and from 1976-81 General Manager, Retail Products Division of Tate & Lyle. From 1970-76, he served as Brand Group Manager of United Biscuits and from 1964 to 1970, Research Chemist of Ilford Films. Mr. Peacock received his BSc (Hons) in Physics and Chemistry from London University.

Jody E. Frank became the Chief Financial Officer of Coda Octopus Group, Inc. on July 16, 2007. He served as Senior Vice President of Investments for UBS Wealth Management from January of 2003 through June 2007 and has 28 years of years of experience in the financial services industry. He began his career at Prescott Ball & Turben in 1979 and thereafter worked as a Financial Advisor at Shearson Lehman Brothers and CIBC Oppenheimer. He has served on the Board of Directors of two public companies and has been instrumental in formulating business plans for several private corporations and numerous business ventures. During 1985-1995 he served on the board of directors of publicly-held Peoples Telephone Inc. He received his BA degree from the University of Rochester, and his MBA in Finance from Rutgers University.

Blair Cunningham has served as Chief Technology Officer of Coda Octopus Group, Inc. since 2005 and Technical Manager of Coda Octopus Products Ltd between July 2004 and July 2005. Mr. Cunningham is also a Director of the Company's subsidiaries, Martech and Coda Octopus (UK) Holdings Limited. From March 1992 to present he has served as a Director of Softworks Business Systems Solutions Ltd, an Aberdeen, Scotland based software company which developed turnkey software solutions for large public companies. From 1990-92, Mr. Cunningham was an Analyst/Programmer with Weight Management Group Ltd, Aberdeen. Mr. Cunningham received an HND in Computer Science in 1989 from Moray College of Further Education, Elgin, Scotland.

Anthony Davis has served, initially as Chief Commercial Officer of Coda Octopus Group, Inc. since July 2005 and, since November 1, 2007, as President US Operations. Previously, he served as Business Development Manager of Coda Octopus Products Ltd from 2002-04, prior to which he was a Sales Manager between 1998 and 2002. Mr. Davis is also a Director of the Company's subsidiaries, Martech and Coda Octopus (UK) Holdings Limited. He was a Project Manager from 1996 to 1998 at Cable & Wireless Marine, Chelmsford, England and Survey Manager in Abu Dhabi for NPCC from 1994 to 1996. He served as a Project Geophysicist in Singapore for Ocean Science International from 1992 to1994, as an Offshore Geophysicist for NESA i n Delft from 1990-91 and as a Logging Engineer for Schlumberger in Aberdeen from 1987 to 1990. He earned his BSc Geology & Geophysics at Edinburgh University in 1987.

Frank B. Moore has served as Senior Vice President, Government Relations of Coda Octopus Group, Inc. since May 2006. Mr. Moore is also a Director of our key subsidiary, Colmek. Since December, 2001, Mr. Moore has served as Chairman of Ulysses Financial, a company engaged in private equity financing. Between January 1977 and January 1981, Mr. Moore served as Assistant to the President of the United States. His chief responsibility was the Administration's relations with Congress. Mr. Moore reported directly to the President and also worked on international matters such as the Panama Canal Treaty and the Strategic Arms Limitations Talks (S.A.L.T. II). Prior to his position in the White House, Mr. Moore served as Assistant, and later as Chief of Staff, to the Governor of Georgia, Jimmy Carter. Between July, 1982 and September, 1998, Mr. Moore was Vice President for Government Affairs and Public Policy for Waste Management. Mr. Moore earned his BBA from the University of Georgia and completed the Advanced Management Program at Harvard Business School.

Geoff Turner has served initially as Senior Vice President, Mergers and Acquisitions of Coda Octopus Group, Inc. since May 2006, and, since November 1, 2007, as President European Operations. Previously, he served as a consultant from November 2005 to April 2006 through his consultancy company Taktos Limited. Mr. Turner is also a Director of the Company's subsidiaries, Martech and Coda Octopus (UK) Holdings Limited. He has been involved in the IT industry for over 30 years, in both technical and commercial roles. He spent the 13 years up to 1999 with GE Information Services (& International Network Services), the then global market leader in Electronic Commerce, where he was Director of Business Development for Europe, Middle East and Africa. During this time, in addition to his business development roles he held posts as Software Products Director, and in global channel sales management. Since leaving GE in 1999, Mr. Turner has been involved as a shareholder and a consultant through Taktos Limited in a number of businesses ranging from financial services businesses to a provider of supply chain management software.

Angus Lugsdin*,* who has been with us since 2002, has recently been appointed as Senior Vice President of Market Development. Prior to this, Mr. Lugsdin was Vice President of Market Development from November 2006. He has held a number of positions with us including Sales Manager of Octopus Marine (which was acquired by us in 2002) from July 1999 to May 2002 , Sales Manager of Coda Octopus Inc from May 2002 to June 2004 and Strategic Development Executive from July to October 2006. He earned hi BSC in Marine Geography from University of Wales in 1998.

Scott Debo who is employed by our key subsidiary Colmek Systems Engineering ("Colmek"), has been President and CEO of Colmek since June 2001. With a background in finance, marketing and management, Mr. DeBo has improved and created new opportunities for Colmek through the development of a focussed marketing effort combined with increased focus on reducing cost per job taken on by Colmek, creating an activity based costing system and guiding the Company through various quality improvements including ISO-9001; 2000 compliancy and Raytheon Six Sigma training. Prior to working for Colmek, Mr. Debo was Director of Government Relations for Arcanvs Inc. from March 2000 until March 2001, and he was Project Manager for Evergreen Development from January 1999 to March 2000. Mr. DeBo holds a Masters Degree in Business Administration in both private and public management from Williamette University as well as a Bachelor of Science Degree from Oregon State University. Prior to receiving his MBA, Mr. DeBo was Director of Operations for an adventure travel provider, and worked as a foreign market entry consultant for several firms. Mr. DeBo also works a NCAA Division 1 men's basketball official.

All directors of the Company are elected at its annual meeting of stockholders to hold office until the next annual meeting of stockholders and until their successor is elected and qualified, or until such director's earlier death, resignation or removal. All officers of the Company serve at the pleasure of the Board, subject to their contractual rights.

Removal of Directors

The Company's Certificate of incorporation provides that any director or all the directors of a single class (but not the entire board of directors) of the Company may be removed, at any time, but only for cause and only by the affirmative vote of the holders of at least 2/3 of the voting power of the outstanding shares of capital stock of the Company entitled to vote generally in the election of directors cast at a meeting of the stockholders called for that purpose. Notwithstanding the foregoing, whenever the holders of any one or more series of preferred stock of the Company shall have the right, voting separately as a class, to elect one or more directors of the Company, the preceding provisions shall not apply with respect to the director or directors elected by holders of preferred stock.

Audit Committee

Our Audit Committee was established on May 31, 2006 pursuant to our Audit Committee Charter. The Audit Committee's purpose is :

- Being directly responsible for the appointment, compensation and oversight of the independent auditor, which shall report directly to the Audit Committee, including resolution of disagreements between management and auditors regarding financial reporting for the purpose of preparing or issuing an audit report or related work.
- oversee management's preparation of the Company's financial statements and management's conduct regarding the accounting and financial reporting processes;
- oversee management's maintenance of internal controls and procedures for financial reporting;
- oversee the Company's compliance with applicable legal and regulatory requirements, including without limitation, those requirements relating to financial controls and reporting;
- oversee the independent auditor's qualifications and independence;
- oversee the performance of the independent auditors, including the annual independent audit of the Company's financial statements;
- prepare the report required by the rules of the SEC to be included in the Company's proxy statement; and
- discharge such duties and responsibilities as may be required of the Audit Committee by the provisions of applicable law or rule or regulation of the American Stock Exchange and the Sarbanes-Oxley Act of 2002.

The members of the Audit Committee are Paul Nussbaum, who serves as Chairman and Rodney Peacock, each of whom is an "independent director" under the standards of Item 7(d)(3)(iv) of Schedule 14A of the Securities Exchange Act of 1934, as amended. Mr. Nussbaum is our "audit committee financial expert" as defined by Section 407 of the Sarbanes-Oxley Act of 2002. We believe that the composition of our Audit Committee meets the requirements for independence under the current requirements of the Sarbanes-Oxley Act of 2002 and SEC rules and regulations. We believe that the functioning of the Audit Committee complies with the applicable requirements of the Sarbanes-Oxley Act of 2002, as well as SEC rules and regulations.

Compensation Committee

On October 19, 2004, we established a Compensation Committee. The Compensation Committee, which is made up of Messrs Nussbaum and Peacock, is responsible for, among other things, reviewing and evaluating all compensation arrangements for the executive officers of the Company and administrating the Company's 2004 Employees, Directors, Officers and Consultants Stock Option and Stock Award Plan (the "2004 Plan"), as well as the Company's fiscal 2006 Employees, Directors, Officers and Consultants Stock Option and Stock Award Plan (the "2006 Plan"). The Compensation Committee approved the restrictions contained in the definitive agreements relating to the issuance of the convertible secured loan note by us on February 21, 2008, which limits the amount of options which may be awarded during the term and the price at which such options may be issued.

ITEM 10. EXECUTIVE COMPENSATION

The Summary Compensation Table shows certain compensation information for services rendered for the fiscal years ended October 31, 2007 and 2006 by our executive officers. The following information includes the dollar value of base salaries, bonus awards, stock options grants and certain other compensation, if any, whether paid or deferred. Conversion rates were used for 2007 and 2006 of $1.9840 and $1.8097 to GBP 1 Pound, respectively.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Restricted Stock Awards ($)		Option Awards ($) (2)	All Other Compensation ($) (3)	Total ($)
Jason Reid	2007	350,000	-0-	100,000	(5)	-0-	50,385	400,385
President & Chief Executive Officer	2006	250,000	-0-	100,000	(6)	-0-	12,667	362,667
Blair Cunningham (1)	2007	175,000	-0-	50,000	(7)	-0-	18,866	243,866
Chief Technology Officer	2006	144,072	-0-	43,750	(8)	-0-	20,249	208,071
Anthony Davis (1)	2007	175,000	-0-	50,000	(7)	-0-	11,962	236,962
President US Operations	2006	163,796	-0-	43,750	(8)	-0-	10,858	218,404
Jody Frank	2007	104,808 (4)	-0-	12,908	(9)	281,243 (10)	1,750	400,709
Chief Financial Officer	2006	-0-	-0-	-0-		-0-	-0-	-0-

(1) A portion of these amounts were paid in UK Pounds (the conversion rate used in this table for these amounts is stated above).
(2) Amount represents the aggregate grant date fair value computed in accordance with Statement of Financial Accounting Standards No. 123R, "*Share-Based Payment*" ("SFAS 123R"). Information regarding the assumptions made in the valuation reported and material terms of each grant are incorporated herein by reference from "Note 4 Capital Stock" to our Consolidated Financial Statements for the Year Ended October 31, 2006.
(3) All other compensation consisted of car allowances, re-location expenses, disability payments, health insurance, pension benefits and/or pay for vacation not taken.
(4) Jody Frank is getting paid at the annual rate of $350,000. However, he started his employment with the company in July 2007, hence the values shown are pro-rated for this period.
(5) Comprising 80,317 shares valued at $100,000.
(6) Comprising 140,000 shares valued at $100,000.
(7) Comprising 40,159 shares valued at $50,000.
(8) Comprising 50,000 shares values at $43,750.
(9) Comprising 12,908 shares valued at $14,400.
(10) Comprising 237,500 options issued at $1.30, and vesting 34% on immediately, 33% in 2008 and 33% in 2009.

(3) Comprising 400,000 options valued based on the date of issue using Black Scholes method and booked in our accounts as an expense.

(4) Comprising 200,000 options valued based on the date of issue using Black Scholes method and booked in our accounts as an expense.

(5) Comprising 150,000 options valued based on the date of issue using Black Scholes method and booked in our accounts as an expense.

(6) Comprising 150,000 options valued based on date of issue using Black Scholes method and booked in our accounts as an expense.

(7) Comprising 150,000 options valued based on date of issue using Black Scholes method and booked in our accounts as an expense.

(8) Comprising 140,000 shares valued at $100,000 and
(8(a)

(9) Comprising 50,000 shares, half of which is valued at $0.50 and half at $1.25

(10) Comprising 50,000 shares, half of which is valued at $0.50 and half at $1.25

(11) Comprising 25,000 shares valued at $1.25

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2007*
Option Awards

Name (a)	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Option Exercise Price ($) (e)	Option Expiration Date (f)
Jason Reid *President and Chief Executive Officer*	400,000		$ 1.00	May 2010
Blair Cunningham *Chief Technology Officer*	200,000		$ 1.00	May 2010
Anthony Davis *President US Operations*	150,000		$ 1.00	May 2010
Geoff Turner *President European Operations*	150,000		$ 1.00	November 2010
Frank Moore *Senior VP Government Relations*	100,500	49,500 **	$ 1.00	May 2011
Angus Lugsdin *Senior VP Market Development*	100,000		$ 1.00	May 2010

* In accordance with the rules promulgated by the Securities and Exchange Commission, certain columns relating to information that is not applicable have been omitted from this table.

** Options vest May 1, 2008.

DIRECTOR COMPENSATION *
(During Last Completed Fiscal Year)

Name (a)	Fees Earned or Paid in Cash ($) (b)		Stock Awards ($) (c)		Option Awards ($) (d) (4)	Total ($) (j)
Paul Nussbaum	$ 30,000	(2)	$ 30,000	(5)	$ 109,573(4a)	$ 169,573
Rodney Peacock	$ 20,000	(3)	$ 20,000	(6)	$ 73,049(4b)	$ 113,049

* In accordance with the rules promulgated by the Securities and Exchange Commission, certain columns relating to information that is not applicable have been omitted from this table.

(2) Consists of an annual retainer in the amount of $45,000 and $3,750 per board meeting attended. Half of these amounts is payable in the Company's Stock

(3) Consists of an annual retainer in the amount of $25,000 and $3,750 per board meeting attended. Half of these amounts is payable in the Company's Stock.

(4a) Comprising 75,000 options valued based on date of issue using Black Scholes method and booked into our accounts as an expense.

(4b) Comprising 50,000 options valued based on date of issue using Black Scholes method and booked into our accounts as an expense.

(5) Consist of 24,095 shares.

(6) Consist of 15,532 shares.

Compensation of Directors

Pursuant to Agreements dated January 26, 2005 with our non-employee directors, Paul Nussbaum and Rodney Peacock, each receives a fee of $2,500 per board and committee meeting attended (which amount was increased to $3,750 per meeting starting November 1,2006) and are reimbursed for expenses incurred in connection with attending board and committee meetings. Our board chairman receives an annual retainer of $40,000 and Mr. Peacock receives an annual retainer of $20,000. Messrs. Nussbaum and Peacock received 100,000 shares and 150,000 shares, respectively, on January 26, 2005. On May 1, 2005, each director also received five-year options to purchase 200,000 shares of our common stock, exercisable at $1.00 per share, and vesting 34% immediately, and 33% on the first and second anniversaries of the award. Messrs. Nussbaum and Peacock will receive options to purchase 75,000 shares and 50,000 shares, respectively, at the first board meeting in each fiscal year, at an exercise price to be established by the Board. Each director is also entitled while serving as a director and for a period of three years thereafter, to participate in directors and officers liability insurance and to indemnification of all costs and expenses, including cost of legal counsel, selected and retained by the director, in connection with any action, suit or proceeding to which the director may be a party by reason of the director, acting in such capacity. All options, granted but not vested to Messrs. Nussbaum and Peacock unless exercised terminate at such time as the individual is no longer serving as a director.

The Compensation Committee awarded the following increases on November 1, 2006 (i) fees for each board and committee meeting to $3,750. Mr. Nussbaum was also awarded an increase on annual retainer of $5,000 making his current annual retainer $45,000 and similarly Mr. Peacock was awarded an increase on his annual retainer of $5,000 making his current annual retainer of $25,000. Both Mr. Nussbaum and Mr. Peacock payments made under the retainers are half cash and half common stock.

For the fiscal year commencing November 1, 2007, the Compensation Committee reviewed the fee arrangements for directors. The Board Meeting fees were reduced from $3,750 to $1,875. Half of this amount is payable in the Company's stock.

Employment Agreements

Jason Reid

On April 1, 2005, the Company entered into an Employment Agreement with Jason Reid. The Agreement commenced on April 1, 2005 and has an indefinite term until terminated pursuant to said Agreement. Mr. Reid agreed to serve as President and Chief Executive Officer. Pursuant to said Agreement, we are paying Mr. Reid a base annual salary of $250,000 from April 1, 2005 through October 31, 2006. Thereafter, Mr. Reid shall be entitled to receive an annual cash and stock incentive bonus for each fiscal year based upon a level of accomplishment of management and performance objectives as established by the Compensation Committee subject to a minimum bonus of $50,000 for the preceding year on the basis that the Employment Agreement is renewed after each one year term. At its meeting held in October 2006 and in accordance with its remit the Compensation Committee approved an increase in the base annual salary to $350,000 effective 1 November 2006. The bonus stipulated for 2005-06 was waived

At the end of each quarter during the contract, Mr. Reid shall be entitled to receive a restricted stock grant of $25,000 paid in common stock. The value shall be calculated using the average closing price for each trading day in that quarter unless in the opinion of the Compensation Committee the market for the Company's common Stock lacks sufficient liquidity to establish a market price in which event the value for the common stock for that quarter will be $1.00 per share. Mr. Reid is entitled to 40 business days vacation for each calendar year, reimbursement for business expenses, entitled to directors and officers liability insurance during his employment with the Company and for a period of three years after termination, is entitled to receive up to $15,000 for relocation expenses to New York and up to $850 per month in lieu of specific reimbursement expenses for use of a personal vehicle and indemnification to the maximum extent permitted by law against all costs and expenses incurred by him, including cost of his legal counsel. Mr. Reid is also entitled to participate in all Company life, health and disability insurance, pension, deferred compensation and incentive plans, options and awards, performance bonuses and other benefits extended by the Company as a matter of policy to its executive employees. He shall also be entitled to, at the Company's cost, to the benefit of a disability insurance policy or plan during his employment.

For the current fiscal year, the Compensation Committee decided that whilst Mr. Reid's remuneration package would remain the same, the breakdown would be changed as follows: Basic Pay (cash $375,000 instead of $350,000) and stock $75,000 instead of $100,000. Mr. Reid's employment contract is deemed amended in these respects.

Anthony Davis

On July 1, 2005, the Company entered into an Employment Agreement with Anthony Davis. The Agreement commenced on July 1, 2005 and has an indefinite term until terminated pursuant to said Agreement. Mr. Davis agreed to serve as Senior Vice-President, Commercial Division (now President of US Operations) . Pursuant to said Agreement, we are paying Mr. Davis a base annual salary of approximately $150,000, which is subject to increase at the discretion of the Compensation Committee. In addition, Mr. Davis is entitled to receive an annual cash and stock incentive bonus for each fiscal year based upon a level of accomplishment of management and performance objectives as established by the Compensation Committee. At its meeting held in October 2006 and in accordance with its remit the Compensation Committee approved an increase in the base annual salary to $175,000 effective 1 November 2006.

Mr. Davis is entitled to receive 50,000 shares of the Company's common stock for services performed through October 31, 2006 and thereafter $50,000 of common stock annually, paid quarterly. Mr. Davis is entitled to 35 business days vacation for each calendar year, reimbursed for business expenses, entitled to directors and officers liability insurance during his employment with the Company and for a period of three years after termination, shall receive a mutually agreed upon amount of relocation expenses to New York and either provided with a vehicle or up to $5,000 per annum in lieu of specific reimbursement expenses for use of a personal vehicle and indemnification to the maximum extent permitted by law against all costs and expenses incurred by him, including cost of his legal counsel. Mr. Davis is also entitled to participate in all Company life, health and disability insurance, pension, deferred compensation and incentive plans, options and awards, performance bonuses and other benefits extended by the Company as a matter of policy to its executive employees. He shall also be entitled to, at the Company's cost, to the benefit of a disability insurance policy or plan during his employment.

Blair Cunningham

On July 1, 2005, the Company entered into an Employment Agreement with Blair Cunningham. The Agreement commenced on July 1, 2005 and has an indefinite term until terminated pursuant to said Agreement. Mr. Cunningham agreed to serve as Senior Vice-President, Products Division (now Chief Technology Officer). Pursuant to said Agreement, we are paying Mr. Cunningham a base annual salary of approximately $150,000, which is subject to increase at the discretion of the Compensation Committee. Mr. Cunningham shall be entitled to receive an annual cash and stock incentive bonus for each fiscal year based upon a level of accomplishment of management and performance objectives as established by the Compensation Committee. At its meeting held in October 2006 and in accordance with its remit the Compensation Committee approved an increase in the base annual salary to $175,000, effective 1 November 2006.

Mr. Cunningham is entitled to receive 50,000 shares of the Company's common stock for services performed through October 31, 2006 and thereafter $50,000 of common stock annually, paid quarterly. Mr. Cunningham is entitled to 40 business days vacation for each calendar year, reimbursed for business expenses, entitled to directors and officers liability insurance during his employment with the Company and for a period of three years after termination, shall receive a mutually agreed upon amount of relocation expenses to New York and either provided with a vehicle or up to $5,000 per annum in lieu of specific reimbursement expenses for use of a personal vehicle and indemnification to the maximum extent permitted by law against all costs and expenses incurred by him, including cost of his legal counsel. Mr. Cunningham is also entitled to participate in all Company life, health and disability insurance, pension, deferred compensation and incentive plans, options and awards, performance bonuses and other benefits extended by the Company as a matter of policy to its executive employees. He shall also be entitled to, at the Company's cost, to the benefit of a disability insurance policy or plan during his employment.

Frank B. Moore

On May 1, 2006, the Company entered into an Employment Agreement with Frank B. Moore. The Agreement commenced on May 1, 2006 and has an indefinite term until terminated pursuant to said Agreement. Mr. Moore agreed to serve as Senor Vice-President, Government Relations. Pursuant to said Agreement, we are paying Mr. Moore a base annual salary of approximately $150,000, which is subject to increase at the discretion of the Compensation Committee. Mr. Moore shall be entitled to receive an annual cash and stock incentive bonus for each fiscal year based upon a level of accomplishment of management and performance objectives as established by the Compensation Committee. At its meeting held in October 2006 and in accordance with its remit the Compensation Committee approved an increase in the base annual salary to $175,000 effective 1 November 2006.

Mr. Moore is entitled to receive 25,000 shares of the Company's common stock for services performed through October 31, 2006 and thereafter $50,000 of common stock annually, paid quarterly. Mr. Moore is entitled to 30 business days vacation for each calendar year, reimbursed for business expenses, entitled to directors and officers liability insurance during his employment with the Company and for a period of three years after termination, shall be provided with either a vehicle or paid up to $5,000 per annum in lieu of specific reimbursement expenses for use of a personal vehicle and indemnification to the maximum extent permitted by law against all costs and expenses incurred by him, including cost of his legal counsel. Mr. Moore is also entitled to participate in all Company life, health and disability insurance, pension, deferred compensation and incentive plans, options and awards, performance bonuses and other benefits extended by the Company as a matter of policy to its executive employees. He shall also be entitled to, at the Company's cost, to the benefit of a disability insurance policy or plan during his employment.

Angus Lugsdin

On July 1 2005, the Company entered into an Employment Agreement with Mr. Angus Lugdin. The Agreement commenced on July 1, 2005 and has an indefinite term until terminated pursuant to said Agreement. Mr. Lugsdin, at the date of the employment agreed to serve as Vice President, Strategic Business Development. Since then Mr. Lugdin has been promoted to Senior Vice President, Market Development and the said employment agreement is deemed amended from 1 November 2007. Pursuant to said Agreement, we are paying Mr. Lugsdin a base annual salary of approximately $175,000, which is subject to increase at the discretion of the Compensation Committee. Other terms relating to his compensation package are: entitlement to (i) receive $50,000 shares of the Company's common stock issued quarterly following Board approval; (ii) a minimum of 30 business days vacation for each calendar year; (iii) Reimbursement against submission of proper receipts for business expenses; (iv) directors and officers liability insurance during his employment with the Company and for a period of three years after termination, and indemnification to the maximum extent permitted by law against all costs and expenses incurred by him, including cost of his legal counsel; (vi) participate in all Company life, health and disability insurance, pension, deferred compensation and incentive plans, options and awards, performance bonuses and other benefits extended by the Company as a matter of policy to its executive employees; (vi) at the Company's cost, to the benefit of a disability insurance policy or plan during his employment; (vii) to receive annual cash and stock incentive bonus for each fiscal year based upon a level of accomplishment of management and performance objectives as established by the Compensation Committee.

Geoff Turner

On November 1, 2006, the Company entered into a one year Consulting Agreement with Taktos Ltd., a United Kingdom corporation owned by Geoff Turner. The Agreement requires Taktos Ltd. to provide the services of Geoff Turner during the term of the Agreement to provide the following services:

(a) assist the Company's Management with the analysis and effective and optimal implementation of its business plan;
(b) oversee the Company's European operations and performance of the Group;
(c) explore acquisitions, strategic alliances, partnering opportunities and other cooperative ventures within and without its industry focus;
(d) evaluate possible acquisitions and strategic strategies and partnering candidates, including the evaluation of targets and the structuring of related transactions; and
(e) advise and consult with executive officers with respect to any of the above described matters.

The Company is paying approximately $178,000 per annum to the consultant for providing the services of Mr. Turner. Consultant is also entitled to reimbursement of travel and other expenses. Pursuant to a separate option agreement with Mr. Turner who serves as an executive officer, the Company has granted him five year options to purchase 150,000 shares of common stock with 34% having invested on November 1, 2005 and with 33% vesting on each on each of November 1, 2006 and 2007. He is also entitled to directors and officers liability insurance during his tenure as an executive officer with the Company and for a period of three years after termination. The Remuneration Committee approved in October 2006 the renewal of this contract and approved an increase in the compensation package paid for the services of Mr. Turner and with effect from 1 November 2006 we are paying Taktos Limited $178,000 for his services.

Jody Frank

Effective July 16, 2007, the Company entered into an Employment Agreement with Jody Frank to act as our Chief Financial Officer. The Agreement has an indefinite term until terminated pursuant to the terms of the Agreement. During the first two years of the Agreement, either party may only terminate the Employment Agreement for cause. Mr. Frank agreed to serve as Chief Financial Officer. Pursuant to said Agreement, we will be paying Mr. Frank a base annual salary of approximately $350,000, which is subject to increase at the discretion of the Compensation Committee. Mr. Frank will also be entitled to receive annual cash and stock incentive bonus for each fiscal year based upon a level of accomplishment of management and performance objectives as established by the Compensation Committee.

During the term of the Employment Agreement, Mr. Frank is also entitled to receive annually $50,000 shares of the Company's common stock for services rendered, distributed quarterly. Mr. Frank is entitled to 30 days vacation for each calendar year, reimbursement for business expenses, and directors and officers liability insurance during his employment with the Company and for a period of three years after termination. The Company will also reimburse Mr. Frank for up to $5,000 per annum in lieu of specific reimbursement expenses for use of a personal vehicle. In addition, Mr. Frank is also entitled to participate in all Company life, health and disability insurance, pension, deferred compensation and incentive plans, options and awards, performance bonuses and other benefits extended by the Company as a matter of policy to its executive employees. He is also entitled, at the Company's cost, to the benefit of a disability insurance policy or plan during his employment.

Scott DeBo

On April 6, 2007, our key subsidiary, Colmek Systems Engineering, entered into an Employment Agreement with Mr. Scott DeBo. The Agreement commenced on April 6, 2007 and has an indefinite term until terminated pursuant to said Agreement. Mr. DeBo agreed to serve as President and Chief Executive Officer of Colmek. Pursuant to said Agreement, we are paying Mr. DeBo a base annual salary of approximately $135,000 which is subject to increase at the discretion of the Colmek Compensation Committee. He is also entitled to certain incentive bonus for each fiscal year based upon certain performance related measures such as revenues and net profits achieved in the fiscal year by Colmek and ascertained from Colmek audited financials for the fiscal year in question.

Mr. DeBo is entitled to receive $40,000 shares of the Company's common stock annually for services performed and a company car. He is entitled to 35 business days vacation for each calendar year, reimbursed for business expenses, entitled to directors and officers liability insurance during his employment with the Company and indemnification to the maximum extent permitted by law against all costs and expenses incurred by him, including cost of his legal counsel. Mr. DeBo is also entitled to participate in all Colmek's life, health and disability insurance, pension, deferred compensation and incentive plans, options and awards, performance bonuses and other benefits extended by the Company as a matter of policy to its executive employees. He shall also be entitled, at the Company's cost, to the benefit of a disability insurance policy or plan during his employment.

In respect of all the foregoing officers named, the Compensation Committee decided not to grant any increases in the level of compensation for the fiscal year 2007-8. The Compensation Committee also decided not to grant any more stock to these employees on a quarterly basis (as is provided in their contracts) but to grant options instead. Each of their employment contracts is deemed amended in this respect.

Termination provisions of the Employment Agreements of Messrs. Reid, Davis, Moore, Cunningham and DeBo

With the exception of the employment agreement between the Company and Mr. Jody Frank, under which neither party may terminate the agreement without cause for the first two years, the Company may terminate Executive's employment at any time upon 90 days prior written notice, if such termination is for cause as defined in the Agreement. Executive may terminate his or her Employment Agreement without good reason upon giving the Company 90 days written notice or at the Company's sole discretion, it may substitute 90 days salary in lieu of notice. Executive may also terminate his or her Employment Agreement upon written notice to the Company for good reason as defined in the Agreement. His or her Employment Agreement shall also terminate upon his or her death or, upon 30 days prior written notice of his or her disability, which lasts for a period of at least 90 days. In the event Executive's employment is terminated for cause or without good reason, Executive shall be entitled to the following ("Minimum Termination Pay and Benefits"):

- the unpaid portion of his or her base salary;
- reimbursement for out-of-pocket expenses;
- continued insurance benefits to the extent required by law;
- payment of any vested but unpaid rights as required by any bonus or incentive pay or stock plan or any other employee benefit plan; and
- any unpaid bonus or incentive compensation that was approved (except in the case of termination for cause).

In the event his or her termination is by the Company without cause or by Executive for good reason, he or she shall be entitled to the Minimum Termination Pay and Benefits in addition to the following:

- a lump sum payment equal to one times the sum of (x) the Executive's then current Base Salary and (y) the greater of (A) the average of the Executive's bonuses (taking into account a payment of no bonus or a payment of a bonus of $0) with respect to the preceding three fiscal years (or the period of the Executive's employment if shorter), (B) the Executive's bonus with respect to the preceding fiscal year and (C) in the event that such termination of employment occurs before the first anniversary of the Commencement Date, the Executive's annualized projected bonus for such year (the "Severance Payment"). The Severance Payment shall be paid to the Executive within 60 days following the Date of Termination;
- continued payment by Coda Octopus for life, health and disability insurance coverage and salary and other benefits for the Executive and the Executive's spouse and dependents for one year following the Date of Termination to the same extent that Coda Octopus paid for such coverage immediately prior to the termination of the Executive's employment and subject to the eligibility requirements and other terms and conditions of such insurance coverage, provided that if any such insurance coverage shall become unavailable during the one year period, Coda Octopus thereafter shall be obliged only to pay to the Executive an amount which, after reduction for income and employment taxes, is equal to the employer premiums for such insurance for the remainder of such severance period; and
- vesting as of the Date of Termination in any unvested portion of any stock option, restricted stock and any other long term incentive award previously issued to the Executive by Coda Octopus. Each such stock option must be exercised by the Executive within 180 days after the Date of Termination or the date of the remaining option term, if earlier.

Termination Following Change in Control

If during the employment period and within 12 months following a change in control as defined in the Employment Agreement, Coda Octopus (or its successor) terminates the Executive's employment without cause or the Executive terminates his or her employment for Good Reason, or the Executive, by notice given during the 90 day period commencing on the three-month anniversary of the date of the Change in Control (the "Notice Period"), terminates his or her employment for any reason, which termination shall be effective on the last day of the Notice Period, the Executive shall be entitled to receive the same termination pay and benefits as if he or she were terminated by the Company without cause or by the Executive for good reason, plus a Tax Gross-up Payment. In the event that any termination payment or any insurance benefits, accelerated vesting, pro-rated bonus or other benefit payable to the Executive (under the Employment Agreement or otherwise), constitute "parachute payments" within the meaning of Section 280G (as it may be amended or replaced) of the Internal Revenue Code of 1986, as amended (the "Code") and are subject to the excise tax imposed by Section 4999 (as it may be amended or replaced) of the Code ("the Excise Tax"), then Coda Octopus shall pay to the Executive an additional amount (the "Gross-Up Amount") such that the net benefits retained by the Executive after the deduction of the Excise Tax (including interest and penalties) and any federal, or local income and employment taxes (including interest and penalties) upon the Gross-Up Amount shall be equal to the benefits that would have been delivered hereunder had the Excise Tax not been applicable and the Gross-Up Amount not been paid.

Termination Provisions of Consulting Agreement Geoff Turner

Consulting Agreement with Taktos Limited under which the services of Mr. Turner are provided stipulates that the agreement continues unless terminated by either party giving 3 months notice in writing.

Stock Option Plans

2004 Plan

In October 2004, the Board approved and on June 27, 2006, the stockholders ratified the Company's 2004 Employees, Directors, Officers and Consultants Stock Option and Stock Award Plan(the "2004 Plan"), which provides for, among other things, the award of up to 2,500,000 shares of Common Stock.

Pursuant to the 2004 Plan, officers, employees, directors and consultants of the Company and certain of its subsidiaries are eligible to receive awards of stock options and restricted stock. Options granted under the 2004 Plan may be or non-qualified stock options ("NQSOs"). Restricted stock may be granted in addition to or in lieu of any other award made under the 2004 Plan.

The maximum number of shares of Common Stock reserved for the grant of awards under the 2004 Plan is 2,500,000. Such share reserves are subject to further adjustment in the event of specified changes to the capital structure of the Company. The shares may be made available either from the Company's authorized but unissued capital stock or from capital stock reacquired by the Company.

The Compensation Committee of the Board of Directors administers the 2004 Plan. Subject to the provisions of the plan, the Compensation Committee will determine the type of awards, when and to which executives awards will be granted, the number of shares covered by each award and the terms, provisions and kind of consideration payable (if any), with respect to awards. The Compensation Committee may interpret the plan and may at any time adopt such rules and regulations for the plan as it deems advisable, including the delegation of certain of its authority. In determining the persons to whom awards shall be granted and the number of shares covered by each award, the Compensation Committee takes into account the duties of the respective persons, their present and potential contributions to the success of the Company and such other factors as the Compensation Committee deems relevant.

The Compensation Committee may provide for the payment of the option price in cash, by delivery of common stock having a fair market value equal to such option price, by delivery of options or warrants having an intrinsic value equal to such option price or by a combination thereof or by any other method. Options granted under the 2004 Plan will become exercisable at such times and under such conditions as the Compensation Committee shall determine.

The Board of Directors may at any time and from time to time suspend, amend, modify or terminate the 2004 Plan; provided, however, that, to the extent required by any other law, regulation or stock exchange rule, no such change shall be effective without the requisite approval of the Company's stockholders. In addition, no such change may adversely affect an award previously granted, except with the written consent of the grantee.

The Company has issued all the options allowable under the 2004 Plan and all of said options are Non-qualified options as stockholder approval of the 2004 Plan was not obtained within one year of Board approval, as required under the Internal Revenue Code of 1986, as amended.

2006 Plan

On March 2, 2006, the Board approved and on June 27, 2006, the stockholders ratified the Company's 2006 Employees, Directors, Officers and Consultants Stock Option and Stock Award Plan (the "2006 Plan"), which provides for, among other things, the award of up to 2,500,000 shares of Common Stock.

Pursuant to the 2006 Plan, officers, employees, directors and consultants of the Company and certain of its subsidiaries are eligible to receive awards of stock options and restricted stock. Options granted under the 2006 Plan may be ISOs or non-qualified stock options ("NQSOs"). Restricted stock may be granted in addition to or in lieu of any other award made under the 2006 Plan.

The maximum number of shares of Common Stock reserved for the grant of awards under the 2006 Plan is 2,500,000. Such share reserves are subject to further adjustment in the event of specified changes to the capital structure of the Company. The shares may be made available either from the Company's authorized but unissued capital stock or from capital stock reacquired by the Company.

The Compensation Committee of the Board of Directors administers the 2006 Plan. Subject to the provisions of the plan, the Compensation Committee will determine the type of awards, when and to which executives awards will be granted, the number of shares covered by each award and the terms, provisions and kind of consideration payable (if any), with respect to awards. The Compensation Committee may interpret the plan and may at any time adopt such rules and regulations for the plan as it deems advisable, including the delegation of certain of its authority. In determining the persons to whom awards shall be granted and the number of shares covered by each award, the Compensation Committee takes into account the duties of the respective persons, their present and potential contributions to the success of the Company and such other factors as the Compensation Committee deems relevant.

An option may be granted on such terms and conditions as the Compensation Committee may approve, and generally may be exercised for a period of up to ten years from the date of grant. Generally, ISOs will be granted with an exercise price at the minimum equal to the "Fair Market Value" on the date of grant. In the case of ISOs, certain limitations will apply with respect to the aggregate value of option shares which can become exercisable for the first time during any one calendar year, and certain additional limitations will apply to ISOs granted to "Ten Percent Stockholders" of the Company (as defined in the 2006 Plan). The Compensation Committee may provide for the payment of the option price in cash, by delivery of common stock having a fair market value equal to such option price, by delivery of options or warrants having an intrinsic value equal to such option price or by a combination thereof or by any other method. Options granted under the 2006 Plan will become exercisable at such times and under such conditions as the Compensation Committee shall determine.

The Board of Directors may at any time and from time to time suspend, amend, modify or terminate the 2006 Plan; provided, however, that, to the extent required by any other law, regulation or stock exchange rule, no such change shall be effective without the requisite approval of the Company's stockholders. In addition, no such change may adversely affect an award previously granted, except with the written consent of the grantee.

As of October 31, 2007, we had granted non-qualified options to purchase an aggregate of 4,535,900 shares of its common stock at exercise prices ranging from $1.00 per share to $1.80 per share, of which 3,484,100 have vested.

New Stock Option Plan

Under the Subscription Agreement entered into between the Company and The Royal Bank of Scotland, plc on February 21, 2008, there are certain restrictions on the adoption of new Stock Option Plan by the Company. In particular, until the redemption of the notes, the Company may only adopt new stock option plans on substantially similar to terms to its existing stock option plan 2006 and it may not issue stock options at a price which is less than $1.05.

Section 16(a) Beneficial Ownership Reporting Compliance

Under the Exchange Act, our directors, our executive officers, and any persons holding more than 10% of our common stock are required to report their ownership of the common stock and any changes in that ownership to the Securities and Exchange Commission. To our knowledge, based solely on our review of the copies of such reports received or written representations from certain reporting persons that no other reports were required, we believe that during our fiscal year ended October 31, 2007, all reporting persons timely filed all such reports.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information as of February 15, 2008 regarding the beneficial ownership of our Common Stock, based on information provided by (i) each of our executive officers and directors; (ii) all executive officers and directors as a group; and (iii) each person who is known by us to beneficially own more than 5% of the outstanding shares of our Common Stock. The percentage ownership in this table is based on 48,279,056 shares issued and outstanding as of February 15, 2008.

Unless otherwise indicated, the address of each beneficial owner is in care of the Company, 164 West 25 th Street, 6th Floor, New York, NY 10001. Unless otherwise indicated, we believe that all persons named in the following table have sole voting and investment power with respect to all shares of Common Stock that they beneficially own.

Name and Address of Beneficial Owner (1)	Amount and Nature Of Beneficial Ownership of Common Stock (2)	Percent of Common Stock
Jason Reid (3)	23,726,643	46. 1%
Paul Nussbaum (4)	644,095	1.3%
Rodney Peacock (5)	517,064	*
Blair Cunningham (6)	490,159	*
Anthony Davis (7)	390,159	*
Frank B. Moore (8)	215,159	*
Geoff Turner (9)	190,159	*
Scott Debo (10)	157,492	*
Jody Frank (11)	187,908	*
Angus Lugsdin (13)	237,587	
Vision Opportunity Master Fund Limited (12) 317 Madison Avenue, Suite 1220 New York, NY 10017	5,157,472	9.9%
All Directors and Executive Officers as a Group (eight persons):	26,756,425	50. 3%

* Less than 1%.

(1) Unless otherwise indicated, the address of all individual and entities listed below is c/o Coda Octopus Group, Inc. 164 West 25th Street, 6th Floor, New York NY10001.

(2) The number of shares indicated includes (i) shares issuable upon the exercise of outstanding stock options or warrants held by each individual or group to the extent such options and warrants are exercisable within sixty days of February 15, 2008 and (ii) shares of restricted stock, including restricted stock awards issuable within 60 days of February 15, 2008.

(3) Includes the following: (i) 400,000 shares issuable upon exercise of options, (ii) 19,523,251 shares and 2,746,418 shares issuable upon exercise of warrants held by Fairwater Technology Group Ltd., of which Mr. Reid may be deemed to be a control person, and (iii) 280,720 shares and 50,000 shares issuable upon exercise of warrants held by Softworks Business Systems Solutions Limited, of which Mr. Reid may be deemed to be a control person; includes 511,266 shares held by Mr. Jason Reid, and (iv) includes 172,540 held by Mr. Reid's wife and (v) includes 23,364 shares earned during the quarter ended October 31, 2007 that have not been issued to date.

(4) Includes 275,000 shares issuable upon exercise of options and 60,000 shares issuable upon the exercise of two five year warrants and 7,009 shares earned during the quarter ended October 31, 2007 that have not been issued to date .

(5) Includes 250,000 shares issuable upon exercise of options and 4,673 shares earned during the quarter ended October 31, 2007 that have not been issued to date

(6) Includes 200,000 shares issuable upon exercise of options and 50,000 shares held by Softworks Limited of which Mr. Cunningham is a director and 11,682 shares earned during the quarter ended October 31, 2007 that have not been issued to date.

(7) Includes 150,000 shares issuable upon exercise of options and 11,682 shares earned during the quarter ended October 31, 2007 that have not been issued to date.

(8) Includes 150,000 shares issuable upon exercise of options and 11,682 shares earned during the quarter ended October 31, 2007 that have not been issued to date.

(9) Includes 150,000 shares issuable upon exercise of options and 11,682 shares earned during the quarter ended October 31, 2007 that have not been issued to date.

(10) Includes 80,000 shares issuable upon exercise of options and 9,346 shares earned during the quarter ended October 31, 2007 that have not been issued to date.

(11) Consist of 175,000 shares issuable upon exercise of options, 1,226 shares issued in quarter ended July 31,2007 and 11,682 shares earned during the quarter ended October 31, 2007 that have not been issued to date. Does not include 350,000 shares issuable upon options, 175,000 of which will vest in March 2008, and the balance of which will vest in March 2009.

(12) Includes 746,572 shares issuable upon exercise of warrants. Does not include 8,453,428 additional shares issuable upon exercise of warrants that it is not permitted to exercise under the terms of the warrants. The warrants contain a provision that limits exercise of the warrants to the extent that its ownership percentage would exceed 9.9% of our issued and outstanding common stock of the Company. Adam Benowitz, portfolio manager, has investment and dispositive power of the shares held by this entity.
(13) Includes 100,000 shares issuable upon exercise of options and 11,682 shares earned during the quarter ended October 31, 2007 that have not been issued to date.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Since August 2004, our principal stockholder is Fairwater Technology Group Ltd. The voting shares of Fairwater Technology are controlled 54.8% by Jason Reid, who also beneficially owns 57.9% of the non-voting preferred shares of Fairwater Technology Group Limited. The balance of the voting and non-voting shares of Fairwater is principally owned by members of Mr. Reid's family.

Between June 2006 and January 2007, we sold to Vision Opportunity Masters Fund, Ltd., 46,000 shares of Series B preferred Stock and 650,000 shares of common stock for a total of $4,600,000. We also granted five-year warrants to purchase an aggregate of 9,200,000 shares of Common Stock at an exercise price ranging from $1.30 to $1.70 per share. In accordance with Emerging Issues Task Force ("EITF") No.00-27, a portion of the proceeds were allocated to the warrants based on their relative fair value, which totaled approximately $3,261,016, using the Black Scholes option pricing model. Further, we attributed a beneficial conversion feature of approximately $1,338,985 to the Series B preferred shares based upon the difference between the conversion price of those shares and the closing price of our common shares on the date of issuance, limited to the proceeds attributable to the sale of the preferred shares. The warrants contained cashless exercise provisions, anti-dilution provisions in the event of stock splits, stock dividends, combinations, reclassifications and the like and sales of stock below the exercise price. The cashless exercise provisions have now been amended by way of agreement between the parties in March 2007. The warrants are also redeemable on the fifth anniversary from the date of grant at an amount equal to three times the conversion price. We also granted Vision a nine month option to subscribe for and purchase up to 10,000 Units consisting of one share of Series B Preferred Stock, one Series A Warrant and one Series B Warrant at a purchase price of $100.00 per Unit. This option has now been exercised. At the time of Vision's purchase of our securities, it also entered into a registration rights agreement for us to register the resale of Vision's shares of Common Stock issuable upon conversion of the Series B Preferred Stock and upon exercise of the Series A and Series B Common Stock Warrants. The agreement had provided for this be filed within 75 days of the closing date and effective within 175 days after the closing date. The Unit Purchase Warrant also contains certain registration rights to file within 45 days after the Unit Purchase Warrant is exercised in whole or in part, but not more than two registration statements and to have the registration statement declared effective within 135 days after the Unit Purchase Warrant is partially or fully exercised. Contemporaneously with Vision's purchase of securities, Mr. Jason Reid, Mr. Bill Ahearn (now deceased) and the Company entered into lock-up agreements that have now expired.

In March 2007, the Company and Vision entered into an Amendment of the Securities Purchase Agreement whereby, amongst other things, the obligations of the Company to register the securities sold were waived and deemed to have effect from the inception of the parties' agreement. Vision also entered into an agreement for the lock up of all its securities for a period of 12 months from March 21, 2007. Between March 2007 and May 2007, Vision exercised its rights to convert its preferred stock into the Company's Common Stock and 27,819 shares of Series B Preferred Stock were converted into 2,781,900 shares of the Company's Common Stock. Further, pursuant to the terms of the private offering of the Company that was completed in April 2007, the Company on May 10, 2007, repurchased 18,181 shares of Series B Preferred Stock from Vision at a purchase price of $110 per share. A total of $1,999,910 was paid for the repurchase of these shares. Vision paid an aggregate of $1,818,100 for these shares at the time of purchase, which included warrants, as discussed in the previous paragraph. As discussed further in the previous paragraph, these warrants were valued at $3,261,016 on the date of purchase by Vision. The repurchased shares of Series B Preferred Stock were cancelled by the Company. The repurchase was financed from the proceeds of the private offering completed in April 2007 and accords with the use of proceeds provision in the offering. The warrants that were issued still remain in Vision's ownership.

In May 2006 we issued warrants to purchase 250,000 of our shares of common stock at a purchase price of $0.50 per share to Mr. Joel Pensley who was then an executive officer of the Company. These warrants were valued at approximately $122,228.

In April 2007 all officers and directors of the Company entered into lock-up agreements to prohibit the resale of the Common Stock until the 12 month anniversary after an effective registration statement for the offering which is the subject matter of this registration statement.

In April 2007, Fairwater Technology Group Limited exercised the option to convert 15,000 shares of its Series A Sterling Denominated Preferred stock, which Fairwater Technology had purchased from the Company in October 2005 for £1,500,000, equivalent to approximately $2,655,000, based upon a conversion ratio of $1.77 for each UK Pound at the time of the investment, and 914.8 Series A $ Denominated Preferred Stock purchased from the Company in April 2006 for a total consideration of $91,418. In consideration for early conversion, the Company granted Fairwater Technology Group Limited two five year warrants to purchase 1,373,209 of its shares of common stock at a purchase price of $1.30 and 1,373,209 at a purchase price of $1.70. These warrants were valued at approximately $2,991,099.

In April 2007, as consideration for two officers of the Company early conversion of 820 Series A Preferred Stock, we issued to them 5 year warrants to purchase 82,000 shares of our common stock at a purchase price ranging from $1.30 to $1.70 per share. The warrants were valued at $89,305.

Our wholly owned subsidiary Coda Octopus (UK) Holdings Limited (guaranteed by the Company) entered into an acquisition agreement on June 26, 2006 for the sale and purchase of the entire issued outstanding share capital of Martech Systems (Weymouth) Limited. Pursuant to this agreement certain parts of the purchase price remain outstanding and in this regard we are indebted to the sellers of Martech Systems (Weymouth) Limited: Mr. Colin Richard Pegrum, Mr. Barry Granville Brookes, Mr. Lawrence Lucian Short, Mrs. Elizabeth Short, Mrs. Janice Brookes and Mrs. Jennifer Pegrum for an amount of £200,000 or $392,000 (using an exchange rate of $1.96) which, under the terms of the acquisition agreement is due to be paid on June 26, 2007 (first anniversary of closing). This amount is guaranteed by Coda Octopus Group, Inc. The Dollar amount disclosed is subject to exchange rate fluctuations. Mr. Colin Richard Pegrum, Mr. Barry Granville Brookes and Mr. Lawrence Lucian Short each serve as Directors on the Board of Directors of Martech and are considered key employees of Martech. These outstanding amounts were paid by us on June 26, 2007 and as such the Company is released from the guarantee for these amounts.

Our wholly owned subsidiary Coda Octopus (US) Holdings, Inc entered into an acquisition agreement on April 6, 2007 for the sale and purchase of the entire issued and outstanding share capital of Colmek Systems Engineering. Pursuant to this agreement certain parts of the purchase price remain outstanding and in this regard our wholly owned subsidiary is indebted to the sellers of Colmek Systems Engineering (now a wholly owned subsidiary of the Company) an amount of $700,000 which, under the terms of the acquisition agreement is due to be paid on April 6, 2008 (first anniversary of closing). We also are also under an obligation to issue up to another 42,910 shares as part of the purchase price. This is also subject to the pledge. This amount is guaranteed by the Company and is secured by a pledge in favor of the Colmek sellers, and is also guaranteed by Coda Octopus Group, Inc. Certain of the sellers to whom this amount is owed are key employees within Colmek.

We and our affiliates have entered into a Security Agreement with the United States Department of Defense, under which we agree to exercise limited control over our wholly owned subsidiary Colmek, in respect of US government classified or restricted information, materials or property. Under this Agreement, all members of the Colmek Board must be US Citizen and comply with certain conditions under the National Industrial Security Program.

During January 2008, we issued to the holders of our 12% Preferred Stock, all of whom are affiliates of the Company, an aggregate of 28,288 shares of Common Stock in payment of cumulative dividends due on the Preferred Stock between 2006 and 2007. All shares were issued at a price ranging from $1.07 to $1.55 per share, representing the average stock price for the relevant period.

In February 2008 all directors entered into lock-up agreements to restrict the resale of any of the Company's common stock held by them for four years. The lock period shall cease upon the full redemption or conversion of the notes. During the lock period and subject to compliance with any other contractual obligations, each executive may sell up to 10% or 50,000 of their common stock (whichever is greater). .

Other Transactions with our President and Chief Executive Officer and his Affiliates.

Since the beginning of our last fiscal year we have been party to the following additional transactions involving Jason Reid, our President and Chief Executive Officer, and his affiliates:

- At October 31, 2005 we owed $70,584 to Weight Management Group Limited, a UK Company of which Mr. Reid is Director and Principal Stockholder, for certain services provided, including insurance, healthcare, recharged expenses, vehicle contract hire and administrative services. This balance increased by approximately $5,566 as a result of fluctuating exchange rates, to $76,150 by October 31, 2006.

  Since October 31, 2006, the amount outstanding to Weight Management Group Limited has been transferred to Weight Management (UK) Ltd (see below), leaving no balance outstanding with this company at October 31, 2007.

- As of October 31, 2005, we owed an amount of $351,302 to Softworks Limited, a Scottish company of which Mr. Reid is a Director and Principal Stockholder and of which Blair Cunningham, one of our executive officers, is a Director. During the year ended October 31, 2005, Softworks Limited provided to us consultancy and programming services valued at $218,488, including services provided by Mr. Blair Cunningham and associated expenses for these services. Between November 2005 and July 2006, we provided Softworks Limited with technical support services valued at $85,056. Softworks Limited also loaned us a cash sum of $19,667 over the course of that year. We also received cash totaling $69,108 in connection with receivables assigned to us by Softworks Limited. A total of $520,289 was repaid to Softworks Limited on our behalf by Dr R M Reid and Graham Reid, both family members of Jason Reid, in consideration for which we issued to these individuals 4,029.70 shares of Series A Preferred Stock. Of the remaining outstanding amount, $51,121 was converted into 500 shares of Series A Preferred Stock with an estimated fair value of $20,000, which has since been converted into 50,000 shares of our common stock. In consideration for this early conversion, we also issued warrants to purchase 50,000 shares of common stock at a price ranging from $1.30 and $1.70. These warrants were valued at approximately $54,455. Allowing for a currency translation gain of $783, this left a balance due to Softworks of $1,316, which we repaid in cash on July 31, 2007. There is no balance outstanding between the two companies at October 31, 2007.

- As a result of a series of loan transactions, at October 31, 2005 we owed an amount of $81,107 to Fairwater Technology Group Limited, a UK company, of which Mr. Reid is a Director and Principal Stockholder. A summary of material charges and payments between the two entities follows:

  - A dividend of $30,622 due to Fairwater for an earlier Series A preferred stock investment (since converted into shares of our common stock) was added to the amount owed by us in April 2006, which was paid in June 2006;

  - An additional $10,491 in cash was loaned to us by Fairwater Technology Group in April 2006; and

  - Of the balance outstanding, $91,418 was converted into Series A Preferred Stock at April 30, 2006 (which has since been converted into shares of our common stock). Allowing for a currency translation gain of $177, this left a balance due to Fairwater of $878 which was repaid in cash on July 31, 2007.

  - Dividends due to Fairwater on series A preferred stock, before its conversion on March 25, 2007, were not paid but recognized as a loan from Fairwater to the Company, bearing no interest. This left an amount of $105,685 owed by the Company to Fairwater at October 31, 2007.

- At October 31, 2005 we owed an amount of $67,435 to Weight Management (UK) Limited, a UK company of which Mr. Reid is a Director and Principal Stockholder, for services rendered, including administration, internet hosting, office facilities and health insurance. This amount was reduced as follows:

    - From November 2005 to June 2006, a variety of services were provided by Weight Management (UK) Limited, including health insurance, vehicles, internet hosting, administrative services, insurance, plus the recharge of telephone and travel costs incurred and paid for by Weight Management. These services and recharges totaled $128,159.

    - From July 2006 to October 2006, we supplied to Weight Management software development and support services totaling $42,418.

    - We subsequently repaid $98,940 in cash, leaving $54,236 outstanding and due to Weight Management at October 31, 2006.

    - This amount has subsequently been further repaid through the provision of services by us to Weight Management to the value of $51,646, with a balance of $76,150 also transferred from Weight Management Group (see above). As at October 31, 2007 we are indebted to Weight Management in an amount of $78,740.

    - Agreement was made by the Company in September 2007 that an amount of $60,000 would be repaid to this company in January 2008.

- At October 31, 2005, owed $6,554 to Green Meadows Food Limited, a United Kingdom Company, of which Mr. Reid is a Director, in connection with the sub-lease of a photocopier to us. Pursuant to this transaction a further $3,331 was invoiced to us during the year, and the whole amount outstanding was settled in cash in April 2006, leaving no balance outstanding at October 31, 2007.

- At October 31, 2005, we owed $170,297 to Mr. Reid and Mr. Ashley Reid (the latter being a family member of Mr. Reid) pursuant to a loan transaction. This amount was repaid by the Company between January and April 2007, leaving no balance outstanding at October 31, 2007.

- At October 31, 2006, Mr. Reid owed a balance of $104,720 to the Company. This amount increased by $965 in the past twelve months as a result of a payment made on Mr. Reid's behalf. This left a balance outstanding of $105,685 at October 31, 2007. This amount is equivalent to the amount owed to Mr. Reid's company, Fairwater Technology Group (see above).

All of the foregoing transactions were approved by our Board of Directors. Mr. Reid abstained from deliberations and voting on these transactions.

ITEM 13. EXHIBITS

Exhibit Number	Description
2.1	Plan and Agreement of Merger dated July 12, 2004 by and between Panda and Coda Octopus *
2.2	Share Purchase Agreement dated June 26, 2006 between Colin Richard, Coda Octopus (UK) Holdings Limited and Coda Octopus, Inc. *
2. 3	Stock Purchase Agreement dated April 6, 2007, between Miller & Hilton d/b/a Colmek Systems Engineering, its shareholders and Coda Octopus (US) Holdings Inc. *
3.1	Certificate of Incorporation *
3.1(a)	Certificate of Designation Series A Preferred Stock *
3.1(b)	Certificate of Amendment to Certificate of Designation Series A Preferred Stock *
3.1(c)	Certificate of Designation Series B Preferred Stock*
3.2	By-Laws *
4.1	Form of Warrant *
10.1	Employment Agreement dated April 1, 2005 between the Company and Jason Reid *
10.2	Employment Agreement dated July 1, 2005 between the Company and Anthony Davis *
10.3	Employment Agreement dated July 1, 2005 between the Company and Blair Cunningham *
10.4	Employment Agreement dated May 1, 2006, between the Company and Frank Moore *
10.5	Employment Agreement dated April 6, 2007, between Miller and Hilton d/b/a Colmek Systems Engineering and Scott Debo *
10.6	Director's Agreement dated January 26, 2005 between the Company and Paul Nussbaum *
10.7	Director's Agreement dated January 26, 2005 between the Company and Rodney Peacock *
10.8	Form of Securities Purchase Agreement dated April 4, 2007 *
10.9	Sale of Accounts and Security Agreement dated August 17, 2005 between the Company and Faunus Group International, Inc. *
10.10	Standard Form of Office Lease dated June 1, 2007 between the Company and Nelco Inc. *
10.11	Collaboration Agreement dated July 1, 2006 between Oxford Technical Solutions Ltd. and Codaoctopus
10.12	Amendment to Securities Purchase Agreements dated March 21, 2007 between Vision Opportunity Master Fund Ltd. and Codaoctopus*
10.13	Securities Repurchase Agreement dated April 10, 2007 between Codaoctopus and Vision Opportunity Master Fund*
10.14	Employment Agreement dated as of July 16, 2007 between the Company and Jody Frank*
10.15	Award/Contract dated July 2, 2007 issued by U.S. Army*

* Incorporated by reference to the Company's Registration Statement on Form SB-2 (SEC File No.143144)

10.16	Subscription Agreement dated February 21, 2008, between the Company and The Royal Bank of Scotland
10.17	Form of Loan Note Instrument dated February 21, 2008
10.18	Form of Loan Note Certificate
10.19	Security Agreement dated February 21, 2008
10.20	Floating Charge executed by Coda Octopus R&D Limited dated February 21, 2008
10.21	Floating Charge executed by Coda Octopus Products Limited dated February 21, 2008
10.22	Form of Guarantee
10.23	Intercreditor Deed dated February 20, 2008 between the Company, The Royal Bank of Scotland and Faunus Group International
10.24	Debenture issued by Martech Systems (Weymouth) Limited
31.1	Chief Executive Officer Certification
31.2	Chief Financial Officer Certification
32	Certification Pursuant to 18 U.S.C. Section 1350

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees. The aggregate fees billed by RBSM LLP (formerly Russell Bedford Stefanou Mirchandani LLP) , our principal accountants, for professional services rendered for the audit of the Company's annual financial statements for the last two fiscal years and for the reviews of the financial statements included in the Company's Quarterly reports on Form 10-QSB during the last two fiscal years 2007 and 2006 were $268,992 and $92,314, respectively.

Audit-Related Fees. The aggregate fees billed by RBSM LLP (formerly Russell Bedford Stefanou Mirchandani LLP) , our principal accountants, for professional services rendered in connection with the audits of acquired businesses , the review of and consent to the filing of registration statements, and assistance in responding to comment letters issued by the Securities & Exchange Commission during the last two fiscal years 2007 and 2006 were $ 134,562 and $ 0, respectively.

Tax Fees. The aggregate fees billed by the Company's principal accountants for tax compliance, tax advice and tax planning services rendered to the Company during the last two fiscal years 2007 and 2006 were nil and nil, respectively.

All Other Fees. The Company did not engage its principal accountants to render services to the Company during the last two fiscal years, other than as reported above.

Prior to the Company's engagement of its independent auditor, such engagement is approved by the Company's audit committee. The services provided under this engagement may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. Pursuant to the Company's Audit Committee Charter, the independent auditors and management are required to report to the Company's audit committee at least quarterly regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. The audit committee may also pre-approve particular services on a case-by-case basis. All audit-related fees, tax fees and other fees incurred by the Company for the year ended October 31, 2007, were approved by the Company's audit committee.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATE: February 26, 2008

CODA OCTOPUS GROUP, INC.
/s/ Jason Reid
Jason Reid
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Jason Reid, his attorney-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments in this Annual Report on Form 10-KSB, and to file the same, with exhibits thereto and other documents in connections therewith, with the Securities and Exchange Commission, hereby ratifying and conforming all that each of said attorneys-in-fact, or his or her substitutes, may do or cause to be done by virtue of hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ *Jason Lee Reid*	Director and Chief Executive Officer (Principal Executive Officer)	February 26, 2008
/s/ *Jody Frank*	Chief Financial Officer (Principal Financial and Accounting Officer)	February 26, 2008
/s/ *Paul Nussbaum*	Chairman	February 26, 2008
/s/ *Rodney Peacock*	Director	February 26, 2008

CODA OCTOPUS GROUP, INC.

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REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

Board of Directors
Coda Octopus Group Inc.
New York, New York

We have audited the accompanying consolidated balance sheets of Coda Octopus Group Inc. and it's wholly owned subsidiaries (the "Company"), as of October 31, 2007 and 2006, and the related consolidated statements of stockholder's equity, operations and comprehensive loss and cash flows for each of the two years in the period ended October 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payments", effective January 1, 2006.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Coda Octopus Group Inc. and it's wholly owned subsidiaries as of October 31, 2007 and 2006, and the results of its operations and its cash flows for each of the two years in the period ended October 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

/S/RBSM LLP

RBSM LLP

New York, New York
January 16, 2008 except for the fourth paragraph of Note 15,
as to which the date is February 26, 2008

CODA OCTOPUS GROUP, INC.
CONSOLIDATED BALANCE SHEETS
OCTOBER 31, 2007 and 2006

ASSETS	2007	2006
Current assets:		
Cash and cash equivalents	$ 916,257	$ 1,377,972
Short-Term Investments, Note 3	935,000	-
Accounts receivable, net of allowance for doubtful accounts	2,720,151	1,120,968
Inventory	2,926,517	1,951,392
Tax credit receivable	-	234,593
Due from MSGI Security Solutions, Inc.	-	533,147
Due from related parties, Note 12	105,685	104,720
Unbilled receivables, Note 2	380,017	-
Other current assets, Note 4	691,560	103,296
Prepaid expenses	476,283	159,969
Total current assets	9,151,470	5,586,057
Property and equipment, net, Note 5	422,738	155,730
Rental equipment, net, Note 5	-	120,851
Goodwill and other intangible assets, net, Note 6	4,007,253	1,071,700
Total assets	$ 13,581,461	$ 6,934,338
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	$ 1,618,250	$ 1,997,817
Accrued expenses and other current liabilities	1,937,569	2,219,568
Deferred revenues, Note 2	593,325	323,350
Deferred payment related to acquisitions, Note 13	763,936	381,680
Accrued dividends on Series A & B Preferred Stock	86,766	304,394
Due to related parties, Note 12	184,425	302,877
Loans and notes payable, short term, Note 11	56,382	1,119,496
Total current liabilities	5,240,653	6,649,182
Loans and notes payable, long term, Note 11	265,139	-
Total liabilities	5,505,792	6,649,182
Stockholders' equity:		
Preferred stock, $.001 par value; 5,000,000 shares authorized, 6,407 and 23,641 shares Series A issued and outstanding, as of October 31, 2007 and 2006 respectively	6	24
Nil and 41,000 shares Series B issued and outstanding as of October 31, 2007 and 2006 respectively	-	41
Common stock, $.001 par value; 100,000,000 shares authorized, 48,245,768 and 24,301,980 shares issued and outstanding as of October 31, 2007 and 2006 respectively	48,246	24,302
Common Stock subscribed	80,000	153,750
Additional paid-in capital	49,785,244	25,858,307

Accumulated other comprehensive loss	(238,097)	(292,821)
Accumulated deficit	(41,599,730)	(25,458,447)
Total stockholders' equity	8,075,669	285,156
Total liabilities and stockholders' equity	$ 13,581,461	$ 6,934,338

The accompanying notes are an integral part of these consolidated financial statements.

CODA OCTOPUS GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED OCTOBER 31, 2007 and 2006

	2007	2006
Net revenue	$ 13,853,313	$ 7,291,291
Cost of revenue	6,398,042	2,611,590
Gross profit	7,455,271	4,679,701
Research and development	3,019,090	3,130,821
Selling, general and administrative expenses	12,385,250	7,453,946
Other operating expenses	435,000	447,750
Operating loss	(8,384,069)	(6,352,816)
Other expense		
Other income	87,143	3,012
Interest expense	(6,655,283)	(1,203,690)
Total other expense	(6,568,140)	(1,200,678)
Loss before income taxes	(14,952,209)	(7,553,494)
Provision for income taxes	106	5,676
Net loss	(14,952,315)	(7,559,170)
Preferred Stock Dividends:		
Series A	(281,289)	(309,914)
Series B	(107,680)	(74,130)
Beneficial Conversion Feature	(800,000)	(4,152,800)
Net Loss Applicable to Common Shares	$ (16,141,284)	$ (12,096,014)
Loss per share, basic and diluted	(0.42)	(0.50)
Weighted average shares outstanding	38,476,352	24,030,423
Comprehensive loss:		
Net loss	$ (14,952,315)	$ (7,559,170)
Foreign currency translation adjustment	(30,276)	(282,704)
Unrealized Gain on Investment	85,000	-
Comprehensive loss	$ (14,897,591)	$ (7,841,874)

The accompanying footnotes are an integral part of these consolidated financial statements.

CODA OCTOPUS GROUP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE TWO YEARS ENDED OCTOBER 31, 2007 and 2006

	Preferred Stock Series A		Preferred Stock Series B		Common Stock						
	Shares	Amount	Shares	Amount	Shares	Amount	Stock Subscribed	Additional Paid-in Capital	Accumulated Other Comprehensive loss	Accumulated Deficit	Total
Balance, October 31, 2005	15,000	$ 15	-	$ -	23,667,656	$ 23,668	$ -	$ 13,837,534	$ (10,117)	$ (13,362,433)	$ 488,667
Sale of preferred stock	2,947	3	41,000	41				4,564,056			4,564,100
Preferred stock issued for debt	5,694	6						809,622			809,628
Sale of shares for cash					-	-	-	-			-
Shares issued for compensation					634,324	634	-	316,528			317,162
Common stock subscribed							153,750				153,750
Fair value of options and warrants issued as compensation and for financing								2,177,767			2,177,767
Beneficial conversion feature of preferred stock, Series A								52,800			52,800
preferred stock, Series B								4,100,000			4,100,000
Preferred dividend, beneficial conversion feature											
Series A										(52,800)	(52,800)
Series B										(4,100,000)	(4,100,000)
Preferred dividend											
Series A										(309,914)	(309,914)
Series B										(74,130)	(74,130)
Foreign currency translation adjustment									(282,704)		(282,704)
Net loss										(7,559,170)	(7,559,170)
Balance, October 31, 2006	23,641	$ 24	41,000	$ 41	24,301,980	$ 24,302	$ 153,750	$ 25,858,307	$ (292,821)	$ (25,458,447)	$ 285,156

Sale of preferred stock			8,000	8				799,342		799,350
Conversion of preferred stock										
Series A	(17,234)	(17)			2,878,418	2,878		(2,861)		(0)
Series B			(30,819)	(31)	3,081,900	3,082		(3,051)		0
Redemption of preferred stock			(18,181)	(18)				(1,818,082)		(1,818,100)
Sale of common stock for cash					15,709,100	15,709		13,782,921		13,798,630
Shares issued for compensation					1,619,280	1,619		1,888,244		1,889,863
Stock issued for acquisition					532,090	532		792,282		792,814
Stock subscribed										
Preferred stock							20,000			20,000
Common stock					123,000	123	(93,750)	153,627		60,000
Fair value of options and warrants issued as compensation								1,428,597		1,428,597
Fair value of options and warrants issued as financing								6,105,918		6,105,918
Preferred stock dividends										
Series A									(281,288)	(281,288)
Series B									(107,680)	(107,680)
Beneficial conversion feature of preferred stock, Series B								800,000	(800,000)	-
Foreign currency translation adjustment									(30,276)	(30,276)
Unrealized gain from marketable securities									85,000	85,000
Net loss									(14,952,315)	(14,952,315)
Balance, October 31, 2007	6,407	$ 6	-	$ -	48,245,768	$ 48,246	$ 80,000	$ 49,785,244	$ (238,097)	$ (41,599,730) $ 8,075,669

The accompanying notes are an integral part of these consolidated financial statements.

CODA OCTOPUS GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE TWO YEARS ENDED OCTOBER 31, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (14,952,315)	$ (7,559,170)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	337,658	137,189
Stock based compensation	3,318,460	2,005,056
Financing costs	6,105,918	784,873
Bad debt expense	17,910	16,008
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(1,800,802)	491,922
Inventory	(975,125)	(482,882)
Prepaid expenses	(316,367)	89,953
Other receivables	(672,216)	2,260,315
Increase (decrease) in:		
Accounts payable and accrued expenses	(1,033,074)	1,855,467
Due to related parties	(118,452)	523,076
Net cash (used in) / provided by operating activities	(10,088,405)	121,807
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(288,803)	(138,172)
Purchases of intangible assets	(118,475)	(6,543)
Acquisitions	(1,358,470)	(1,154,590)
Cash acquired in acquisitions	35,515	195,684
Net cash used by investing activities	(1,730,233)	(1,103,621)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of loans	(884,405)	(2,106,342)
Proceeds from sale of stock	14,677,980	4,564,100
Redemption of preferred stock	(1,818,100)	-
Preferred stock dividend	(637,476)	(79,650)
Net cash provided by financing activities	11,337,999	2,378,108
Effect of exchange rate changes on cash	18,924	(161,258)
Net (decrease) increase in cash	(461,715)	1,235,036
Cash and cash equivalents, beginning of period	1,377,972	142,936
Cash and cash equivalents, end of period	$ 916,257	$ 1,377,972
Cash paid for:		
Interest	$ 549,365	$ 418,817
Income taxes	-	-

Supplemental Disclosures:

During the twelve months ended October 31, 2007, 1,742,280 shares of common stock

were issued as payment of $1,926,268 of compensation that was earned.

During the twelve months ended October 31, 2006, 634,324 shares of common stock were issued as payment of $317,162 of compensation that was earned.

The acquisitions figure consists of the acquisitions of Martech in 2006 and Colmek in 2007:

Current assets acquired	$ 195,528	$ 798,133
Cash acquired	35,515	195,684
Equipment acquired	80,007	37,126
Goodwill and intangible assets	2,773,613	998,591
Liabilities assumed	(727,913)	(493,264)
Deferred note payable	(763,936)	(381,680)
Amount paid in common stock	(792,814)	-
Associated costs of acquisition	158,470	-
Cash Paid for Acquisition	$ 958,470	$ 1,154,590
Acquisition of Martech - deferred payment	$ 400,000	$ -
Total	$ 1,358,470	$ 1,154,590

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

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

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 as The Panda Project, Inc. ("Panda"). We changed our name in August, 2004, subsequent to the reverse acquisition described below. We are a developer of underwater technologies and equipment for imaging, mapping, defense and survey applications. We are based in New York, with research and development, sales and manufacturing facilities located in the United Kingdom and Norway, and additional sales locations in Florida, Utah and Washington, D.C.

Effective July 12, 2004, Panda acquired all of the issued and outstanding common stock of Coda Octopus Ltd, now known as Coda Octopus Products Ltd ("COPL") a U.K. operating company, which also owned United States and Norwegian subsidiaries. As a result of this transaction, COL's former shareholders obtained control of Panda, a shell corporation with no operations. In accordance with Statement of Financial Accounting Standards (SFAS) No. 141, Coda was the acquiring entity, while the transaction was accounted for using the purchase method of accounting, in substance the acquisition was a recapitalization of Coda's capital structure. For accounting purposes, this acquisition has been treated as a reverse acquisition of Panda. The Company did not recognize any goodwill or any intangible assets in connection with the transaction.

The 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 statement.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. Although these estimates are based on management's best knowledge of current events and actions that we may undertake in the future, actual results may differ from those estimates.

Revenue Recognition

We record revenue in accordance with the guidance of the SEC's *Staff Accounting Bulletin SAB No. 104* (SAB 104), which supersedes SAB No. 101 in order to encompass Emerging Issues Task Force (EITF) No. 00-21, *Revenue Arrangements with Multiple Deliverables.* Our revenue is derived from sales of underwater technologies and equipment for imaging, mapping, defense and survey applications. Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the contract price is fixed or determinable, and collectibility is reasonably assured. No right of return privileges are granted to customers after shipment.

For arrangements with multiple deliverables, we recognize product revenue by allocating the revenue to each deliverable based on the fair value of each deliverable in accordance with EITF No. 00-21 and SAB No. 104, and recognize revenue for equipment upon delivery and for installation and other services as performed. EITF No. 00-21 was effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003.

Our contracts sometimes require customer payments in advance of revenue recognition. These deposit amounts are reflected as liabilities and recognized as revenue when the Company has fulfilled its obligations under the respective contracts.

Revenues derived from our software license sales are recognized in accordance with Statement of Position (SOP) No. 97-2, "Software Revenue Recognition," and SOP No. 98-9, "Modifications of SOP No. 97-2, Software Revenue Recognition with Respect to Certain Transactions". For software license sales for which any services rendered are not considered essential to the functionality of the software, we recognize revenue upon delivery of the software, provided (1) there is evidence of an arrangement, (2) collection of our fee is considered probable and (3) the fee is fixed and determinable.

Foreign Currency Translation

Coda translates the foreign currency financial statements of its foreign subsidiaries in accordance with the requirements of SFAS No. 52, *Foreign Currency Translation*. Assets and liabilities are translated at exchange rates existing at the balance sheet dates, related revenue and expenses are translated at average exchange rates in effect during the period and stockholders' equity, fixed assets and long-term investments are recorded at historical exchange rates. Resulting translation adjustments are recorded as a separate component in stockholders' equity as part of accumulated other comprehensive income (loss). Foreign currency transaction gains and losses are included in the statement of income.

Income Taxes

Deferred income taxes are provided using the asset and liability method for financial reporting purposes in accordance with the provisions of SFAS No. 109, *Accounting for Income Taxes*. Under this method, deferred tax assets and liabilities are recognized for temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, and for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be removed or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of operations in the period that includes the enactment date.

Cash and Cash Equivalents

Cash equivalents are comprised of highly liquid investments with maturity of three months or less when purchased. We maintain our cash in bank deposit accounts, which at times, may exceed insured limits. We have not experienced any losses in such accounts.

Concentrations of Credit Risk

Financial instruments and related items, which potentially subject us to concentrations of credit risk, consist primarily of cash and cash equivalents and accounts receivable. We place our cash and temporary cash investments with credit quality institutions. At times, such investments may be in excess of applicable government mandated insurance limits.

Accounts Receivable

We periodically review our trade receivables in determining our allowance for doubtful accounts. Allowance for doubtful accounts was $17,910 and $16,008 for the years ended October 31, 2007 and 2006 respectively.

Fair Value of Financial Instruments

SFAS No. 107, "Disclosures About Fair Value of Financial Instruments", requires disclosure of the fair value of certain financial instruments. The carrying value of cash and cash equivalents, accounts receivable, other receivables, accounts payable and short-term borrowings, as reflected in the balance sheets, approximate fair value because of the short-term maturity of these instruments. Our long term debt has interest rates that approximate market and therefore the carrying amounts approximate their fair values.

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 October 31, 2007 and 2006:

	2007	2006
Raw materials	$ 1,789,051	$ 1,064,655
Work in process	334,813	389,042
Finished goods	802,653	497,695
Total inventory	$ 2,926,517	$ 1,951,392

Property and Equipment

We record our equipment at historical cost. We expense maintenance and repairs as incurred. Depreciation is provided for by the straight-line method over three to four years, the estimated useful lives of the property and equipment.

Long-Lived Assets

We follow SFAS No. 144, "Accounting for Impairment of Disposal of Long-Lived Assets", which established a "primary asset" approach to determine the cash flow estimation period for a group of assets and liabilities that represents the unit of accounting for a long-lived asset to be held and used. Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. No impairment loss was recognized during the years ended October 31, 2007 and 2006.

Research and Development

Research and development costs consist of expenditures for the present and future patents and technology, which are not capitalizable. We are eligible for United Kingdom tax credits related to our qualified research and development expenditures. Tax credits are classified as a reduction of research and development expense. We recorded no tax credits during the year ended October 31, 2007.

Marketing

We charge the costs of marketing to expense as incurred. For the years ended October 31, 2007 and 2006, marketing costs were $471,049 and $275,285, respectively.

Other Operating Expenses

We incurred costs of $435,000 and $447,750 as non-recurring fees and expenses in connection with our financings and acquisitions for October 31, 2007 and 2006 respectively, which are also included in our loss from operations, and shown separately under Other Operating Expenses.

Intangible Assets

Intangible assets consist principally of the excess of cost over the fair value of net assets acquired (or goodwill), customer relationships, non-compete agreements and licenses. Goodwill was allocated to our reporting units based on the original purchase price allocation. Customer relationships, non-compete agreements and licenses are being amortized on a straight-line basis over periods of 3 to 10 years. The Company amortizes its intangible assets using the straight-line method over their estimated period of benefit. We periodically evaluate the recoverability of intangible assets and take into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists.

We test for impairment at the reporting unit level as defined in SFAS No. 142, “Goodwill and Other Intangible Assets.” This test is a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value, which is based on future cash flows, exceeds the carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the fair value, the second step must be performed to measure the amount of the impairment loss, if any. The second step compares the implied fair value of the reporting unit’s goodwill with the carrying amount of that goodwill. In the fourth quarter of each year, we evaluate goodwill on a separate reporting unit basis to assess recoverability, and impairments, if any, are recognized in earnings. An impairment loss would be recognized in an amount equal to the excess of the carrying amount of the goodwill over the implied fair value of the goodwill. SFAS No. 142 also requires that intangible assets with determinable useful lives be amortized over their respective estimated useful lives and reviewed annually for impairment in accordance with SFAS No. 144.

Stock Based Compensation

SFAS No. 123, “Accounting for Stock-Based Compensation”, established and encouraged the use of the fair value based method of accounting for stock-based compensation arrangements under which compensation cost is determined using the fair value of stock-based compensation determined as of the date of the grant or the date at which the performance of the services is completed and is recognized over the periods in which the related services are rendered. The statement also permitted companies to elect to continue using the current intrinsic value accounting method specified in Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees”, to account for stock-based compensation to employees. Prior to the adoption of SFAS 123(R) we elected to use the intrinsic value based method for grants to our employees and directors and have disclosed the pro forma effect of using the fair value based method

to account for our stock-based compensation to employees.

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123R (revised 2004), "Share-Based Payment" ("Statement 123R") which is a revision of SFAS No. 123.

Statement 123R supersedes APB opinion No. 25 and amends SFAS No. 95, "Statement of Cash Flows". Generally, the approach in Statement 123R is similar to the approach described in Statement 123. However, Statement 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro-forma disclosure is no longer an alternative. This statement does not change the accounting guidance for share based payment transactions with parties other than employees provided in SFAS No. 123(R). This statement does not address the accounting for employee share ownership plans, which are subject to AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans." On April 14, 2005, the SEC amended the effective date of the provisions of this statement. The effect of this amendment by the SEC is that the Company had to comply with Statement 123R and use the Fair Value based method of accounting no later than the first quarter of 2006. We implemented SFAS No. 123(R) on January 1, 2006 using the modified prospective method. The fair value of each option grant issued after January 1, 2006 will be determined as of grant date, utilizing the Black-Scholes option pricing model. The amortization of each option grant will be over the remainder of the vesting period of each option grant. We did not have any unvested amounts of stock based compensation grants issued and outstanding at the date of implementation.

We use the fair value method for equity instruments granted to non-employees and use the Black Scholes model for measuring the fair value. The stock based fair value compensation is determined as of the date of the grant or the date at which the performance of the services is completed (measurement date) and is recognized over the periods in which the related services are rendered.

Comprehensive Income

SFAS No. 130, "Reporting Comprehensive Income," establishes standards for reporting and displaying of comprehensive income, its components and accumulated balances. Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, SFAS 130 requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Comprehensive income includes gains and losses on foreign currency translation adjustments and is included as a component of stockholders' equity.

Loss Per Share

We use SFAS No. 128, "Earnings per Share" for calculating the basic and diluted loss per share. We compute basic loss per share by dividing net loss and net loss attributable to common shareholders by the weighted average number of common shares outstanding. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential shares had been issued and if the additional shares were dilutive. Common equivalent shares are excluded from the computation of net loss per share if their effect is anti-dilutive.

Per share basic and diluted net loss amounted to $0.42 and $0.50 for the years ended October 31, 2007 and 2006, respectively. For the years ended October 31, 2007 and 2006, 36,508,028 and 21,638,728 potential shares, respectively, were excluded from the shares used to calculate diluted earnings per share as their inclusion would reduce net loss per share.

Liquidity

As of October 31, 2007 we have cash and cash equivalents of $916,257 and positive working capital of $3,910,817. For the year ended October 31, 2007 we had a net loss of $14,952,315 and negative cash flow from operations of $10,088,405. We also have an accumulated deficit of $41,599,730 at October 31, 2007.

NOTE 2 - 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 $380,017 and nil as of October 31, 2007 and 2006 respectively.

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 $232,435 and nil as of October 31, 2007 and 2006 respectively.

Revenue received for the sale of equipment includes a provision for warranty and is treated as deferred revenue, along with extended warranty sales. These amounts are amortized over 12 months from the date of sale. These amounts are stated on the balance sheet as Deferred Revenue of $233,550 and $323,350 as of October 31, 2007 and 2006 respectively.

Deferred revenue also includes $127,340 of revenues related to a violation in the terms of a capital lease agreement where the related equipment was sold. The revenues related to the equipment are being deferred until all conditions of the lease are fulfilled. See Note 10.

NOTE 3 - INVESTMENTS

Securities which the Company does not have the intent to hold are classified as available for sale. Marketable securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses recognized in earnings. Marketable equity securities are classified as available-for-sale and are carried at fair market value, with the unrealized gains and losses, net of tax, included in the determination of comprehensive income and reported in shareholder's equity.

The fair value of all securities is determined by quoted market prices. Gains or losses on securities sold are based on the specific identification method. During the year ended October 31, 2007, the Company received marketable securities in settlement of $533,147 loan and $316,853 of accounts receivable. As of October 31, 2007, the company had an investment of $935,000 that is to be available-for-sale for financial reporting purposes. This includes an unrealized gain of $85,000 which has been included in the determination of comprehensive loss.

NOTE 4 - OTHER CURRENT ASSETS

Other current assets on the balance sheet total $691,560 and $103,296 at October 31, 2007 and 2006 respectively. These totals comprise the following:

	2007	2006
Deposits	$ 191,352	$ 15,152
Value added tax (VAT)	293,934	42,164
Other receivables	206,274	45,980
Total	$ 691,560	$ 103,296

NOTE 5 - FIXED ASSETS

Property and equipment at October 31, 2007 and 2006 is summarized as follows:

	2007	2006
Machinery and equipment	$ 983,115	$ 614.305
Accumulated depreciation	(560,377)	(458,575)
Net property and equipment assets	$ 422,738	$ 155,730

Depreciation expense recorded in the statement of operations for the years ended October 31, 2007 and 2006 is $101802 and $52,396, respectively.

Rental equipment at October 31, 2007 and 2006 is summarized as follows:

	2007	2006
Rental equipment	$ 240,876	$ 240,876
Accumulated depreciation	(240,876)	(120,025)
Net rental equipment assets	$ -	$ 120,851

Depreciation expense recorded in the statement of operations for the years ended October 31, 2007 and 2006 is $120,851 and $79,879, respectively.

NOTE 6 - INTANGIBLE ASSETS AND GOODWILL

The Company has adopted SFAS No. 142, Goodwill and Other Intangible Assets, whereby the Company periodically tests its intangible assets for impairment. On an annual basis, and when there is reason to suspect that their values have been diminished or impaired, these assets are tested for impairment, and write-downs will be included in results from operations.

The identifiable intangible assets acquired and their carrying value at October 31, 2007 and 2006 is:

	2007	2006
Customer relationships (weighted average life of 10 years)	$ 694,503	$ -
Non-compete agreements (weighted average life of 3 years)	198,911	-
Patents	48,530	30,055
Licenses	100,000	-
Total amortized identifiable intangible assets - gross carrying value	1,041,944	30,055
Less accumulated amortization	(134,266)	(19,261)
Net	**907,678**	**10,794**
Residual value	**$ 907,678**	**$ 10,794**

Our acquisition of Colmek resulted in the valuation of Colmek's customer relationships and covenants not to compete as intangible assets (see Note 10), which have an estimated useful life of 10 years and 3 years respectively, and as such are being amortized monthly over that period. Goodwill of $2,038,669 represented the excess of the purchase price over the fair value of the net tangible and intangible assets acquired.

Estimated amortization expense as of October 31, 2007 is as follows:

2008	$ 195,157
2009	164,719
2010	83,610
2011	71,555
2012 and thereafter	392,637
Total	$ 907,678

Amortization of patents, customer relationships, non-compete agreements and licenses included as a charge to income amounted to $115,005 and $4,914 for the years ended October 31, 2007 and 2006, respectively. Goodwill is not being amortized.

As a result of the acquisitions of Martech and Colmek, the Company has goodwill in the amount of $3,099,575 and $1,060,906 as of October 31, 2007 and 2006 respectively. The changes in the carrying amount of goodwill for the years ended October 31, 2007 and 2006 are recorded below.

	2007	2006
Beginning goodwill balance at November 1	$ 1,060,906	$ 62,315
Goodwill recorded upon acquisition	2,038,669	998,591
Balance at October 31	**$ 3,099,575**	**$ 1,060,906**

Considerable management judgment is necessary to estimate fair value. We enlist the assistance of an independent valuation consultant to determine the values of our intangible assets and goodwill, both at the dates of acquisition and at specific dates annually. Based on various market factors and projections used by management, actual results could vary significantly from managements' estimates.

NOTE 7 - CAPITAL STOCK

The Company is authorized to issue 100,000,000 shares of common stock with a par value of $.001 per share. As of October 31, 2007 and 2006, the Company has issued and outstanding 48,245,768 shares and 24,301,980 shares of common stock respectively. The Company is also authorized to issue 5,000,000 shares of preferred stock with a par value of $.001 per share. We have designated 50,000 preferred shares as Series A preferred stock and have designated 50,000 preferred shares as Series B preferred stock. The remaining 4,900,000 shares of preferred stock is undesignated. There were 6,407 preferred shares outstanding at October 31, 2007, all of which were Series A.

Series A Preferred Stock

We designated 50,000 shares of our preferred stock, par value $.001, as Series A Preferred Stock. The Series A Preferred Stock ranks senior to all classes of common and preferred stock. The Series A Preferred Stock has a dividend rate of 12% per year. The Series A Preferred Stock and accrued dividends is convertible at the option of the holder into shares of our common stock at a conversion price of $1.00 per share, and at the option of the Company when the stock price reaches or exceeds $3.00.

During the year ended October 31, 2007 we did not issue any further Series A Preferred Stock. We converted 17,234 shares of Series A Preferred Stock into 2,878,418 shares of common stock, along with 2,878,418 warrants at prices ranging from $1.30 to $1.70. At October 31, 2007, the total of Series A Preferred Stock outstanding is 6,407 shares, convertible into 1,050,310 shares of common stock.

We have issued, subsequent to the year end, 200 shares of Series A Preferred Stock, which were subscribed for in March 2007 and converted 320 shares of Series A Preferred Stock into 32,000 shares of common stock.

During the year ended October 31, 2006 we sold 2,947 shares of our Series A Preferred Stock for cash proceeds of $464,100. We also issued 5,694 shares of our Series A Preferred Stock for debt outstanding to related and other parties aggregating $809,628. Of the debt converted, approximately $577,000 was outstanding at October 31, 2005. Each share of preferred stock is denominated either in Pounds Sterling or US Dollars, convertible into 177 shares or 100 shares of common stock respectively. We attributed a beneficial conversion feature of $52,800 to certain of the Series A preferred shares issued during the year ended October 31, 2006, based upon the difference between the conversion price of those shares and the closing price of our common shares on the date of issuance. The beneficial conversion feature was recorded as a dividend and is included in the accompanying financial statements. At October 31, 2006, the total of Series A Preferred Stock outstanding is 23,641 shares, convertible into 3,928,728 shares of common stock.

Series B Preferred Stock

We designated 50,000 shares of our preferred stock, par value $.001, as Series B Preferred Stock. The Series B Preferred Stock ranks junior to our issued and outstanding Series A preferred Stock and senior to all classes of common stock. The Series B Preferred Stock has a dividend rate of 8% per year. The Series B Preferred Stock and accrued dividends are convertible at the option of the holder into shares of our common stock at a conversion price of $1.00 per share. As of October 31, 2007, we have no shares of Series B Preferred Stock outstanding, compared to 41,000 outstanding as of October 31, 2006.

During the year ended October 31, 2007, we sold 8,000 preferred Series B stock units, each unit consisting of one share of our Series B Preferred Stock, 100 Series A warrants, 100 Series B warrants, and 81.25 shares of common stock (650,000 shares of common stock in total). Each Series A warrant and Series B warrant is exercisable into shares of our common stock for a period of five years at exercise prices of $1.30 and $1.70 per share, respectively. Gross and net proceeds from the sale of the units were $800,000.

In accordance with EITF No. 00-27, *"Application of EITF Issue No. 98-5, 'Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Rates', to Certain convertible Instruments",* a portion of the proceeds of our stock sales were allocated to the warrants based on their relative fair value.

For the sale of Series B Preferred Stock, this totaled $546,566 using the Black Scholes option pricing model. Further, we attributed a beneficial conversion feature of $253,434 to the Series B preferred shares based upon the difference between the conversion price of those shares and the closing price of our common shares on the date of issuance, limited to the proceeds attributable to the sale of the preferred shares. The weighted average assumptions used in the Black Scholes model are as follows: (1) dividend yield of 0%; (2) expected volatility of 304%, (3) risk-free interest rate of 4.90%, and (4) expected life of 2 years as the conversion feature and warrants are immediately exercisable. Both the fair value of the warrants and the beneficial conversion feature aggregating $800,000 were recorded as a dividend and are included in the accompanying financial statements.

Also during the year, 30,819 shares of Series B Preferred Stock were converted into 3,081,900 shares of common stock. In addition, 18,181 shares of Series B Preferred Stock were redeemed at a price of $110 per share, which included the dividend accrued from the previous year, with the remainder booked as a redemption premium.

During the year ended October 31, 2006 we sold 41,000 preferred Series B stock units, each unit consisting of one share of our Series B Preferred Stock, 100 Series A warrants and 100 Series B warrants. Each Series A warrant and Series B warrant is exercisable into shares of our common stock for a period of five years at exercise prices of $1.30 and $1.70 per share, respectively. Gross proceeds from the sale of the units were $4,100,000.

In accordance with EITF No.00-27, *"Application of EITF Issue No. 98-5, 'Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Rates', to Certain convertible Instruments",* a portion of the proceeds were allocated to the warrants based on their relative fair value, which totaled $2,919,412 using the Black Scholes option pricing model. Further, we attributed a beneficial conversion feature of $1,180,589 to the Series B preferred shares based upon the difference between the conversion price of those shares and the closing price of our common shares on the date of issuance, limited to the proceeds attributable to the sale of the preferred shares. The weighted average assumptions used in the Black Scholes model are as follows: (1) dividend yield of 0%; (2) expected volatility of 367%, (3) weighted average risk-free interest rate of 4.86%, and (4) expected life of 2 years as the conversion feature and warrants are immediately exercisable. Both the fair value of the warrants and the beneficial conversion feature aggregating $4,100,000 were recorded as a dividend and are included in the accompanying financial statements.

Common Stock

During the year ending October 31, 2007 we issued 1,742,280 shares of common stock, valued at $2,043,613, to employees, directors and consultants for services.

During the year ending October 31, 2007 we sold 15,025,000 shares of common stock, valued at $1 each, with a further 60,000 shares subscribed for during the year and issued subsequent to the year end. These shares were issued alongside 7,542,500 Series A warrants and 7,542,500 Series B warrants, along with 2,400,000 warrants convertible into common stock at a price of $1.00 as part of placement agent fees. Each Series A warrant is convertible into common stock at a price of $1.30, and each Series B warrant is convertible into common stock at $1.70, and each warrant has a life of 5 years. The gross amount raised was $15,025,000, with $13,764,530 raised net.

A further 650,000 shares of common stock were sold as part of a unit with Series B Preferred Stock.

During the year ending October 31, 2007 we issued 532,090 shares of common stock, valued at $792,814, as part payment in our acquisition of Miller & Hilton, Inc, d/b/a Colmek Systems Engineering, with a further 42,910 shares payable within 12 months.

During the year ending October 31, 2007 a total of 34,100 shares of common stock were issued on the exercise of 34,100 stock options, with a conversion value of $1.00 each. The amount received was $34,100.

During the year ending October 31, 2007 a total of 3,081,900 shares of common stock were issued on conversion of 30,819 shares of Series B Preferred Stock. In addition, 2,878,418 shares of common stock were issued on conversion of 17,234 shares of Series A Preferred Stock.

These transactions results in outstanding common stock of 48,245,768 at October 31, 2007, compared to 24,301,980 at October 31, 2006.

Subsequent to the year end, a further 60,000 shares of common stock have been issued to an investor, which were subscribed for during the year to October 31, 2007.

Other Equity Transactions

During the year ended October 31, 2007, we issued in the aggregate 1,500,000 common share purchase options to employees and consultants, with exercise prices of $1.00 to $1.80. The initial fair value of the options was $1,828,811 using the Black Scholes method at the date of grant of the options based on the following assumptions: (1) risk free interest rate of 4.90%-5.25%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 252% - 328%; and (4) an expected life of the options of 2 years. The fair value of the options has been expensed in this period. In accordance with EITF 96-18, the fair value of consultant vesting options will be recomputed at each reporting period and any increase will be charged to expense. Due to staff departures, 330,000 options were cancelled, all of which had exercise prices of $1.00 to $1.50. Also during the year, a total of 34,100 options were exercised at $1.00. During the year ended October 31, 2007, $1,036,454 was charged to expense.

During the year ended October 31, 2006, we issued in the aggregate 1,315,000 common share purchase options to employees and consultants. The options were issued with exercise prices of $1.00 and $1.50. Of these awards, 598,000 vested immediately and the balance vests over various periods through April 2008. The initial fair value of the options was $922,311 using the Black Scholes method at the date of grant of the options based on the following assumptions ranges: (1) risk free interest rate of 4.25% - 5.1%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 328% - 563%; and (4) an expected life of the options of 2 years. The fair value of the options is being expensed over the vesting period. In accordance with EITF 96-18, the fair value of consultant vesting options will be recomputed at each reporting period and any increase will be charged to expense. During the years ended October 31, 2007 and 2006, $222,816 and $675,316 respectively were charged to expense.

During the year ended October 31, 2005, we issued in the aggregate 2,350,000 common share purchase options to employees and consultants. The options were issued with an exercise price of $1.00. Of these awards, 888,500 vested immediately and the balance vests over various periods through May, 2007. The initial fair value of the options was $1,257,600 using the Black Scholes method at the date of grant of the options based on the following assumptions ranges: (1) risk free interest rate of 4.5%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 679%; and (4) an expected life of the options of 2 years. The fair value of the options is being expensed over the vesting period. In accordance with EITF 96-18, the fair value of consultant vesting options will be recomputed at each reporting period and any increase will be charged to expense. During the years ending October 31, 2007 and 2006, $169,327 and $430,039 respectively were charged to expense.

NOTE 8 - WARRANTS AND STOCK OPTIONS

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

	2007		2006	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding at beginning of the period	13,410,000	$ 1.29	2,350,000	$ 1.00
Granted during the period	23,473,418	1.44	11,060,000	1.35
Exercised during the period	(34,100)	1.00	-	-
Terminated during the period	(330,000)	1.22	-	-
Outstanding at the end of the period	36,519,318	$ 1.39	13,410,000	$ 1.29
Exercisable at the end of the period	35,467,518	$ 1.39	12,084,000	$ 1.31

The number and weighted average exercise prices of stock purchase options and warrants outstanding as of October 31, 2007 are as follows:

Range of Exercise Prices	Number Outstanding	Weighted Average Contractual Life (Yrs)	Total Vested
0.50	750,000	3.50	750,000
0.58	400,000	3.42	400,000
1.00	5,845,900	3.57	5,585,200
1.30	14,566,709	4.23	14,220,209
1.50	495,000	4.05	328,000
1.70	14,401,709	4.23	14,164,109
1.80	60,000	4.90	20,000
Totals	36,519,318	4.10	35,467,518

NOTE 9 - INCOME TAXES

The Company has adopted Financial Accounting Standard No. 109 which requires the recognition of 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 $30,750,000 which expire through 2027, subject to limitations of Section 382 of the Internal Revenue Code, as amended. The deferred tax asset related to the carry forward is approximately $10,455,000. The Company has provided a valuation reserve against the full amount of the net operating loss benefit, 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.

For income tax reporting purposes, the Company's aggregate UK unused net operating losses approximate $10,235,000, with no expiration. The deferred tax asset related to the carry-forward is approximately $3,070,000. The Company has provided a valuation reserve against the full amount of the net operating loss benefit, 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.

Income tax expense for 2007 represents income taxes on our Norwegian subsidiary.

Components of deferred tax assets as of October 31, 2007 and 2006 are as follows:

Non-Current	**2007**	**2006**
Net Operating Loss Carry Forward	**$ 10,455,000**	**$ 2,429,000**
Valuation Allowance	**(10,455,000)**	**(2,429,000)**
Net Deferred Tax Asset	**$ -**	**$ -**

NOTE 10 - CONTINGENCIES AND COMMITMENTS

Litigation

We may become subject to legal proceedings and claims, which arise in the ordinary course of our business. Although occasional adverse decisions or settlements may occur, we believe that the final disposition of any matters should not have a material adverse effect on our financial position, results of operations or liquidity.

Factoring Agreement

We factor certain of our receivables pursuant to a number of factoring agreements with Faunus Group International ("FGI"). Advances received pursuant to the agreement are secured by our accounts receivable and other assets of the Company.

An initial factoring agreement was entered into on August 17, 2005 between FGI and Coda Octopus Group, Inc., for a maximum borrowing in the US of up to $1 million. This agreement can be cancelled with three months' notice before each anniversary date. Subsequent agreements were added in November 2006 covering our UK businesses, Martech Systems Ltd and Coda Octopus Products Ltd, both of which are on the same terms as the original agreement, except for the initial term, which is a minimum of two years and these new agreements stipulate certain fees for termination prior to the two years.

Over the course of the year, we factored invoices totaling $5,088,665 in receivables and we received $3,961,695 in proceeds from FGI. This compares with 2006, where, we factored invoices totaling $5,503,518 in receivables and we received $5,172,774 in proceeds from FGI.

Under the arrangement, FGI typically advances to the Company 80% of the total amount of accounts receivable factored. FGI retains 20% of the outstanding factored accounts receivable as a reserve, which it holds until the customer pays the factored invoice to FGI. The cost of funds for the accounts receivable portion of the borrowings with FGI is 1.85% for the initial 30 day credit period, up to a maximum of 45 days; thereafter, an additional fee of 0.5% is charged for each 10 day period.

On February 20, 2008, FGI, RBS and us entered into an intercreditor agreement regulating the priority of each creditors debts.

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 2013. Future minimum lease obligations are approximately $1,707,667, with the minimum future rentals due under these leases as of October 31, 2007 as follows:

2008	$ 463,062
2009	377,090
2010	360,121
2011	329,549
2012 and thereafter	177,846
Total	$ 1,707,667

Concentrations

We had no concentrations of purchases of over 5% during either of the years ended 2007 and 2006. We had a sales concentration of over 5% for the year ended 2007 due to a sale to a customer for $2,294,279.

NOTE 11 - NOTES AND LOANS PAYABLE

A summary of notes payable at October 31, 2007 and 2006 is as follows:

	2007	2006
The Company, through its UK subsidiary Coda Octopus Products Ltd has a 7 year unsecured loan note; interest rate of 12% annually; repayable at borrower's instigation or convertible into common stock when the share price reaches $3.	$ 200,000	$ -

The Company had outstanding balances under our UK bank revolving credit facility of $1,119,496 as of October 31, 2006.This balance was fully repaid in the following year. The advances bear interest at 2.0% over UK Bank Base Rate and are due on demand. The advances were secured by a bond and a security interest in the assets of our subsidiary, Coda Octopus Products Ltd, exclusive of accounts receivable.	-	1,119,496
The Company, through its US subsidiary Innalogic, Inc., has a capital lease for equipment for monthly payments of $2,369.74 for 24 months. The Company at year end has sold the equipment and thus violated the terms of the lease that prohibit sale of equipment under the capital lease. The Company has deferred revenue of $127,340 in relation to this capital lease. See Note 2.	41,091	-
The Company has an unsecured revolving line of credit with a US bank through its US subsidiary Colmek Systems Engineering, for $50,000 with an interest rate of 12.5% annually; repayable at borrower's instigation.	17,181	-
The Company through its US subsidiary Colmek Systems Engineering, has an outstanding loan note payable for the financing of a truck over 60 months; monthly payments of $897.18; annual interest rate of 10.99%.	29,145	-
The Company through its US subsidiary Colmek Systems Engineering, has an unsecured loan note payable to a director and former officer of the Company.	34,104	-
Total	$ 321,521	$ 1,119,496
Less: current portion	56,382	1,119,496
Total long-term portion	$ 265,139	$ -

NOTE 12 - RELATED PARTY TRANSACTIONS

We are indebted to various related parties for advances for payments of operating expenses and dividends. These related parties include our biggest shareholder and other entities controlled by our parent. Advances are non interest bearing and are due on demand. At the end of the year ending October 31, 2007, $184,425 was due to related parties, compared with $302,877 for the year ending October 31, 2006.

We are also owed by related parties a sum of $105,685 as at October 31, 2007, compared with $104,720 for the year ended October 31, 2006.

NOTE 13 - ACQUISITIONS

Acquisition of Martech Systems (Weymouth) Limited

On June 26, 2006, we acquired all of the issued and outstanding capital stock of Martech Systems (Weymouth) Limited, a UK company ("Martech"). Martech specializes in engineering projects and sales to the UK Ministry of Defense. The acquisition was made to expand our engineering and related services, along with the sale of products, to the U K government. The purchase price was approximately $1,536,000, payable as follows: approximately $1,180,000 in cash at closing; approximately $364,000 in cash one year after closing, which was accrued as $382,000 as at October 31, 2006, due to exchange rate movements, and was paid in June 2007. The shares of common stock issued in conjunction with the merger were not registered under the Securities Act of 1933. The acquisition of Martech was accounted for using the purchase method in accordance with SFAS 141, "Business Combinations". The results of operations for Martech have been included in the Consolidated Statements of Operations since the date of acquisition.

In accordance with SFAS No. 141, the total purchase price was allocated to the estimated fair value of assets acquired and liabilities assumed. The estimate of fair value of the assets acquired was based on management's estimate. The total purchase price was allocated to the assets and liabilities acquired as follows:

Current assets acquired	$	993,817
Equipment, net		37,126
Goodwill		998,591
Current liabilities assumed	$	(493,262)
Purchase price	$	1,536,272

The total cost of the acquisition has been allocated to the assets acquired and the liabilities assumed based upon their respective fair values in accordance with SFAS No. 141. Goodwill of $998,591 represented the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. The goodwill recognized in the acquisition result primarily from the acquisition of the assembled workforce.

Acquisition of Colmek Systems Engineering

On April 6, 2007, we completed the acquisition of Miller & Hilton d/b/a Colmek Systems Engineering, a Utah corporation ("Colmek"). The total purchase price was $2,356,750, with additional associated costs and outlays of $158,470, consisting of cash paid at the closing of the transaction in the amount of $800,000 and the issuance of 532,090 shares of our common stock, and $700,000 and 42,910 shares that are due and payable on the first anniversary of the closing date evidenced by secured promissory notes to the former Colmek shareholders. Under the terms of the stock purchase agreements, we have pledged the Colmek shares as collateral security for the performance of our deferred payment obligations under the notes. At the date of issuance of the 532,090 shares these were valued at $792,814. The shares of common stock issued in conjunction with the merger were not registered under the Securities Act of 1933. The acquisition of Colmek was accounted for using the purchase method in accordance with SFAS 141. The results of operations for Colmek have been included in the Consolidated Statements of Operations since the date of acquisition.

In accordance with SFAS No. 141, the total purchase price was allocated to the estimated fair value of assets acquired and liabilities assumed. The estimate of fair value of the assets acquired was based on management's and an independent appraiser's estimates. The total purchase price was allocated to the assets and liabilities acquired as follows:

Current assets acquired	$	231,043
Equipment, net		80,007
Current liabilities assumed		(727,913)
Customer relationships acquired		694,503
Non-compete agreements acquired		198,911
Goodwill acquired		2,038,669
Total purchase price	$	2,515,220

The intangible assets of $893,414 at the date of acquisition consisted of customer relationships and non-compete agreements. The intangible assets acquired have an estimated useful life of 10 and 3 years, respectively, and as such will be amortized monthly over those periods. Goodwill of $2,038,669 represented the excess of the purchase price over the fair value of the net tangible and intangible assets acquired, plus the associated costs and outlays.

The following unaudited pro forma results of operations for the year ended October 31, 2007 assume that the acquisition of Colmek occurred on November 1, 2006 and for the year ended October 31, 2006 assume that the acquisition of Colmek and Martech had occurred on November 1, 2005 . These unaudited pro forma results are not necessarily indicative of the actual results of operations that would have been achieved nor are they necessarily indicative of future results of operations.

	2007	2006
Revenue	$ 14,757,876	$ 11,587,523
Net loss	(15,259,562)	(7,410,114)
Loss per common share	(0.43)	(0.50)

NOTE 14 - SEGMENT INFORMATION

Due to the nature of our businesses, we are operating in two reportable segments, which are managed separately based upon fundamental differences in their operations . Martech, Colmek, and Innalogic operate as contractors, and the balance of our operations are comprised of product sales.

Segment operating income is total segment revenue reduced by operating expenses identifiable with the business segment. Corporate includes general corporate administrative costs.

The Company evaluates performance and allocates resources based upon operating income. The accounting policies of the reportable segments are the same as those described in the summary of accounting policies.

There are no inter-segment sales.

The following table summarizes segment asset and operating balances by reportable segment.

	Contracting	Products	Corporate	Totals
Revenues	$ 6,298,817	$ 7,434,159	$ 120,337	$ 13,853,313
Operating profit/(loss)	(35,559)	2,207,177	(10,555,687)	(8,384,069)
Identifiable assets	6,336,133	5,384,297	1,861,031	13,581,461
Capital expenditure	198,932	132,476	75,870	407,278
Selling, general & administrative	2,510,386	1,884,954	7,989,910	12,385,250
Depreciation & amortization	147,677	46,707	143,274	337,658
Interest expense	108,741	388,091	6,158,451	6,655,283

The Company’s reportable business segments operate in two geographic locations. Those geographic locations are:

* United States
* United Kingdom

The Company evaluates performance and allocates resources based upon operating income. The accounting policies of the reportable segments are the same as those described in the summary of accounting policies. There are no inter-segment sales.

Information concerning principal geographic areas is presented below according to the area where the activity is taking place.

	2007	2006
Revenues:		
United States	$ 7,129,507	5,271,230
United Kingdom	6,723,806	2,020,061
Total Revenues	$ 13,853,313	7,291,291
Assets:		
United States	$ 5,529,261	329,765
United Kingdom	6,597,202	4,556,969
Corporate and other	1,454,998	2,047,604
Total Assets	$ 13,581,461	6,934,338

NOTE 15 - SUBSEQUENT EVENTS

In January 2008, we issued 28,288 shares of common stock for dividends on series A preferred stock accrued between April 2006 and October 2007, and already accounted for within those periods.

In January and February 2008, we issued 200 shares of series A preferred stock, which were subscribed for in March 2007. We also converted 320 shares of series A preferred stock into 32,000 shares of common stock, leaving 6,287 series A preferred shares outstanding, convertible into 1,013,670 shares of common stock.

In February 2008, we issued 60,000 shares of common stock to an investor. These shares were subscribed for in February 2007 and received warrant coverage of 50% at $1.30 and 50% at $1.70, with these warrants issued before the end of October 2007.

On February 21, 2008 we closed a $12 million convertible secured loan note financing (Loan Note Financing") We received approximately $10.5 million after deducting for related expenses and reserves. The terms of the Loan Note Financing can be summarized as a 7 year loan note, convertible at the option of the note holder into the Company's common stock at a conversion price of $1.05, with a coupon of 8.5% and a redemption premium of 30%. The Company can also force the conversion of the notes into the Company's common stock according to the following schedule: after 2 years when the Company's stock price closes above 2.50; after three years, $2.90; after 4 years $3.50; provided in each case that the stock closes at or above the specified price for 40 consecutive trading days. At contractual closing, one million of the proceeds were pursuant to the terms of the agreement withheld to secure the performance of certain obligations of the Company. Upon performance of these, this amount will be released to us.

DATED **2008**

Coda Octopus Group, Inc. (1)

- and -

THE ROYAL BANK OF SCOTLAND PLC (2)

SUBSCRIPTION AGREEMENT

Stuart Hodge Corporate Lawyers
3 Temple Row West
Birmingham
B2 5NY

THIS AGREEMENT is made **2008**

BETWEEN:

(1) **Coda Octopus Group, Inc. Incorporated in the State of Delaware whose principal place of business is at 164 West 25th Street, New York, New York 10001 ("COGI")**

(2) **The Royal Bank of Scotland plc, incorporated in Scotland, (registered number 90312) acting through its London offices at 135 Bishopsgate, London EC2M 3UR ("the Subscriber")**

WHEREAS: -

(A) COGI is a corporation incorporated in the State of Delaware. COGI proposes to issue USD 12,000,000 medium term loan notes (the "**Note**s") on the Completion Date.

(B) The Subscriber has agreed to subscribe for the Notes issued by COGI pursuant to the Loan Note Instrument (as defined below).

(C) Payment of principal and interest in respect of the Notes will be irrevocably guaranteed by the Guarantors (as defined below) on a joint and several basis in accordance with the Deed of Guarantee and the Security Agreement (both as defined below).

IT IS HEREBY AGREED: -

1. **DEFINITIONS AND INTERPRETATION**

1.1. Capitalised terms used and not otherwise defined herein that are defined in any of the Transaction Documents shall, except where the context does not so permit, have the meanings given to such terms in the relevant Transaction Documents. In this Agreement the following words and expressions shall (except where the context otherwise requires) have the following meanings:

"Affiliate" means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person as such terms are used in and construed under Rule 405 under the Securities Act. With respect to a party, any investment fund or managed account that is managed on a discretionary basis by the same investment manager as such party will be deemed to be an Affiliate of such party;

"Agreed Form" in relation to any document means the form agreed and for the purposes of identification only initialled by or on behalf of COGI and the Subscriber;

"Approved Acquisitions" means the acquisitions of the two targets disclosed in the Confidentiality Agreement at the date of this Agreement, and other acquisitions or strategic transactions which may be approved by a Noteholder Majority in writing during the Term;

"Board" means the board of directors of COGI from time to time;

"Business Day" means a day (excluding Saturdays, Sundays and any public holiday) on which banks are open for business in New York and London for the transaction of normal banking business;

"Certificate" means a loan note certificate issued in accordance with Clause 2 of the Loan Note Instrument and substantially in the form set out in Schedule 1 A of the Loan Note Instrument;

"Colmek" means Miller and Hilton, Inc., d/b/a Colmek Systems Engineering, incorporated in the State of Utah and whose principal place of business is 2001 South 3480 West, Salt Lake City, Utah 84104;

"Common Stock" means the common stock (nominal value USD 0.001) of COGI or any replacement stock into which such common stock is subdivided, split or consolidated;

"Companies Act" means the Companies Act 1985 (as amended by the Companies Act 1989 and Companies Act 2006) and every other statutory modification or re-enactment thereof from time to time in force;

"Completion" means the carrying out by the parties of their obligations under Clauses 3.1 to 3.3 of this Agreement;

"Completion Date" means the date hereof;

"Conditions" means the terms and conditions of the Notes endorsed or to be endorsed on the Certificates, as set out in Schedule 2 to the Loan Note Instrument. References to a numbered Condition shall be construed accordingly;

"Confidentiality Agreement" means the agreement dated on or around the Completion Date between COGI and the Subscriber whereby the Subscriber agrees, inter alia, to keep certain information confidential;

"Debentures" means the two debentures to be granted on the date hereof in favour of the Subscriber, one debenture to be granted by Coda Octopus (UK) Holdings Ltd and the other by Martech Systems (Weymouth) Ltd and **"Debenture"** shall mean whichever of the Debentures as the context admits;

"Deed of Adherence" means a deed in the Agreed Form to be entered into by any Subsidiary which may be acquired by the Group after the date hereof (a "New Subsidiary") whereby the New Subsidiary undertakes to guarantee the obligations of COGI under the Transaction Documents on a joint and several basis in the same manner as those Subsidiaries which entered into the Transaction Documents;

"Deed of Guarantee" means a deed in the Agreed Form to be entered into at Completion whereby those Subsidiaries which are registered in the United Kingdom agree to guarantee the obligations of COGI under the Transaction Documents;

"Disclosed" means facts, matters or other information fairly disclosed in any of the Disclosure Documents in such a manner so as to enable a reasonable individual to make a reasonably informed assessment of the fact, matter or information concerned and its nature and effect;

"Disclosure Bundle" means a bundle of documents referred to in and attached to the Disclosure Letter;

"Disclosure Letter" means a letter from COGI to the Subscriber, dated the Completion Date and containing qualifications to the Warranties;

"Event of Default" means any of the events listed in Condition 9.1 and which have not been remedied within the period (if any) granted to COGI under Condition 9.2;

"Exchange Act" means the US Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder;

"FGI" means Faunus Group International, Inc. a Delaware corporation whose principal place of business is 80 Pine Street, 32nd Floor, New York, New York 10005;

"Floating Charges" means the two floating charges to be granted on the date hereof in favour of the Subscriber, one floating charge to be granted by Coda Octopus Products Ltd and the other by Coda Octopus R & D Ltd and **"Floating Charge"** shall mean whichever of the Floating Charges as the context admits;

"Group" means COGI, its Subsidiaries, any company of which COGI is a Subsidiary (a **"Holding Company"**) and any Subsidiaries of any such Holding Company and references to a "member of the Group" or a "Group member" shall be construed accordingly;

"Guarantor" means any subsidiary of COGI which has on or before the Completion Date entered into an agreement to guarantee the obligations of COGI under the Transaction Documents or which subsequently enters into an agreement to guarantee such obligations of COGI;

"Intercreditor Deed" means a deed entered into on or around the Completion Date among COGI and certain of its Subsidiaries, the Subscriber and FGI regulating the priorities of the various charges and security interests held by the Subscriber and FGI;

"Legend" means an annotation endorsed upon the relevant Certificate or stock certificate, substantially in the form set out in Schedule 2;

"Lien" means a lien, charge, security interest, encumbrance, right of first refusal or other restriction;

"Loan Note Instrument" means the loan note instrument executed by COGI on the Completion Date pursuant to which the Notes are constituted;

"Lock-up Agreements" means certain agreements entered into on or around the date hereof between the directors and board members of COGI and the Subscriber undertaking (with certain exceptions) not to sell or transfer or otherwise dispose of any of their shares in COGI;

"Noteholder" means the person for the time being entered in the Register as a holder of any part of the Notes;

"Noteholder Majority" means the holders for the time being of not less than 75% of the Aggregate Nominal Amount of the Notes then Outstanding;

"Notes" means USD 12,000,000 Convertible Loan Notes due 21 February 2015 constituted by the Loan Note Instrument, or, as the case may be, the Principal Amount Outstanding represented by them, and each **"Note"** shall have a nominal amount of USD 100,000;

"Outstanding" means in relation to the Notes as of any date of determination, all of the Notes issued other than:

(a) those Notes which have been redeemed or converted; and

(b) those Notes in respect of which the Redemption Date in accordance with the relevant Conditions has occurred and the redemption monies (including all interest payable in respect of the redemption monies and any interest payable under the relevant Conditions after such date) have been duly paid to the relevant Noteholders in the manner provided in the Conditions;

"Person" means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or agency or subdivision thereof) or other entity of any kind;

"Principal Amount Outstanding" means as of any date of determination and in respect of any Note which is Outstanding, the principal amount of such Note as of such date;

"Process Agent" means Jason Reid, Director, Martech Systems (Weymouth) Ltd, 14 Albany Road, Granby Industrial Estate, Weymouth, Dorset DT4 9TH or such other person and address in the United Kingdom as COGI may, from time to time, notify to the Noteholders;

"Redemption Date" shall have the meaning given to it in Condition 3.2 or Condition 3.3, as applicable;

"Register" means the register of Noteholders and other details relating to the Notes as referred to in Clause 6 of the Loan Note Instrument;

"Registrar" means Greenwich Capital Markets, Inc., 600 Steamboat Road, Greenwich, Connecticut 06830 or such other Registrar as may from time to time be appointed by the incumbent Registrar pursuant to Clause 5.2 of the Loan Note Instrument (and whose identity is notified to the Noteholders and COGI) to maintain the Register;

"SEC" means the US Securities and Exchange Commission;

"Securities" means the Notes and any Common Stock arising from the conversion of the Notes;

"Securities Act" means the US Securities Exchange Act of 1933, as amended, and the rules and regulations promulgated thereunder;

"Security Agreement" means an agreement in the Agreed Form to be entered into at Completion whereby COGI and those of its Subsidiaries incorporated in the United States of America grant a continuing security interest in and over the assets of COGI and those of its Subsidiaries incorporated in the United States of America;

"Subsidiary" means a company incorporated or established in any jurisdiction in which COGI holds not less than 50.1% of the issued voting shares or stock (but, for the purposes of the Transaction Documents, shall only include Colmek to the extent that a security interest in Colmek is granted under the Security Agreement) and **"Subsidiaries"** shall mean each Subsidiary of the Company from time to time;

"Term" means the period from the Completion Date to whichever is the earlier of (1) the seventh anniversary of the Completion Date and (2) the date upon which the Notes have been repaid, redeemed, converted or cancelled in full in accordance with the Conditions;

"Transaction Documents" means this Agreement, the Loan Note Instrument, the Deed of Guarantee, the Debentures, the Floating Charges, the Lock-up Agreements, the Security Agreement, the Confidentiality Agreement, the Intercreditor Deed and all other documents entered into in connection with any of them;

"USD" means United States dollars;

"Warranties" means the warranties set out in Schedule 1 hereto

References to, or any provision of, any treaty, legislation, statute, directive, regulation, judgment, decision, decree, order, regulation, instrument, by-law or any other law of, or having effect in, any jurisdiction ("**Laws**") shall be construed also as references to all other Laws made under the Law referred to, and to all such Laws as amended, re-enacted, consolidated or replaced, or as their application is modified by other Laws from time to time, and whether before or after the date of this Agreement.

1.2. Unless otherwise stated references to Clauses, subclauses and the Schedules are references to Clauses, subclauses and the Schedules to this Agreement. The Schedules form part of this Agreement.

1.3. Clause headings are for ease of reference only and do not affect the construction or interpretation of this Agreement.

1.4. References to persons shall include bodies corporate, unincorporated associations and partnerships.

1.5. References to the parties hereto include their respective successors in title, permitted assigns, estates and legal personal representatives.

1.6. Words and expressions defined in or for the purposes of the Companies Act and the Taxes Act 1988 shall where the context permits bear the same meanings in this Agreement.

1.7. References to writing shall include typewriting, printing, lithography, photography, telex and fax messages, printed out versions of communications by email and other modes of reproducing words in a legible and non-transitory form.

2. CONDITIONS PRECEDENT

2.1. Save as provided in Clause 2.2, this Agreement is conditional upon each of the following matters (the "Conditions Precedent") being fulfilled to the satisfaction of the Subscriber:

2.1.1. all Transaction Documents being executed and delivered by the parties thereto;

2.1.2. legal opinions, substantially in the form agreed between COGI and the Subscriber;

2.1.3. a scanned or faxed copy (with a duplicate original to follow within 7 days) of the resolution of the board of directors of COGI authorising the issuance of the Notes and the execution and delivery of the Transaction Documents and confirming the authority of the signatories of the Transaction Documents to bind COGI being provided;

2.1.4. scanned or faxed copies (with duplicate originals to follow within 7 days) of the resolutions of the boards of directors of each Subsidiary which is entering into any of the Transaction Documents authorising the execution of the relevant Transaction Documents and confirming the authority of the signatories of such Transaction Documents to bind such subsidiary being provided;

2.2. The Subscriber may waive all or any of the Conditions Precedent (subject to such terms and conditions as it deems fit) by notice in writing to COGI.

3. COMPLETION AND DEPOSIT

3.1. Completion shall take place on the Completion Date when:

3.1.1. COGI shall deliver to the Subscriber such evidence as the Subscriber may require to satisfy itself that the Conditions Precedent have been fulfilled;

3.1.2. subject to compliance with clause 3.1.1 the Subscriber shall pay the subscription monies as set out in Clause 3.2 for the Notes and COGI will procure that a meeting of the Board is held at which Certificates representing the Notes are issued and delivered to the Subscriber or as the Subscriber may direct (such delivery being conditional upon payment being made by the Subscriber in accordance with Clause 3.2);

3.1.3. COGI shall enter into all other documentation of or relating to the issue of the Notes, all as agreed with the Subscriber;

3.1.4. COGI shall instruct the Registrar to enter full details of the Notes and Noteholders in the Register as is required by the Loan Note Instrument.

3.2. The total subscription monies due in respect of the Notes are USD 12,000,000 (subject to deduction of the costs and expenses referred to in Clause 6). Subject to Clause 3.3, the Subscriber shall make payment to COGI of the sum of USD 10,598,907 being USD 12,000,000 of the subscription monies in respect of the Notes after deduction of USD 401,091.74 USD, being the agreed costs and expenses referred to in Clause 6 and deduction of the Retention Amount in accordance with Clause 3.3.

3.3. The balance of USD 1,000,000 of the subscription monies (the "Retention Amount") shall be immediately placed on deposit by the Subscriber in an account held with and in the name of the Subscriber (such account paying interest at the Subscriber's internal overnight funds rate), to be paid over to COGI in accordance with the provisions of Clause 3.4.

3.4. The Retention Amount (together with all interest accrued on the Retention Amount) will be released to COGI immediately upon COGI having confirmed in writing to the Subscriber that it has (i) settled all indebtedness to FGI under the FGI Encumbrances (as defined in the Security Agreement) in accordance with Clause 4.1 of the Security Agreement and (ii) settled all indebtedness to FGI secured by the Permitted Encumbrance (as defined in the Debentures and Floating Charges) in accordance with paragraph 6.10 of the Debentures and Clause 4.3 of the Floating Charges.

3.5. If the Notes become due and payable following an Event of Default in accordance with Condition 9.3 and the Retention Amount has not been released to COGI in accordance with Clause 3.4 then all rights of COGI to receive payment of the Retention Amount in accordance with Clause 3.4 shall cease and the Subscriber shall apply, in its sole and absolute discretion, the Retention Amount either towards satisfaction of the Redemption Amount payable in respect of the Notes or towards any other liabilities of COGI, whether due to the Subscriber or any third party.

4. WARRANTIES

4.1. In consideration of the Subscriber entering into this Agreement and subscribing for the Notes COGI hereby warrants to the Subscriber, in the terms of Schedule 1.

4.2. Each of the Warranties shall be construed as a separate and independent warranty and (save where expressly provided to the contrary) shall not be limited or restricted by reference to or inference from any other term of this Agreement or any other Warranty.

4.3. The rights and remedies of the Subscriber in respect of any breach of any of the Warranties shall continue to subsist notwithstanding Completion or any termination of this Agreement.

4.4. COGI shall have no liability under the Warranties unless notice in writing (giving the amount and details of the claim) is given on behalf of the Subscriber of any claim on or before the date falling six months after the date of final redemption or conversion of all of the Notes.

4.5. Any claims notified under clause 4.4 shall be deemed to have been waived unless court proceedings in respect thereof have been issued and served on COGI within 6 months of such notice.

4.6. The maximum aggregate liability of COGI under this Agreement shall not exceed an amount equal to the amount that would have been paid on redemption of the Notes in accordance with Condition 3.5.2 with the Subscriber's costs and expenses in addition.

4.7. Any payment made by COGI for a breach of the Warranties shall be treated as a partial redemption of the Notes on a $ for $ basis.

4.8. The Warranties shall be qualified by matters Disclosed in the Disclosure Letter and the Disclosure Bundle.

4.9. COGI undertakes to the Subscriber that if the Subscriber or its directors, officers or employees (each a "Relevant Party") incurs any liability, damages, cost, loss or expense (including, without limitation, legal fees, costs and expenses) (a "Loss") arising out of, in connection with or based on any (actual or alleged (which subsequently proves to be actual)) breach of, or any failure to perform, any of the Warranties given by COGI in accordance with this Clause 4, COGI shall, subject to Clause 4.6, pay to the Subscriber on demand an amount equal to such Loss. The Subscriber shall not have any duty or obligation, whether as fiduciary for any Relevant Person or otherwise, to recover any such payment or to account to any other person for any amounts paid to it under this Clause 4.9.

5. COVENANTS

5.1 COGI undertakes to and covenants with the Subscriber in accordance with the provisions of Clause 4 of the Loan Note Instrument.

5.2 COGI undertakes to and covenants with the Subscriber that it will procure that any New Subsidiary enters into a Deed of Adherence and (where relevant) grants any security interest to the Subscriber within 30 days of the New Subsidiary becoming a Subsidiary.

5.3 COGI undertakes and covenants to pay to the Subscriber:

(A) any stamp, issue, registration, documentary or other taxes and duties, including interest and penalties, payable on or in connection with the creation, issue and offering of the Notes or payable on the execution, delivery or performance of the Transaction Documents to which it is party (but excluding, for the avoidance of doubt, any taxes levied on the Noteholders in relation to the income from the Notes or any capital gain made on the Notes) or the enforcement of this Agreement against COGI or any transactions carried out pursuant to the Transaction Documents to which it is party, and

(B) in addition to any amount payable by it under this Agreement, any value added, turnover or similar tax payable in respect of that amount.

6. FEES AND EXPENSES

COGI shall pay all agreed fees and expenses (together with value added tax thereon if applicable) incurred by the Subscriber in connection with the preparation, execution and delivery of this Agreement, the Loan Note Instrument and the other Transaction Documents and the matters provided for or contemplated herein and therein. Such fees and expenses shall be deducted from the moneys paid by the Subscriber, all as provided for in Clause 3.2.

7. NO PARTNERSHIP

Nothing contained in this Agreement shall be deemed to constitute a partnership between the parties hereto or any of them.

8. SUBSCRIBER'S UNDERTAKINGS, REPRESENTATIONS AND WARRANTIES

The Subscriber:

8.1 confirms and undertakes to COGI that it shall not market, offer to sell or sell or otherwise transfer any of the Securities within the United Kingdom except to those parties falling within the exempt communication provisions of Articles 19 and 49 of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005.

8.2 confirms and undertakes to COGI that it shall not market, offer to sell or sell or otherwise transfer any of the Securities within the United States of America or to any United States citizen or resident except under any applicable exemption to the registration requirements of the Securities Act.

8.3 confirms and undertakes to COGI that it agrees that the Loan Note Instrument, any Certificates issued under the Loan Note Instrument and any certificates for Common Stock issued as a result of any conversion of the Notes shall all be endorsed with a legend in the terms of the Legend.

8.4 represents and warrants to COGI that it understands that the Securities are "restricted securities" for the purposes of United States securities laws and regulations and have not been registered under the Securities Act or any applicable state securities law and that it is not acquiring the Securities with a view to or for distributing or reselling the Securities or part thereof in violation of the Securities Act or any applicable state securities law, has no present intention of distributing any of such Securities in violation of the Securities Act or any applicable state securities law and has no direct or indirect arrangement or understandings with any other persons to distribute or regarding the distribution of such Securities (this representation and warranty not limiting the Subscriber's right to sell the Securities in compliance with applicable federal and state securities laws) in violation of the Securities Act or any applicable state securities law. The Subscriber is acquiring the Securities hereunder in the ordinary course of its business.

8.5 represents and warrants to COGI (1) that at the time it was offered the Securities, it was, and at the date hereof it is, and on each date on which it exercises any conversion right, it will be either: (i) an "accredited investor" as defined in Rule 501(a)(1), (a)(2), (a)(3), (a)(7) or (a)(8) under the Securities Act or (ii) a "qualified institutional buyer" as defined in Rule 144A(a) under the Securities Act and (2) that it is not required to be registered as a broker-dealer under Section 15 of the Exchange Act.

8.6 represents and warrants to COGI (1) that it, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Securities, and has so evaluated the merits and risks of such investment and (2) that it is able to bear the economic risk of an investment in the Securities and, at the present time, is able to afford a complete loss of such investment.

8.7 represents and warrants to COGI that it is not purchasing the Securities as a result of any advertisement, article, notice or other communication regarding the Securities published in any newspaper, magazine or similar media or broadcast over television or radio or presented at any seminar or any other general solicitation or general advertisement.

9. APPROVED ACQUISITION LOAN

The Subscriber agrees and confirms to COGI that, of the total amount to be subscribed in accordance with this Agreement, the sum of USD 6,000,000 is a specific purpose loan for the purpose of completing those of the Approved Acquisitions specifically named in the Confidentiality Agreement and that the undertakings of COGI in Condition 3.4 relate to such specific purpose loan. Upon the acquisition of the Approved Acquisitions COGI shall cause that a security interest in or over the undertaking of the target be perfected in favour of the Subscriber within 30 Business Days of legal closing of the acquisition transaction.

10. SUCCESSORS IN TITLE AND ASSIGNMENT

This Agreement shall be binding upon and enure for the benefit of each party's successors in title. The Subscriber shall be bound to assign the benefit of this Agreement to any party to whom the Subscriber may transfer the legal or beneficial interest in the Notes but otherwise the benefit of this Agreement shall not be assignable by the Subscriber.

11. ENTIRE AGREEMENT

11.1. This Agreement including the Schedules hereto and the documents in the Agreed Form constitute the entire agreement and understanding between the parties with respect to the subject matter of this Agreement and supersedes and extinguishes any representations and warranties previously given or made.

11.2. Each party acknowledges to the other (to the intent that the other shall execute this Agreement and any documents in the Agreed Form in reliance upon such acknowledgement) that it has not been induced to enter into this Agreement and such other documents nor relied upon any representation or warranty other than the representations and/or warranties expressly set out in this Agreement or in any such document.

11.3. Each party hereby irrevocably and unconditionally waives any right it may have to claim damages or to rescind this Agreement and such other documents as aforesaid by reason of any misinterpretation and/or warranty not set out in this Agreement or in any such document PROVIDED THAT nothing in this Clause shall operate to limit or exclude any liability for fraud.

12. VARIATIONS

No variation of this Agreement or any of the documents in the Agreed Form shall be valid unless it is in writing and signed by or on behalf of each of the parties hereto.

13. WAIVER

No waiver by the Subscriber of any breach or non-fulfilment by COGI of any provisions of this Agreement shall be deemed to be a waiver of any subsequent or other breach of that or any other provision and no failure to exercise or delay in exercising any right or remedy under this Agreement shall constitute a waiver thereof. No single or partial exercise of any right or remedy under this Agreement shall preclude or restrict the further exercise of any such right or remedy. The right and remedies of the Subscriber provided in this Agreement are cumulative and not exclusive of any rights or remedies provided by law.

14. AGREEMENT CONTINUES IN FORCE

The invalidity illegality or unenforceability of any provisions of this Agreement shall not affect the continuation in force of the remainder of this Agreement.

15. NOTICES

15.1. Any notice to be given pursuant to the terms of this Agreement must be given in writing to the party due to receive such notice at the addresses detailed in Clause 15.2 and Clause 15.3 or such other addresses as the relevant party may have notified to the other party for the purposes o f this clause. Notice must be delivered personally or sent by first class pre-paid recorded delivery or registered post (air mail if overseas) or by facsimile transmission and shall be deemed to be given in the case of delivery on delivery and in the case of posting (in the absence of evidence of earlier receipt) within forty eight hours after posting (6 days if sent by air mail) and in the case of facsimile transmission on completion of the transmission.

15.2. All notices to be served upon COGI hereunder shall be sent to
Coda Octopus Group, Inc.
164 West, 25th Street,
New York, NY 10001
Telecopy: +1 212 924 3447
Attention: Jason Reid or Jody Frank
With a copy to Fax: +1 917 591 8594
For the attention of: Annmarie Gayle

15.3. All notices to be served upon the Subscriber hereunder shall be sent to it at The Royal Bank of Scotland plc
135 Bishopsgate
London EC2M 3UR
Fax: +44 20 7085 7984
Attention: Repack Middle Office
With a copy to Fax: +44 20 7085 8411
Attention: GBM Legal

16. COUNTERPARTS

This Agreement may be executed in any number of counterparts each of which when executed by one or more of the parties hereto shall constitute an original but all of which shall constitute one and the same instrument.

17. THIRD PARTIES

The Contracts (Rights of Third Parties) Act 1999 shall not apply to this Agreement and a person who is not a party to this Agreement shall not have nor acquire any right to enforce any term of it pursuant to that Act. This provision shall not affect any right or remedy of any third party which exists or is available otherwise than by reason of that Act and shall prevail over any other provision of this Agreement which is inconsistent with it.

18. GOVERNING LAW

18.1 This Agreement shall be governed by and construed in accordance with English Law and the parties hereby submit for all purposes in connection with this Agreement to the non-exclusive jurisdiction of the English courts.

18.2 COGI hereby appoints the Process Agent as its agent for the purposes of receiving service of any process, proceedings or documents in connection with proceedings raised in the English courts in accordance with Clause 18.1.

IN WITNESS whereof the parties have executed this Agreement as a Deed.

SCHEDULE 1
The Warranties

1 No order has been made or petition presented or resolution passed for the winding up of COGI or any Group member and no distress, execution or other process has been levied on any of its or their assets.

2 Neither COGI nor any Group member has stopped payment on any debts and neither COGI nor any Group member is insolvent or unable to pay its or their debts for the purpose of Section 123 of the Insolvency Act 1986.

3 No administrative receiver, receiver and manager or the equivalent in any other applicable jurisdiction has been appointed to the business or assets or any part thereof of COGI or of any Group member.

4 All of the direct and indirect subsidiaries of COGI are set forth in the Disclosure Letter. Except as is set forth in the Disclosure Letter, COGI owns, directly or indirectly, all of the capital stock or other equity interests of each Subsidiary free and clear of any Liens, and all of the issued and outstanding shares of capital stock of each Subsidiary are validly issued and are fully paid, non-assessable and free of pre-emptive and similar rights to subscribe for or purchase securities.

5 COGI and each of the Subsidiaries is an entity duly incorporated or otherwise organised, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organisation (as applicable), with the requisite power and authority to own and use its properties and assets and to carry on its business as currently conducted. Neither COGI nor any Subsidiary is in violation or default of any of the provisions of its respective certificate or articles of incorporation, bylaws or other organisational or charter documents. Each of COGI and the Subsidiaries is duly qualified to conduct business and is in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, and no proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing or seeking to revoke, limit or curtail such power and authority or qualification.

6 COGI has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by each of the Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of each of the Transaction Documents by COGI and the consummation by it of the transactions contemplated hereby and thereby have been duly authorised by all necessary action on the part of COGI and no further action is required by COGI, its board of directors or its stockholders in connection therewith. Each Transaction Document has been (or upon delivery will have been) duly executed by COGI and, when delivered in accordance with the terms hereof and thereof, will constitute the valid and binding obligation of COGI enforceable against COGI in accordance with its terms except (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganisation, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

7 The execution, delivery and performance of the Transaction Documents by COGI, the issuance and sale of the Notes and the consummation by COGI of the other transactions contemplated hereby and thereby do not and will not (i) conflict with or violate any provision of COGI's or any Subsidiary's certificate or articles of incorporation, bylaws or other organisational or charter documents, or (ii) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, result in the creation of any Lien upon any of the properties or assets of COGI or any Subsidiary, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a COGI or Subsidiary debt or otherwise) or other understanding to which COGI or any Subsidiary is a party or by which any property or asset of COGI or any Subsidiary is bound or affected, or (iii) conflict with or result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which COGI or a Subsidiary is subject (including federal and state securities laws and regulations), or by which any property or asset of COGI or a Subsidiary is bound or affected.

8 The Notes are duly authorised and, when issued and paid for in accordance with the applicable Transaction Documents, will be duly and validly issued, fully paid and non-assessable, free and clear of all Liens imposed by COGI other than restrictions on transfer provided for in the Transaction Documents. COGI has reserved from its duly authorised capital stock the maximum number of shares of Common Stock issuable upon conversion pursuant to the Transaction Documents.

9 The capitalisation of COGI is as set forth in the Disclosure Letter which also includes the number of shares of Common Stock owned beneficially, and of record, by Affiliates of COGI as of the date hereof. COGI has not issued any capital stock since May 5, 2007, other than pursuant to the exercise of employee stock options under COGI's stock option plans, the issuance of shares of Common Stock to employees pursuant to COGI's employee stock purchase plans and pursuant to the conversion or exercise of other securities outstanding as of 1 January 2008.

10 The issue of the Notes does not and will not constitute a breach of any existing law or regulation or of COGI's charter or by-laws or exceed any limitation on the powers of COGI's directors or breach the terms of any contract, charge or restriction binding upon it and the Loan Note Instrument and each Note constitutes (or will when executed constitute) COGI's valid and binding obligations.

11 As of the Completion Date, no event has occurred which constitutes (or with the giving of notice or lapse of time or both would constitute) an Event of Default.

12 Payments under the Notes will be made by COGI without withholding or deducting for any taxes, duties or other charges of whatever nature of the jurisdiction of incorporation of COGI or any political subdivision or authority thereof or therein having power to tax.

13 Since the date of the latest audited financial statements of COGI, (i) there has been no event, occurrence or development that has had or that could reasonably be expected to result in an event which is materially adverse to the condition (financial or otherwise), prospects, results of operations or general affairs of COGI or the Group (a "Material Adverse Effect"), (ii) COGI has not incurred any liabilities (contingent or otherwise) other than (A) trade payables and accrued expenses incurred in the ordinary course of business consistent with past practice and (B) liabilities not required to be reflected in COGI's financial statements pursuant to US GAAP, (iii) COGI has not altered its method of accounting, (iv) COGI has not declared or made any dividend or distribution of cash or other property to its stockholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock and (v) COGI has not issued any equity securities to any officer, director or Affiliate, except pursuant to existing COGI stock option plans.

14 There is no action, suit, inquiry, notice of violation, proceeding or investigation pending or, to the knowledge of COGI, threatened against or affecting COGI, any Subsidiary or any of their respective properties before or by any court, arbitrator, governmental or administrative agency or regulatory authority (federal, state, county, local or foreign) (collectively, an "Action") which (i) adversely affects or challenges the legality, validity or enforceability of any of the Transaction Documents or the Securities or (ii) could, if there were an unfavourable decision, have or reasonably be expected to result in a Material Adverse Effect. Neither COGI nor any Subsidiary, nor any director or officer thereof, is or has been the subject of any Action involving a claim of violation of or liability under federal or state securities laws or a claim of breach of fiduciary duty. There has not been, and to the knowledge of COGI, there is not pending or contemplated, any investigation by the SEC involving COGI or any current or former director or officer of COGI. The SEC has not issued any stop order or other order suspending the effectiveness of any registration statement filed by COGI or any Subsidiary under the Exchange Act or the Securities Act.

15 Neither COGI nor any Subsidiary has engaged in, and each of them hereby covenants not to engage in, any directed selling efforts, general solicitiation or general advertising in relation to the Securities.

16 COGI and the Subsidiaries have good and marketable title in fee simple to all real property owned by them and good and marketable title in all personal property owned by them that is material to the business of COGI and the Subsidiaries, in each case free and clear of all Liens, except for Liens as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by COGI and the Subsidiaries and Liens for the payment of federal, state or other taxes, the payment of which is neither delinquent nor subject to penalties. Any real property and facilities held under lease by COGI and the Subsidiaries are held by them under valid, subsisting and enforceable leases with which COGI and the Subsidiaries are in compliance.

17 COGI and the Subsidiaries have, or have rights to use, all patents, patent applications, trademarks, trademark applications, service marks, trade names, trade secrets, inventions, copyrights, licenses and other intellectual property rights and similar rights necessary or material for use in connection with their respective businesses and which the failure to so have could have a Material Adverse Effect (collectively, the "Intellectual Property Rights"). Neither COGI nor any Subsidiary has received a notice (written or otherwise) that any of the Intellectual Property Rights used by COGI or any Subsidiary violates or infringes upon the rights of any Person. To the knowledge of COGI, all such Intellectual Property Rights are enforceable and there is no existing infringement by another Person of any of the Intellectual Property Rights. COGI and its Subsidiaries have taken reasonable security measures to protect the secrecy, confidentiality and value of all of their intellectual properties, except where failure to do so could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

SCHEDULE 2
The Legend

THIS SECURITY HAS NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL T O THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY. THIS SECURITY MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT WITH A REGISTERED BROKER-DEALER OR OTHER LOAN WITH A FINANCIAL INSTITUTION THAT IS AN "ACCREDITED INVESTOR" AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT OR OTHER LOAN SECURED BY SUCH SECURITIES.

IN WITNESS whereof this Deed has been duly executed the day and year first before written.

EXECUTED AS A DEED AND DELIVERED by)
Coda Octopus Group, Inc. acting by: -)

Jason Lee Reid **Director**
Rodney Peacock **Director**

EXECUTED AS A DEED AND DELIVERED by)

THE ROYAL BANK OF SCOTLAND PLC)

By:

DATED **2008**

LOAN NOTE INSTRUMENT

constituting

the issue of USD 12,000,000 Convertible Loan Notes due 21 February 2015 of Coda Octopus Group, Inc.

CONTENTS

THIS LOAN NOTE INSTRUMENT is made on 2008

PARTY

CODA OCTOPUS GROUP, Inc., incorporated in the State of Delaware and whose principal place of business is at 164 West 25th Street, New York, New York 1001 (**"COGI"**).

BACKGROUND

COGI has pursuant to a resolution of its board of directors passed on 21 February 2008, created and authorised the execution and issue of a nominal amount of up to USD 12,000,000 Loan Notes due 21 February 2015 to be constituted as provided in this Instrument and subject to, and with the benefit of the schedules which shall be deemed to form part of this Instrument.

COGI has on 21 February 2008 entered into a Subscription Agreement with the Subscriber (as defined below) pursuant to which the Subscriber shall subscribe for the Notes on the Completion Date (as defined herein).

The payment obligations of COGI in respect of the Notes, this Instrument, the Subscription Agreement and the other Transaction Documents shall be secured in favour of the Subscriber for the benefit of the Noteholders in accordance with the security arrangements set out in the Deed of Guarantee, Debentures, Floating Charges and Security Agreement (each such term as defined herein).

WITNESSES as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 In this Instrument and the schedules the following words and expressions, unless the context requires otherwise, mean:

"Affiliate" means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person as such terms are used in and construed under Rule 405 under the Securities Act. With respect to a party, any investment fund or managed account that is managed on a discretionary basis by the same investment manager as such party will be deemed to be an Affiliate of such party;

"Agreed Form" in relation to any document means the form agreed and for the purposes of identification only initialled by or on behalf of COGI and the Subscriber;

"Aggregate Nominal Amount" means the aggregate Nominal Amount of all Notes in issue from time to time;

"Approved Acquisitions" means the acquisitions of the two targets disclosed in the Confidentiality Agreement at the date of this Instrument, and other acquisitions or strategic transactions which may be approved by a Noteholder Majority in writing during the Term

"Authorised Signatory" means any director of COGI, or any other officer of COGI authorised to sign on behalf of COGI;

"Board" means the board of directors of COGI from time to time;

"Business Day" means a day (excluding Saturdays, Sundays and any public holiday) on which banks are open for business in New York and London for the transaction of normal banking business;

"Certificate" means a loan note certificate issued in accordance with Clause 2 and substantially in the form set out in Schedule 1A;

"Change of Control" means a Sale;

"Collateral" shall have the same meaning as is given to such term in the Security Agreement;

"Colmek" means Miller and Hilton, d/b/a Colmek Systems Engineering, incorporated in the State of Utah and whose principal place of business is 2001 South 3480 West, Salt Lake City, Utah 84104; ;

"Common Stock" means the common stock (nominal value USD 0.001) of COGI or any replacement stock into which such common stock is subdivided, split or consolidated;

"Companies Act" means the Companies Act 1985 (as amended by the Companies Act 1989 and Companies Act 2006) and every other statutory modification or re-enactment thereof from time to time in force;

"Completion" means the carrying out by the parties of their respective obligations under Clauses 3.1 to 3.3 of the Subscription Agreement;

"Completion Date" means the date hereof;

"Conditions" means the terms and conditions of the Notes endorsed or to be endorsed on the Certificates, as set out in Schedule 2. References to a numbered Condition shall be construed accordingly;

"Confidentiality Agreement" means the agreement dated on or around the Completion Date between COGI and the Subscriber whereby the Subscriber agrees, inter alia, to keep certain information confidential;

"Debentures" means the two debentures to be granted on the date hereof in favour of the Subscriber, one debenture to be granted by Coda Octopus (UK) Holdings Ltd and the other by Martech Systems (Weymouth) Ltd and **"Debenture"** shall mean whichever of the Debentures as the context admits;

"Debt" for the purposes of Clause 3.4.9 means the aggregate of all bank borrowings, receivables financing and all other financing, debt and borrowings of whatever nature (other than (i) the Principal Amount Outstanding of all the Notes and (ii) debts due by COGI and its Group in the ordinary course of business) of COGI and its Group (as shown in the relevant audited consolidated accounts of COGI and its Group);

"Deed of Adherence" means a deed in the Agreed Form to be entered into by any Subsidiary which may be acquired by the Group after the date hereof (a "New Subsidiary") whereby the New Subsidiary undertakes to guarantee the obligations of COGI under the Transaction Documents on a joint and several basis in the same manner as those Subsidiaries which entered into the Transaction Documents;

"Deed of Guarantee" means a deed in the Agreed Form to be entered into at Completion pursuant to which those Subsidiaries which are registered in the United Kingdom guarantee the obligations of COGI under the Transaction Documents;

"EBIT" means the operating profit of COGI and its Group (as shown in the relevant audited consolidated accounts of COGI and its Group) before deductions are made for interest and taxation payable by COGI and its Group;

"Event of Default" means any of the events listed in Condition 9.1 and which have not been remedied within the period (if any) granted to COGI under Condition 9.2;

"**Exchange Act**" means the US Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder;

"Extraordinary Resolution" means a resolution passed as an Extraordinary Resolution at a meeting of Noteholders held in accordance with Condition 10;

"Final Maturity Date" shall have the meaning given to it in Condition 3.1;

"FGI" means Faunus Group International, Inc. a Delaware corporation whose principal place of business is 80 Pine Street, 32nd Floor, New York, New York 10005;

"Floating Charges" means the two floating charges to be granted on the date hereof in favour of the Subscriber, one floating charge to be granted by Coda Octopus Products Ltd and the other by Coda Octopus R & D Ltd and **"Floating Charge"** shall mean whichever of the Floating Charges as the context admits;

"Group" means COGI, its Subsidiaries, any company of which COGI is a Subsidiary (a **"Holding Company"**) and any Subsidiaries of any such Holding Company and references to a "member of the Group" or a "Group member" shall be construed accordingly;

"Guarantor" means any subsidiary of COGI which has on or before the Completion Date entered into an agreement to guarantee the obligations of COGI under the Transaction Documents, or which subsequently enters into an agreement to guarantee such obligations of COGI;

"Individual Certificate" means a Certificate representing one or more of the Notes in individual registered form;

"Intercreditor Deed" means a deed entered into on or around the Completion Date among COGI, the Subscriber and FGI regulating the priorities of the various charges and security interests held by the Subscriber and FGI;

"Legend" means an annotation endorsed upon the relevant Certificate or stock certificate, substantially in the form set out in Schedule 4;

"Lien" means a lien, charge, security interest, encumbrance, right of first refusal or other restriction;

"Liquidation" means the liquidation of COGI pursuant to the making of a winding-up order by a court of competent jurisdiction or the passing of a resolution by the stockholders of COGI that COGI be wound-up (save for a solvent winding-up for the purpose of reconstruction or amalgamation);

"Loan Note Instrument" means this Instrument;

"Lock-up Agreements" means certain agreements entered into on or around the date hereof between the directors and board members of COGI and the Subscriber undertaking (with certain exceptions) not to sell or transfer or otherwise dispose of any of their shares in COGI;

"Nominal Amount" means the amount specified in the relevant Individual Certificate as being the Principal Amount Outstanding of the relevant Note or Notes to which such Individual Certificate relates as at the date of such Individual Certificate's issue;

"Noteholder" means the person for the time being entered in the Register as a holder of any part of the Notes;

"Noteholder Majority" means the holders for the time being of not less than 75% of the Aggregate Nominal Amount of the Notes then Outstanding;

"Notes" means USD 12,000,000 Convertible Loan Notes due 21 February 2015 constituted by this Instrument, or, as the case may be, the Principal Amount Outstanding represented by them, and each **"Note"** shall have a nominal amount of USD 100,000;

"Omnitech" means Coda Octopus Omnitech AS, incorporated in Norway whose principal place of business is at Sandviksboder 1A, N-5035 Bergen, Norway;

"Outstanding" means in relation to the Notes as of any date of determination, all of the Notes issued other than:

(a) those Notes which have been redeemed or converted; and

(b) those Notes in respect of which the Redemption Date in accordance with the relevant Conditions has occurred and the redemption monies (including all interest payable in respect of the redemption monies and any interest payable under the relevant Conditions after such date) have been duly paid to the relevant Noteholders in the manner provided in the Conditions;

"**Permitted Issuance**" means the issuance by COGI of (i) shares of Common Stock or options to employees, officers, directors or consultants of COGI pursuant to COGI's existing Employees Stock Option Plans of 19 October 2004 and March 2, 2006 ("Existing Stock Option Plan") and which at the date of this Instrument has available for issuance approximately 600,000 units of Common Stock; or (ii) Common Stock issued pursuant to any new Stock Option Plan (a "New Stock Option Plan") adopted by COGI in accordance with its statutes and Delaware Law; provided that any New Stock Option Plan is substantially on the same terms and conditions as the Existing Stock Option Plan and shall not exceed 2,500,000 shares of Common Stock and all issuances pursuant to any New Stock Option Plan shall be based on the prevailing market price of the Common Stock at the time of issuance but subject to a minimum exercise price or sale price (whilst any sums remain outstanding under this Instrument) of USD1.05; or (iii) Common Stock issued upon the exercise or exchange of or conversion of the Notes issued hereunder; or (iv) Common Stock or other securities issued in connection with Approved Acquisitions; or (v) Common Stock issued by COGI pursuant to any contractual obligations which exist at the date of this Instrument (including the exercise of warrants, options or conversion of preferred stock into Common Stock) provided that such securities have not been amended since the date of this Instrument to increase the number of such securities or to decrease the exercise, exchange or conversion price of such securities; or (vi) up to 900,000 shares of Common Stock as compensation to certain parties in connection with the transactions envisaged by the Transaction Documents; or (vii) issuances of up to 300,000 units of Common Stock in each fiscal year of COGI in addition to any issuances referred to in parts (i) to (vi) inclusive of this definition.

"Permitted Liens" means, as the context so requires, (a) Liens in favour of Faunus Group International, Inc, (b) Liens in the Colmek Shares (as defined in the Security Agreement) in favour of the Selling Shareholders (as defined in the Security Agreement), (c) the Bond and Floating Charge granted by Coda Octopus Products Limited in favour of The Governor and Company of the Bank of Scotland, (d) any Liens for taxes or assessments not at the time due and (e) Liens in respect of pledges or deposits under workers' compensation laws or similar legislation, carriers', warehousemen's, mechanics', laborers' and material men's and similar Liens, if the obligations secured by such Liens are not then delinquent;

"Person" means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or agency or subdivision thereof) or other entity of any kind;

"Principal Amount Outstanding" means as of any date of determination and in respect of any Note which is Outstanding, the principal amount of such Note as of such date;

"Principal Office" means, in relation to COGI, 164 West 25th Street, New York, New York 10001 or such other address as COGI may, from time to time, notify to the Noteholders;

"Process Agent" means Jason Reid, Director, Martech Systems (Weymouth) Ltd, 14 Albany Road, Granby Industrial Estate, Weymouth, Dorset DT4 9TH or such other person and address in the United Kingdom as COGI may, from time to time, notify to the Noteholders;

"Recapitalisation Event" means any increase, repayment, subdivision, consolidation, capitalisation or other variation of the share capital of COGI other than Permitted Issuances and except for the proposed increase of the authorised share capital of COGI at its next annual general meeting of shareholders in 2008 by another 50,000,000 shares of Common Stock having par value of $0.001

"Redemption Amount" has the meaning given to it by Condition 3.5;

"Redemption Date" shall have the meaning given to it in Condition 3.2 or Condition 3.3, as applicable;

"Register" means the register of Noteholders and other details relating to the Notes as referred to in Clause 5;

"Registrar" means Greenwich Capital Markets, Inc of 600 Steamboat Road, Greenwich, Connecticut 06830 or such other Registrar as may from time to time be appointed by the incumbent Registrar pursuant to Clause 5.2 (and whose identity is notified to the Noteholders and COGI) to maintain the Register;

"Sale" means the sale of any part of the Common Stock to any person after the Completion Date resulting in that person together with any person acting in concert (within the meaning given in the City Code on Takeovers and Mergers as in force at the Completion Date) with such person holding more than 50% of the Common Stock in issue (in aggregate) and, for these purposes, the persons who are holders of the Common Stock at the Completion Date and any person(s) for the ultimate benefit of whom such holders are holding such Common Stock shall not be deemed to be acting in concert with each other;

"SEC" means the US Securities and Exchange Commission;

"Securities Act" means the US Securities Exchange Act of 1933, as amended, and the rules and regulations promulgated thereunder;

"Security Agreement" means an agreement in the Agreed Form to be entered into at Completion whereby COGI and those of its Subsidiaries incorporated in the United States of America grant a continuing and first security interest in and over the assets of COGI and those of its Subsidiaries incorporated in the United States of America;

"Subscriber" means The Royal Bank of Scotland plc, incorporated in Scotland, with registered number 90312, acting through its London offices located at 135 Bishopsgate, London EC2M 3UR;

"Subscription Agreement" means the subscription agreement dated the Completion Date between the Subscriber and COGI;

"Subsidiary" means a company incorporated or established in any jurisdiction in which COGI holds not less than 50.1% of the issued voting shares or stock (but, for the purposes of the Transaction Documents, shall only include Colmek to the extent that a security interest in Colmek is granted under the Security Agreement) and **"Subsidiaries"** shall mean each Subsidiary of the Company from time to time;

"Term" means the period from the Completion Date to whichever is the earlier of (1) the seventh anniversary of the date of the Completion Date and (2) the date upon which the Notes have been repaid, redeemed, converted or cancelled in full in accordance with the Conditions;

"Transaction Documents" means the Subscription Agreement, this Instrument, the Deed of Guarantee, the Debentures, the Floating Charges, the Lock-up Agreements, the Security Agreement, the Confidentiality Agreement, the Intercreditor Deed and all other documents entered into in connection with any of them;

"USD" means United States dollars.

1.2 Words denoting the singular shall include the plural and vice versa. References to persons shall include bodies corporate, unincorporated associations and partnerships. References to any statute or statutory provision shall include any statute or statutory provision which amends, consolidates, extends or replaces the same.

1.3 Words and phrases defined in the Companies Act 1985 or in the Companies Act 2006 shall, save as expressly provided in this Instrument or the schedules have the same meanings in this Instrument and the schedules.

1.4 References to clauses and schedules shall be to clauses of and the schedules to this Instrument. Headings in this Instrument are inserted for ease of reference only and shall not affect its interpretation.

1.5 The word **"redemption"** includes purchase and repayment and the words **"redeem"** or **"redeemed"** shall be construed accordingly.

1.6 The words **"this Instrument"** refer to the provisions of the Loan Note Instrument and the schedules to the Loan Note Instrument (as from time to time modified under the terms of the Loan Note Instrument) and any deed expressed to be supplemental to the Loan Note Instrument.

1.7 References to any provisions of any statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such re-enactment.

1.8 Each of the provisions of this Instrument is severable and distinct from the other and if at any time when one or more of such provisions is invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions of this Instrument will not in any way be affected or impaired.

2. FORM OF NOTES

The Notes will be represented by Certificates in the form or substantially in the form set out in Schedule 1, each signed by the duly authorised officers of COGI.

3. COVENANTS OF COGI

3.1 The Subscriber has agreed to pay to COGI the subscription moneys on the terms set out in Clauses 3.2 to 3.5 of the Subscription Agreement and COGI shall on the date hereof issue to the Subscriber Notes for an amount equal to USD 12,000,000.

3.2 COGI, for value received, hereby promises to pay to the Noteholders the Redemption Amount of the Notes together with such other amounts as may be payable all subject to and in accordance with the Conditions.

3.3 COGI will comply with the provisions of this Instrument, the Notes and the Conditions in all respects and the Notes shall be held subject to this Instrument and the Conditions.

3.4 So long as any of the Notes remain Outstanding COGI shall:

3.4.1 at all times perform and comply with its obligations set out in the Subscription Agreement, this Instrument and the Conditions;

3.4.2 not take any steps or actions which materially impair or adversely affect or derogate from, in any manner whatsoever, the enforceability in any respect of any of the Transaction Documents;

3.4.3 keep, and procure that its Subsidiaries keep, proper books of account and allow the Noteholders free access to such books of account at any time following an Event of Default, provided that COGI shall not be obliged to disclose confidential and / or proprietary information in relation to any of its customers;

3.4.4 give notice to the Noteholders in writing immediately on becoming aware of an Event of Default or an event which with the giving of notice or lapse of time or both would constitute an Event of Default;

3.4.5 give notice to the Noteholders of any unconditional payment of amounts due in respect of the Notes made after the due date for such payment;

3.4.6 send to the Noteholders or procure that the Registrar sends to the Noteholders, as soon as practicable following a request in writing by a Noteholder Majority, a certificate of COGI or the Registrar signed by an Authorised Signatory confirming the total number and Aggregate Nominal Amount of Notes outstanding;

3.4.7 give notice to the Noteholders immediately on COGI becoming aware that it or any Guarantor has become subject generally to the taxing jurisdiction of any territory other than (or in addition to) the United States of America, Norway and the United Kingdom and enter, as soon as practicable, into a supplemental deed to this Instrument giving the Noteholders an undertaking or covenant (in a form and manner satisfactory to a Noteholder Majority) in terms corresponding to the terms of Condition 3, with the substitution for (or addition to) the references to the United States of America, Norway and the United Kingdom of references to that other (or additional) territory or authority;

3.4.8 apportion the proceeds of the Notes to the following categories: a) working capital and b) (in accordance with Clause 9 of the Subscription Agreement) Approved Acquisitions;

3.4.9 ensure that the ratio of Debt to EBIT shall not exceed 6:1 in the year to 31 October 2008, 1.35:1 in the year to 31 October 2009 and 0:8:1 thereafter. In the event that the Approved Acquisitions do not take place and a Noteholder Majority does not require partial repayment in accordance with Condition 3.4, the ratios will be altered to 3:1 for the year to 31 October 2009 and 1:1 thereafter. In the event that a Noteholder Majority does require partial repayment, the ratios will be altered to 3:1 for the year to 31 October 2009 and 2:1 thereafter;

3.4.10 not incur, and shall procure that no Group member shall incur, any further indebtedness (including acquired debt) provided that COGI and any Group member may incur additional indebtedness, if in each case:

(a) debt shall not be created that is senior to the Notes; and

(b) the total aggregate amount outstanding incurred by COGI and all Group members at any one time of such further debt does not exceed USD 2,000,000; and

(c) the approval of a Noteholder Majority is sought, such approval not to be unreasonably withheld and which approval shall be deemed to have been given, in the absence of a response from the Noteholders, at the expiry of 14 days from the date the approval is sought or (if later) 10 days from the date COGI is reasonably satisfied that the Noteholders received the approval request.

For the purposes of this Clause 3.4.10 “indebtedness” shall not include trade debts and other debts and obligations incurred in the normal course of business of COGI and each Group member.

3.5 During the Term COGI will not:

3.5.1 save for Permitted Issuances, make any new purchases, redemptions or otherwise acquire or retire for value, directly or indirectly, any new shares of COGI's capital stock or any options, new warrants or other rights to acquire such shares of capital stock; or

3.5.2 other than in connection with the repayment of sums due to FGI, or the payments due to the Selling Shareholders of Colmek as part of the deferred consideration due in respect of Colmek, make any principal payment on, or repurchase, redeem, defease or otherwise acquire or retire for value, prior to any scheduled principal payment, sinking fund payment or stated maturity, any subordinated debt not otherwise permitted or provided for in this Instrument and any associated documentation; or

3.5.3 except for (i) the Approved Acquisitions and (ii) the CODA MENA operations mentioned in the Confidentiality Agreement and (iii) reasonable investments under its existing patent programme, make any additional corporate investments (other than any investment approved in writing by a Noteholder Majority or in cash and cash equivalents) in any person; or

3.5.4 permit payment of shareholders' dividends without the written consent of a Noteholder Majority except for payment of COGI's existing 12% Series A Preferred Stock comprising 6,406.70 units; or

3.5.5 permit, create, or cause to be permitted or created, any Recapitalisation Event; or

3.5.6 provide finance or other funding to Colmek in excess of 5% of the Aggregate Nominal Amount without the written consent of a Noteholder Majority.

3.6 During the Term COGI will not sell, pledge or otherwise dispose of, directly or indirectly, any shares of its capital stock except for Permitted Issuances provided for in this Instrument and any associated documentation.

3.7 During the Term COGI will not without the written consent of a Noteholder Majority, sell, pledge or otherwise dispose of ("disposition"), directly or indirectly, any assets equating to or more than five percent (5%) of COGI's net asset value (as shown by the latest audited consolidated accounts of COGI and its Group which are available at the date of the disposition). Such consent shall not be unreasonably withheld.

3.8 During the Term COGI will not, directly or indirectly, enter into or suffer to exist any transaction (including, without limitation, the sale, purchase, exchange or lease of assets or property or the rendering of any service) with, or for the benefit of, any Affiliate of COGI unless such transaction is entered into in good faith and such transaction is on terms, that, taken as a whole, are not materially less favourable to COGI than those that could have been obtained in comparable arm's-length transactions with third parties that are not Affiliates.

3.9 During the Term, save for (i) the security interests of FGI, (ii) the Selling Shareholders' pledges in respect of the Colmek Shares and (iii) the Bond and Floating Charge granted by Coda Octopus Products Limited in favour of The Governor and Company of the Bank of Scotland, COGI will not take or omit to take any action that might or would have the result of materially impairing the first ranking security interests securing the Notes. COGI will not grant to any person other than the Lender any interest whatsoever in the Collateral.

3.10 During the Term COGI will not, directly or indirectly, create, incur, assume or suffer to exist any Lien of any kind on or with respect to any of COGI's property or assets, including any shares or stock or debt, whether owned at or acquired after the date of this Instrument, or any income, profits or proceeds therefrom with the exception of the Permitted Liens.

3.11 During the Term, except for the Permitted Liens, COGI will not further pledge its assets as security or otherwise without the prior written consent of a Noteholder Majority.

3.12 So long as any Notes are Outstanding, COGI will furnish to the Noteholders quarterly reports to a standard (in terms of detail and disclosure) no less than required by the SEC. All and any obligations of COGI to comply with applicable SEC regulations including regulations concerning disclosure of non-public information shall take precedence over any obligations to provide information under this Clause 4.12 and COGI shall not be considered to be in breach of this condition where it cannot comply with the requirements to provide information to the Noteholders set out in this clause 3.12 due to its SEC obligations. Additionally COGI will provide a monthly report to include summary of cash balances, new/pending orders, order backlog and noteworthy events and until the FGI security interest is discharged provide information of the amounts financed by FGI in the relevant quarter.

3.13 At all times during the Term COGI shall procure that either (i) any assets which Omnitech may acquire shall, within 30 days of becoming assets of Omnitech, be transferred to another Group member or (ii) the approval of a Noteholder Majority is obtained to Omnitech holding such assets (such approval to include, if the Noteholder Majority so directs, a requirement that Omnitech enters into a Deed of Adherence and grants any required security over its assets).

3.14 During the Term COGI shall indemnify and keep indemnified the Noteholders against any loss incurred by the Noteholders if COGI makes a payment to the Noteholders in a currency other than the Specified Currency that, when exchanged into the Specified Currency on the day it is received by the Noteholders, is less than the amount due to the Noteholders.

4. CONVERSION

The Notes shall be convertible into units of Common Stock in accordance with the provisions of Schedule 3.

5. REGISTER

5.1 COGI undertakes to immediately appoint the Registrar to maintain the Register at all times. There shall be entered in the Register by the Registrar:

5.1.1 the names and addresses of the Noteholders and, where required by law, beneficial owner where different;

5.1.2 the amount of the Notes held by each registered holder (including the Issue Date (as shown on each Individual Certificate), the Principal Amount Outstanding of the Notes represented in such Individual Certificate and the Nominal Amount specified in the Individual Certificate relating to such registered holder);

5.1.3 the date at which the name of every such registered holder is entered in respect of the Notes standing in its name;

5.1.4 the serial number of each Note and Individual Certificate issued and its date of issue; and

5.1.5 particulars of any partial redemption, transfer and other changes of ownership of the Notes, subject to the same being duly stamped.

5.2 Subject to notifying COGI and the Noteholders of the identity of the new Registrar, the Registrar may, at any time, transfer the role of Registrar to any party to whom any of the Notes are transferred in accordance with the Conditions. If the Registrar for the time being wishes to appoint a party as Registrar who is not a Noteholder then the prior written consent of COGI will be required, which consent shall not be unreasonably withheld provided the whole costs of the proposed new Registrar, both for accepting the role of Registrar and for maintaining the Register, are met by the outgoing Registrar or by the Noteholders.

5.3 If at any time the Registrar is not the Subscriber or a Noteholder, COGI shall procure that the Registrar shall not amend the Register otherwise than in accordance with the provisions for amendment contained in this Instrument and the Conditions.

5.4 A Noteholder and any person authorised in writing by any such persons shall be entitled without charge at all reasonable times during office hours in London to inspect the Register and take copies of and extracts from the Register or any part thereof free of charge insofar as it refers to that specific Noteholder.

6. REPRESENTATIONS

COGI warrants and represents to the Noteholders that on the date of this Instrument and on each anniversary thereof and on the Redemption Date:

6.1 it and each of the Subsidiaries is an entity duly incorporated or otherwise organised, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organisation (as applicable), with the requisite power and authority to own and use its and their properties and assets and to carry on its and their businesses as currently conducted. COGI is not, nor are any of the Subsidiaries, in violation or default of any of the provisions of its or their certificate or articles of incorporation, bylaws or other organisational or charter documents;

6.2 no order has been made or petition presented or resolution passed for the winding up of COGI or any Group member and no distress, execution or other process has been levied on any of its or their assets;

6.3 neither COGI nor any Group member has stopped payment on any debts and neither COGI nor any Group member is insolvent or unable to pay its or their debts for the purpose of Section 123 of the Insolvency Act 1986;

6.4 n o administrative receiver, receiver and manager or the equivalent in a n y other applicable jurisdiction has been appointed to the business or assets or any part thereof of COGI or of any Group member;

6.5 all of the direct and indirect subsidiaries of COGI are set forth in the Disclosure Letter. Except as is set forth in the Disclosure Letter, COGI owns, directly or indirectly, all of the capital stock or other equity interests of each Subsidiary free and clear of any Liens, and all of the issued and outstanding shares of capital stock of each Subsidiary are validly issued and are fully paid, non-assessable and free of pre-emptive and similar rights to subscribe for or purchase securities;

6.6 payments under the Notes will be made by COGI without withholding or deducting for any taxes, duties or other charges of whatever nature of the jurisdiction of incorporation of COGI or any political subdivision or authority thereof or therein having power to tax;

6.7 since the date of the latest audited financial statements of COGI, (i) there has been no event, occurrence or development that has had or that could reasonably be expected to result in an event which is materially adverse to the condition (financial or otherwise), prospects, results of operations or general affairs of COGI or the Group (a "Material Adverse Effect"), (ii) COGI has not incurred any liabilities (contingent or otherwise) other than (A) trade payables and accrued expenses incurred in the ordinary course of business consistent with past practice and (B) liabilities not required to be reflected in COGI's financial statements pursuant to US GAAP, (iii) COGI has not altered its method of accounting, (iv) COGI has not declared or made any dividend or distribution of cash or other property to its stockholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock and (v) COGI has not issued any equity securities to any officer, director or Affiliate, except pursuant to existing COGI stock option plans;

6.8 there is no action, suit, inquiry, notice of violation, proceeding or investigation pending or, to the knowledge of COGI, threatened against or affecting COGI, any Subsidiary or any of their respective properties before or by any court, arbitrator, governmental or administrative agency or regulatory authority (federal, state, county, local or foreign) (collectively, an "Action") which (i) adversely affects or challenges the legality, validity or enforceability of any of the Transaction Documents or the Securities or (ii) could, if there were an unfavourable decision, have or reasonably be expected to result in a Material Adverse Effect. Neither COGI nor any Subsidiary, nor any director or officer thereof, is or has been the subject of any Action involving a claim of violation of or liability under federal or state securities laws or a claim of breach of fiduciary duty. There has not been, and to the knowledge of COGI, there is not pending or contemplated, any investigation by the SEC involving COGI or any current or former director or officer of COGI. The SEC has not issued any stop order or other order suspending the effectiveness of any registration statement filed by COGI or any Subsidiary under the Exchange Act or the Securities Act;

6.9 COGI and the Subsidiaries have good and marketable title in fee simple to all real property owned by them and good and marketable title in all personal property owned by them that is material to the business of COGI and the Subsidiaries, in each case free and clear of all Liens, except for Liens as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by COGI and the Subsidiaries and Liens for the payment of federal, state or other taxes, the payment of which is neither delinquent nor subject to penalties. Any real property and facilities held under lease by COGI and the Subsidiaries are held by them under valid, subsisting and enforceable leases with which COGI and the Subsidiaries are in compliance;

6.10 COGI and the Subsidiaries have, or have rights to use, all patents, patent applications, trademarks, trademark applications, service marks, trade names, trade secrets, inventions, copyrights, licenses and other intellectual property rights and similar rights necessary or material for use in connection with their respective businesses and which the failure to so have could have a Material Adverse Effect (collectively, the "Intellectual Property Rights"). Neither COGI nor any Subsidiary has received a notice (written or otherwise) that any of the Intellectual Property Rights used by COGI or any Subsidiary violates or infringes upon the rights of any Person. To the knowledge of COGI, all such Intellectual Property Rights are enforceable and there is no existing infringement by another Person of any of the Intellectual Property Rights. COGI and its Subsidiaries have taken reasonable security measures to protect the secrecy, confidentiality and value of all of their intellectual properties, except where failure to do so could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect;

6.11 it has full power to issue and perform its obligations under the Notes to borrow and repay up to the Aggregate Nominal Amount and has obtained and will maintain in effect all consents necessary for the foregoing purposes;

6.12 the execution of this Instrument and the issue of the Notes does not and will not constitute a breach of any existing law or regulation or its charter or by-laws or exceed any limitation on the powers of its directors or breach the terms of any contract, charge or restriction binding upon it and this Instrument and each Note constitutes (or will when executed constitute) its valid and binding obligations; and

6.13 no event has occurred which constitutes (or with the giving of notice or lapse of time or both would constitute) an Event of Default.

7. INCORPORATION OF SCHEDULES

The schedules shall have effect in the same manner as if such provisions were set out and incorporated in this Instrument.

8. LAW

8.1 This Instrument, the schedules and the Notes shall be governed by and construed in accordance with the laws of England and Wales.

8.2 Each of the parties agrees that the courts of England are to have non-exclusive jurisdiction to settle any dispute (including claims for set-off and counter claims) which may arise in connection with the creation, validity, effect, interpretation, or performance of, or of legal relationships established by, this Instrument or otherwise arising in connection with this Instrument, the schedules and the Notes and for such purposes irrevocably submit to the jurisdiction of the English courts.

8.3 COGI hereby appoints the Process Agent as its agent for the purposes of receiving service of any process, proceedings or documents in connection with proceedings raised in the English courts in accordance with Clause 8.2.

IN WITNESS whereof this Instrument has been executed as a deed by COGI the day and year first above written.

SCHEDULE 1 A

Form of Individual Certificate

No ◆

CODA OCTOPUS GROUP, Inc.

(Incorporated in the State of Delaware)

Issue of USD 12,000,000 Loan Notes due [ ] February 2015
(**"Notes"**)

Issued pursuant to a resolution of the Board of Directors of Coda Octopus Group, Inc. passed on 21 February 2008.

THIS IS TO CERTIFY that [ ] of [ ] is the registered holder of USD [ ] of the Notes ("Nominal Amount") which are constituted by an Instrument dated 21 February 2008 (**"Instrument"**) and issued on 21 February 2008 (**"Issue Date"**). The Notes are issued subject to the terms of the Instrument and the Conditions endorsed hereon. Capitalised terms defined in the Instrument and the Conditions shall bear the same meaning in this Individual Certificate.

Dated 2008

EXECUTED and delivered as a deed by Coda Octopus Group, Inc acting by two directors:))))

Director

Director

NOTE:

1. This Individual Certificate must be surrendered to the Registrar before any transfer whether of the whole or any part of the Notes comprised in it can be registered or any new Individual Certificate can be issued in exchange.

2. The Notes are transferable in the amount or multiples of USD 100,000 only in accordance with the Conditions endorsed hereon. No transfer, whether of the whole or any part of the Notes comprised in this Individual Certificate, will be accepted for registration unless accompanied by this Individual Certificate and lodged at the offices of the Registrar.

3. The Notes are repayable in accordance with the Conditions endorsed hereon.

4. A copy of the Instrument and Register of Noteholders is available for inspection at the offices of the Registrar at all reasonable times during office hours in London.

SCHEDULE 1 B

Form of Instrument of Transfer

IRREVOCABLE NOTE, STOCK OR BOND POWER

CODA OCTOPUS GROUP, Inc.

(Incorporated in the State of Delaware)

USD 12,000,000 Loan Notes due [ ] February 2015 (**"Notes"**)

WE [ ] of [ ] the registered holder of Notes (constituted by an Instrument dated [ ] February 2008 (the **"Instrument"**)) representing a Nominal Amount of USD [ ] For value received, the undersigned does(do) HEREBY sell, assign, and transfer to [ ] of [ ]USD [ ] Nominal Amount of the Notes, No.s [ ] inclusive to the said [ ][1] standing in the name of the undersigned on the register maintained by [ ] in connection with the Notes. The undersigned does (do) hereby irrevocably constitute and appoint [ ] attorney to transfer the said Notes, on the books of the said Company, with the full power of substitution in the premises. The Transferee by acceptance of this Instrument of Transfer and by presenting this Instrument of Transfer to the Registrar for registration accepts the Notes subject to the terms of the Instrument and the Conditions forming Schedule 2 to the Instrument.

Dated 20[ ]

EXECUTED and delivered as a deed by [ ])
acting by two directors or one director and)
the company secretary)
)

Director

Director / Secretary

[1] IMPORTANT: The signature(s) to this power must correspond with the name(s) as written upon the face of the certificate(s) in every particular without alteration

SCHEDULE 2

The Conditions

Unless the context requires otherwise, words and expressions defined in the Instrument shall have the same meaning when used in these Conditions.

1. AMOUNT AND STATUS OF THE NOTES

1.1 Status

The Notes constitute direct, general, secured, unconditional obligations of COGI constituted by the Instrument. The Notes shall at all times rank *pari passu* and rateably without any preference amongst themselves.

1.2 Denomination and Nominal Amount

The Notes shall be issued in amounts of USD 100,000 and integral multiples thereof in nominal value subject to and with the benefit of the provisions of the Instrument. All the obligations and covenants contained in the Instrument shall be binding on COGI and the Noteholders and all persons claiming through them. The maximum Aggregate Nominal Amount of the Notes shall be USD 12,000,000.

2. FORM OF NOTES

2.1 The Notes will be represented by Certificates in the form or substantially in the form set out in Schedule 1 of the Instrument, each signed by the duly authorised officers of COGI. The Notes shall be issued in registered form.

2.2 Any Certificates and any certificates for Common Stock issued as a result of any conversion of the Notes in accordance with Clause 4 of the Instrument shall all be imprinted with the Legend.

3. REDEMPTION

3.1 **Final Redemption**. Unless previously redeemed in full, or purchased or converted or cancelled, COGI will redeem the Notes on the earliest of the following (**"Maturity Date"**):

3.1.1 21 February 2015, or if such date is not a Business Day on the immediately preceding Business Day (**"Final Maturity Date"**); and

3.1.2 the date upon which a Liquidation takes place;

when the Noteholders shall be paid the Redemption Amount for each Note then outstanding.

3.2 **Full or partial redemption prior to the Maturity Date at the option of COGI**. COGI may, by giving not less than five Business Days prior written notice to the Noteholders, redeem all or any of the Notes. Upon the day specified in the relevant notice (**"Redemption Date"**) COGI shall be bound to redeem the Notes specified in the relevant notice, each at the Redemption Amount (as calculated in accordance with Condition 1.4) and the Noteholders shall be bound to deliver the Individual Certificates representing the Notes to COGI.

3.3 **Full redemption prior to the Maturity Date at the option of the Noteholders**. If there is a Change of Control at any time prior to the Maturity Date then a Noteholder Majority or Noteholders (acting under Extraordinary Resolution of the Noteholders) may by giving not less than five Business Days prior written notice to COGI specifying a date for redemption of the Notes (**"Redemption Date"**), require the redemption of all the Notes represented by each of the Individual Certificates and COGI shall be bound to redeem the Notes accordingly each at the Redemption Amount (as calculated in accordance with Condition 3.5) and the Noteholders shall be bound to deliver the Individual Certificates representing the Notes to the Registrar, with a copy to COGI at the same time.

3.4 **Redemption if no acquisitions.** Should the acquisitions of those of the Approved Acquisitions specifically named in the Confidentiality Agreement not be completed with 12 months of the date of the Instrument, COGI will, no later than 30 days before the first anniversary of the date of this Instrument, submit alternative investment plans to the Noteholders for approval by a Noteholder Majority. If such approval is not forthcoming within 30 days of it being sought, COGI will, within 14 days of the written request of a Noteholder Majority, repay, without penalty, but including any interest accrued up to the date of repayment, the sum of USD 6,000,000. Any such repayment shall be treated as a redemption of sixty (60) of the Notes and the remainder of the Notes shall continue in existence in accordance with the terms of this Instrument. For the avoidance of doubt, no premium or other payment over and above the Nominal Amount of the sixty (60) Notes shall be due in the event of partial repayment under this Condition 3.4;

3.5 **Redemption Amount**.

3.5.1 For the purposes of a redemption taking place on the Maturity Date in accordance with Condition 3.1 the Redemption Amount shall be 130% of the Nominal Amount.

3.5.2 For the purposes of Condition 3.2 and Condition 3.3, the Redemption Amount on the relevant Redemption Date shall be an amount equal to whichever is the greater of (1) 130% of NA or (2) NA + P

Where:

NA = The Nominal Amount

P = The amount which, when added to the Nominal Amount on the Redemption Date, will result in the Noteholders receiving an IRR of not less than 30%

IRR = The internal rate of return for each Note such that the net present value of all cashflows associated with the Notes (including all interest paid on the Notes to the Redemption Date and including the original subscription amount and the Redemption Amount for the Notes) when discounted back to the date of issue of the Notes equals zero.

3.5.3 If a partial redemption is effected under the provisions of Condition 3.4 (Redemption if no acquisition) then the Redemption Amount shall be 100% of the Nominal Amount of each Note redeemed.

3.5.4 If the Notes become due and payable following an Event of Default in accordance with Condition 9.3 then the Redemption Amount shall be the amount calculated in accordance with the provisions of Condition 3.5.2.

3.6 All Notes redeemed by COGI shall be cancelled and shall not be available for reissue.

3.7 Where some, but not all, of the Notes are redeemed under Condition 3.2 or Condition 3.4, those of the Notes to be redeemed shall be randomly selected from all of the Notes then in issue by means of drawing lots from the serial numbers of all the Notes remaining in issue at the relevant time. Such drawing of lots shall be conducted by COGI which shall certify to the Noteholders the serial numbers of the Notes to be redeemed.

4. INTEREST

4.1 The Notes will bear interest at a rate of 8.5% (eight and one-half percent) per annum payable half-yearly in arrears on 21 February and 21 August. The first payment shall be due on 21 February 2009 for the period from the date of issue of the Notes to and including 21 February 2009. Interest shall be calculated on the basis of a standard 30 days per month and 360 days per annum, regardless of the actual number of days in any month or year.

4.2 If COGI fails at any time to make any payment on the due date, COGI shall pay to the Noteholders interest on such sum for the period between the due date and the date on which such unpaid sum is paid in full (as well after as before judgement), such interest accruing daily on the basis of a year of 365 days and the number of days elapsed at the rate of 2% per annum above the base rate quoted by The Royal Bank of Scotland plc from time to time.

5. SET OFF

5.1 All payments in respect of the Notes shall be without set-off or counterclaim and free and clear of all claims liens charges encumbrances and any equity set-off or cross-claim on the part of COGI against any Noteholder and (except where required by law) without deduction or withholding or payment for or on account of any taxes which may be imposed in the United States of America, Norway, the United Kingdom or any other jurisdiction from which payment may be made by COGI.

5.2 If a payment due in respect of the Notes is subject to taxation by way of withholding at its source, the Noteholders shall be entitled to receive from COGI such amounts as shall ensure that the net receipt, after taxation, to the Noteholders in respect of the payment is the same as it would have been were the payment not subject to taxation.

6. TITLE TO NOTES

Except as required by law, COGI shall be entitled to recognise the registered holder(s) of the Notes as the absolute owner(s) thereof and shall not be bound to take notice of any trust whether express, implied or constructive to which any Notes may be subject. COGI may accept the receipt of the registered holder for the time being of any Notes for any moneys payable in respect thereof as a good discharge to COGI notwithstanding any notice it may have whether express or otherwise of the right, title, interest or claim of any other person to or in such Notes, interest or moneys. No notice of any trust, express, implied or constructive, shall be entered on the Register in respect of any Notes.

7. TRANSFER

7.1 The Notes shall be freely transferrable (in integral multiples of USD 100,000) by execution of an instrument of transfer in the form set out in Schedule 1 B to the Instrument.

7.2 Every instrument of transfer shall be signed as a deed by or on behalf of the transferor and the transferor shall be deemed to remain the owner of the Notes until the name of the transferee is entered in the Register in respect of the Notes.

7.3 Every instrument of transfer must be left, duly stamped, at the offices of the Registrar from time to time for registration accompanied by the Individual Certificate of the Notes to be transferred and such other evidence (if any) as the Registrar may reasonably require to prove the title of the transferor or its right to transfer the Notes (and if the instrument of transfer is executed by some other person on his behalf the authority of that person to do so), whereupon COGI shall procure that such transfers shall be so registered. No fee will be charged by the Registrar or COGI for the registration of any transfer.

7.4 In the case of any transfer of Notes, the transferee shall be entitled to an Individual Certificate in respect of such Notes so transferred. If the Individual Certificate related to Notes of a higher Nominal Amount than the Notes transferred then the transferor shall be entitled to an Individual Certificate for the balance of Notes held by it after the completion of the relevant transfer of Notes.

7.5 No application has been or is intended to be made to any stock exchange for any of the Notes to be listed or otherwise traded.

7.6

7.7 All instruments of transfer which shall be registered and all Individual Certificates which are surrendered to the Registrar or COGI will be retained by the Registrar or COGI for a period of three (3) years following the Final Maturity Date.

7.8 Any person becoming entitled to a Note in consequence of the insolvency or bankruptcy of any Noteholder or of any other event giving rise to the transmission of such Note by operation of law may upon producing such evidence of its title and the relevant Individual Certificate be registered itself as the holder of the Note or may transfer the Note.

7.9 Upon surrender to the Registrar of the relevant Certificate or Certificates, any Noteholder shall be entitled to a replacement Certificate or Certificates in respect of any Certificate or Certificates which have been mutilated or defaced. If any Certificate or Certificates are destroyed or lost, then upon the Noteholder indemnifying the Registrar and COGI, in terms reasonably acceptable to the Registrar and COGI, the Noteholder shall be entitled to a replacement Certificate or Certificates.

8. PAYMENT OF MONEYS

If the due date for payment of any amount due hereunder falls on a day which is not a Business Day, such amount shall be due and payable on the Business Day immediately following such day.

9. EVENTS OF DEFAULT

9.1 Subject to Condition 9.2, each of the following shall constitute an Event of Default:

(a) COGI fails to pay any sums due hereunder upon the relevant interest payment date, Redemption Date or the Maturity Date of the Notes (as the case may be); or

(b) COGI fails to procure the issue by its transfer agents and delivery within ten (10) Business Days, to the parties entitled to the same, of certificates or other appropriate evidence of title to the Common Stock arising from any conversion of the Notes (evidence that irrevocable instructions for the issuance of the shares of Common Stock were given to its transfer agents by COGI shall be sufficient and in such circumstances shall not constitute an Event of Default); or

(c) COGI fails to comply to a material extent with the covenants contained in Clause 3 of the Loan Note Instrument; or

(d) COGI fails to comply to a material extent with any of the Conditions; or

(e) COGI fails to advise the Noteholders of any material circumstances which would, in all probability, constitute an Event of Default; or

(f) COGI or any member of the Group ceases or threatens to cease to carry on its business or a substantial part of its business without first obtaining the prior written consent of a Noteholder Majority; or

(g) any Guarantor failing to pay when due any sum due under the Subscription Agreement (or any other agreement whereby such Guarantor guarantees the obligations of COGI under the Transaction Documents) of not less than USD 100,000; or

(h) if any order is made by any competent court or any resolution is passed by COGI for the winding up or dissolution or for the appointment of a liquidator of COGI (except in the case of a voluntary amalgamation or reconstruction of COGI on a solvent basis); or

(i) if a liquidator, administrator, receiver, receiver and manager or administrative receiver or similar officer is appointed in relation to the whole or any part of its assets, rights or undertaking; or

(j) if proceedings are commenced under any law, regulation or procedure relating to the reconstruction or adjustment of debts; or

(k) if any order is made by any competent court for the appointment of an administrator in relation to COGI; or

(l) if COGI becomes prevented by law or court order from performing its obligations under the Instrument; or

(m) if any security or security documentation granted pursuant to the Subscription Agreement is terminated (without the prior written consent of a Noteholder Majority) or becomes unenforceable; or

(n) if there is a breach of any of the restrictions contained in the Lock-up Agreements by any party to it;

(o) if there is any breach by COGI of any material warranty or material representation contained in the Loan Note Instrument or the Subscription Agreement.

9.2 Save in respect of any Event of Default falling under Condition 9.1(e) above, if there are any matters, facts or circumstances which, but for this Condition 9.2, would constitute an Event of Default but such Event of Default is capable of being remedied (a "Possible Breach") then COGI shall have a period of 30 days (or such longer period as is reasonable in the circumstances and which is agreed between COGI and a Noteholder Majority, all parties acting reasonably) from the earlier of (i) the date COGI becomes aware, or ought reasonably to be aware, of such matters, facts or circumstances and (ii) the date COGI is given notice by a Noteholder Majority in which to remedy any matters, facts or circumstances giving rise to the Possible Breach. If COGI remedies the matters, facts or circumstances in accordance with this Condition 9.2 then any Event of Default which would have arisen, but for the remediation, shall be deemed not to have occurred.

9.3 If an Event of Default occurs and it is not remedied in accordance with Condition 9.2 then, on the expiry of the period allowed in Condition 9.2 to remedy the Event of Default, and upon written notice by a Noteholder Majority, the Notes shall become immediately due and payable at the Redemption Amount and the Noteholders shall be entitled to take such enforcement action as they see fit in accordance with the Transaction Documents or as may otherwise be available at law. In the event that either (i) the Noteholders do not take such action within six months of becoming aware of the occurrence of the Event of Default or (ii) the Event of Default is remedied by action or passage of time before the Noteholders take any enforcement action then (without prejudice to the rights of the Noteholders in respect of any other Event of Default which has or may subsequently occur) the rights of the Noteholders to take such action in respect of that Event of Default shall terminate and the Event of Default will be deemed to have been waived.

10. MEETINGS OF NOTEHOLDERS

10.1 COGI may (and shall at the written request of a Noteholder Majority) at any time convene a meeting of the Noteholders by not less than 7 (or such shorter period as a Noteholder Majority may agree) days' notice to the Noteholders, specifying the place, day and hour of the meeting and the terms of any resolution (an "Extraordinary Resolution") to be proposed at the meeting and which is to be passed by a Noteholder Majority. The meeting shall have power by an Extraordinary Resolution to approve (subject to the consent of COGI in writing) any modification, abrogation or compromise or any arrangement in respect of the rights of the Noteholders against COGI and to assent to any modification of the Instrument to the extent that it affects the Notes. No variation or modification of the rights of the Noteholders or of any provision of the Instrument or such Notes shall be made without the prior approval of an Extraordinary Resolution by the Noteholders in accordance with this Condition 10.1. A poll may be demanded either by the chairman of the meeting or by a Noteholder Majority. On a poll, a Noteholder shall have one vote for every USD 1 in Nominal Amount of Notes registered in its name. The non-receipt by any Noteholder of or the accidental omission to give any Noteholder notice of any such meeting shall not invalidate the proceedings at that meeting. An Extraordinary Resolution passed at a meeting of the Noteholders duly convened and held in accordance with this Condition 10.1 shall be binding on each of the Noteholders whether present or not present at such meeting. A resolution signed by a Noteholder Majority shall be as valid and effectual as if it had been passed at a meeting of the Noteholders duly convened and held and such resolution in writing may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the Noteholders.

10.2 The quorum at any meeting shall be Noteholders holding or representing by proxy seventy-five per cent (75%) of the Aggregate Nominal Amount outstanding of the Notes. If within a quarter of an hour from the time appointed for any meeting, a quorum is not present the meeting shall stand adjourned to such day (not being less than 5 or more than 21 days after the date of the meeting from which such adjournment takes place) and to such time and place as the chairman of the meeting may determine. At the adjourned meeting the quorum shall comprise of Noteholders holding or representing by proxy a minimum of seventy-five per cent (75%) of the Aggregate Nominal Amount outstanding of the Notes. Notice of an adjournment shall be given in like manner as for the original meeting.

10.4 Any Noteholder being a body corporate may appoint a representative to attend and vote on such Noteholder's behalf at meetings of Noteholders. Any Noteholder being an individual may appoint an attorney or proxy to attend and vote on such Noteholder's behalf at meetings of Noteholders. The authority of any such representative, attorney or proxy to attend and vote shall be determined by the chairman of the relevant meeting of Noteholders, acting reasonably.

11. ALTERATION OF THE INSTRUMENT

The provisions of the Instrument and these Conditions may not be altered abrogated or added to save with the consent in writing of COGI and the consent in writing of a Noteholder Majority.

12. NOTICES

Any notice, demand or other document to be given under the Instrument or the Conditions:

12.1 must be in writing;

12.2 may be given to COGI at its Principal Office for the time being;

12.3 may be given to each Noteholder at its address as shown in the Register or such other address as it may notify to COGI for such purpose; and

12.4 shall be deemed to have been served:

12.4.1 if delivered by hand, at the time of delivery; or

12.4.2 if posted, at 10.00 a.m. on the second (or, in the case of air mail, fourth) Business Day after it was put into the post; or

12.4.3 if sent by facsimile on receipt of a successful transmission report, or if despatched after 5.00 p.m. on any Business Day at 10.00am on the Business Day following the date of receipt of a successful transmission report.

13. INSTRUMENT

A copy of the Instrument shall be supplied free of charge to each Noteholder on receipt by COGI of a written request of the Noteholder.

14. EXPENSES

COGI will pay any stamp duty, issue, registration, documentary and other similar fees, duties and taxes incurred by it including interest and penalties payable on or in connection with the execution and delivery of the Instrument and the constitution and issue of the Notes.

15. THIRD PARTIES

The Contracts (Rights of Third Parties) Act 1999 shall not apply to the Instrument and the Notes and a person who is not a party to the Instrument nor a Noteholder shall not have nor acquire any right to enforce any term of it pursuant to that Act. This provision shall not affect any right or remedy of any third party which exists or is available otherwise than by reason of that Act and shall prevail over any other provision of the Instrument which is inconsistent with it.

16. LAW

16.1 The Instrument, the Schedules and the Notes shall be governed by and construed in accordance with the laws of England and Wales.

16.2 Each of the parties agrees that the courts of England are to have non-exclusive jurisdiction to settle any dispute (including claims for set-off and counter claims) which may arise in connection with the creation, validity, effect, interpretation, or performance of, or of legal relationships established by, the Instrument or otherwise arising in connection with the Instrument, the Schedules and the Notes and for such purposes irrevocably submit to the jurisdiction of the English courts.

16.3 COGI hereby appoints the Process Agent as its agent for the purposes of receiving service of any process, proceedings or documents in connection with proceedings raised in the English courts in accordance with Condition 16.2.

SCHEDULE 3

Conversion

1 Definitions

Words and expressions defined in Clause 1 of this Instrument shall have the same meaning when used in this Schedule. In addition, the following words and expressions, unless the context requires otherwise, mean:

"**Company**" means COGI

"**Conversion Price**" means USD 1.05 of nominal value of the Notes for each unit of Common Stock;

"**Converted Stock**" means the total number of units of Common Stock issued upon any conversion in accordance with Paragraph 2 or Paragraph 3;

"**Convertible Balance**" means the Aggregate Nominal Amount of the Notes but deducting therefrom the Nominal Amounts (if any) of any Notes which have been redeemed or repaid but not surrendered for cancellation;

"**Final Company Conversion Period**" means the period commencing on 22 February 2012 and ending on the last date upon which all of the Notes have been redeemed, converted or cancelled in accordance with the provisions of the Loan Note Instrument;

"**First Company Conversion Period**" means the period from 22 February 2010 to 21 February 2011 (both dates inclusive);

"**Listing**" means a successful application being made for all or any of the Common Stock either (A) to be admitted to trading on any of (i) a US national exchange such as American Exchange, (ii) the New York Stock Exchange, (iii) the National Association of Securities Dealers Automated Quotation system, or (B) to be admitted to the Official List of the United Kingdom Listing Authority and to trading on the London Stock Exchange plc's main market for listed securities or (C) a successful application being made to any other recognised investment exchange or overseas investment exchange (as such expressions are defined in the Financial Services and Markets Act 2000) for all or any of the Common Stock to be admitted to trading on such exchange;

"**Minimum Stock Price**" means:

(1) During the First Company Conversion Period, USD 2.50;

(2) During the Second Company Conversion Period, USD 2.90; and

(3) During the Final Company Conversion Period, USD 3.50.

"**OTCBB**" means the OTC Bulletin Board which provides a quotation service for the Common Stock under the symbol "CDOC";

"**Second Company Conversion Period**" means the period from 22 February 2011 to 21 February 2012 (both dates inclusive).

2 Noteholders' right to convert

2.1 At any time whilst any of the Notes remains due and outstanding, a Noteholder Majority or the Noteholders (acting under an Extraordinary Resolution of the Noteholders in terms of the Conditions) may serve notice on COGI (in the form set out in Schedule 5 to the Loan Note Instrument) requiring that the Convertible Balance is converted into Common Stock.

2.2 Any such notice shall specify the date upon which the conversion is to take place (being not earlier than 14 days after the date such notice is served) and full details of the person(s) to whom the certificate(s) representing the Common Stock arising from the conversion is to be issued.

2.3 The number of units of Common Stock to be issued upon any conversion in terms of this Paragraph 2 (the "Noteholder Conversion Shares") shall be the Convertible Balance divided by the Conversion Price, rounded up or down to the nearest whole unit of Common Stock. As between the Noteholders the Conversion Shares shall be allocated, as closely as possible, pro rata in accordance with the Nominal Amount of Notes held by each Noteholder, rounded up or down to the nearest whole unit of Common Stock.

2.4 If any Certificates are not delivered to COGI with the notice referred to in Paragraph 2.1, then the relevant Noteholders will be required to indemnify COGI and the Registrar (in terms reasonably acceptable to COGI and the Registrar) in relation to those certificates not so delivered, which Certificates will be deemed to have been automatically cancelled immediately upon the issue of the certificates for the Common Stock arising from the Conversion.

3 Company's right to convert

3.1 Subject to Paragraph 3.4, at any time during the period commencing on the first day of the First Company Conversion Period and ending on the last day of the Final Company Conversion Period COGI may serve notice on the Noteholders requiring that the Convertible Balance is converted into Common Stock.

3.2 Any such notice, in the case of a conversion due to the circumstances detailed in Paragraph 3.4(a), shall state that the conversion shall take place forthwith upon the conditions in Paragraph 3.5 being fulfilled and shall require the Noteholders to provide, no later than 3 Business Days before the date of conversion, the relevant Certificates and full details of the person(s) to whom the certificate(s) representing the Common Stock arising from the conversion is to be issued. Any such notice, in the case of a conversion due to the circumstances detailed in Paragraph 3.4 (b), shall specify the date upon which the conversion is to take place (being not earlier than 14 days after the date such notice is served) and shall require the Noteholders to provide, no later than 3 business days before the date of conversion, the relevant Certificates and full details of the person(s) to whom the certificate(s) representing the Common Stock arising from the conversion is to be issued.

3.3 The number of units of Common Stock to be issued upon any conversion in terms of this Paragraph 3 (the "Company Conversion Shares") shall be the Convertible Balance divided by the Conversion Price, rounded up or down to the nearest whole unit of Common Stock. As between the Noteholders COGI Conversion Shares shall be allocated, as closely as possible, pro rata in accordance with the Nominal Amount of Notes held by each Noteholder, rounded up or down to the nearest whole unit of Common Stock.

3.4 COGI may only serve notice under Paragraph 3.1 if either:

(a) at the time of service of the notice a Listing is proposed and the price at which the units of Common Stock are to be listed is at least the Minimum Stock Price applicable to the date upon which the notice is served; or

(b) the daily volume weighted average price of the Common Stock as quoted on OTCBB or any other US National Exchange which COGI's securities are then listed has, for at least 40 consecutive trading days ending on the date of service of the notice, closed at no less than the Minimum Stock Price applicable to the date upon which the notice is served.

3.5 Any conversion notice served in the case of a proposed Listing (as referred to in Paragraph 3.4 (a)) shall be conditional upon (1) the Listing being completed and (2) the relevant Minimum Stock Price being achieved in the Listing. If both these conditions are not met then, without prejudice to the right of COGI to serve a conversion notice at any later date, the notice shall be deemed to have been withdrawn and the Notes shall not be converted at such time unless the majority of Noteholders agree to waive the Minimum Stock Price criterion.

3.6 If any Certificates are not delivered to COGI in accordance with Paragraph 3.2, then the relevant Noteholders will be required to indemnify COGI and the Registrar (in terms reasonably acceptable to COGI and the Registrar) in relation to those certificates not so delivered and which will be deemed to have been automatically cancelled immediately upon the issue of the certificates for the Common Stock arising from the Conversion.

4 Interest

On the date of any conversion in terms of either Paragraph 2 or Paragraph 3 COGI shall pay to the Noteholders all interest accrued on the Notes from the last date of payment to the date of conversion.

5 Termination of Rights

On the date of an optional conversion pursuant to Paragraphs 2 or 3 above, all rights with respect to the Notes so converted shall terminate, except only the rights of holders thereof to (i) receive certificates for the number of shares of Common Stock into which such shares of the Notes have been converted, (ii) exercise the rights to which they are entitled as holders of Common Stock, (iii) receive accrued and unpaid interest or principal in relation to the Notes and (iv) receive amounts due to the Noteholders pursuant to Clause 3.14 of the Instrument (Indemnity).

SCHEDULE 4

The Legend

THIS SECURITY HAS NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL T O THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY. THIS SECURITY MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT WITH A REGISTERED BROKER-DEALER OR OTHER LOAN WITH A FINANCIAL INSTITUTION THAT IS AN "ACCREDITED INVESTOR" AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT OR OTHER LOAN SECURED BY SUCH SECURITIES.

SCHEDULE 5

Form of Notice of Conversion

Issued pursuant to Paragraph 2.1 of Schedule 3 to the Loan Note Instrument (the "**Instrument**") issued on 21 February 2008 by Coda Octopus Group, Inc. ("COGI") in respect of USD 12,000,000 of secured, convertible loan notes. Terms and expressions defined in the Instrument or any of its Schedules shall have the same meaning when used in this notice.

We [ ] of [ ], [ ] of [ ] and [ ] of [ ] being the [holders of Notes having an aggregate Nominal Amount of not less than 75% of the Notes Outstanding, acting pursuant to an Extraordinary Resolution of Noteholders held pursuant to Condition 10 (a certified copy of which Extraordinary Resolution is attached hereto)]/[Noteholder Majority] HERBY REQUIRE conversion of the Convertible Balance into Common Stock of COGI all in accordance with Paragraph 2.1 of Schedule 3 to the Instrument, such conversion to take effect on [ ].

Alt 1

We enclose the Certificates for all Notes currently in issue. Please issue and deliver stock certificates for the Common Stock arising on conversion of any Note to the registered holder of the relevant Note.

Alt 2

We enclose the Certificates for all Notes currently in issue. Please issue and deliver stock certificates for the Common Stock arising on conversion of any Note to the following nominee of the relevant Noteholder.

Serial Number	Nominee for Noteholder

Yours faithfully

Authorised Signatory for [ ]

Authorised Signatory for [ ]

Authorised Signatory for [ ]

In Witness of which this deed has been duly executed

EXECUTED (but not delivered until the date hereof) as a deed by **CODA OCTOPUS GROUP, Inc.** acting by any two directors:	))))))

Director

Director

No 1

CODA OCTOPUS GROUP, Inc.

(Incorporated in the State of Delaware)

Issue of USD 12,000,000 Loan Notes due 21st February 2015 (**"Notes"**)

Issued pursuant to a resolution of the Board of Directors of Coda Octopus Group, Inc. passed on 21st February 2008.

THIS IS TO CERTIFY that The Royal Bank of Scotland plc of 135 Bishopsgate, London EC2M 3UR is the registered holder of USD 12,000,000 of the Notes ("Nominal Amount") which are constituted by an Instrument dated 21st February 2008 (**"Instrument"**) and issued on 21st February 2008 (**"Issue Date"**). The Notes are issued subject to the terms of the Instrument and the Conditions endorsed hereon. Capitalised terms defined in the Instrument and the Conditions shall bear the same meaning in this Individual Certificate.

Dated 21st February 2008

EXECUTED and delivered as a deed by Coda Octopus Group, Inc acting by two directors:))))

Director

Director

THIS SECURITY HAS NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL T O THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY. THIS SECURITY MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT WITH A REGISTERED BROKER-DEALER OR OTHER LOAN WITH A FINANCIAL INSTITUTION THAT IS AN "ACCREDITED INVESTOR" AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT OR OTHER LOAN SECURED BY SUCH SECURITIES.

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DATED 21 FEBRUARY 2008

SECURITY AGREEMENT

between

CODA OCTOPUS GROUP, INC.

CERTAIN OF ITS WHOLLY OWNED SUBSIDIARIES

and

THE ROYAL BANK OF SCOTLAND PLC

THIS SECURITY AGREEMENT (this "Agreement") dated as of 21 February 2008 by and among Coda Octopus Group, Inc., a corporation organized under the laws of Delaware which has its main offices at 164 West 25th Street, 6th Floor, New York, New York 10001 (as is defined in Section 1.1 below, the "Company") and certain of the Company's Subsidiaries named on the signature page to this Agreement and The Royal Bank of Scotland plc acting through its London offices located at 135 Bishopgate, London EC2M 3UR a signatory hereto (collectively, the "Secured Party")

W I T N E S S E TH

WHEREAS, pursuant to a Subscription Agreement dated the date hereof between the Company and the Secured Party (the "**Subscription Agreement**"), the Company has agreed to issue to the Secured Party and the Secured Party has agreed to purchase from the Company certain of the Company's 8.5% Secured Convertible Loan Notes due 7 years from the date of issue (the "Notes") which are convertible into shares of the Company's Common Stock, par value $0.001 per share (the "Common Stock"); and

WHEREAS, in order to induce the Secured Party to purchase the Notes, the Company has agreed to execute and deliver to the Secured Party for the benefit of the Secured Party and to grant to it a security interest in certain property of the Company to secure the prompt payment, performance and discharge of all of the Company's Obligations (as defined below) under the Notes;

NOW, THEREFORE, in consideration of the agreements set forth herein and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

AGREED TERMS

1. DEFINITIONS AND INTERPRETATION

1.1 **Definitions**

As used in this Agreement, the following terms shall have the meanings set forth in this Section 1. Terms used but not otherwise defined in this Section 1 or Article 9 of the UCC (such as "general intangibles" and "proceeds") shall have the respective meanings given to such terms in Article 9 of the UCC.

"Business Day" means a day (excluding Saturdays, Sundays and any public holiday) on which banks are open for business in New York and London for the transaction of normal banking business.

"Collateral" means the collateral in which the Secured Party is granted a security interest by this Agreement and which shall include the following, whether presently owned or existing or hereafter acquired or coming into existence, and all additions and accessions thereto and all substitutions and replacements thereof, and all proceeds, products and accounts thereof, including, without limitation, all proceeds from the sale or transfer of the Collateral and of insurance covering the same in connection therewith:

(i) All goods of the Company, including, without limitation, all machinery, equipment, computers, motor vehicles, trucks tanks, boats, ships, appliances, furniture, special and general tools, fixtures, test and quality control devices and other equipment of every kind and nature and wherever situated, together with all documents of title and documents representing the same, all additions and accessions thereto replacements therefor, all parts therefor, and all substitutes for any of the foregoing and all other items in connection with the Company's businesses improvements thereto (collectively, the "Equipment");

(ii) All inventory of the Company; and

(iii) All of the Company's contract rights and general intangibles including, without limitation, all partnership interests, stock or other securities, licenses, distribution and other agreements, computer software development rights, leases, franchises, customer lists, quality control procedures, grants and rights, goodwill, trademarks, service marks, trade styles, trade names, patents, patent applications, copyrights, internet domain names, deposit accounts, and income tax refunds (collectively, "General Intangibles"); and

(iv) All present and future rights of the Company to payment of a monetary obligation, whether or not earned by performance, which is not evidenced by chattel paper or an instrument, (a) for property that has been or is to be sold, leased, licensed, assigned, or otherwise disposed of, (b) for services rendered or to be rendered, (c) for a secondary obligation incurred or to be incurred, or (d) arising out of the use of a credit or charge card or information contained on or for use with the card (collectively, "Accounts"); and

(v) All receivables of the Company including all insurance proceeds, and rights to refunds or indemnification whatsoever owing, together with all instruments, all documents of title representing any of the foregoing, all rights in any merchandising, goods, equipment, motor vehicles and trucks which any of the same may represent, and all right, title, security and guaranties with respect to each receivable including any right of stoppage in transit; and

(vi) All of the Company's documents, instruments, chattel paper, files, records, books of account, business papers, computer programs and the products and proceeds of all Collateral set forth in clauses (i)-(iv) above in any form including, without limitation, all claims against third parties for loss or damage to, or destruction of, or other involuntary conversion of any kind or nature of any of the other Collateral;

but excludes Excluded Property and all assets of Colmek (as is defined below) until the provisions set forth in Paragraph 2 of Schedule 1.1(a) hereto are satisfied and upon such satisfaction the collateral in respect of which the Colmek security interest is granted is limited as set forth in Paragraph 2 of Schedule 1.1(a).

"Company" means, collectively, the Company and all its US subsidiaries (whether wholly owned or otherwise) which are set forth in Schedule 1.1 (b) hereto and any future US subsidiaries (whether wholly owned or otherwise) or any of them as the context permits.

"Costs": means all costs, charges, expenses and liabilities of any kind including, without limitation, costs and damages in connection with litigation, professional fees, disbursements and any value added tax charged on Costs.

"**Colmek Encumbrances**" means those set forth in Paragraph 2 of Schedule 1.1(c).

"**Colmek Shares**" means all the issued and outstanding shares of common stock of Colmek sold by the Selling Shareholders to Coda Octopus (US) Holdings, Inc.

"**Cure Period**" means the period before the Security Interest provided for herein becomes enforceable and which shall be 30 days from the earlier of (i) the date the Company becomes aware, or ought reasonably to be aware, of the failure to observe or commission of the breach and (ii) the date the Company is given notice by RBS to remedy an Event of Default.

"Debentures" means the two debentures to be granted on the date hereof in favour of the Subscriber, one debenture to be granted by Coda Octopus (UK) Holdings Ltd and the other by Martech Systems (Weymouth) Ltd and **"Debenture"** shall mean whichever of the Debentures as the context admits;

"Encumbrance" means any mortgage, charge (whether legal or equitable), pledge, lien, assignment by way of security or other security interest securing any obligation of any person, or any other agreement or arrangement having a similar effect.

"Excluded Property" means any leasehold property held by the Company under a lease which precludes, either absolutely or conditionally (including requiring the consent of any third party), the Company from creating any charge over its leasehold interest in that property.

"FGI" means Faunus Group International, Inc. a Delaware corporation whose principal place of business is 80 Pine Street, 32nd Floor, New York, New York 10005.

"**FGI Encumbrances**" means those set forth in Paragraph 1 of Schedule 1.1(c).

"Floating Charges" means the two floating charges to be granted on the date hereof in favour of the Subscriber, one floating charge to be granted by Coda Octopus Products Ltd and the other by Coda Octopus R & D Ltd and **"Floating Charge"** shall mean whichever of the Floating Charges as the context admits;

"Intercreditor Deed" means a deed entered into on or around the date of this Agreement among the Company, the Secured Party and FGI regulating the priorities of the various charges and security interests held by the Secured Party and FGI.

"**Loan Note Instrument** means an instrument executed by Coda Octopus Group, Inc. on the date hereof creating USD 12,000,000 of secured, convertible loan notes.

"Lock-up Agreements" means certain agreements entered into on or around the date hereof between the directors and board members of the Company (with certain exceptions) during the agreed period not to sell or transfer or otherwise disposed of any of their shares in the Company.

"Miller & Hilton d/b/a Colmek Systems Engineering ("Colmek"), means a corporation incorporated and registered in the State of Utah with Company Number 689323-0142 and whose address is 2001 South 3480 West, Salt Lake City, Utah 84104 and which is a wholly owned subsidiary of the Company.

"Noteholder" means the person for the time being entered in the Register as a holder of any part of the Notes

"Notes" means USD 12,000,000 Convertible Secured Loan Notes due 21 February 2015 constituted by this Instrument, or, as the case may be, the Principal Amount Outstanding represented by them, and each **"Note"** shall be for a nominal amount of USD 100,000;

"Obligations" means all of the Company's obligations under the Transaction Documents, in each case, whether now or hereafter existing, voluntary or involuntary, indirect, absolute or contingent, liquidated or unliquidated, whether or not jointly owed with others, and whether or not from time to time decreased or extinguished and later decreased, created or incurred, and all or any portion of such obligations or liabilities that are paid, to the extent all or any part of such payment is avoided or recovered directly or indirectly from the Secured Party as a preference, fraudulent transfer or otherwise as such obligations may be amended, supplemented, converted, extended or modified from time to time.

"Permitted Encumbrance" means any Encumbrances referred to in Schedule 1.1(c).

"**Selling Shareholders**" means the shareholders who sold the Colmek Shares to Coda Octopus (US) Holdings Inc. pursuant to an acquisition agreement between the parties dated April 6, 2007.

"Subscription Agreement" means the subscription agreement on the date hereof between the Secured Party and the Coda Octopus Group, Inc.

"Transaction Documents" means this Agreement, the Subscription Agreement, the Loan Note Instrument, the Deed of Guarantee, the Debentures, the Floating Charges, the Lock-up Agreements, the Confidentiality Agreement, the Intercreditor Deed and all other documents entered into in connection with any of them;

"UCC" means the Uniform Commercial Code, as effect in the State of New York.

2. GRANT OF SECURITY INTEREST

2.1. As an inducement for the Secured Party to purchase the Notes and secure the complete and timely payment, performance, discharge in full, as the case may be, of all the Obligations, the Company hereby unconditionally and irrevocably pledges, grants and hypothecates to the Secured Party, a continuing security interest in, a continuing lien upon, and a right of set-off against, in each case to the fullest extent permitted by law, all of the Company's right, title and interest of whatsoever kind and nature in and to the Collateral (the "**Security Interest**").

2.2. The Security Interest in Colmek shall be subject to the Colmek Encumbrances and shall be granted in and/or over the Colmek Collateral defined in the said Schedule.

2.3. The Secured Party acknowledges the Permitted Encumbrances set forth in Schedule 1.1(c) hereto, and that FGI has first and continuing security interest existing in the Collateral (FGI Encumbrance) and the Selling Shareholders have prior pledges of the Colmek Shares at the date of this Agreement (Colmek Encumbrance).

3. REPRESENTATIONS, WARRANTIES, COVENANTS AND AGREEMENTS OF THE COMPANY

3.1. The Company represents and warrants to, and covenants and agrees with the Secured Party as follows:

3.1.1. Authorization and Binding Effect. Each of the Company has the requisite corporate power and authority to enter into this Agreement and otherwise to carry out its obligations thereunder. The execution, delivery and performance by the Company and the filings contemplated therein have been duly authorized by all necessary action of the Company and no further action is required by the Company. This Agreement constitutes a legal, valid and binding obligation of the Company enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar principles affecting the enforcement of creditors' rights generally.

3.1.2. Title in and over Collateral. Except as is disclosed in Schedule 3.1.2 hereto, the Company is the sole owner of the Collateral (except for non-exclusive licenses granted by the Company in the ordinary course of business), free and clear of any Encumbrances and is fully authorized to grant the Security Interest in and pledge the Collateral. Except as is disclosed in Schedule 3.1.2 hereto, there is not on file in any governmental or regulatory authority, agency or recording office an effective financing statement, security agreement, license or transfer or any notice of any of the foregoing (other than those that have been filed in favor of the Secured Party pursuant to this Agreement) covering or affecting any of the Collateral.

3.1.3. Impairment of Collateral. No part of the Collateral has been judged invalid or unenforceable. No written claim has been received that any Collateral or the Company's use of any Collateral violates rights of any third party. There has been no adverse decision to the Company's claim of ownership rights in or exclusive rights to use the Collateral in any jurisdiction or to the Company's right to keep and maintain such Collateral in force and effect, and there is no proceeding involving said rights pending or, to the best knowledge of the Company threatened before any court, judicial body, administrative or regulatory agency, arbitrator or other governmental authority.

3.1.4. Contractual Obligations. The execution, delivery and performance of this Agreement does not conflict with or cause a breach or default, or an event that with or without the passage of time or notice, shall constitute a breach or default, under any agreement to which the Company is a party or by which the Company is bound. No consent (including, without limitation, from stockholders or creditors of the Company) is required for the Company to enter into and perform its obligations hereunder.

3.1.5. Maintenance of Liens and Security Interest Obligations. Subject to existing Permitted Encumbrances at the date of this Agreement, the Company shall at all times maintain the liens and Security Interest provided for hereunder as valid and perfected first priority liens and security interests in the Collateral in favor of the Secured Party until this Agreement and the Security Interest hereunder shall terminate pursuant to Section 12 hereof. The Company hereby agrees to defend the same against any and all persons. The Company shall safeguard and protect all Collateral for the account of the Secured Party. Without limiting the generality of the foregoing, the Company shall pay all fees, taxes and other amounts necessary to maintain the Collateral and the Security Interest hereunder, and the Company shall obtain and furnish to the Secured Party from time to time, upon demand, such releases subordinations of claims and liens which may be required to maintain the priority of the Security Interest.

3.1.6. Restriction on further Encumbrances. Save Permitted Encumbrances at the date of this Agreement and those authorized by Clause 3.7 of the Loan Note Instrument, the Company will not grant or create any Encumbrances in favor of a third party (except in the ordinary course of business and in connection with any receivables financing which the Company may obtain and in such event any grant of a security interest will rank junior to the Secured Party’s Security Interest granted herein), sell or otherwise dispose of any of the Collateral without the prior written consent of the Secured Party.

3.1.7. The Company shall keep and preserve its Equipment, inventory and other tangible Collateral in good condition, repair and order and shall not operate or locate any such Collateral (or cause to be operated or located) in any area excluded from insurance coverage.

3.1.8. The Company shall, within 15 days of obtaining knowledge thereof, advise the Secured Party promptly, in sufficient detail, of any substantial change in the Collateral, and of the occurrence of any event which would have material adverse effect on the value of the Collateral or on the Secured Party's Security Interest therein.

3.1.9. The Company shall promptly execute and deliver to the Secured Party such further deeds, mortgages, assignments, agreements, financing statements or other instruments, documents, certificates and assurances and take such further action as the Secured Party may from time request and may in its sole discretion deem necessary to perfect, protect or enforce its Security Interest in the Collateral.

3.1.10. The Company shall permit the Secured Party and its representatives and agents to inspect the Collateral at any time, and to make copies of records pertaining to the Collateral as may be requested by the Secured Party from time to time.

3.1.11. The Company will take all steps reasonably necessary to pursue diligently and seek to preserve, enforce and collect any rights, claims, causes of action and accounts in respect of the Collateral.

3.1.12. The Company shall promptly notify the Secured Party in sufficient detail upon becoming aware of any garnishment, execution or other legal process levied against any Collateral and of any other information received by the Company that may materially affect the value of the Collateral, the Security Interest or the rights of the Secured Party hereunder.

3.1.13 All information heretofore, herein or hereafter supplied to the Secured Party by or on behalf of the Company with respect to the Collateral is accurate and complete in all respects as of the date furnished.

3.1.14 Accounts Covenants. The Secured Party shall after an Event of Default and after the expiration of the Cure Period (and the Event of Default remains uncured) have the right at any time or times, in Secured Party's name or in the name of a nominee of Secured Party, to verify the validity, amount or any other matter relating to any Account or other Collateral, by mail, telephone, facsimile transmission or otherwise.

3.1.15 Chief Executive Office. Collateral Locations. The chief executive office of the Company and the Company's records concerning Accounts are located only at the address set forth in the preamble to this Agreement. Except as is disclosed in this Schedule 3.1.15, the Company has not, during the past five years, been known by or used by any other corporate or fictitious name or been a party to any merger or consolidation, or acquired all or substantially all of the assets of any Person, or acquired any of its property or assets out of the ordinary course of business.

3.1.16 Maintenance of Existence. The Company shall at all times preserve, renew and keep in full force and effect its corporate existence and rights and franchises with respect thereto and maintain in full force and effect all permits, licenses, approvals, authorizations, leases and contracts necessary to carry on the business as presently, or proposed to be, conducted. The Company shall not change its name unless each of the following conditions is specified: (i) the Company shall give the Secured Party fifteen (15) days' prior written notice of any proposed change in its legal name, which notice shall accurately set forth the new name; and (ii) prior to the filing thereof the Company shall deliver to Secured Party a copy of the proposed amendment to the certificate of incorporation of the Company providing for the name change and once the filing has been made, Secured Party shall receive a copy of such amendment to the certificate of incorporation of the Company certified by the Secretary of State of the jurisdiction of organization of the Company as soon as it is available. The Company shall not change its jurisdiction of incorporation without the consent of the Secured Party.

3.1.17 Payment of Taxes and Claims. The Company has paid or caused to be paid all taxes due and payable or claimed due and payable in any assessment received by it, except taxes the validity of which is being contested in good faith by appropriate proceedings diligently pursued and available to the Company and with respect to which adequate reserves have been set aside on its books. The Company shall duly pay and discharge all taxes, assessments, contributions and governmental charges upon or against it or its properties or assets, except for taxes the validity of which is being contested in good faith by appropriate proceedings diligently pursued and available to the Company and with respect to which adequate reserves have been set aside on its books.

3.1.18 Insurance. The Company shall, at all times, maintain with reputable insurers insurance with respect to the Collateral against loss or damage and all other insurance of the kinds and in the amounts customarily insured against or carried by corporations of established reputation engaged in similar businesses and similarly situated.

4. COVENANT TO DISCHARGE PERMITTED ENCUMBRANCES

4.1. The Company shall take all steps necessary to settle all its indebtedness and obligations in full in relation to (a) the Colmek Encumbrances by no later than April 30, 2008; and (b) the FGI Encumbrances by no later than September 30, 2008; and procure that the security interest in and over the Collateral in respect of these Permitted Encumbrances be released and all filings and recordings pertaining to same be terminated or otherwise removed from all registers.

4.2. In respect of the Colmek Encumbrances the Company shall no later than April 30, 2008 take all steps in all jurisdictions necessary to ensure that after the discharge of the Colmek Encumbrance, the Security Interest of the Secured Party constitutes at that time a first priority Security Interest in the Collateral. No Cure Period shall be given for breach of this covenant.

4.3. In respect of the FGI Encumbrance the Company shall no later than November 1, 2008, take all steps in all jurisdictions necessary to ensure that after the discharge of the related Permitted Encumbrance, the Security Interest of the Secured Party constitutes at that time a first priority Security Interest in the Collateral. No Cure Period shall be given for breach of this covenant.

5. DEFAULTS

5.1. The following events shall be Events of Default:

5.1.1. an Event of Default as is prescribed by Condition 9 of Loan Note Instrument which has not been remedied as provided for in Condition 9.2 of the Loan Note Instrument.

5.1.2. Any representation or warranty of the Company in this Agreement proves to have been incorrect in any material respect when made.

5.1.3 the failure of the Company to observe or perform its obligations hereunder and which remains uncured after the expiration of the Cure Period.

6. DUTY TO HOLD ON TRUST

Upon the expiration of the Cure Period and if the Event of Default remains uncured and at any time thereafter, the Company shall, upon receipt by it of any revenue, income or other sums subject to the Security Interest, whether payable pursuant to the Notes or otherwise, or of any check, draft, note, trade acceptance or other instrument evidencing an obligation to pay any such sum, hold the same in trust for the Secured Party and shall forthwith endorse and transfer any such sums or instruments or both, to the Secured Party for application to the satisfaction of the Obligations.

7. RIGHTS AND REMEDIES UPON DEFAULT

7.1. Upon occurrence of any Event of Default and provided that after the lapse of the Cure Period such Event of Default remains uncured, and at any time thereafter, the Secured Party shall have the right to exercise all of the remedies conferred hereunder and under the Notes, and the Secured Party shall have all the rights and remedies of a secured party under the UCC and/or any other applicable law (including Commercial Code of any jurisdiction in which then located) but subject always to the prior Permitted Encumbrances if such Event of Default occurs prior to their discharge. Without limitation, the Secured Party shall have the following rights and powers:

7.1.1. The Secured Party shall have the right to take possession of the Collateral and, for that purpose, enter, with the aid and assistance of any person, any premises where the Collateral or any part thereof, is or may be placed and remove the same and the Company shall assemble the Collateral or any part thereof and make it available to the Secured Party at places which Secured Party shall reasonably select, whether at the Company’s premises or elsewhere, and make available to the Secured Party, without rent, all of the Company's respective premises and facilities for the purpose of the Secured Party taking possession of, removing or putting the Collateral in saleable or disposable form.

7.1.2. The Secured Party shall have the right to operate the business of the Company using the Collateral and shall have the right to assign, sell, lease or otherwise dispose of and deliver all or any part of the Collateral, at public or private sale or otherwise, either with or without special conditions or stipulations, for cash or on credit or for future delivery such parcel or parcels and at such time or times and at such place or places, and upon such terms and conditions as the Secured Party may deem commercially reasonable, (except as shall be required by applicable statute and cannot be waived) all without advertisement or demand upon or notice to the Company or right of redemption of the Company, which are hereby expressly waived.

8. APPLICATION OF PROCEEDS

8.1 The proceeds of any such sale, lease or other disposition of the Collateral hereunder shall be applied first, to the expenses of retaking, holding, storing, processing and preparing for sale, selling and the like, including Costs incurred in connection therewith, of the Collateral by the Secured Party in enforcing its rights hereunder and in connection with collecting, storing and disposing of the Collateral, and then to satisfaction of any indebtedness in relation to the prior Permitted Encumbrances (if the Event of Default occurs prior to their discharge), satisfaction of the Obligations, and to the payment of any other amounts required by applicable law, after which the Secured Party shall pay the Company any surplus proceeds. If, upon the sale, license or other disposition of the Collateral, the proceeds thereof are insufficient to pay all amounts to which the Secured Party is legally entitled, the Company will be liable for the deficiency, together with interest thereon, at the rate of 10% per annum (the "Default Rate"), and the reasonable Costs incurred by the Secured Party in collecting the deficiency. To the extent permitted by applicable law, the Company waives all claims, damages and demands against the Secured Party arising out of the repossession, removal, retention or sale of the Collateral, unless resulting from the negligence or wilful misconduct of the Secured Party.

9. COSTS AND EXPENSES

The Company agrees to pay out-of-pocket fees and Costs incurred in connection with any filing required hereunder, including without limitation, any financing statements, continuation statements, partial releases and/or termination statements related thereto or any expenses of any searches reasonably required by the Secured Party. The Company shall also pay all other claims and charges which in the reasonable opinion of the Secured Party might prejudice, imperil or otherwise affect the Security Interest therein. The Company will also, upon demand, pay to the Secured Party the amount of reasonable expenses and Costs which the Secured Party may incur in connection with (i) enforcement of this Agreement, (ii) the custody or preservation of, or the sale of, collection from, or other realization upon, any of the Collateral, (iii) the exercise or enforcement of any of the rights of the Secured Party under the Transaction Documents.

10. RESPONSIBILITIY FOR THE COLLATERAL

The Company assumes all liabilities and responsibility in connection with all Collateral, and the obligations of the Company hereunder or under the Transaction Documents shall in no way be affected or diminished by reason of the loss, destruction, damage or theft of any of the Collateral or its unavailability for any reason.

11. SECURITY INTEREST ABSOLUTE

All rights of the Secured Party and all Obligations of the Company hereunder, shall be absolute and unconditional, irrespective of: (a) any lack of validity or enforceability of this Agreement or the Transaction Documents or any agreement entered into in connection with the foregoing, or any portion hereof or thereof; b) any change in the time, manner or place of payment or performance of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to any departure from the Transaction Documents or any other agreement entered into in connection with the foregoing; (c) any exchange, release, nonperfection of any of the Collateral, or any release or amendment or waiver of or consent to departure from any other collateral for, or any guaranty, or any other security for all or any of the Obligations; (d) any action by the Secured Party to obtain, adjust, settle and cancel in its sole discretion any insurance claims or matters made or arising in connection with the Collateral; or (e) any other circumstances which might otherwise constitute any legal or equitable defense available to the Company, or a discharge of all or any part of the Security Interest granted hereby. Until the Obligations shall have been paid and performed in full the rights of the Secured Party shall continue even if the Obligations are barred for any reason, including, without limitation, the running of the statute of limitations or bankruptcy. The Company expressly waives presentment, protest, notice of protest, demand, notice of non-payment and demand for performance. In the event that at any time any transfer of any Collateral or any payment received by the Secured Party hereunder shall be deemed by final order of a court of competent jurisdiction to have been a voidable preference or fraudulent conveyance under the bankruptcy or insolvency laws of the United States, or shall be deemed to be otherwise due to any party other than the Secured Party, then, in any such event, the Company's obligations hereunder shall survive the cancellation of this Agreement, and shall not be discharged or satisfied by any prior payment thereof and/or cancellation of this Agreement, but shall remain a valid and binding obligation enforceable in accordance with the provisions hereof. The Company waives all right to require the Secured Party to proceed against any other person or to apply any Collateral which the Secured Party may hold at any time or to marshal assets, or to pursue any other remedy. The Company waives any defense arising by reason of the application of the statute of limitations to any obligations secured hereby.

12. TERM OF AGREEMENT

This Agreement and the Security Interest shall terminate on the date on which all payments under the Notes have been made in full and all other Obligations been paid or discharged. Upon such termination, the Secured Party, at the request and at the expense of the Company, will join in executing any termination statement with respect to any financing statement authorized and filed pursuant to this Agreement.

13. POWER OF ATTORNEY; FURTHER ASSURANCES

13.1. The Company authorizes the Secured Party, and does hereby make, constitute and appoint it, and its respective agents, successors or assigns with full power of substitution, as the Company's true and lawful attorney-in-fact, with power in its own name or in the name of the Company, to, after the occurrence and after any Cure Period has lapsed and the Event of Default continues (i) endorse any notes, checks, drafts, money orders or other instruments of payment (including payments payable under or in respect of any policy of insurance) in respect of the Collateral that may come into possession of the Secured Party (ii) authorize and endorse any UCC financing statement or any invoice, freight or express bill, bill of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications and notices in connection with accounts, and other documents relating to the Collateral; (iii) pay or discharge taxes, liens, security interests or other Encumbrances at any time levied or placed on or threatened against the Collateral; (iv) demand, collect, receipt for, compromise, settle and sue for monies due in respect of the Collateral; and (v) generally, do, at the option of the Secured Party, and at the Company's expense at any time, or from time to time, all acts and things which the Secured Party deems necessary to protect, preserve and realize upon the Collateral and the Security Interest granted therein in order to effect the intent of this Agreement and the other Transaction Documents, all as fully and effectually as the Company might or could do; and the Company hereby ratifies all that said attorney shall lawfully do or cause to be done by virtue hereof. This power of attorney is coupled with an interest and shall be irrevocable for the term of this Agreement and thereafter as long as any of the Obligations shall be outstanding.

13.2. On a continuing basis, the Company will make, execute, acknowledge, deliver, file and record, as the case may be, in the proper filing and recording places in any jurisdictions, including without limitation, the jurisdictions indicated on Schedule 13.2 hereof, all such instruments, and take all such actions as may reasonably be deemed necessary to perfect the Security Interest granted hereunder and otherwise to carry out the intent and purposes of this Agreement or for assuring and confirming to the Secured Party the grant or perfection of a security interest in all the Collateral.

13.3. The Company hereby irrevocably appoints the Secured Party as the Company's attorney-in-fact, with full authority in the place and stead of the Company and in the name of the Company, from time to time in the Secured Party's discretion, to take any action and to execute any instrument which the Secured Party may deem necessary or advisable to accomplish the purposes of this Agreement including the filing, in its sole discretion, of one or more financing or continuation statements and amendments thereto, relative to any of the Collateral without the signature of the Company where permitted by law.

14. NOTICES

14.1. All notices, demands and other communications provided for or permitted hereunder shall be made in writing and shall be by registered or certified first-class mail, return receipt requested, telecopier, courier service or personal delivery:

if to the Company or any of its subsidiaries to:

Coda Octopus Group, Inc.
164 West 25th Street
New York, NY 10001
Telecopy: 1 212 924 3447
Attention: Chief Executive Officer and President

with copies to:

Sichenzia Ross Friedman & Ferrence LLP
61 Broadway
New York, NY 10006
Attention: Louis Brilleman, Esq.
Telecopy: 212-930-9725

and to

Coda Octopus Group, Inc.
164 West 25th Street
New York, NY 10001
Telecopy: 1 917 591 8594
Attention: Annmarie Gayle

if to the Secured Party :
The Royal Bank of Scotland plc
135 Bishopgate
London EC2M 3UR
Attention: Repack Middle Office
Fax: +44 20 7085 7984

with copies to:

The Royal Bank of Scotland plc
135 Bishopgate
London EC2M 3UR
Attention: GBM Legal
Fax: +44 20 7085 8411

and to

Simons & Simmons
Citypoint, One Ropemaker Street, London EC2Y 9SS
United Kingdom
Attention: Dusan Stojkovic, Esq.

All such notices, demands and other communications shall be deemed to have been duly given when delivered by hand, if personally delivered; when delivered by courier, if delivered by commercial courier service; five (5) Business Days after being deposited in the mail, postage prepaid, if mailed; and when receipt is mechanically acknowledged, if telecopied. Any party may by notice given in accordance with this Section 14 designate another address or Person for receipt of notices hereunder.

15. MISCELLANEOUS

15.1. **Headings**

The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

15.2. **Governing law**

This Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to the principles of conflicts of law thereof.

15.3. **Amendment and Waiver**

No course of dealing between the Company and the Secured Party, failure to exercise, nor delay in exercising, on the part of the Secured Party, any right, power or privilege hereunder or under the Transaction Documents shall operate as a waiver thereof; nor shall any single or partial exercise or any right, power or privilege hereunder preclude any other further exercise thereof or the exercise of any other right, power or privilege. All of the rights and remedies of the Secured Party with respect to the Collateral, whether established hereby or by the Transaction Documents or any other agreements, instruments or documents or by law shall be cumulative and may be exercised singly or concurrently.

Except as is specifically set forth in this Agreement, no provision of this Agreement may be modified or amended except by a written agreement specifically referring to this Agreement and signed by the parties hereto.

15.4. **Rules of Construction.**

Unless the context otherwise requires, references to sections or subsections refer to sections or subsections of this Agreement.

15.5. **Entire Agreement**

This Agreement, together with the exhibits and schedules hereto, and the other Transaction Documents are intended by the parties as a final expression of their agreement and intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein and therein. There are no restrictions, promises, representations, warranties or undertakings, other than those set forth or referred to herein or therein. This Agreement, together with the exhibits and schedules hereto, and the other Transaction Documents supersede all prior agreements and understandings between the parties with respect to such subject matter.

15.6. **Severability**

If any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions hereof shall not be in any way impaired, unless the provisions held invalid, illegal or unenforceable shall substantially impair the benefits of the remaining provisions hereof.

15.7. **Counterparts**

This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

15.8. **Further Assurances**

Each of the parties shall execute such documents and perform such further acts (including, without limitation, obtaining any consents, exemptions, authorizations or other actions by, or giving any notices to, or making any filings with, any governmental authority or any other person as may be reasonably required or desirable to carry out or to perform the provisions of this Agreement.

15.9 **Choice of Forum; Service of Process; Jury Trial Waiver.**

15.9.1. The Company irrevocably consents and submits to the non-exclusive jurisdiction of any federal or State court of competent jurisdiction sitting in the City and County of New York, New York, and waives any objection based on venue or *forum non conveniens* with respect to any action instituted therein arising under this Agreement or any of the other Transaction Documents or in any way connected or related or incidental to the dealings of the Company and Secured Party in respect of this Agreement or the other Transaction Documents or the transactions related hereto or thereto, in each case whether now existing or hereafter arising, and whether in contract, tort, equity or otherwise, and agrees that any dispute with respect to any such matters shall be heard only in the courts described above (except that Secured Party shall have the right to bring any action or proceeding against the Company or its property in the courts of any other jurisdiction which Secured Party deems necessary or appropriate in order to realize on the Collateral or to otherwise enforce its rights against the Company or its property).

15.9.2. The Company hereby waives personal service of any and all process upon it and consents that all such service of process may be made by certified mail (return receipt requested) directed to its address set forth in the preamble hereto and service so made shall be deemed to be completed five (5) days after the same shall have been so deposited in the U.S. mails, or, at Secured Party's option, by service upon the Company in any other manner provided under the rules of any such courts. Within thirty (30) days after such service, the Company shall appear in answer to such process, failing which the Company shall be deemed in default and judgment may be entered by Secured Party against the Company for the amount of the claim and other relief requested.

15.9.3. The Company hereby waives and right to trial by jury of any claim, demand, action or cause of action (i) arising under this Agreement or any of the other Transaction Documents or (ii) in any way connected with or related or incidental to the dealings of the Company and Secured Party in respect of this Agreement or any of the other Transaction Documents or the transactions related hereto or thereto in each case whether now existing or hereafter arising, and whether in contract, tort, equity or otherwise. The Company hereby agrees and consents that any such claim, demand, action or cause of action shall be decided by court trial without a jury and that the Company or Secured Party may file an original counterpart of a copy of this Agreement with any court as written evidence of the consent of the Company and Secured Party to the waiver of their right to trial by jury.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the undersigned have executed, or have caused to be executed, this Security Agreement on the date first written above.

CODA OCTOPUS GROUP, INC.

By: _____

Name: Jason Reid
Title: President

CODA OCTOPUS (US) HOLDINGS, INC.

By: _____

Name: Jason Reid
Title: President

PORT SECURITY GROUP, Inc.

By: _____

Name: Jason Reid
Title: Director

INNALOGIC, Inc.

By: _____

Name:
Title:

MILLER AND HILTON D/BA COLMEK ENGINEERING SYSTEMS

By: _____

Name:
Title:

THE ROYAL BANK OF SCOTLAND PLC

By: _____

Name:
Title:

Schedule 1.1(a)

The grant of the Security Interest in Colmek shall be construed as taking effect on or no later than April 30, 2008 and at such time the "Collateral" for the purposes of securing the Obligations shall mean:

> "All receivables of the Company including all insurance proceeds, and rights to refunds or indemnification whatsoever owing, together with all instruments, all documents of title representing any of the foregoing, all rights in any merchandising, goods, equipment, motor vehicles and trucks which any of the same may represent, and all right, title, security and guaranties with respect to each Receivable including any right of stoppage in transit ("Colmek Collateral").

The Secured Party specifically takes its Security Interest in and over the Colmek Collateral with full knowledge that the Company's interest in and over Colmek is restricted by the terms of a Special Security Agreement between Coda Octopus Group Inc, Coda Octopus (US) Holdings, Inc and its affiliates, Colmek (on the one hand) and United States Department of Defense (DoD) appended hereto as Exhibit 2 and which is designed to prevent the unauthorized access or disclosure of US classified restricted information.

Schedule 1.1(b)

As of date hereof the Coda Octopus Group, Inc. has the following wholly owned US subsidiaries:

1. Coda Octopus Products Inc. a Delaware Corporation with its principal place of business at 100 14th Avenue South, Pinelas County, Florida

2. Coda Octopus (US) Holdings, Inc. a Delaware corporation with its principal place of business at 164 West 25th Street, 6th Floor (6R), New York NY 10017.

3. Coda Octopus Research and Development Inc, a Delaware corporation with its principal place of business at 164 West 25th Street, 6th Floor (6R), New York NY 10017.

4. Innalogic Inc., a Delaware corporation with its place of business at 164 West, 25th Street, 6th Floor (6F), New York NY 10017 with its principal place of business at 164 West 25th Street, 6th Floor (6R), New York NY 10017.

5. The Port Security Group, Inc., a Delaware corporation with its place of business at 164 West 25th Street, 6th Floor (6R), New York NY 10017.

6. Miller and Hilton, d/b/a Colmek Systems Engineering ("Colmek"), a Utah corporation (Corporation Number 2400704-0150) with its principal place of business at 2001 South 3480 West, Salt Lake City, Utah 84104.

Schedule 1.1(c)

Permitted Encumbrances

1. FGI Encumbrance

As of the date hereof Faunus Group International, Inc a Delaware corporation whose principal place of business is 80 Pine Street, 32nd Floor, New York, New York 10005 has a prior first and continuing security interest in a part of the Collateral pursuant to a "Sale of Accounts and Security Agreement" (Exhibit 1 hereto) and which has been perfected in accordance with the applicable provisions of the UCC. The said Permitted Encumbrances are specifically subject to the various covenants and undertakings of the Company to discharge the Permitted Encumbrances.

2. Colmek Encumbrance

As of the date hereof and pursuant to the acquisition agreement between the Coda Octopus (US) Holdings Inc, Colmek and the Selling Shareholders of Colmek, Coda Octopus (US) Holdings has pledged the Colmek Shares to the Selling Shareholders to secure the deferred consideration remaining and due to the Selling Shareholders of US$700,000. This is due to be discharged on April 6, 2008 along with the pledges.

3. General Liens

Any liens for taxes or assessments not at the time due and (b) liens in respect of pledges or deposits under workers' compensation laws or similar legislation, carriers', warehousemen's, mechanics', laborers' and material men's and similar liens, if the obligations secured by such liens are not then delinquent.

Schedule 3.1.2

The Company's title in and over the Collateral is limited by the Permitted Encumbrances disclosed in Schedule 1.1.(c).

UCC Filings are recorded in Delaware in respect of the FGI Encumbrance.

Schedule 3.1.15

On July 13, 2004, pursuant to the terms of a share exchange agreement between The Panda Project, Inc., a Florida corporation, and Fairwater Technologies Ltd. ("Fairwater"), Panda acquired the shares of Coda Octopus Limited, a UK corporation and Fairwater's wholly-owned subsidiary, in consideration for the issuance of a total of 20,050,000 shares of common stock to Fairwater and other shareholders of Coda Octopus Limited. The shares issued represented approximately 90.9% of the issued and outstanding shares of Panda. The share exchange was accounted for as a reverse acquisition of Panda by Coda. Subsequently, Panda was reincorporated in Delaware and changed its name to Coda Octopus Group, Inc. ("COGI")

The business of COGI began as Coda Technologies Ltd (now operating under the name of Coda Octopus Products Limited), a UK corporation which was formed in 1994.

In June 2002, Coda Technologies Ltd acquired by way of merger Octopus Marine Systems Ltd, a UK corporation, and changed its name from Coda Technologies Ltd to Coda Octopus Ltd.

In December 2002, Coda Octopus Ltd acquired OmniTech AS, a Norwegian company, which became a wholly-owned subsidiary of Coda Octopus Ltd and now operates under the name CodaOctopus Omnitech AS.

In June 2006, COGI's subsidiary, Coda Octopus (UK) Holdings Ltd, acquired all the issued and outstanding shares of Martech Systems (Weymouth) Ltd ("Martech").

In April 2007, COGI acquired all the issued and outstanding shares of common stock of Utah-based engineering firm, Miller & Hilton, Inc. d/b/a Colmek Systems Engineering,

Schedule 13.2

State of Delaware

State of Utah

FLOATING CHARGE
by
CODA OCTOPUS R & D LIMITED
in favour of
THE ROYAL BANK OF SCOTLAND PLC

Stuart Hodge Corporate Lawyers
3 Temple Row West
Birmingham
B2 5NY

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FLOATING CHARGE

By

(1) **CODA OCTOPUS R & D LIMITED** (Registered Number SC232622) having its registered office at Anderson House, Breadalbane Street, Edinburgh EH6 5JR ("**Company**");

in favour of

(2) **THE ROYAL BANK OF SCOTLAND PLC** (registered in Scotland with Registered Number 90312) acting through its London offices located at 135 Bishopsgate, London EC2M 3UR ("**Subscriber**" which expression includes its successors in title, assignees and transferees).

WHEREAS:-

(A) The Company owes various obligations to the Subscriber under the Deed of Guarantee, and the Subscriber wishes to secure these and any future obligations against all of the Assets of the Company from time to time; and

(B) The Company has therefore agreed to enter into this Charge in favour of the Subscriber on the following terms and conditions.

Definitions are given in Clause 1.1

NOW IT IS HEREBY AGREED as follows:-

1. **Definitions and Interpretation**

1.1 In the interpretation of this Charge:-

"Agreed Form" in relation to any document means the form agreed and for the purposes of identification only initialled by or on behalf of COGI and the Subscriber;

"**Assets**" means the whole of the undertaking, property, assets, rights and revenue (including uncalled capital) which is or may be from time to time comprised in the property and undertaking of the Company;

"COGI" means Coda Octopus Group, Inc. incorporated in the State of Delaware, whose principal place of business is at 164 West 25th Street, New York, New York 10001;

"Completion" means the carrying out by the parties of their obligations under Clause 3 of the Subscription Agreement;

"Completion Date" means the date hereof;

"Confidentiality Agreement" means the agreement dated on or around the Completion Date between COGI and the Subscriber whereby the Subscriber agrees, inter alia, to keep certain information confidential;

"Debentures" means the two debentures to be granted on the date hereof in favour of the Subscriber, one debenture to be granted by Coda Octopus (UK) Holdings Ltd and the other by Martech Systems (Weymouth) Ltd and "**Debenture**" shall mean whichever of the Debentures as the context admits;

"Deed of Guarantee" means a deed in the Agreed Form to be entered into at Completion whereby those Subsidiaries which are registered in the United Kingdom agree to guarantee the obligations of COGI under the Transaction Documents;

"FGI" means Faunus Group International, Inc. a Delaware corporation whose principal place of business is 80 Pine Street, 32nd Floor, New York, New York 10005;

"Intercreditor Deed" means a deed entered into on or around the Completion Date among COGI, the Subscriber and FGI regulating the priorities of the various charges and security interests held by the Subscriber and FGI;

"**Loan Note Instrument"** means the loan note instrument executed by COGI on the Completion Date pursuant to which the Notes are constituted;

"Lock-up Agreements" means certain agreements entered into on or around the date hereof between the directors and board members of COGI and the Subscriber undertaking (with certain exceptions) not to sell or transfer or otherwise dispose of any of their shares in COGI;

"Noteholder" means a person for the time being entered in the Register as a holder of any part of the Notes;

"Notes" means USD 12,000,000 Convertible Loan Notes due 21 February 2015 constituted by the Loan Note Instrument, or, as the case may be the Principal Amount Outstanding (as defined in the Loan Note Instrument) represented by them, and each "**Note**" shall be for a nominal amount of USD 100,000;

"**Receiver**" means a receiver or administrative receiver appointed pursuant to this Charge in respect of the Company or over all or any of its Assets;

"**Secured Liabilities**" means all monies, obligations and liabilities, howsoever arising, now or at any time in the future due, owing or incurred by the Company to the Subscriber under and in terms of the Transaction Documents, direct or indirect, absolute or contingent, including without limitation all interest (as well after as before any demand made or judgment given), fees, charges, expenses, legal fees and accounting fees chargeable to and payable by the Subscriber under or in relation to any such monies, obligations and/or liabilities;

"Security Agreement" means an agreement in the Agreed Form to be entered into at Completion whereby COGI and those of its Subsidiaries incorporated in the United States of America grant a continuing and first security interest in and over the assets of COGI and those of its Subsidiaries incorporated in the United States of America

"**Security Interest**" means any mortgage, charge, pledge, lien encumbrance, security interest or other security arrangement of any kind;

"Subscription Agreement" means the subscription agreement dated the Completion Date between the Subscriber and COGI;

"Transaction Documents" means the Loan Note Instrument, the Subscription Agreement, this Floating Charge and the floating charge to be granted on the Completion Date by Coda Octopus Products Ltd, the Debentures, the Lock-up Agreements, the Security Agreement, the Confidentiality Agreement, the Intercreditor Deed and all other documents entered into in connection with any of them.

1.2 The expressions "holding company" and "subsidiary" shall have the meanings given to them in Section 736 of the Companies Act 1985.

1.3 References to this Charge and to any provisions of it shall be construed as references to it in force for the time being and as amended, varied, supplemented, substituted or novated from time to time.

1.4 References to statutes, statutory provisions and other legislation shall include all amendments, modifications and re-enactments for the time being in force and shall include any orders, regulations, instruments or subordinate legislation under or deriving from the relevant statute or statutory provision.

1.5 Words importing the singular are to include the plural and vice versa.

1.6 A Receiver shall include a reference to joint receivers and any reference to the appointment of a person as receiver shall include a reference to the appointment of two or more persons as joint receivers.

1.7 References to a person are to be construed to include references to a corporation, firm, company, partnership, joint venture, unincorporated body of persons, individual or any state or any agency of a state, whether or not a separate legal entity.

1.8 References to any person are to be construed to include that person's assignees or transferees or successors in title, whether direct or indirect.

1.9 Clause headings are for ease of reference only and are not to affect the interpretation of this Charge.

1.10 Any phrase introduced by the terms "including", "include", "in particular" or any similar expression shall be construed as illustrative.

1.11 Any reference to a "fixed security" shall be construed as a reference to a fixed security as defined in Section 486 of the Companies Act 1985.

1.12 Unless the context requires otherwise, or unless otherwise defined in this Charge, words and expressions defined in the Transaction Documents shall have the same meanings when used in this Charge.

2. **Covenant to Pay**

2.1 The Company covenants to pay and discharge in full on demand to the Subscriber the Secured Liabilities when they fall due and payable.

2.2 Any amount not paid in accordance with this Charge when due shall (subject to Clause 2.3 below) carry interest at the rate of 2% per annum above the base rate quoted by The Royal Bank of Scotland plc from time to time or at such other rate as may be agreed between the Company and the Subscriber from time to time. In each case, interest shall accrue on a day to day basis until the date of irrevocable and unconditional repayment in full and, if unpaid, shall be compounded on the terms so agreed or (in the absence of such agreed terms) with quarterly rests on 31 March, 30 June, 30 September and 31 December in each year. Interest shall continue to be charged and compounded on this basis after as well as before any demand or judgment.

2.3 Clause 2.2 above shall not apply to the extent that default interest on such amount for such period is charged pursuant to the relevant Transaction Document and itself constitutes part of the Secured Liabilities.

3. **Charging Provision**

3.1 The Company grants a floating charge over the Assets to the Subscriber as a continuing security for the payment and discharge of the Secured Liabilities.

3.2 Paragraph 14 of Schedule B1 to the Insolvency Act 1986 (incorporated by Schedule 16 to the Enterprise Act 2002) shall apply to this Charge.

3.3 The security constituted by or pursuant to this Charge shall be in addition to and independent of, and shall not in any way prejudice or be prejudiced by, any other security, right or remedy against any person which the Subscriber may at any time hold for the satisfaction of the Secured Liabilities or any part thereof.

4. **Negative Pledge and Ranking of Charge**

4.1 The Company agrees that it shall be prohibited from granting or creating subsequent to the date of this Charge any fixed security or any other floating charge (as defined by the Companies Act 1985) having priority over or ranking pari passu with this Charge, other than in favour of the Subscriber.

4.2 In the event that the Company grants or creates any fixed security or floating charge in breach of the prohibition in Clause 4.1 above, this Charge shall rank in priority to that fixed security or floating charge.

5. **Continuing Obligations**

The Company covenants with and undertakes to the Subscriber as follows:

5.1 to register this Charge with the Registrar of Companies for Scotland no later than 21 days after the date of execution of this Charge.

5.2 if required by the Subscriber to forthwith deposit with the Subscriber all or any documents, deeds, or other papers whatsoever relating to the Assets as the Subscriber may require.

5.3 to make timely payment of all lawful amounts in respect of the Assets when due including all rents, periodic charges and outgoings of any nature.

5.4 to keep all of the Assets in a good state of repair and in proper and good working order and condition and to permit the Subscriber and such other persons as the Subscriber may from time to time appoint for the purpose to enter and view the state and condition of the Assets on reasonable notice.

5.5 to insure and keep insured all of the Assets which are of an insurable nature against loss or damage by fire and all other usual risks as the Subscriber may require in the full amount of their reinstatement value in such name and in such offices as the Subscriber shall approve in terms not permitting the insurers to cancel the policy of insurance without giving at least 14 days' notice to the Company and to pay when due all premiums and any other charges necessary for effecting and maintaining such insurance and, if requested by the Subscriber, to have the interest of the Subscriber noted on any policy or policies and if required to deliver to the Subscriber such policy or policies and the receipt for every premium payable in respect of such policy or policies.

5.6 to hold all monies received on any insurance whatsoever in respect of loss, damage or destruction of the Assets whether under the covenant in paragraph 5.7 or otherwise on trust for the Subscriber to be applied in making good the loss or damage in respect of which the monies are received or in or towards discharge of the sums for the time being owing to the Subscriber under this Charge as the Subscriber may in its absolute discretion require.

5.7 not without the previous written consent of the Subscriber to create or attempt to create any mortgage, pledge, fixed or floating charge or other encumbrance or security interest on or over any of the Assets.

5.8 not to take or omit to take any action that might or would have the result of materially impairing the security interests created by this Charge. The Company will not grant to any person other than the Subscriber and the Noteholders any interest whatsoever in the Assets.

5.9 to inform the Subscriber immediately on becoming bound to complete the purchase of any estate or interest in any heritable or leasehold property after the date of this floating charge and to deposit with the Subscriber the deeds and documents of title relating to such property.

5.10 to execute at any time upon request over all or any of the property referred to in paragraph 5.9 and which is capable of being so charged, a standard security in favour of the Subscriber in such form as the Subscriber shall require.

5.11 to execute and do all such assurances and things including (without prejudice to the generality of the foregoing) charges and assignations as the Subscriber may require for perfecting the security constituted by this Charge and for facilitating the realisation of the Assets and for exercising all powers, authorities and discretions conferred by this Charge upon the Subscriber or any receiver appointed by the Subscriber and to give notice of any such assurance or other thing to any person the Subscriber may require.

5.12 to comply with any and all covenants and undertakings which the Company has entered into in the other Transaction Documents.

6. **Appointment of Receiver or administrator**

6.1 All monies secured by this Charge shall be immediately payable on demand by the Subscriber in accordance with the provisions of the Loan Note Instrument and the other Transaction Documents and failing payment immediately of any monies so demanded this security shall become immediately enforceable and the Subscriber shall be entitled to appoint in writing a Receiver of all or any of the Assets and/or an Administrator of the Company (in each case in accordance with and to the extent permitted by applicable laws) either immediately or at any time thereafter. In addition, all monies secured by this Charge shall also become payable without any demand and this security will become immediately enforceable in the same manner as if demanded either immediately or at any time after:

6.1.1 if the Company shall request that the Subscriber shall appoint a Receiver or an administrator; or

6.1.2 if there is an Event of Default (as detailed in Condition 9.1 of the Loan Note Instrument) which has not been remedied as provided for in Condition 9.2 of the Loan Note Instrument; or

6.1.3 if the Company fails to observe or commits any breach of any of the covenants undertakings conditions or provisions of this Charge provided always that (save for a breach of Paragraphs 5.1 or 5.2 of this Charge or a breach of Condition 9.1 (e) of the Loan Note Instrument) before this security becomes enforceable the Company shall have a period of 30 days (or such longer period as is reasonable in the circumstances and which is agreed between the Company and the Subscriber, both parties acting reasonably) from the earlier of (i) the date the Company becomes aware, or ought reasonably to be aware, of the failure to observe or commission of the breach and (ii) the date the Company is given notice by either the Subscriber or a majority (by value) of the Noteholders in which to remedy any failure to observe or breach. If the Company remedies the failure to observe or breach in accordance with this Paragraph 6.1.3 then this security shall not become immediately enforceable as a result of the failure to observe or breach which has been remedied;

6.1.4 if an order is made for the winding up of the Company by the court or if an effective resolution is passed for the members' or creditors' voluntary winding up of the Company; or

6.1.5 if a petition is presented for an administration order to be made in relation to the Company pursuant to the Insolvency Act 1986; or

6.1.6 if a receiver is appointed to all or any part of the property and assets of the Company.

6.2 After this Charge shall have become enforceable the Subscriber may in its absolute discretion enforce all or any part of the security constituted hereby in such manner as it sees fit.

7. **Security Protection**

This security shall be a continuing security notwithstanding any settlement of account or other matter whatsoever and is in addition to and shall not merge with or otherwise prejudice any contractual or other right or remedy or any other security now or hereafter held by or available to the Subscriber and shall not be in any way prejudiced or affected thereby or by the Subscriber now or hereafter dealing with, exchanging, releasing, varying or abstaining from perfecting or enforcing any of the same or any rights which they may now or hereafter have or giving time for payment or indulgence or compounding with any other person liable.

8. **Company to meet expenses of the Subscriber**

The Company shall pay (on a full indemnity basis) all liabilities, costs, charges and expenses (including any taxes levied or assessed) incurred or to be incurred by the Subscriber in the creation, registration, perfection, enforcement, discharge and assignation of this Charge, which costs, charges and expenses shall form part of the Secured Liabilities.

9. **Further Assurance**

The Company shall whenever requested by the Subscriber execute and sign all such deeds and documents and do all such things as the Subscriber may require at the Company's cost over any property or assets specified by the Subscriber for the purpose of perfecting or more effectively providing security to the Subscriber for the payment and discharge of the Secured Liabilities.

10. **Power of Attorney**

The Company irrevocably appoints the Subscriber (whether or not a Receiver has been appointed) and also (as a separate appointment) the Receiver severally as the attorney and attorneys of the Company, for the Company and in its name and on its behalf and as its act and deed or otherwise to execute and deliver and otherwise perfect any deed, assurance, agreement, instrument or act which may be required of the Company under this Charge or may be deemed proper for any of its purposes.

11. **Power to grant the Charge**

11.1 The Company represents and warrants to the Subscriber that:-

11.1.1 it is duly incorporated and validly existing in the United Kingdom and has full authority to enter into this Charge and to perform its obligations hereunder;

11.1.2 this Charge constitutes its legal, valid and binding obligation and is an effective security over the Assets;

11.1.3 that neither the execution of this Charge nor the creation of any security under or pursuant to it contravenes or will contravene the provisions of the memorandum or articles of association of the Company or any equivalent constitutional documents governing the Company;

11.1.4 the Company is the sole legal and beneficial owner of the Assets subject to any security interests disclosed in the Disclosure Letter;

11.1.5 the Company has not stopped payment on any debts and is not insolvent or unable to pay its debts for the purpose of Section 123 of the Act;

11.1.6 all approvals required to be obtained whether under the provisions of the Companies Act 1985 or any other enactment have been duly obtained and that it is in a position to enter into this Charge.

11.1.7

11.2 The Company agrees and undertakes to indemnify the Subscriber on a full indemnity basis from and against all and any liabilities arising as a result of any breach of the warranties set out in Paragraph 11.1.

12. **Demands or Notices**

12.1 A demand for payment or any other demand or notice under this Charge shall either be delivered personally or sent by first class recorded delivery post, tested telex or facsimile transmission. The address of the service of each party shall be the address stated in this Charge or such other address as it shall have from time to time notified to the other party. A notice shall be deemed to have been served as follows:-

12.1.1 if personally delivered, at the date of delivery;

12.1.2 if posted, at the expiration of 48 hours after the envelope containing the same was delivered into the custody of the postal authority; and

12.1.3 if sent by facsimile transmission, at the time of transmission.

12.2 A certificate by any manager or officer of the Subscriber as to the amount of the Secured Liabilities or any part of them shall in the absence of manifest error, be conclusive and binding on the Company.

13. **Assignation**

13.1 The Subscriber may assign and transfer the benefit of this Charge to any person acting for the benefit of the Noteholders and all references in this Charge to the Subscriber shall be deemed to include its assignees and other successors.

13.2 The Company shall not be entitled to assign or transfer all or any of its rights in respect of this Charge to any person without the prior written consent of the Subscriber.

14. **Currency Clauses**

14.1 All monies received or held by the Subscriber, a Receiver or an administrator under this Charge may from time to time after demand has been made by the Subscriber be converted into such other currency as the Subscriber considers necessary or desirable to cover the obligations and liabilities actual or contingent of the Company in that other currency at the then prevailing spot rate of exchange obtainable by the Subscriber (as conclusively determined by the Subscriber) for purchasing that other currency with the existing currency.

14.2 If and to the extent that the Company fails to pay the amount due on demand the Subscriber may in its absolute discretion without notice to the Company purchase at any time thereafter so much of any currency as the Subscriber considers necessary or desirable to cover the obligations and liabilities of the Company in such currency hereby secured at the then prevailing spot rate of exchange obtainable by the Subscriber (as conclusively determined by the Subscriber) for purchasing such currency with sterling and the Company hereby agrees to indemnify the Subscriber against the full sterling cost incurred by the Subscriber for such purchase.

14.3 No payment to the Subscriber (whether under any judgement or court order or otherwise) shall discharge the obligation or liability of the Company in respect of which it was made unless and until the Subscriber shall have received payment in full in the currency in which such obligation or liability was incurred and to the extent that the amount of any such payment shall on actual conversion into such currency falls short of such obligation or liability actual or contingent expressed in that currency the Subscriber shall have a further separate cause of action against the Company and shall be entitled to enforce the charges hereby created to recover the amount of the shortfall.

15. **Miscellaneous**

15.1 All the provisions of this Charge are severable and distinct from one another and if at any time one or more of such provisions is or becomes invalid illegal or unenforceable the validity legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby.

15.2 No payment to the Subscriber (whether under any judgment or order of any Court or otherwise) shall discharge the obligation or liability of the Company in respect of which it was made unless and until the Subscriber shall have received payment in full and to the extent that the amount of any such payment shall fall short of such obligation or liability the Subscriber shall have a further separate cause of action against the Company and shall be entitled to enforce the charges hereby created to recover such sum as shall pay the amount of the shortfall.

15.3 No failure or delay by the Subscriber in exercising any right or remedy shall operate as a waiver thereof nor shall any single or partial exercise or waiver of any right or remedy preclude its further exercise or the exercise of any other right or remedy as though no waiver had been made and no relaxation or indulgence granted.

15.4 Any change in the constitution of the Subscriber or its absorption in or amalgamation with any other person or the acquisition of all or part of its undertaking by any other person shall not in any way prejudice or affect its rights hereunder.

16. **Governing Law**

This Charge shall be governed by and construed in accordance with the law of Scotland and the parties hereby prorogate the non-exclusive jurisdiction of the Scottish Courts.

17. **Consent to Registration**

The Company consents to the registration of this Charge and of the certificate referred to in Clause 12 above for preservation and execution: IN WITNESS WHEREOF this Charge consisting of this and the 8 preceding pages are executed as follows:-

SUBSCRIBED for and on behalf of the said
CODA OCTOPUS R & D LIMITED

at .....

on .....

by

.....Director
Jason Reid

.....Director
(Signature)

.....Director/
Jody Frank Secretary

.....Director/
(Signature) Secretary

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CODA OCTOPUS PRODUCTS LIMITED
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THE ROYAL BANK OF SCOTLAND PLC

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FLOATING CHARGE

By

(1) **CODA OCTOPUS PRODUCTS LIMITED** (Registered Number SC151068) having its registered office at Anderson House, Breadalbane Street, Edinburgh EH6 5JR ("**Company**");

in favour of

(2) **THE ROYAL BANK OF SCOTLAND PLC** (registered in Scotland with Registered Number 90312) acting through its London offices located at 135 Bishopsgate, London EC2M 3UR ("**Subscriber**" which expression includes its successors in title, assignees and transferees).

WHEREAS:-

(A) The Company owes various obligations to the Subscriber under the Deed of Guarantee, and the Subscriber wishes to secure these and any future obligations against all of the Assets of the Company from time to time; and

(B) The Company has therefore agreed to enter into this Charge in favour of the Subscriber on the following terms and conditions.

Definitions are given in Clause 1.1

NOW IT IS HEREBY AGREED as follows:-

1. **Definitions and Interpretation**

1.1 In the interpretation of this Charge:-

"Agreed Form" in relation to any document means the form agreed and for the purposes of identification only initialled by or on behalf of COGI and the Subscriber;

"**Assets**" means the whole of the undertaking, property, assets, rights and revenue (including uncalled capital) which is or may be from time to time comprised in the property and undertaking of the Company;

"COGI" means Coda Octopus Group, Inc. incorporated in the State of Delaware, whose principal place of business is at 164 West 25th Street, New York, New York 10001;

"Completion" means the carrying out by the parties of their obligations under Clauses 3.1 to 3.3 of the Subscription Agreement;

"Completion Date" means the date hereof;

"Confidentiality Agreement" means the agreement dated on or around the Completion Date between COGI and the Subscriber whereby the Subscriber agrees, inter alia, to keep certain information confidential;

"Debentures" means the two debentures to be granted on the date hereof in favour of the Subscriber, one debenture to be granted by Coda Octopus (UK) Holdings Ltd and the other by Martech Systems (Weymouth) Ltd and "**Debenture**" shall mean whichever of the Debentures as the context admits;

"Deed of Guarantee" means a deed in the Agreed Form to be entered into at Completion whereby those Subsidiaries which are registered in the United Kingdom agree to guarantee the obligations of COGI under the Transaction Documents;

"Intercreditor Deed" means a deed entered into on or around the Completion Date among COGI, the Subscriber and FGI regulating the priorities of the various charges and security interests held by the Subscriber and FGI;

"**Loan Note Instrument"** means the loan note instrument executed by COGI on the Completion Date pursuant to which the Notes are constituted;

"Lock-up Agreements" means certain agreements entered into on or around the date hereof between the directors and board members of COGI and the Subscriber undertaking (with certain exceptions) not to sell or transfer or otherwise dispose of any of their shares in COGI;

"Noteholder" means a person for the time being entered in the Register as a holder of any part of the Notes;

"Notes" means USD 12,000,000 Convertible Loan Notes due 21 February 2015 constituted by the Loan Note Instrument, or, as the case may be the Principal Amount Outstanding (as defined in the Loan Note Instrument) represented by them, and each "**Note**" shall be for a nominal amount of USD 100,000;

"Permitted Encumbrance" means a Floating Charge dated 30th October 2006 and registered with the Registrar of Companies on 17th November 2006 granted by the Company in favour of Faunus Group International, Inc. ("**FGI**") a Delaware corporation whose principal place of business is 80 Pine Street, 32nd Floor, New York, New York 10005;

"**Receiver**" means a receiver or administrative receiver appointed pursuant to this Charge in respect of the Company or over all or any of its Assets;

"**Secured Liabilities**" means all monies, obligations and liabilities, howsoever arising, now or at any time in the future due, owing or incurred by the Company to the Subscriber under and in terms of the Transaction Documents, direct or indirect, absolute or contingent, including without limitation all interest (as well after as before any demand made or judgment given), fees, charges, expenses, legal fees and accounting fees chargeable to and payable by the Subscriber under or in relation to any such monies, obligations and/or liabilities;

"Security Agreement" means an agreement in the Agreed Form to be entered into at Completion whereby COGI and those of its Subsidiaries incorporated in the United States of America grant a continuing and first security interest in and over the assets of COGI and those of its Subsidiaries incorporated in the United States of America

"**Security Interest**" means any mortgage, charge, pledge, lien encumbrance, security interest or other security arrangement of any kind;

"Subscription Agreement" means the subscription agreement dated the Completion Date between the Subscriber and COGI;

"Transaction Documents" means the Loan Note Instrument, the Subscription Agreement, this Floating Charge and the floating charge to be granted on the Completion Date by Coda Octopus R & D Ltd, the Debentures, the Lock-up Agreements, the Security Agreement, the Confidentiality Agreement, the Intercreditor Deed and all other documents entered into in connection with any of them.

1.2 The expressions "holding company" and "subsidiary" shall have the meanings given to them in Section 736 of the Companies Act 1985.

1.3 References to this Charge and to any provisions of it shall be construed as references to it in force for the time being and as amended, varied, supplemented, substituted or novated from time to time.

1.4 References to statutes, statutory provisions and other legislation shall include all amendments, modifications and re-enactments for the time being in force and shall include any orders, regulations, instruments or subordinate legislation under or deriving from the relevant statute or statutory provision.

1.5 Words importing the singular are to include the plural and vice versa.

1.6 A Receiver shall include a reference to joint receivers and any reference to the appointment of a person as receiver shall include a reference to the appointment of two or more persons as joint receivers.

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2. **Covenant to Pay**

2.1 The Company covenants to pay and discharge in full on demand to the Subscriber the Secured Liabilities when they fall due and payable.

2.2 Any amount not paid in accordance with this Charge when due shall (subject to Clause 2.3 below) carry interest at the rate of 2% per annum above the base rate quoted by The Royal Bank of Scotland plc from time to time or at such other rate as may be agreed between the Company and the Subscriber from time to time. In each case, interest shall accrue on a day to day basis until the date of irrevocable and unconditional repayment in full and, if unpaid, shall be compounded on the terms so agreed or (in the absence of such agreed terms) with quarterly rests on 31 March, 30 June, 30 September and 31 December in each year. Interest shall continue to be charged and compounded on this basis after as well as before any demand or judgment.

2.3 Clause 2.2 above shall not apply to the extent that default interest on such amount for such period is charged pursuant to the relevant Transaction Document and itself constitutes part of the Secured Liabilities.

3. **Charging Provision**

3.1 The Company grants a floating charge over the Assets to the Subscriber as a continuing security for the payment and discharge of the Secured Liabilities.

3.2 Paragraph 14 of Schedule B1 to the Insolvency Act 1986 (incorporated by Schedule 16 to the Enterprise Act 2002) shall apply to this Charge.

3.3 The security constituted by or pursuant to this Charge shall be in addition to and independent of, and shall not in any way prejudice or be prejudiced by, any other security, right or remedy against any person which the Subscriber may at any time hold for the satisfaction of the Secured Liabilities or any part thereof.

4. **Negative Pledge and Ranking of Charge**

4.1 The Company agrees that it shall be prohibited from granting or creating subsequent to the date of this Charge any fixed security or any other floating charge (as defined by the Companies Act 1985) having priority over or ranking pari passu with this Charge, other than in favour of the Subscriber.

4.2 In the event that the Company grants or creates any fixed security or floating charge in breach of the prohibition in Clause 4.1 above, this Charge shall rank in priority to that fixed security or floating charge.

4.3 The Subscriber by acceptance of this Charge hereby acknowledges the existence of the Permitted Encumbrance and that the Permitted Encumbrance has priority over the security of the Subscriber in all respects and the rights and powers of the Subscriber under this Charge shall always be subject to the Permitted Encumbrance for so long as the Permitted Encumbrance remains outstanding.

5. **Continuing Obligations**

The Company (subject to the rights of FGI under the Permitted Encumbrance) covenants with and undertakes to the Subscriber as follows:

5.1 in accordance with the terms of the Permitted Encumbrance the Company shall take all steps required by contract and law to satisfy its indebtedness to FGI secured by the Permitted Encumbrance no later than 31 January 2009 and to secure the discharge of the registered charges no later than 28 February 2009.

5.2 to register this Charge with the Registrar of Companies for Scotland no later than 21 days after the date of execution of this Charge.

5.3 upon discharge of the Permitted Encumbrance the Company shall take all steps required under the laws of Scotland to ensure that the Subscriber has a first ranking security interest in the Assets.

5.4 if required by the Subscriber to forthwith deposit with the Subscriber all or any documents, deeds, or other papers whatsoever relating to the Assets as the Subscriber may require.

5.5 to make timely payment of all lawful amounts in respect of the Assets when due including all rents, periodic charges and outgoings of any nature.

5.6 to keep all of the Assets in a good state of repair and in proper and good working order and condition and to permit the Subscriber and such other persons as the Subscriber may from time to time appoint for the purpose to enter and view the state and condition of the Assets on reasonable notice.

5.7 to insure and keep insured all of the Assets which are of an insurable nature against loss or damage by fire and all other usual risks as the Subscriber may require in the full amount of their reinstatement value in such name and in such offices as the Subscriber shall approve in terms not permitting the insurers to cancel the policy of insurance without giving at least 14 days' notice to the Company and to pay when due all premiums and any other charges necessary for effecting and maintaining such insurance and, if requested by the Subscriber, to have the interest of the Subscriber noted on any policy or policies and if required to deliver to the Subscriber such policy or policies and the receipt for every premium payable in respect of such policy or policies.

5.8 to hold all monies received on any insurance whatsoever in respect of loss, damage or destruction of the Assets whether under the covenant in paragraph 5.7 or otherwise on trust for the Subscriber to be applied in making good the loss or damage in respect of which the monies are received or in or towards discharge of the sums for the time being owing to the Subscriber under this Charge as the Subscriber may in its absolute discretion require.

5.9 not without the previous written consent of the Subscriber to create or attempt to create any mortgage, pledge, fixed or floating charge or other encumbrance or security interest on or over any of the Assets.

5.10 except for the Permitted Encumbrance, not to take or omit to take any action that might or would have the result of materially impairing the security interests created by this Charge. The Company will not grant to any person other than the Subscriber and the Noteholders any interest whatsoever in the Assets.

5.11 to inform the Subscriber immediately on becoming bound to complete the purchase of any estate or interest in any heritable or leasehold property after the date of this floating charge and to deposit with the Subscriber the deeds and documents of title relating to such property.

5.12 to execute at any time upon request over all or any of the property referred to in paragraph 5.11 and which is capable of being so charged, a standard security in favour of the Subscriber in such form as the Subscriber shall require.

5.13 to execute and do all such assurances and things including (without prejudice to the generality of the foregoing) charges and assignations as the Subscriber may require for perfecting the security constituted by this Charge and for facilitating the realisation of the Assets and for exercising all powers, authorities and discretions conferred by this Charge upon the Subscriber or any receiver appointed by the Subscriber and to give notice of any such assurance or other thing to any person the Subscriber may require.

5.14 to comply with any and all covenants and undertakings which the Company has entered into in the other Transaction Documents.

6. **Appointment of Receiver or administrator**

6.1 All monies secured by this Charge shall be immediately payable on demand by the Subscriber in accordance with the provisions of the Loan Note Instrument and the other Transaction Documents and failing payment immediately of any monies so demanded this security shall become immediately enforceable and the Subscriber shall be entitled to appoint in writing a Receiver of all or any of the Assets and/or an Administrator of the Company (in each case in accordance with and to the extent permitted by applicable laws) either immediately or at any time thereafter. In addition, all monies secured by this Charge shall also become payable without any demand and this security will become immediately enforceable in the same manner as if demanded either immediately or at any time after:

6.1.1 if the Company shall request that the Subscriber shall appoint a Receiver or an administrator; or

6.1.2 if there is an Event of Default (as detailed in Condition 9.1 of the Loan Note Instrument) which has not been remedied as provided for in Condition 9.2 of the Loan Note Instrument; or

6.1.3 if the Company fails to observe or commits any breach of any of the covenants undertakings conditions or provisions of this Charge provided always that (save for a breach of Paragraphs 5.1 or 5.2 of this Charge or a breach of Condition 9.1 (e) of the Loan Note Instrument) before this security becomes enforceable the Company shall have a period of 30 days (or such longer period as is reasonable in the circumstances and which is agreed between the Company and the Subscriber, both parties acting reasonably) from the earlier of (i) the date the Company becomes aware, or ought reasonably to be aware, of the failure to observe or commission of the breach and (ii) the date the Company is given notice by either the Subscriber or a majority (by value) of the Noteholders in which to remedy any failure to observe or breach. If the Company remedies the failure to observe or breach in accordance with this Paragraph 6.1.3 then this security shall not become immediately enforceable as a result of the failure to observe or breach which has been remedied;

6.1.4 if an order is made for the winding up of the Company by the court or if an effective resolution is passed for the members' or creditors' voluntary winding up of the Company; or

6.1.5 if a petition is presented for an administration order to be made in relation to the Company pursuant to the Insolvency Act 1986; or

6.1.6 if a receiver is appointed to all or any part of the property and assets of the Company.

6.2 After this Charge shall have become enforceable the Subscriber may in its absolute discretion enforce all or any part of the security constituted hereby in such manner as it sees fit.

7. **Security Protection**

This security shall be a continuing security notwithstanding any settlement of account or other matter whatsoever and is in addition to and shall not merge with or otherwise prejudice any contractual or other right or remedy or any other security now or hereafter held by or available to the Subscriber and shall not be in any way prejudiced or affected thereby or by the Subscriber now or hereafter dealing with, exchanging, releasing, varying or abstaining from perfecting or enforcing any of the same or any rights which they may now or hereafter have or giving time for payment or indulgence or compounding with any other person liable.

8. **Company to meet expenses of the Subscriber**

The Company shall pay (on a full indemnity basis) all liabilities, costs, charges and expenses (including any taxes levied or assessed) incurred or to be incurred by the Subscriber in the creation, registration, perfection, enforcement, discharge and assignation of this Charge, which costs, charges and expenses shall form part of the Secured Liabilities.

9. **Further Assurance**

The Company shall whenever requested by the Subscriber execute and sign all such deeds and documents and do all such things as the Subscriber may require at the Company's cost over any property or assets specified by the Subscriber for the purpose of perfecting or more effectively providing security to the Subscriber for the payment and discharge of the Secured Liabilities.

10. **Power of Attorney**

The Company irrevocably appoints the Subscriber (whether or not a Receiver has been appointed) and also (as a separate appointment) the Receiver severally as the attorney and attorneys of the Company, for the Company and in its name and on its behalf and as its act and deed or otherwise to execute and deliver and otherwise perfect any deed, assurance, agreement, instrument or act which may be required of the Company under this Charge or may be deemed proper for any of its purposes.

11. **Power to grant the Charge**

11.1 The Company represents and warrants to the Subscriber that:-

11.1.1 it is duly incorporated and validly existing in the United Kingdom and has full authority to enter into this Charge and to perform its obligations hereunder;

11.1.2 this Charge constitutes its legal, valid and binding obligation and is an effective security over the Assets;

11.1.3 that neither the execution of this Charge nor the creation of any security under or pursuant to it contravenes or will contravene the provisions of the memorandum or articles of association of the Company or any equivalent constitutional documents governing the Company;

11.1.4 the Company is the sole legal and beneficial owner of the Assets subject to the Permitted Encumbrance or any other security interests disclosed in the Disclosure Letter;

11.1.5 the Company has not stopped payment on any debts and is not insolvent or unable to pay its debts for the purpose of Section 123 of the Act;

11.1.6 all approvals required to be obtained whether under the provisions of the Companies Act 1985 or any other enactment have been duly obtained and that it is in a position to enter into this Charge.

11.1.7

11.2 The Company agrees and undertakes to indemnify the Subscriber on a full indemnity basis from and against all and any liabilities arising as a result of any breach of the warranties set out in Paragraph 11.1.

12. **Demands or Notices**

12.1 A demand for payment or any other demand or notice under this Charge shall either be delivered personally or sent by first class recorded delivery post, tested telex or facsimile transmission. The address of the service of each party shall be the address stated in this Charge or such other address as it shall have from time to time notified to the other party. A notice shall be deemed to have been served as follows:-

12.1.1 if personally delivered, at the date of delivery;

12.1.2 if posted, at the expiration of 48 hours after the envelope containing the same was delivered into the custody of the postal authority; and

12.1.3 if sent by facsimile transmission, at the time of transmission.

12.2 A certificate by any manager or officer of the Subscriber as to the amount of the Secured Liabilities or any part of them shall in the absence of manifest error, be conclusive and binding on the Company.

13. **Assignation**

13.1 The Subscriber may assign and transfer the benefit of this Charge to any person acting for the benefit of the Noteholders and all references in this Charge to the Subscriber shall be deemed to include its assignees and other successors.

13.2 The Company shall not be entitled to assign or transfer all or any of its rights in respect of this Charge to any person without the prior written consent of the Subscriber.

14. **Currency Clauses**

14.1 All monies received or held by the Subscriber, a Receiver or an administrator under this Charge may from time to time after demand has been made by the Subscriber be converted into such other currency as the Subscriber considers necessary or desirable to cover the obligations and liabilities actual or contingent of the Company in that other currency at the then prevailing spot rate of exchange obtainable by the Subscriber (as conclusively determined by the Subscriber) for purchasing that other currency with the existing currency.

14.2 If and to the extent that the Company fails to pay the amount due on demand the Subscriber may in its absolute discretion without notice to the Company purchase at any time thereafter so much of any currency as the Subscriber considers necessary or desirable to cover the obligations and liabilities of the Company in such currency hereby secured at the then prevailing spot rate of exchange obtainable by the Subscriber (as conclusively determined by the Subscriber) for purchasing such currency with sterling and the Company hereby agrees to indemnify the Subscriber against the full sterling cost incurred by the Subscriber for such purchase.

14.3 No payment to the Subscriber (whether under any judgement or court order or otherwise) shall discharge the obligation or liability of the Company in respect of which it was made unless and until the Subscriber shall have received payment in full in the currency in which such obligation or liability was incurred and to the extent that the amount of any such payment shall on actual conversion into such currency falls short of such obligation or liability actual or contingent expressed in that currency the Subscriber shall have a further separate cause of action against the Company and shall be entitled to enforce the charges hereby created to recover the amount of the shortfall.

15. **Miscellaneous**

15.1 All the provisions of this Charge are severable and distinct from one another and if at any time one or more of such provisions is or becomes invalid illegal or unenforceable the validity legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby.

15.2 No payment to the Subscriber (whether under any judgment or order of any Court or otherwise) shall discharge the obligation or liability of the Company in respect of which it was made unless and until the Subscriber shall have received payment in full and to the extent that the amount of any such payment shall fall short of such obligation or liability the Subscriber shall have a further separate cause of action against the Company and shall be entitled to enforce the charges hereby created to recover such sum as shall pay the amount of the shortfall.

15.3 No failure or delay by the Subscriber in exercising any right or remedy shall operate as a waiver thereof nor shall any single or partial exercise or waiver of any right or remedy preclude its further exercise or the exercise of any other right or remedy as though no waiver had been made and no relaxation or indulgence granted.

15.4 Any change in the constitution of the Subscriber or its absorption in or amalgamation with any other person or the acquisition of all or part of its undertaking by any other person shall not in any way prejudice or affect its rights hereunder.

16. **Governing Law**

This Charge shall be governed by and construed in accordance with the law of Scotland and the parties hereby prorogate the non-exclusive jurisdiction of the Scottish Courts.

17. **17. Consent to Registration**

The Company consents to the registration of this Charge and of the certificate referred to in Clause 12 above for preservation and execution: IN WITNESS WHEREOF this Charge consisting of this and the 10 preceding pages are executed as follows:-

SUBSCRIBED for and on behalf of the said
CODA OCTOPUS PRODUCTS LIMITED

at .....

on .....

by

.....Director
Jason Lee Reid

.....Director
(Signature)

.....Director/
Jody Frank Secretary

.....Director/
(Signature) Secretary

DATED ___ 2008

CODA OCTOPUS (UK) HOLDINGS LIMITED (1)

And

THE ROYAL BANK OF SCOTLAND PLC (2)

DEBENTURE

Stuart Hodge Corporate Lawyers
3 Temple Row West
Birmingham

DATE OF DEBENTURE **2008**

BETWEEN:-

(1) CODA OCTOPUS (UK) HOLDINGS LIMITED (Company Number 5834897) whose registered office is at 14 Albany Road, Granby Industrial Estate, Weymouth, Dorset DT4 9TH (the "**Company**"); and

(2) THE ROYAL BANK OF SCOTLAND PLC (Registered Number 90312) acting through its London offices located at 135 Bishopsgate, London EC2M 3UR (the "**Subscriber**");

IT IS AGREED THAT:

1. DEFINITIONS

1.1 Unless the context otherwise requires the following expressions shall have the following meanings wherever used in this agreement and its introduction:

"Act"	means the Insolvency Act 1986.
"Agreed Form"	in relation to any document means the form agreed and for the purposes of identification only initialled by or on behalf of COGI and the Subscriber.
"Business Day"	means a day (excluding Saturdays, Sundays and any public holiday) on which banks are open for business in London for the transaction of normal banking business.
"Charged Property"	means all of the undertaking, assets, rights, revenues and property (present and future) of the Company charged to the Subscriber under paragraph 4 of this Debenture.
"COGI"	Coda Octopus Group, Inc. incorporated in the State of Delaware, whose principal place of business is at 164 West 25th Street, New York, New York 10001.
"Completion"	means the carrying out by the parties of their obligations under Clauses 3.1 to 3.3 of the Subscription Agreement.
"Completion Date"	means the date hereof.
"Confidentiality Agreement"	means the agreement dated on or around the Completion Date between COGI and the Subscriber whereby the Subscriber agrees, inter alia, to keep certain information confidential.

"Debts"	means all present and future book and other debts and any other monies of any nature whatsoever due to the Company (and whether or not yet due and payable) now or at any time during the continuance of the security interest created under this Debenture.
"Deed of Guarantee"	means a deed in the Agreed Form to be entered into at Completion whereby those Subsidiaries which are registered in the United Kingdom agree to guarantee the obligations of COGI under the Transaction Documents
"Equipment	means all plant, machinery, jigs, moulds, fixtures, fittings (not being landlord's fixtures) furniture, equipment and tools now or at any time during the continuance of this security belonging to the Company.
"Floating Charges"	means the two floating charges to be granted on the date hereof in favour of the Subscriber, one floating charge to be granted by Coda Octopus Products Ltd and the other by Coda Octopus R & D Ltd and "Floating Charge" shall mean whichever of the Floating Charges as the context admits
"Goodwill"	means the goodwill of the Company's business as carried on by the Company after the date of this Debenture;
"Intellectual Property"	means all customer information, patterns, drawings, product names, intellectual property and design rights including (without limitation) trade marks or trade names (whether registered or not), all patents, patent applications, registered designs, copyright, letters patent, service marks, business names, inventions, trade secrets, confidential information and know-how (together with the benefit but subject to the burden of any licences consents or permissions relating to them) of or used by the Company in the Company's business.
"Intercreditor Deed"	means a deed entered into on or around the Completion Date among COGI, the Subscriber and FGI regulating the priorities of the various charges and security interests held by the Subscriber and FGI.
"Loan Note Instrument"	means the loan note instrument executed by COGI on the Completion Date pursuant to which the Notes are constituted.

"Lock-up Agreements"	means certain agreements entered into on or around the date hereof between the directors and board members of COGI and the Subscriber undertaking (with certain exceptions) not to sell or transfer or otherwise dispose of any of their shares in COGI.
"Noteholder"	means the person for the time being entered in the Register as a holder of any part of the Notes.
"Notes"	means USD 12,000,000 Convertible Loan Notes due 21 February 2015 constituted by the Loan Note Instrument, or, as the case may be the Principal Amount Outstanding (as defined in the Loan Note Instrument) represented by them, and each "Note" shall be for a nominal amount of USD 100,000.
"Permitted Encumbrance"	A debenture dated 30 October 2006 and registered on 7 November 2006 granted by the Company in favour of Faunus Group International, Inc (**"FGI"**) a Delaware corporation whose principal place of business is 80 Pine Street, 32nd Floor, New York, New York 10005.
"Securities"	means all stocks, shares, debentures, debenture stock, loan stock, bonds and securities issued by any company or person (other than the Company) and all other investments (as listed in Part II of Schedule 2 to the Financial Services and Markets Act 2000).
"Security Agreement"	means an agreement in the Agreed Form to be entered into at Completion whereby COGI and those of its Subsidiaries incorporated in the United States of America grant a continuing and first security interest in and over the assets of COGI and those of its Subsidiaries incorporated in the United States of America
"Stock"	means all stock in trade and raw materials now or at any time during the continuance of this security belonging to the Company.
"Subscription Agreement"	means the subscription agreement dated the Completion Date between the Subscriber and COGI.
"Transaction Documents"	means the Subscription Agreement, the Loan Note Instrument, the Deed of Guarantee, this Debenture and the debenture to be granted on the Completion Date by Martech Systems (Weymouth) Ltd, the Floating Charges, the Lock-up Agreements, the Security Agreement, the Confidentiality Agreement, the Intercreditor Deed and all other documents entered into in connection with any of them.

"VAT"	means Value Added Tax.
"Vehicles"	means all vehicles now or at any time during the continuance of this security owned by the Company.
"Work in Progress"	means all partly completed goods or services allocated by the Company from time to time to its contracts with its customers for the supply of goods or services.
"1925 Act"	means the Law of Property Act 1925

1.2 In interpreting this agreement:

1.2.1 references to clauses and schedules are, unless otherwise stated, references to clauses, sub-clauses and schedules in or annexed to this agreement;

1.2.2 the headings used in this agreement are for convenience only and shall not affect its interpretation;

1.2.3 where any agreement, obligation, covenant, warranty, undertaking or representation is expressed to be made, undertaken or given by two or more persons they shall be jointly and severally responsible in respect of such matter;

1.2.4 reference to "a person" shall be construed so as to include any individual, firm, company or partnership (whether or not having a separate legal personality and whether incorporated or not);

1.2.5 references to any enactment shall be deemed to include references to such enactment as re-enacted, amended or extended.

2. COVENANT TO PAY

The Company covenants to pay to the Subscriber on demand all sums which are due or which may after the date of this Debenture become due or owing to the Subscriber from the Company under the provisions of the Transaction Documents.

3. LIABILITIES SECURED BY THE DEBENTURE

This Debenture shall be continuing security to the Subscriber for payment or discharge on demand of the following:

3.1 all present and future indebtedness of the Company to the Subscriber and the Noteholders arising under the terms of the Transaction Documents; and

3.2 all costs, charges, expenses, claims and liabilities of any kind whatsoever and howsoever arising owed to or incurred directly or indirectly by the Subscriber and the Noteholders in relation to the enforcement of this security,

(together the "Secured Liabilities").

4. PROPERTY CHARGED BY THE DEBENTURE

The Company with full title guarantee (except for the Permitted Encumbrance) and with the intent that the security created by this Debenture shall rank as continuing security for payment and discharge of the Secured Liabilities described in paragraph 3 above:

4.1 charges by way of fixed charge all right, title and interest in any freehold or leasehold property now or at any time during the continuance of this security belonging to the Company, including all present future rights, licences, guarantees, rents, deposits and contracts;

4.2 charges by way of fixed charge all right, title and interest in any stocks, shares or other securities and monies standing to the credit of any bank account now or at any time during the continuance of this security belonging to the Company;

4.3 assigns by way of first fixed mortgage its rights in any policies of insurances, assurances present or future;

4.4 charges by way of fixed charge its Goodwill and Intellectual Property;

4.5 charges by fixed charge all its Equipment and Vehicles; and

4.6 charges by floating charge all of the Company's undertaking and all Debts, stock and work in progress, and all other property, assets and rights now or at any time during the continuance of this security belonging to the Company not otherwise charged by the charges set out in paragraphs 4.1 to 4.5 inclusive.

The charge on the property and assets described in Paragraph 4.6 (and also on such other property and assets of the Company both present and future as the Subscriber may have agreed in writing to exclude from the fixed charge or are otherwise not charged hereunder by way of fixed charge) is created as a floating charge until a demand has been made under Paragraph 7 or until the provisions of Paragraph 7 relating to enforcement without demand become operative when the floating charge shall crystallize and become a fixed charge. Any assets acquired by the Company after the floating charge has crystallized shall be treated as if charged by way of a fixed charge.

5. ACKNOWLEDGEMENT OF PRIOR CHARGE

The Subscriber hereby acknowledges the existence of the Permitted Encumbrance and that the Permitted Encumbrance has priority over the security of the Subscriber in all respects and the rights and powers of the Subscriber under this Debenture shall always be subject to the Permitted Encumbrance for so long as the Permitted Encumbrance remains outstanding.

6. COMPANY'S COVENANTS

The Company (subject to the rights of FGI under the Permitted Encumbrance) covenants with and undertakes to the Subscriber as follows:

6.1 in accordance with the terms of the Permitted Encumbrance the Company shall take all steps required by contract and law to satisfy its indebtedness to FGI secured by the Permitted Encumbrance no later than 31 January 2009 and to secure the discharge of the registered charges no later than 28 February 2009.

6.2 to register the Debenture with the Registrar of Companies for England and Wales no later than 21 days after the date of execution of this Debenture.

6.3 upon discharge of the Permitted Encumbrance the Company shall take all steps required under the laws of England and Wales to ensure that the Subscriber has a first ranking security interest in the Charged Property.

6.4 if required by the Subscriber to forthwith deposit with the Subscriber all or any documents, deeds, or other papers whatsoever relating to the Charged Property as the Subscriber may require;

6.5 to make timely payment of all lawful amounts in respect of the Charged Property when due including all rents, periodic charges and outgoings of any nature.

6.6 to keep all of the Charged Property in a good state of repair and in proper and good working order and condition and to permit the Subscriber and such other persons as the Subscriber may from time to time appoint for the purpose to enter and view the Charged Property's state and condition on reasonable notice;

6.7 to insure and keep insured all of the Charged Property which are of an insurable nature against loss or damage by fire and all other usual risks as the Subscriber may require in the full amount of their reinstatement value in such name and in such offices as the Subscriber shall approve in terms not permitting the insurers to cancel the policy of insurance without giving at least 14 days' notice to the Company and to pay when due all premiums and any other charges necessary for effecting and maintaining such insurance and, if requested by the Subscriber, to have the interest of the Subscriber noted on any policy or policies and if required to deliver to the Subscriber such policy or policies and the receipt for every premium payable in respect of such policy or policies;

6.8 to hold all money received on any insurance whatsoever in respect of loss, damage or destruction of the Charged Property whether under the covenant in paragraph 6.7 or otherwise on trust for the Subscriber to be applied in making good the loss or damage in respect of which the money is received or in or towards discharge of the sums for the time being owing to the Subscriber under this Debenture as the Subscriber may in its absolute discretion require;

6.9 not without the previous written consent of the Subscriber to create or attempt to create any mortgage, pledge, fixed or floating charge or other encumbrance or security interest on or over any of the Charged Property;

6.10 except for the Permitted Encumbrance, not to take or omit to take any action that might or would have the result of materially impairing the security interests created by this Debenture. The Company will not grant to any person other than the Subscriber and the Noteholders any interest whatsoever in the Charged Property;

6.11 to inform the Subscriber immediately on becoming bound to complete the purchase of any estate or interest in any freehold or leasehold property after the date of this Debenture and to deposit with the Subscriber the deeds and documents of title relating to such property ;

6.12 to execute at any time upon request over all or any of the property referred to in paragraph 6.11, charge by way of legal mortgage in favour of the Subscriber in such form as the Subscriber shall require;

6.13 to execute and do all such assurances and things including (without prejudice to the generality of the foregoing) legal mortgages, charges and assignments as the Subscriber may require for perfecting the security constituted by this Debenture and for facilitating the realisation of the Charged Property and for exercising all powers, authorities and discretions conferred by this Debenture upon the Subscriber or any receiver appointed by the Subscriber and to give notice of any such assurance or other thing to any person the Subscriber may require;

6.14 to comply with any and all covenants and undertakings which the Company has entered into in the other Transaction Documents.

7. DEFAULT

Section 103 of the 1925 Act shall not apply to this Debenture and all money secured by this Debenture shall be immediately payable on demand by the Subscriber in accordance with the provisions of the Loan Note Instrument and the other Transaction Documents and failing payment immediately of any money so demanded this security shall become immediately enforceable and the power of sale conferred upon mortgagees by the 1925 Act immediately exercisable without the restrictions contained in the 1925 Act as to the giving of notice or otherwise. All money secured by this Debenture shall also become payable without any demand and this security will become immediately enforceable in the same manner as if demanded on the occurrence of any of the following events:

7.1 if there is an Event of Default (as detailed in Condition 9.1 of the Loan Note Instrument) which has not been remedied as provided for in Condition 9.2 of the Loan Note Instrument;

7.2 if the Company fails to observe or commits any breach of any of the covenants, undertakings, conditions or provisions of this Debenture provided always that (save for a breach of Paragraphs 6.1 or 6.2 of this Debenture or a breach of Condition 9.1 (e) of the Loan Note Instrument) before this security becomes enforceable the Company shall have a period of 30 days (or such longer period as is reasonable in the circumstances and which is agreed between the Company and the Subscriber, both parties acting reasonably) from the earlier of (i) the date the Company becomes aware, or ought reasonably to be aware, of the failure to observe or commission of the breach and (ii) the date the Company is given notice by either the Subscriber or a majority (by value) of the Noteholders in which to remedy any failure to observe or breach. If the Company remedies the failure to observe or breach in accordance with this Paragraph 7.2 then this security shall not become immediately enforceable as a result of the failure to observe or breach which has been remedied;

7.3 if an order is made for the winding up of the Company by the court or if an effective resolution is passed for the members' or creditors' voluntary winding up of the Company;

7.4 if a petition is presented for an administration order to be made in relation to the Company pursuant to the Act; or

7.5 if a receiver is appointed of all or any part of the property and assets of the Company.

8. APPOINTMENT OF A RECEIVER, ADMINISTRATOR, LIQUIDATOR OR PROVISIONAL LIQUIDATOR

8.1 Paragraph 14 of Schedule B1 to the Act (the power by the holder of a floating charge to appoint an administrator of the Company) shall apply to this Debenture. At any time after the Subscriber has demanded payment of any of the liabilities secured by Paragraph 3, or any step or proceeding has been taken for the appointment of a receiver, administrator, liquidator or provisional liquidator, or with a view to seeking a moratorium or a voluntary arrangement, in respect of the Company, or if requested by the Company, the Subscriber may appoint by writing, insofar as permitted by law, any person or persons to be a receiver and manager of all or any of the Charged Property or an administrator or administrators; and this Debenture shall in any of such events become immediately enforceable.

8.2 Where the Subscriber appoints more than one person as receiver, liquidator or provisional liquidator or administrator, they shall have power to act separately unless the Subscriber specifies to the contrary in the appointment.

8.3 The Subscriber may from time to time determine the remuneration of the receiver, administrator, liquidator or provisional liquidator.

8.4 Once a receiver, administrator, liquidator or provisional liquidator is appointed, the Subscriber will not be precluded from making any subsequent appointment of a receiver, administrator, liquidator or provisional liquidator over any Charged Property, whether or not any receiver, administrator, liquidator or provisional liquidator previously appointed continues to act.

8.5 The receiver, administrator, liquidator or provisional liquidator will be the agent of the Company and the Company will be solely liable for his acts, defaults and remuneration unless the Company goes into liquidation, after which he shall act as principal and not become the agent of the Subscriber.

8.6 The receiver, administrator, liquidator or provisional liquidator will be entitled to exercise all the powers set out in Schedules 1 and 2 to the Act. In addition, but without limiting these powers and without prejudice to the Subscriber's powers (including the power of the Subscriber to sell or otherwise dispose of all or any part of the Charged Property (at the times, in the manner and on the terms it thinks fit) and to apply the proceeds of such sale or other disposal in paying the costs of that sale or disposal and in or towards the discharge of the Secured Liabilities). Such power of sale or other disposal shall operate as a variation and extension of the statutory power of sale under section 101 of the 1925 Act and the receiver, administrator liquidator or provisional liquidator will have power with or without the concurrence of others and subject always to the rights under the Permitted Encumbrance:

8.6.1 to sell, let, lease or grant licences of, or vary the terms or terminate or accept surrenders of leases, tenancies or licences of, all or any of the Charged Property, or grant options over them, on any terms the Receiver thinks fit in his absolute discretion and any sale or disposition may be for cash, payable in a lump sum or by instalments, or other valuable consideration;

8.6.2 to sever any fixtures from land and/or sell them separately;

8.6.3 to promote a company to purchase all or any Charged Property or any interest in them;

8.6.4 to make and effect all repairs, renewals and improvements to the Charged Property and effect, renew or increase insurances on the terms and against the risks that he thinks fit;

8.6.5 to exercise all voting and other rights attaching to Securities and investments generally;

8.6.6 to redeem any prior encumbrance and settle and pass the accounts of the encumbrancer so that all accounts so settled and passed will (except for any manifest error) be conclusive and binding on the Company and the money so paid will be deemed to be an expense properly incurred by the receiver, administrator, liquidator or provisional liquidator;

8.6.7 to pay the Subscriber's proper charges for time spent by the Subscriber's employees and agents in dealing with matters raised by the administrator, liquidator or provisional liquidator or relating to the administration; and

8.6.8 to do all other acts and things which he may consider incidental or conducive to any of the above matters or powers or to the preservation, improvement or realisation of the Charged Property.

8.7 Subject to section 45 of the Act, the Subscriber may at any time remove a receiver, administrator, liquidator or provisional liquidator from all or any of the Charged Property of which he is the receiver, administrator, liquidator or provisional liquidator.

9. APPOINTMENT OF ATTORNEY

The Company irrevocably by way of security appoints the Subscriber and any person nominated in writing by the Subscriber including any receiver appointed under this Debenture as attorney of the Company for the Company and in its name and on its behalf to execute seal and deliver and otherwise perfect and do any deed, assurance, agreement, instrument, act or thing which it ought to execute and do under the covenants undertakings and provisions of this Debenture or which may be required or deemed proper for any of the purposes of the Debenture.

10. INDEMNITY

10.1 The Company shall indemnify the Subscriber and any receiver, administrator, liquidator, provisional liquidator, attorney manager, agent or other person appointed by the Subscriber under this Debenture out of the Charged Property in respect of all actions, proceedings, costs, claims, liabilities and demands ("Liabilities") incurred or suffered directly or indirectly by any of them in the execution or purported execution of any of their powers, duties or functions under this Debenture or otherwise and against all actions, proceedings, costs, claims, liabilities and demands of any nature in respect of any thing done or omitted to be done in any way relating to their powers duties and functions.

10.2 Any receiver, administrator, liquidator or provisional liquidator appointed under this Debenture may retain and pay all sums in respect of any of the liabilities and expenses referred to in paragraph out of any money received by him under the powers conferred by this Debenture.

10.3 The Company shall ratify and confirm all transactions entered into by the Subscriber or any receiver, administrator, liquidator or provisional liquidator in the exercise or purported exercise of the Subscriber's or the receiver's powers and all documents entered into or things done by the Subscriber or the receiver or other person acting under the Power of Attorney in paragraph 9.

11. DEMANDS AND NOTICES

Any demand or written notice to be served under this agreement may be delivered to Company at the address set out in this Debenture or to such other address as may previously have been notified in writing to the Subscriber or to the Company's registered office or principal place of business. Notice shall either be delivered personally, sent by first class pre-paid post to an address within the United Kingdom and by Air Mail to an address outside the United Kingdom or by facsimile transmission and shall be deemed to have been received by the recipient party (notwithstanding that it may be returned undelivered) in the case of personal delivery on delivery and in the case of posting to an address in the United Kingdom at 10.00 am on the second Business Day following the day of posting and in the case of posting to an address outside of the United Kingdom at 10.00 am on the fifth Business Day following the day of posting and in the case of facsimile transmission on completion of the transmission.

12. COMPLIANCE WITH CONSTITUTIONAL DOCUMENTS

The Company warrants that:

12.1 it is duly incorporated and validly existing in the United Kingdom and has full authority to enter into this Debenture and to perform its obligations hereunder;

12.2 this Debenture constitutes its legal, valid and binding obligation and is an effective security over the Charged Property;

12.3 that neither the execution of this Debenture nor the creation of any security under or pursuant to it contravenes or will contravene the provisions of the memorandum or articles of association of the Company or any equivalent constitutional documents governing the Company;

12.4 the Company is the sole legal and beneficial owner of the Charged Property subject to the Permitted Encumbrance or any other security interests disclosed in the Disclosure Letter;

12.5 the Company has not stopped payment on any debts and is not insolvent or unable to pay its debts for the purpose of Section 123 of the Act;

12.6 all approvals required to be obtained whether under the provisions of the Companies Act 1985 or any other enactment have been duly obtained and that it is in a position to enter into this Debenture;

and the Company agrees and undertakes to indemnify the Subscriber on a full indemnity basis from and against all and any Liabilities arising as a result of any breach of any of the warranties set out in this Paragraph 12.

13. FOREIGN CURRENCY

If, for any reason, any amount payable by the Company is paid or recovered in a currency other than that in which it is required to be paid (the "**Contractual Currency**") and, when converted into the contractual currency at the exchange rate applicable at the time, leaves the Subscriber with less than the amount payable in the contractual currency, the Company must make good the amount of the shortfall (without deduction) on demand.

14. CONTINUING SECURITY

This Debenture will be a continuing security for the liabilities detailed in Paragraph 3 notwithstanding any intermediate payment or settlement of all or any part of such liabilities or other matter or thing whatsoever and will be without prejudice and in addition to any other right, remedy or security of whatever sort which the Subscriber may hold at any time for such liabilities or any other obligation whatsoever and will not be affected by any release, reassignment or discharge of any other right remedy or security.

15. ASSIGNMENT

The Subscriber shall be entitled to assign the benefit of this Debenture to any party acting for the benefit of the Noteholders, provided such assignment is requested by an Extraordinary Resolution of the Noteholders in accordance with the provisions of the Loan Note instrument.

16. SUBSCRIBER'S AND RECEIVER'S LIABILITY

The Subscriber shall not nor shall any receiver appointed as aforesaid by reason of its or the receiver's entering into possession of the Charged Property or any part thereof be liable to account as mortgagee in possession or be liable for any loss on realisation or for any default or omission for which a mortgagee in possession might be liable but every receiver duly appointed by the Subscriber under this Debenture shall (subject always to the provisions of the Act) be deemed to be the agent of the Company for all purposes and shall as such agent for all purposes be deemed to be in the same position as a receiver duly appointed by a mortgagee under the 1925 Act and the Subscriber and every such receiver shall be entitled to all the rights powers privileges and immunities by the 1925 Act conferred on mortgagees and receivers when such receivers have been duly appointed under the 1925 Act.

17. PROTECTION OF THIRD PARTIES

17.1 No person paying or handing over monies to the Subscriber or a receiver and obtaining a discharge shall have any responsibility or liability to see to their correct application.

17.2 No person dealing with the Subscriber or a receiver need enquire:

17.2.1 whether any event has happened giving either the Subscriber or the receiver the right to exercise any of his powers;

17.2.2 as to the propriety or regularity of any act purporting or intending to be an exercise of such powers;

17.2.3 as to the validity or regularity of the appointment of any receiver purporting to act or to have been appointed as such; or

17.2.4 whether any money remains owing upon this security.

17.3 All the protection to purchasers contained in Sections 104 and 107 of the Law of Property Act 1925 shall apply to any person purchasing from or dealing with the receiver or the Subscriber as if the liabilities secured by this Debenture had become due and the statutory power of sale and appointing a receiver in relation to the Charged Property had arisen on the date of this Deed.

17.4 No person dealing with the Subscriber or the receiver shall be affected by express notice that any act is unnecessary or improper.

18. THIRD PARTIES

The Contracts (Rights of Third Parties) Act 1999 shall not apply to this Debenture and a person who is not a party to this Agreement shall not have nor acquire any right to enforce any term of it pursuant to that Act. This provision shall not affect any right or remedy of any third party which exists or is available otherwise than by reason of that Act and shall prevail over any other provision of this Debenture which is inconsistent with it.

19. GENERAL LAW AND CONSTRUCTION

19.1 This Debenture shall be construed and governed in all respects in accordance with English law and shall be subject to the non-exclusive jurisdiction of the English courts.

19.2 The Company agrees that if any of the provisions in this Debenture is held to be invalid but would be valid if part of the wording were deleted or modified then such provision shall apply with such modification as may be necessary to make it enforceable.

19.3 No failure to exercise nor any delay in exercising, on the part of the Subscriber, any right or remedy under the terms of this Debenture shall operate as a waiver, nor shall any single or partial exercise of any right or remedy prevent its further exercise or the exercise of any other right or remedy. The rights and remedies provided in this Debenture are cumulative and not exclusive of any rights or remedies provided by law and nothing in this agreement shall operate to restrict or affect in any way any right of the Subscriber to be indemnified or to exercise a lien howsoever.

AS WITNESS this Debenture has been executed and delivered as a deed by the Company on the date first above written

EXECUTED AS A DEED by `
Coda Octopus (UK) Holdings Limited
acting by:-

)
)
)

.....
Director

.....
Director/Secretary

EXECUTED AS A DEED by `
THE ROYAL BANK OF SCOTLAND PLC
acting by:-

)
)
)

.....

DATED

20 February 2008

INTERCREDITOR DEED

relating to

PRIORITY OF SECURED CREDITORS

between

THE ROYAL BANK OF SCOTLAND PLC

and

FAUNUS GROUP INTERNATIONAL, INC

and

CODA OCTOPUS GROUP, INC. AND CERTAIN OF ITS SUBSIDIARIES

THIS DEED IS DATED 20 FEBRUARY 2008

PARTIES

(1) Faunus Group International, Inc. a Delaware corporation whose principal place of business is 80 Broad Street, 22nd Floor, New York, New York 10004 ("**Senior Lender**").

(2) The Royal Bank of Scotland plc, incorporated and registered in Scotland with company number 90312 acting through its London offices located at 135 Bishopsgate, London EC2M 3UR ("**Junior Lender**").

(3) Coda Octopus Group Inc., incorporated in the State of Delaware and whose principal place of business is at 164 West 25th Street, New York, New York and being the parent of the Guarantors ("**Borrower**").

(4) The several persons whose details are set out in Schedule 1 (each a "**Guarantor**" and together the "**Guarantors**").

BACKGROUND

(A) Pursuant to the Senior Financing Documents, the Senior Lender has:

(i) purchased from certain of the Grantors, and the relevant Grantors have assigned and/or otherwise transferred to the Senior Lender, or are in the future required to do so, the Financed Receivables; and

(ii) the benefit of certain Security Interests over the Borrower's and each of the Guarantor's property which secure the underlying obligations of the Borrower and each Guarantor under the Senior Financing Documents.

(B) The Junior Lender has agreed to provide the Junior Debt to the Borrower.

(C) The Senior Lender and Junior Lender have agreed that the priorities of their respective Securities and Debts shall be regulated in the manner set out in this Deed.

(D) The Borrower and each of the Guarantors have agreed to enter into this Deed to acknowledge its terms and to give certain covenants to the Lenders.

AGREED TERMS

1. INTERPRETATION

1.1 The definitions and rules of interpretation in this Clause apply in this Deed.

Charged Property: all property of each of the Grantors mortgaged or charged to, or otherwise the subject of Security Interests granted to, the Senior Lender pursuant to the Senior Security Documents.

Financed Receivables: all those book and other debts of any of the Grantors that have been, or purportedly been, sold, assigned and/or transferred to the Senior Lender under and in accordance with the Senior Receivables Finance Documents.

Grantors: the Borrower and the Guarantors.

Junior Debt: all of the debts and liabilities and other payment obligations due, owing or incurred by each Grantor to the Junior Lender pursuant to the Loan Note Documents and any other debt, liability or other payment obligation which, at the date of this Deed or from time to time, may be owing or existing as a contingent liability of a Grantor to the Junior Lender secured by the Junior Security.

Junior Debt Conversion: as is defined in Clause 5.5 (*Permitted payments and preservation of Junior Debt*).

Junior Security: the Security Interests constituted by the Junior Security Documents, together with any other Security Interest which at the date of this Deed secures any of the Junior Debt.

Junior Security Documents: The Deed of Guarantee, the Debentures, the Floating Charges and the Security Agreement all dated Completion Date (as is defined in the Deed of Guarantee).

Lender: each of the Senior Lender and the Junior Lender and **"Lenders"** shall be construed accordingly.

Loan Note Documents: the various documents constituting the Junior Debt between the Junior Lender and each of the Grantors entered into on Completion Date (as is defined in the Deed of Guarantee).

Security: the Senior Security and the Junior Security together or either of them.

Security Interest: any mortgage, pledge, lien, charge (whether fixed or floating), security assignment, security transfer, hypothecation, standard security or any other security agreement, retention of title or encumbrance of any kind or any other arrangement (whether relating to existing or future assets) having substantially the same economic affect as any of the foregoing (including, without limitation, the deposit of monies or property with a person with the primary intention of affording such person a right of set-off or lien).

Senior Debt: all of the debts and liabilities due, owing or incurred by each Grantor to the Senior Lender pursuant to the Senior Financing Documents (including without limitation all principal and interest (including interest accrued at the applicable default rate and interest that would have accrued but for any proceeding, whether or not allowed in such Proceeding) and any other debt, liability or other payment obligation which, at the date of this Deed or from time to time, may be owing or existing as a contingent liability of a Grantor to the Senior Lender secured by the Senior Security).

Senior Discharge Date: the date on which the Senior Debt shall have been indefeasibly discharged in full in cash or cash equivalents and the Senior Lender has no actual or contingent obligation to provide financing facilities or other accommodation to any of the Grantors.

Senior Financing Documents: all those instruments, deeds and/or agreements as are more particularly described in Schedule 2.

Senior Lender Release: an irrevocable release and discharge, granted by the Senior Lender, of all of the Senior Security.

Senior Receivables Finance Documents: the several Senior Financing Documents more particularly described at items 2, 3 and 4 of Part 2 (*Facility Documents*) of Schedule 2.

Senior Security Documents: all the Senior Financing Documents except for the Senior Receivables Finance Documents.

Senior Security: the Security Interests constituted by the Senior Security Documents, together with any other Security Interest which at the date of this Deed secures any of the Senior Debt.

1.2. A reference to a statute, statutory provision or subordinate legislation is a reference to it as it is in force for the time being, taking account of any amendment or re-enactment or extension and includes any former statute, statutory provision or subordinate legislation which it amends or re-enacts.

1.3. Words in the singular include the plural and in the plural include the singular.

1.4. A reference to a Clause or Schedule is to a Clause of, or Schedule to, this Deed unless the context requires otherwise.

1.5. A reference to **this Deed** (or any provision of it) or any other document shall be construed as a reference to this Deed, that provision or that document as it is in force for the time being and as amended, varied or supplemented in accordance with its terms or with the Deed of the relevant parties and (where the terms of this Deed, or the relevant document, required consent to be obtained as a condition to that amendment being permitted) the prior written consent of the relevant party.

1.6. A reference to a **person** shall include a reference to an individual, firm, company, corporation, unincorporated body of persons, or any state or any agency of any state.

1.7. A reference to **assets** includes present and future properties, undertakings, revenues, rights and benefits of every description.

1.8. A reference to an **authorisation** includes an approval, authorisation, consent, exemption, filing, licence, notarisation, registration and resolution.

1.9. A reference to a **regulation** includes any regulation, rule, official directive, request or guideline (whether or not having the force of law) of any governmental, intergovernmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation.

1.10. Clause, Schedule and paragraph headings shall not affect the interpretation of this Deed.

1.11. A reference to **indebtedness** shall include any obligations (whether incurred as principal or surety) for the payment or repayment of money, whether present or future, actual or contingent.

2. CONSENTS AND EXCLUSIONS

2.1 Insofar as consent is required under the terms of any of the Securities or otherwise, each of the Lenders hereby consents to the creation and continuance of each other Lender's Security and to the registration or other perfection of such Security.

2.2 The Junior Lender hereby:

(a) consents to the sale, assignment and/or transfer by each relevant Grantor of its Financed Receivables to the Senior Lender under and in accordance with the Senior Receivables Finance Document(s) to which that Grantor is a party; and

(b) to the extent necessary to give effect to such consent, releases to each relevant Grantor all Financed Receivables to hold the same freed and discharged from the Junior Security absolutely; and

(c) to the extent of any security interest in or deemed to be granted to the Senior Lender in the assets of any Grantor, agrees not to contest the validity, perfection or priority of the Senior Security.

3. PRIORITIES

3.1 The Lenders and each of the Grantors agree that, subject to the provisions set forth in Clause 14 (*Duration*), at all times prior to the Senior Discharge Date:

(a) the Senior Security shall rank in priority to the Junior Security in all respects; and

(b) the Junior Debt shall be subordinated to the Senior Debt.

3.2 Nothing in this Deed shall affect the status of the Security as continuing security, nor shall the ranking of the Security or the subordination of the Debts contained in this Clause 3 be affected by any of, or any combination of any of, the following:

(a) the nature of the various securities comprised in the Security and the order of their execution, notice or registration; or

(b) any provision contained in any of the Security; or

(c) the respective date (or dates) on which any person received notice of the existence or creation of the Security; or

(d) the respective date (or dates) on which monies may be, or have been, advanced or become owing or payable or secured under the Security; or

(e) any fluctuation from time to time in the amount of the monies secured by the Security (which shall be continuing security in favour of the respective Lenders) and in particular, without limitation, any reduction to nil of the monies so secured; or

(f) the existence at any time of a credit balance on any current or other account of the Grantors; or

(g) the appointment of any liquidator or receiver, administrator or other similar officer either in respect of the Grantors or over all or any part of any assets of any Grantor.

3.3 Each of the Grantors agrees to endorse:

(a) a memorandum of this Deed on each of the Senior Security Documents and each of the documents constituting the Junior Security to which that Grantor is a party; and

(b) a restriction on each of the Junior Security Documents prohibiting any assignee or transferee from taking or relying upon the benefit of the same save to the extent that such assignee or transferee has agreed to be bound by this Deed in accordance with Clause 15.2 (*Restrictions on Assignment*)

4. GRANTORS' COVENANTS

4.1 Each Grantor covenants that, at all times prior to the Senior Discharge Date, it:

(a) shall not create, or allow to exist, any Security Interest (other than the Security) over any of its assets or the assets of another Grantor; or

(b) except as is permitted by this Deed, shall not vary the Loan Note Documents or the Senior Financing Documents.

4.2 Each of the Grantors covenants with the Junior Lender that each Grantor shall take all steps to procure that the Senior Lender Release occurs as soon as is reasonably practicable following the Senior Discharge Date.

4.3 Upon the occurrence of the Senior Lender Release, each Grantor shall take all steps required under the applicable laws relevant to the Junior Lender Security to ensure

that the Junior Lender has a first ranking security interest in the assets of the Grantors which are secured in accordance with the Loan Note Documents.

4.4 Each of the Grantors acknowledges to each of the Senior Lender and the Junior Lender that the obligations of each Grantor hereunder are undertaken on a joint and several basis.

5. PERMITTED PAYMENTS AND PRESERVATION OF JUNIOR DEBT

5.1 Each Grantor may, subject to Clauses 5.2 and 5.5:

(a) make each payment of interest, and all amounts relating to interest, on the Junior Debt on the relevant due date in accordance with the Loan Note Documents;

(b) pay any fees, costs and expenses due to the Junior Lender; and

(c) make each scheduled repayment of principal of the Junior Debt in accordance with the relevant Loan Note Documents.

5.2 The payments permitted by Clause 5.1 may only be made in each such case if:

(a) not less than 14 days prior written notice has been given by the paying Grantor to the Senior Lender of its intention to make such payment and the due date therefore;

(b) following receipt of any such notice the Senior Lender has consented, prior to the date on which the paying Grantor is due to make the relevant payment, to the making of that payment (which consent is not to be unreasonably withheld, provided the Senior Lender is satisfied on the basis of the latest available financial information relating to the Grantors that the paying Grantor is able to make the relevant payment without suffering any material adverse consequences to its cash flows or to its ability to satisfy its other debt and payment obligations as they fall due for such period as the Senior Lender may determine following the date on which the proposed such payment is to be made); and

(c) each of the following conditions is satisfied:

(i) no step has been taken (by any of the Lenders) to enforce any of the Senior Financing Documents, the Loan Note Documents or any of the Security;

(ii) no event of default, other termination event or potential event of default (as defined in the Senior Financing Documents) has occurred, is continuing and has not been remedied or waived and no event of default would occur as a result of such payment (compliance with financial covenants of the Senior Financing Documents being tested on a pro forma basis on the basis of the most recently delivered financial statements of the Grantors; or

(iii) no step has been taken for the winding up, bankruptcy, dissolution, administration or reorganisation of, or the appointment of a liquidator, receiver, administrator or other similar officer over, the Grantors or any of their respective assets (or anything analogous to any of the foregoing under the laws of any applicable jurisdiction outside England and Wales).

5.3 Subject to Clause 5.5, the Junior Debt shall remain owing or due and payable from each of the Grantors, and interest and default interest shall accrue on missed payments in accordance with the terms of the Loan Note Documents relating to the Junior Debt, despite any term of this Deed that might postpone, subordinate or prevent payment of the Junior Debt.

5.4 No delay in exercising rights and remedies in respect of the Junior Debt because of any term of this Deed postponing, restricting or preventing such exercise shall operate as a waiver of any of those rights and remedies.

5.5 If all the Junior Debt is converted into shares of the Borrower in accordance with the terms of the Loan Note Documents (the **Junior Debt Conversion**) then the Junior Debt shall be deemed to be extinguished and the Junior Lender shall, at the cost and expense of the Grantors, grant such releases as shall be necessary to ensure that the Junior Security is irrevocably released and discharged. Forthwith upon such release, this Deed shall terminate subject to and in accordance with the provisions of Clause 14.

6. MODIFICATION OF LOAN NOTE DOCUMENTS OR THE SENIOR FINANCING DOCUMENTS

6.1 Until the Senior Discharge Date and irrevocable release of the Senior Security, none of the Lenders nor the Grantors shall agree any modification or amendment to, or make any other deed affecting, the Loan Note Documents or the Senior Financing Documents which would increase the commitments of the Senior Lender or the Junior Lender. For the avoidance of doubt, advances by the Senior Lender of additional post-petition financing amounts as permitted under section 364 of the United States Bankruptcy Code are not violations of this Clause 6.1.

6.2 Nothing in Clause 6.1 shall prevent:

(a) any change in interest permitted by the Senior Financing Documents or the Loan Note Documents relating to the calculation of additional costs, the substitute basis or the default interest provisions or under any other provisions; or

(b) the Senior Lender agreeing that any part of the Senior Debt which is prepaid should remain available for redrawing

7. NO FURTHER GRANTS

7.1 Subject to Clause 7.2, no Lender will accept any further Security Interests from any of the Grantors without prior written consent of the other Lender (provided that this will not affect the right of any of the Lenders to perfect any existing Security Interests comprised within the Security).

7.2 For the avoidance of doubt, nothing contained in Clause 7.1 shall prohibit or restrict the continuing assignment and/or transfer of Financed Receivables to the Senior Lender by any of the Grantors under or in accordance with the Senior Receivables Financing Documents.

8. SENIOR LENDER RIGHTS

8.1 The Senior Lender may, subject to Clause 9.1 (*Senior Debt Enforcement*), consent, release, approve, waive or take any other action in relation to, or vary any of the terms of, the Senior Financing Documents in order to:

(a) release the assets of any Grantor from Senior Security; or

(b) consent, release, approve, waive or take any other action in relation to, or vary any of the terms of, the Senior Financing Documents in order to:

(i) allow any Grantor an extension in time in any time period prescribed in the Senior Financing Documents; and

(ii) consent to any variations of the financial covenants in the Senior Financing Documents.

9. SENIOR DEBT ENFORCEMENT

9.1 The Senior Lender will notify the Junior Lender before:

(a) it serves a demand for payment of a Senior Debt on any of the Grantors (other than a demand for payment on the due date);

(b) it serves a notice to the effect that the Senior Debt is immediately due and payable any of the Grantors;

(c) it takes any step to enforce any Senior Security; or

(d) it presents, or joins in, a petition for or votes in favour of any resolution for the winding-up, dissolution, administration or voluntary arrangement or any other insolvency proceeding in relation to any of the Grantors

provided always that:

(i) nothing contained in this Clause 9.1 shall prevent the Senior Lender from taking any such action without the need for such notice if, at any time after it has become entitled to take any such action, the Senior Lender reasonably believes that it is necessary to do so in order to protect its Security or any

other right or remedy to which it is entitled under the Senior Financing Documents; and

(ii) in any event, no action taken by the Senior Lender shall be invalid or ineffective because of a failure to notify the Junior Lender in accordance with this Clause 9.1.

9.2 The Junior Lender waives any right it has, or may have in the future, to marshalling in respect of any Security held by the Senior Lender.

10. JUNIOR DEBT ENFORCEMENT

10.1 Until the Senior Discharge Date, except with the prior written consent of the Senior Lender (which consent the Senior Lender may give or withhold in its absolute discretion), but subject always to Clause 10.2, the Junior Lender shall not:

(a) serve a demand for the payment of a Junior Debt on any of the Grantors; or

(b) serve a notice to the effect that a Junior Debt is immediately due and payable on any of the Grantors; or

(c) take any step to which might affect the ranking of a Junior Security as regards any asset which it covers; or

(d) take any step to enforce any Junior Security, including but not limited to the exercise of any right of set-off or combination of accounts; or

(e) present, or join in, a petition for or vote in favour of any resolution for the winding-up, dissolution, administration or voluntary arrangement or any other insolvency proceeding in relation to any of the Grantors

10.2 If a default occurs in respect of the Junior Debt, the Junior Lender shall:

(a) as soon as is reasonably practicable after becoming aware of such occurrence, give notice of that default to the Senior Lender; and

(b) not commence or take any action to enforce the Junior Debt and/or the Junior Security until the earlier of:

(i) the Senior Discharge Date; and

(ii) the date on which the Senior Lender agrees (in its sole discretion) that the Junior Lender commence or take any such action.

10.3 Following receipt of a notice of Junior Debt default from the Junior Lender under Clause 10.2(a) above, the Senior Lender may take and/or refrain from taking whatever action it deems, in its absolute discretion, appropriate to enforce the Senior Debt and the Senior Security pursuant to Clause 9 (*Senior Debt Enforcement*).

11. APPLICATION

11.1 The priority of the Lenders shall stand (regardless of the order of execution, registration or notice or otherwise) so that all monies and/or property received and/or recovered by a Lender of the enforcement of its Security (including but not limited to the exercise of any right of set-off or combination of accounts) shall be applied in the following order of priority, after providing for all reasonable outgoings, costs, charges, expenses and liabilities of enforcement, exercising rights on winding up and payments ranking in priority as a matter of law:

(a) first, in or towards the discharge of the Senior Debt;

(b) second, once the Senior Debt has been fully discharged, in or towards discharge of the Junior Debt; and

(c) third, after the Junior Debt has been fully discharged, to the Grantors or any other person entitled to it.

11.2 The Senior Lender shall not be obliged to bring into account any preferential payments received by it under section 386 of, and Schedule 6 to, the Insolvency Act 1986.

12. TURNOVER

The Junior Lender covenants with the Senior Lender that if and to the extent that, prior to the Senior Discharge Date, the Junior Lender receives and/or recovers from or in respect of any Grantor a payment or distribution in cash or in kind on account of the Junior Debt or otherwise that is prohibited by this Deed:

(a) the Junior Lender shall forthwith pay any and all such payments or distributions to the Senior Lender for application in accordance with Clause 11 (*Application*);

(b) pending such payment over to the Senior Lender, the Junior Lender shall hold all such payments or distributions on trust for the Senior Lender; and

(c) as between the Junior Lender and the relevant Grantor, the amount of the Junior Debt in respect of which such payment or other distribution was made shall be deemed (to the extent of such payment or distribution) not to have been paid or discharged.

13. WINDING UP

13.1 If any of the Grantors is wound up, the Junior Lender shall take all steps it reasonably can to:

(a) recover all amounts which may be due in respect of the Junior Debt from the Borrower or any Guarantor (or any third party);

(b) exercise its rights (however arising) against any property in respect of any such amounts; and

(c) prove in the winding-up.

13.2 The Junior Lender shall pay all monies so received to the Senior Lender, less all reasonable costs and expenses (including legal fees and expenses) incurred in respect of such recoveries.

13.3 The Senior Lender shall hold monies so received in a suspense account and shall apply them as soon as it is reasonably apparent to the Senior Lender that following the enforcement of the Senior Security the Senior Debt will not be fully discharged, in reduction of the Senior Debt or otherwise, in accordance with Clause 10.3.

13.4 Between each Grantor and its creditors, no payments or receipts under Clause 13.2 or Clause 13.5 shall be deemed to constitute payment by that Grantor to the Senior Lender in respect of the Senior Debt.

13.5 If such payments result in the Senior Debt being fully paid, the Junior Lender shall, to the extent of those payments, be subrogated to the rights of the Senior Lender under the Senior Security to receive payments or distributions of assets under the Senior Security until the Junior Debt shall be fully discharged.

14. DURATION

14.1 Subject always to Clause 14.2, this Deed shall automatically terminate and cease to have effect on the earlier of (i) the Senior Discharge Date and (ii) the date on which the Junior Security is irrevocably released and discharged following the Junior Debt Conversion.

14.2 Termination of this Deed under Clause 14.1 shall not affect any of the obligations of any the parties hereto, nor impair any of their respective rights and/or remedies, whether arising under this Deed or under the general law, with respect to any act, matter or thing that occurred prior to such termination (including, but not limited to the rights and/or obligations, if any, of a party under Clause 12 (*Turnover*).

15. RESTRICTIONS ON ASSIGNMENTS

15.1 None of the Grantors may assign and/or transfer all or any part of their respective rights and/or obligations under this Deed.

15.2 At all times until that Deed ceases to have effect in accordance with clause 14, neither of the Lenders shall assign or transfer any of its rights, benefits and/or obligations under this Deed, the Loan Note Documents, the Senior Financing Documents and/or the Security without first requiring the assignee or transferee to execute and deliver to the other parties to this Deed a deed of accession by which such assignee or transferee agrees to be bound by terms of this Deed.

16. BUY OUT POWERS OF JUNIOR LENDER

16.1 If the Junior Lender wishes to exercise any of its rights under the Junior Security, the Junior Lender shall have the right, but not the obligation, to repay all amounts then due, owing or incurred to the Senior Lender in respect of the Senior Debt (including, for the avoidance of doubt, any termination fee or other amount falling due for payment under any of the Senior Financing Documents by virtue of any such repayment being made at that time).

16.2 On receipt of such payment from the Junior Lender, the Senior Lender shall (at the expense of the Grantors, and subject to prior payment by the Grantors of all such costs and expenses, including but not limited to legal and other professional fees and any applicable VAT) assign and/or transfer all its rights, title and interest to and in the Senior Financing Documents, the Senior Debt and the Senior Security to the Junior Lender and shall execute and do any and all things and documents that the Junior Lender may reasonably require in order to give effect to any such assignment and/or transfer, including (but not limited to) any notices to any of the Grantors and, subject to prior receipt by the Senior Lender of a satisfactory written indemnity in respect of the exercise by the Junior Lender of any such power, a power of attorney in satisfactory form in respect of the Senior Financing Documents, the Senior Debt and/or the Senior Security favour of the Junior Lender.

16.3 The Junior Lender shall not, save with the prior written consent of the Senior Lender, make advances to any of the Grantors of additional post-petition financing amounts (within the meaning of section 364 of the United States Bankruptcy Code) unless and until any repayment of the Senior Debt contemplated by clause 16.1 above has been fully and finally made and completed.

17. ACKNOWLEDGEMENTS OF THE GRANTORS

17.1 Each of the Grantors acknowledges the terms of this Deed and consents to the Lenders communicating with each other about the Grantors' affairs either jointly or separately for the purposes of this Deed.

17.2 Each of the Grantors further acknowledges that none of the provisions entered into by the Lenders are for the benefit of the Grantors, nor may they be enforced or relied on by any of the Grantors.

18. REMEDIES, WAIVERS, AMENDMENTS AND CONSENTS

18.1 Any amendment to this Deed shall be in writing and signed by, or on behalf of, each party.

18.2 Any waiver of any right or consent given under this Deed is only effective if it is in writing and signed by the waiving or consenting party, and applies only in the circumstances for which it is given. Such waiver shall not prevent the party giving it from subsequently relying on the relevant provision.

18.3 No delay or failure to exercise any right under this Deed shall operate as a waiver.

18.4 No single or partial exercise of any right under this Deed shall prevent any further exercise of the same, or any other right, under this Deed.

18.5 Rights and remedies under this Deed are cumulative and not exclusive of any other rights or remedies provided by law or otherwise.

19. PARTIAL INVALIDITY

19.1 The invalidity, unenforceability or illegality of any provision (or part of a provision) of this Deed under the laws of any jurisdiction shall not affect the validity, enforceability or legality of the other provisions.

19.2 If any invalid, unenforceable or illegal provision would be valid, enforceable or legal if some part of it were deleted, the provision shall apply with any modification necessary to give effect to the commercial intention of the parties.

20. NOTICES

20.1 Every notice, request, demand or other communication under this deed shall:

(a) be in writing, delivered personally or sent by pre-paid first-class letter or fax (confirmed by letter); and

(b) be sent to:

(i) the Senior Lender at:

80 Broad Street, 22nd Floor, New York, New York 10004

Fax: (212) 248-3405

Attention: Joseph Albertelli

(ii) the Junior Lender at:

135 Bishopsgate, London, EC2M 3UR

Fax +44 207 085 7984/ +44 207 085 8411:

Attention: Repack Middle Office/GMB Legal

(iii) the Borrower and Guarantors at:

14 Albany Road, Granby Industrial Estate, Weymouth, Dorset DT4 9TH

Fax: 01305 770441

Attention: Mr. Jason Reid

or to such other addresses or fax numbers as are notified by one party to the other.

20.2 Any notice or other communication given shall be deemed to be received:

(a) if sent by fax, with a confirmation of transmission, on the day on which it is transmitted;

(b) if given by hand, on the day of actual delivery; and

(c) if posted, on the second business ay following the day on which it was despatched by pre-paid first-class post.

A notice sent or given as described in Clause 20.2 (a) or Clause 20.2 (b) on a day which is not a business day, or after normal business hours, in the place of receipt shall be deemed to have been received on the next business day.

21. COUNTERPARTS

This Deed may be executed and delivered in any number of counterparts, each of which is an original and which together have the same effect as if each party had signed the same document.

22. PERPETUITY PERIOD

The perpetuity period applicable to all trusts constituted by this Deed shall be 80 years.

23. THIRD PARTY RIGHTS

A person that is not a party to this Deed, has no rights under it and may not enforce a right to, or enjoy the benefit of, any term of this Deed under the Contracts (Rights of Third Parties) Act 1999.

24. INSTRUMENT OF ALTERATION

24.1 The parties to this Deed acknowledge and agree that this Deed is an instrument of alteration in terms of Section 466 of the Companies Act 1985 in respect of the COPL Floating Charge (as that expression is defined in Schedule 2).

24.2 The Borrower confirms and undertakes to the Senior Lender and the Junior Lender that it will within 21 days of the date of this Deed register the required details of this Deed at Companies House in Edinburgh in order for this Deed to constitute a valid instrument of alteration in respect of any floating charge granted in its favour by Coda Octopus Products Limited.

25. GOVERNING LAW AND JURISDICTION

25.1 This Deed and any dispute arising out of or in connection with it or its subject matter shall be governed by, and construed in accordance with, the law of England and Wales.

25.2 Each other party to this Deed irrevocably and for the benefit of the Senior Lender:

(a) agrees that the courts of England will have jurisdiction to hear and determine any suit, action or proceeding, and to settle any disputes which may arise out of, or in connection with, this Deed and, for such purposes, irrevocably submits to the jurisdiction of such courts;

(b) waives any objection which it might now or hereafter have to the courts referred to in paragraph (a) above being nominated as the forum to hear and determine any suit, action or proceeding, and to settle any disputes which may arise out of, or in connection with, this Deed and agrees not to claim that any such court is not a convenient or appropriate forum;

(c) to the extent that such party may in any jurisdiction claim for itself or its assets, immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and, to the extent that in any such jurisdiction there may be attributed to itself or its assets such immunity (whether or not claimed), hereby irrevocably agrees that it will not claim, and hereby irrevocably waives, such immunity to the fullest extent permitted by the laws of such jurisdiction; and

(d) without prejudice to any other mode of service allowed under any relevant law, and unless it is a party that is incorporated in England and Wales:

(i) irrevocably appoints Jason Reid, Martech Systems (Weymouth) Limited, 14 Albany Road, Granby Industrial Estate, Weymouth, Dorset, DT4 9TH to act as its agent for service of process in relation to any proceedings before the English courts in connection with this Deed; and

(ii) agrees that a failure by any such agent for service to notify the relevant party of any process served on it will not invalidate the proceedings concerned.

25.3 The submission to the jurisdiction of the courts referred to in Clause 25.2(a) will not (and will not be construed so as to) limit the right of the Senior Lender to take proceedings against any other party to this Deed in any other court of competent jurisdiction nor will the taking of proceedings in any one or more jurisdictions preclude the taking of proceedings in any other jurisdiction, whether concurrently or not.

25.4 EACH PARTY TO THIS DEED HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (A) ARISING UNDER THIS DEED OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR (B) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO THIS DEED OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE AND EACH PARTY HEREBY CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY TO THIS DEED MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENTS OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

This document has been executed as a Deed and is delivered and takes effect on the date stated at the beginning of it.

SCHEDULE 1

1. Coda Octopus (UK) Holdings Limited incorporated and registered in England and Wales with company number 5834897 whose registered office is at 14 Albany Road, Granby Industrial Estate, Weymouth, Dorset DT4 9TH.

2. Martech Systems (Weymouth) Limited incorporated and registered in England and Wales with company number 02300406 whose registered office is at 14 Albany Road, Granby Industrial Estate, Weymouth, Dorset DT4 9TH.

3. Coda Octopus Products Limited incorporated and registered in Scotland with company number SC151068 whose registered office is at Anderson House, 2nd Floor, Breadalbane Street, Edinburgh EH6 5JR

SCHEDULE 2:

Part 1: Charges and other Security Interests

1. **Coda Octopus (UK) Holdings Limited ("COUHL")**

A Debenture dated 30 October 2006 and registered with the Registrar of Companies on 7 November 2006 granted by COUHL in favour of the Senior Lender (**"COUHL Debenture"**) who has certain registered charges in and/over the assets of COUHL to secure the underlying obligations under certain Receivables Finance Agreements between the Senior Lender and (i) Martech Systems (Weymouth) Limited and (ii) Coda Octopus Limited.

2. **Martech Systems (Weymouth) Limited ("Martech")**

A Debenture dated 30th October 2006 and registered with the Registrar of Companies on 7 November 2006 granted by Martech in favour of the Senior Lender **("Martech Debenture")** whereby the Senior Lender has certain registered charges in and/over the assets of Martech to secure underlying obligations under a Receivables Finance Agreement dated 30 October 2006 between the Senior Lender and Martech.

3. **Coda Octopus Products Limited (formerly known as Coda Octopus Products Limited) ("COPL")**

A Floating Charge dated 30th October 2006 and registered with the Registrar of Companies on 17th November 2006 granted by COPL in favour of the Senior Lender (**"COPL Floating Charge"**).

4. **Coda Octopus Group, Inc (COGI)**

A Sale of Accounts and Security Agreement dated August 17, 2005 which, inter alia, grants a security interest in and lien in and upon all of COGI's right, title and interest in the "Collateral" (as is defined in the said agreement) to the Senior Lender and perfected by UCC filings (**COGI Security Interest**).

Part 2: Senior Financing Documents

1. The COUHL Debenture;
2. The Martech Debenture and the Receivables Finance Agreement between Martech and the Senior Lender dated 30 October 2006;
3. The COPL Floating Charge and the Receivables Finance Agreement between COPL and the Senior Lender dated 30 October 2006;
4. The Sale of Accounts and Security Agreement between COGI and the Senior Lender dated 17 October 2005.

Execution Copy

EXECUTION

Executed as a deed by David M. DiPiero

for and on behalf of Faunus Group International, Inc.

..... (Director)

Executed as a deed

for and on behalf of The Royal Bank of Scotland plc

..... (authorised signatory)

Executed as a deed by Jason Reid

For and behalf of Coda Octopus Group Inc

..... (Director)

EXECUTED AS A DEED by CODA OCTOPUS PRODUCTS LIMITED acting by)

Director

Director/Secretary

SIGNED AS A DEED by MARTECH SYSTEMS (WEYMOUTH) LIMITED acting by)

Director

Director/Secretary

Execution Copy

SIGNED AS A DEED by **CODA OCTOPUS (UK) HOLDINGS LIMITED** acting by)
)
)

Director

Director/Secretary

DATED ___ 2008

MARTECH SYSTEMS (WEYMOUTH) LIMITED (1)

And

THE ROYAL BANK OF SCOTLAND PLC (2)

DEBENTURE

Stuart Hodge Corporate Lawyers
3 Temple Row West
Birmingham
B2 5NY

DATE OF DEBENTURE **2008**

BETWEEN:-

(1) MARTECH SYSTEMS (WEYMOUTH) LIMITED (Company Number 2300406) whose registered office is at 14 Albany Road, Granby Industrial Estate, Weymouth, Dorset DT4 9TH (the "**Company**"); and

(2) THE ROYAL BANK OF SCOTLAND PLC (Registered Number 90312) acting through its London offices located at 135 Bishopsgate, London EC2M 3UR (the "**Subscriber**");

IT IS AGREED THAT:

1. DEFINITIONS

1.1 Unless the context otherwise requires the following expressions shall have the following meanings wherever used in this agreement and its introduction:

"Act"	means the Insolvency Act 1986.
"Agreed Form"	in relation to any document means the form agreed and for the purposes of identification only initialled by or on behalf of COGI and the Subscriber.
"Business Day"	means a day (excluding Saturdays, Sundays and any public holiday) on which banks are open for business in London for the transaction of normal banking business.
"Charged Property"	means all of the undertaking, assets, rights, revenues and property (present and future) of the Company charged to the Subscriber under paragraph 4 of this Debenture.
"COGI"	Coda Octopus Group, Inc. incorporated in the State of Delaware, whose principal place of business is at 164 West 25th Street, New York, New York 10001.
"Completion"	means the carrying out by the parties of their obligations under Clauses 3.1 to 3.3 of the Subscription Agreement.
"Completion Date"	means the date hereof.
"Confidentiality Agreement"	means the agreement dated on or around the Completion Date between COGI and the Subscriber whereby the Subscriber agrees, inter alia, to keep certain information confidential.

"Debts"	means all present and future book and other debts and any other monies of any nature whatsoever due to the Company (and whether or not yet due and payable) now or at any time during the continuance of the security interest created under this Debenture.
"Deed of Guarantee"	means a deed in the Agreed Form to be entered into at Completion whereby those Subsidiaries which are registered in the United Kingdom agree to guarantee the obligations of COGI under the Transaction Documents
"Equipment	means all plant, machinery, jigs, moulds, fixtures, fittings (not being landlord's fixtures) furniture, equipment and tools now or at any time during the continuance of this security belonging to the Company.
"Floating Charges"	means the two floating charges to be granted on the date hereof in favour of the Subscriber, one floating charge to be granted by Coda Octopus Products Ltd and the other by Coda Octopus R & D Ltd and "Floating Charge" shall mean whichever of the Floating Charges as the context admits
"Goodwill"	means the goodwill of the Company's business as carried on by the Company after the date of this Debenture;
"Intellectual Property"	means all customer information, patterns, drawings, product names, intellectual property and design rights including (without limitation) trade marks or trade names (whether registered or not), all patents, patent applications, registered designs, copyright, letters patent, service marks, business names, inventions, trade secrets, confidential information and know-how (together with the benefit but subject to the burden of any licences consents or permissions relating to them) of or used by the Company in the Company's business.
"Intercreditor Deed"	means a deed entered into on or around the Completion Date among COGI, the Subscriber and FGI regulating the priorities of the various charges and security interests held by the Subscriber and FGI.
"Loan Note Instrument"	means the loan note instrument executed by COGI on the Completion Date pursuant to which the Notes are constituted.

"Lock-up Agreements"	means certain agreements entered into on or around the date hereof between the directors and board members of COGI and the Subscriber undertaking (with certain exceptions) not to sell or transfer or otherwise dispose of any of their shares in COGI.
"Noteholder"	means the person for the time being entered in the Register as a holder of any part of the Notes.
"Notes"	means USD 12,000,000 Convertible Loan Notes due 21 February 2015 constituted by the Loan Note Instrument, or, as the case may be the Principal Amount Outstanding (as defined in the Loan Note Instrument) represented by them, and each "Note" shall be for a nominal amount of USD 100,000.
"Permitted Encumbrance"	A debenture dated 30 October 2006 and registered on 7 November 2006 granted by the Company in favour of Faunus Group International, Inc (**"FGI"**) a Delaware corporation whose principal place of business is 80 Pine Street, 32nd Floor, New York, New York 10005.
"Securities"	means all stocks, shares, debentures, debenture stock, loan stock, bonds and securities issued by any company or person (other than the Company) and all other investments (as listed in Part II of Schedule 2 to the Financial Services and Markets Act 2000).
"Security Agreement"	means an agreement in the Agreed Form to be entered into at Completion whereby COGI and those of its Subsidiaries incorporated in the United States of America grant a continuing and first security interest in and over the assets of COGI and those of its Subsidiaries incorporated in the United States of America
"Stock"	means all stock in trade and raw materials now or at any time during the continuance of this security belonging to the Company.
"Subscription Agreement"	means the subscription agreement dated the Completion Date between the Subscriber and COGI.
"Transaction Documents"	means the Subscription Agreement, the Loan Note Instrument, the Deed of Guarantee, this Debenture and the debenture to be granted on the Completion Date by Coda Octopus (UK) Holdings Ltd, the Floating Charges, the Lock-up Agreements, the Security Agreement, the Confidentiality Agreement, the Intercreditor Deed and all other documents entered into in connection with any of them.

"VAT"	means Value Added Tax.
"Vehicles"	means all vehicles now or at any time during the continuance of this security owned by the Company.
"Work in Progress"	means all partly completed goods or services allocated by the Company from time to time to its contracts with its customers for the supply of goods or services.
"1925 Act"	means the Law of Property Act 1925

1.2 In interpreting this agreement:

1.2.1 references to clauses and schedules are, unless otherwise stated, references to clauses, sub-clauses and schedules in or annexed to this agreement;

1.2.2 the headings used in this agreement are for convenience only and shall not affect its interpretation;

1.2.3 where any agreement, obligation, covenant, warranty, undertaking or representation is expressed to be made, undertaken or given by two or more persons they shall be jointly and severally responsible in respect of such matter;

1.2.4 reference to "a person" shall be construed so as to include any individual, firm, company or partnership (whether or not having a separate legal personality and whether incorporated or not);

1.2.5 references to any enactment shall be deemed to include references to such enactment as re-enacted, amended or extended.

2. COVENANT TO PAY

The Company covenants to pay to the Subscriber on demand all sums which are due or which may after the date of this Debenture become due or owing to the Subscriber from the Company under the provisions of the Transaction Documents.

3. LIABILITIES SECURED BY THE DEBENTURE

This Debenture shall be continuing security to the Subscriber for payment or discharge on demand of the following:

3.1 all present and future indebtedness of the Company to the Subscriber and the Noteholders arising under the terms of the Transaction Documents; and

3.2 all costs, charges, expenses, claims and liabilities of any kind whatsoever and howsoever arising owed to or incurred directly or indirectly by the Subscriber and the Noteholders in relation to the enforcement of this security,

(together the "Secured Liabilities").

4. PROPERTY CHARGED BY THE DEBENTURE

The Company with full title guarantee (except for the Permitted Encumbrance) and with the intent that the security created by this Debenture shall rank as continuing security for payment and discharge of the Secured Liabilities described in paragraph 3 above:

4.1 charges by way of fixed charge all right, title and interest in any freehold or leasehold property now or at any time during the continuance of this security belonging to the Company, including all present future rights, licences, guarantees, rents, deposits and contracts;

4.2 charges by way of fixed charge all right, title and interest in any stocks, shares or other securities and monies standing to the credit of any bank account now or at any time during the continuance of this security belonging to the Company;

4.3 assigns by way of first fixed mortgage its rights in any policies of insurances, assurances present or future;

4.4 charges by way of fixed charge its Goodwill and Intellectual Property;

4.5 charges by fixed charge all its Equipment and Vehicles; and

4.6 charges by floating charge all of the Company's undertaking and all Debts, stock and work in progress, and all other property, assets and rights now or at any time during the continuance of this security belonging to the Company not otherwise charged by the charges set out in paragraphs 4.1 to 4.5 inclusive.

The charge on the property and assets described in Paragraph 4.6 (and also on such other property and assets of the Company both present and future as the Subscriber may have agreed in writing to exclude from the fixed charge or are otherwise not charged hereunder by way of fixed charge) is created as a floating charge until a demand has been made under Paragraph 7 or until the provisions of Paragraph 7 relating to enforcement without demand become operative when the floating charge shall crystallize and become a fixed charge. Any assets acquired by the Company after the floating charge has crystallized shall be treated as if charged by way of a fixed charge.

5. ACKNOWLEDGEMENT OF PRIOR CHARGE

The Subscriber hereby acknowledges the existence of the Permitted Encumbrance and that the Permitted Encumbrance has priority over the security of the Subscriber in all respects and the rights and powers of the Subscriber under this Debenture shall always be subject to the Permitted Encumbrance for so long as the Permitted Encumbrance remains outstanding.

6. COMPANY'S COVENANTS

The Company (subject to the rights of FGI under the Permitted Encumbrance) covenants with and undertakes to the Subscriber as follows:

6.1 in accordance with the terms of the Permitted Encumbrance the Company shall take all steps required by contract and law to satisfy its indebtedness to FGI secured by the Permitted Encumbrance no later than 31 January 2009 and to secure the discharge of the registered charges no later than 28 February 2009.

6.2 to register the Debenture with the Registrar of Companies for England and Wales no later than 21 days after the date of execution of this Debenture.

6.3 upon discharge of the Permitted Encumbrance the Company shall take all steps required under the laws of England and Wales to ensure that the Subscriber has a first ranking security interest in the Charged Property.

6.4 if required by the Subscriber to forthwith deposit with the Subscriber all or any documents, deeds, or other papers whatsoever relating to the Charged Property as the Subscriber may require;

6.5 to make timely payment of all lawful amounts in respect of the Charged Property when due including all rents, periodic charges and outgoings of any nature.

6.6 to keep all of the Charged Property in a good state of repair and in proper and good working order and condition and to permit the Subscriber and such other persons as the Subscriber may from time to time appoint for the purpose to enter and view the Charged Property's state and condition on reasonable notice;

6.7 to insure and keep insured all of the Charged Property which are of an insurable nature against loss or damage by fire and all other usual risks as the Subscriber may require in the full amount of their reinstatement value in such name and in such offices as the Subscriber shall approve in terms not permitting the insurers to cancel the policy of insurance without giving at least 14 days' notice to the Company and to pay when due all premiums and any other charges necessary for effecting and maintaining such insurance and, if requested by the Subscriber, to have the interest of the Subscriber noted on any policy or policies and if required to deliver to the Subscriber such policy or policies and the receipt for every premium payable in respect of such policy or policies;

6.8 to hold all money received on any insurance whatsoever in respect of loss, damage or destruction of the Charged Property whether under the covenant in paragraph 6.7 or otherwise on trust for the Subscriber to be applied in making good the loss or damage in respect of which the money is received or in or towards discharge of the sums for the time being owing to the Subscriber under this Debenture as the Subscriber may in its absolute discretion require;

6.9 not without the previous written consent of the Subscriber to create or attempt to create any mortgage, pledge, fixed or floating charge or other encumbrance or security interest on or over any of the Charged Property;

6.10 except for the Permitted Encumbrance, not to take or omit to take any action that might or would have the result of materially impairing the security interests created by this Debenture. The Company will not grant to any person other than the Subscriber and the Noteholders any interest whatsoever in the Charged Property;

6.11 to inform the Subscriber immediately on becoming bound to complete the purchase of any estate or interest in any freehold or leasehold property after the date of this Debenture and to deposit with the Subscriber the deeds and documents of title relating to such property ;

6.12 to execute at any time upon request over all or any of the property referred to in paragraph 6.11, charge by way of legal mortgage in favour of the Subscriber in such form as the Subscriber shall require;

6.13 to execute and do all such assurances and things including (without prejudice to the generality of the foregoing) legal mortgages, charges and assignments as the Subscriber may require for perfecting the security constituted by this Debenture and for facilitating the realisation of the Charged Property and for exercising all powers, authorities and discretions conferred by this Debenture upon the Subscriber or any receiver appointed by the Subscriber and to give notice of any such assurance or other thing to any person the Subscriber may require;

6.14 to comply with any and all covenants and undertakings which the Company has entered into in the other Transaction Documents.

7. DEFAULT

Section 103 of the 1925 Act shall not apply to this Debenture and all money secured by this Debenture shall be immediately payable on demand by the Subscriber in accordance with the provisions of the Loan Note Instrument and the other Transaction Documents and failing payment immediately of any money so demanded this security shall become immediately enforceable and the power of sale conferred upon mortgagees by the 1925 Act immediately exercisable without the restrictions contained in the 1925 Act as to the giving of notice or otherwise. All money secured by this Debenture shall also become payable without any demand and this security will become immediately enforceable in the same manner as if demanded on the occurrence of any of the following events:

7.1 if there is an Event of Default (as detailed in Condition 9.1 of the Loan Note Instrument) which has not been remedied as provided for in Condition 9.2 of the Loan Note Instrument;

7.2 if the Company fails to observe or commits any breach of any of the covenants, undertakings, conditions or provisions of this Debenture provided always that (save for a breach of Paragraphs 6.1 or 6.2 of this Debenture or a breach of Condition 9.1 (e) of the Loan Note Instrument) before this security becomes enforceable the Company shall have a period of 30 days (or such longer period as is reasonable in the circumstances and which is agreed between the Company and the Subscriber, both parties acting reasonably) from the earlier of (i) the date the Company becomes aware, or ought reasonably to be aware, of the failure to observe or commission of the breach and (ii) the date the Company is given notice by either the Subscriber or a majority (by value) of the Noteholders in which to remedy any failure to observe or breach. If the Company remedies the failure to observe or breach in accordance with this Paragraph 7.2 then this security shall not become immediately enforceable as a result of the failure to observe or breach which has been remedied;

7.3 if an order is made for the winding up of the Company by the court or if an effective resolution is passed for the members' or creditors' voluntary winding up of the Company;

7.4 if a petition is presented for an administration order to be made in relation to the Company pursuant to the Act; or

7.5 if a receiver is appointed of all or any part of the property and assets of the Company.

8. APPOINTMENT OF A RECEIVER, ADMINISTRATOR, LIQUIDATOR OR PROVISIONAL LIQUIDATOR

8.1 Paragraph 14 of Schedule B1 to the Act (the power by the holder of a floating charge to appoint an administrator of the Company) shall apply to this Debenture. At any time after the Subscriber has demanded payment of any of the liabilities secured by Paragraph 3, or any step or proceeding has been taken for the appointment of a receiver, administrator, liquidator or provisional liquidator, or with a view to seeking a moratorium or a voluntary arrangement, in respect of the Company, or if requested by the Company, the Subscriber may appoint by writing, insofar as permitted by law, any person or persons to be a receiver and manager of all or any of the Charged Property or an administrator or administrators; and this Debenture shall in any of such events become immediately enforceable.

8.2 Where the Subscriber appoints more than one person as receiver, liquidator or provisional liquidator or administrator, they shall have power to act separately unless the Subscriber specifies to the contrary in the appointment.

8.3 The Subscriber may from time to time determine the remuneration of the receiver, administrator, liquidator or provisional liquidator.

8.4 Once a receiver, administrator, liquidator or provisional liquidator is appointed, the Subscriber will not be precluded from making any subsequent appointment of a receiver, administrator, liquidator or provisional liquidator over any Charged Property, whether or not any receiver, administrator, liquidator or provisional liquidator previously appointed continues to act.

8.5 The receiver, administrator, liquidator or provisional liquidator will be the agent of the Company and the Company will be solely liable for his acts, defaults and remuneration unless the Company goes into liquidation, after which he shall act as principal and not become the agent of the Subscriber.

8.6 The receiver, administrator, liquidator or provisional liquidator will be entitled to exercise all the powers set out in Schedules 1 and 2 to the Act. In addition, but without limiting these powers and without prejudice to the Subscriber's powers (including the power of the Subscriber to sell or otherwise dispose of all or any part of the Charged Property (at the times, in the manner and on the terms it thinks fit) and to apply the proceeds of such sale or other disposal in paying the costs of that sale or disposal and in or towards the discharge of the Secured Liabilities). Such power of sale or other disposal shall operate as a variation and extension of the statutory power of sale under section 101 of the 1925 Act and the receiver, administrator liquidator or provisional liquidator will have power with or without the concurrence of others and subject always to the rights under the Permitted Encumbrance:

8.6.1 to sell, let, lease or grant licences of, or vary the terms or terminate or accept surrenders of leases, tenancies or licences of, all or any of the Charged Property, or grant options over them, on any terms the Receiver thinks fit in his absolute discretion and any sale or disposition may be for cash, payable in a lump sum or by instalments, or other valuable consideration;

8.6.2 to sever any fixtures from land and/or sell them separately;

8.6.3 to promote a company to purchase all or any Charged Property or any interest in them;

8.6.4 to make and effect all repairs, renewals and improvements to the Charged Property and effect, renew or increase insurances on the terms and against the risks that he thinks fit;

8.6.5 to exercise all voting and other rights attaching to Securities and investments generally;

8.6.6 to redeem any prior encumbrance and settle and pass the accounts of the encumbrancer so that all accounts so settled and passed will (except for any manifest error) be conclusive and binding on the Company and the money so paid will be deemed to be an expense properly incurred by the receiver, administrator, liquidator or provisional liquidator;

8.6.7 to pay the Subscriber's proper charges for time spent by the Subscriber's employees and agents in dealing with matters raised by the administrator, liquidator or provisional liquidator or relating to the administration; and

8.6.8 to do all other acts and things which he may consider incidental or conducive to any of the above matters or powers or to the preservation, improvement or realisation of the Charged Property.

8.7 Subject to section 45 of the Act, the Subscriber may at any time remove a receiver, administrator, liquidator or provisional liquidator from all or any of the Charged Property of which he is the receiver, administrator, liquidator or provisional liquidator.

9. APPOINTMENT OF ATTORNEY

The Company irrevocably by way of security appoints the Subscriber and any person nominated in writing by the Subscriber including any receiver appointed under this Debenture as attorney of the Company for the Company and in its name and on its behalf to execute seal and deliver and otherwise perfect and do any deed, assurance, agreement, instrument, act or thing which it ought to execute and do under the covenants undertakings and provisions of this Debenture or which may be required or deemed proper for any of the purposes of the Debenture.

10. INDEMNITY

10.1 The Company shall indemnify the Subscriber and any receiver, administrator, liquidator, provisional liquidator, attorney manager, agent or other person appointed by the Subscriber under this Debenture out of the Charged Property in respect of all actions, proceedings, costs, claims, liabilities and demands ("Liabilities") incurred or suffered directly or indirectly by any of them in the execution or purported execution of any of their powers, duties or functions under this Debenture or otherwise and against all actions, proceedings, costs, claims, liabilities and demands of any nature in respect of any thing done or omitted to be done in any way relating to their powers duties and functions.

10.2 Any receiver, administrator, liquidator or provisional liquidator appointed under this Debenture may retain and pay all sums in respect of any of the liabilities and expenses referred to in paragraph out of any money received by him under the powers conferred by this Debenture.

10.3 The Company shall ratify and confirm all transactions entered into by the Subscriber or any receiver, administrator, liquidator or provisional liquidator in the exercise or purported exercise of the Subscriber's or the receiver's powers and all documents entered into or things done by the Subscriber or the receiver or other person acting under the Power of Attorney in paragraph 9.

11. DEMANDS AND NOTICES

Any demand or written notice to be served under this agreement may be delivered to Company at the address set out in this Debenture or to such other address as may previously have been notified in writing to the Subscriber or to the Company's registered office or principal place of business. Notice shall either be delivered personally, sent by first class pre-paid post to an address within the United Kingdom and by Air Mail to an address outside the United Kingdom or by facsimile transmission and shall be deemed to have been received by the recipient party (notwithstanding that it may be returned undelivered) in the case of personal delivery on delivery and in the case of posting to an address in the United Kingdom at 10.00 am on the second Business Day following the day of posting and in the case of posting to an address outside of the United Kingdom at 10.00 am on the fifth Business Day following the day of posting and in the case of facsimile transmission on completion of the transmission.

12. COMPLIANCE WITH CONSTITUTIONAL DOCUMENTS

The Company warrants that:

12.1 it is duly incorporated and validly existing in the United Kingdom and has full authority to enter into this Debenture and to perform its obligations hereunder;

12.2 this Debenture constitutes its legal, valid and binding obligation and is an effective security over the Charged Property;

12.3 that neither the execution of this Debenture nor the creation of any security under or pursuant to it contravenes or will contravene the provisions of the memorandum or articles of association of the Company or any equivalent constitutional documents governing the Company;

12.4 the Company is the sole legal and beneficial owner of the Charged Property subject to the Permitted Encumbrance or any other security interests disclosed in the Disclosure Letter;

12.5 the Company has not stopped payment on any debts and is not insolvent or unable to pay its debts for the purpose of Section 123 of the Act;

12.6 all approvals required to be obtained whether under the provisions of the Companies Act 1985 or any other enactment have been duly obtained and that it is in a position to enter into this Debenture;

and the Company agrees and undertakes to indemnify the Subscriber on a full indemnity basis from and against all and any Liabilities arising as a result of any breach of any of the warranties set out in this Paragraph 12.

13. FOREIGN CURRENCY

If, for any reason, any amount payable by the Company is paid or recovered in a currency other than that in which it is required to be paid (the "**Contractual Currency**") and, when converted into the contractual currency at the exchange rate applicable at the time, leaves the Subscriber with less than the amount payable in the contractual currency, the Company must make good the amount of the shortfall (without deduction) on demand.

14. CONTINUING SECURITY

This Debenture will be a continuing security for the liabilities detailed in Paragraph 3 notwithstanding any intermediate payment or settlement of all or any part of such liabilities or other matter or thing whatsoever and will be without prejudice and in addition to any other right, remedy or security of whatever sort which the Subscriber may hold at any time for such liabilities or any other obligation whatsoever and will not be affected by any release, reassignment or discharge of any other right remedy or security.

15. ASSIGNMENT

The Subscriber shall be entitled to assign the benefit of this Debenture to any party acting for the benefit of the Noteholders, provided such assignment is requested by an Extraordinary Resolution of the Noteholders in accordance with the provisions of the Loan Note instrument.

16. SUBSCRIBER'S AND RECEIVER'S LIABILITY

The Subscriber shall not nor shall any receiver appointed as aforesaid by reason of its or the receiver's entering into possession of the Charged Property or any part thereof be liable to account as mortgagee in possession or be liable for any loss on realisation or for any default or omission for which a mortgagee in possession might be liable but every receiver duly appointed by the Subscriber under this Debenture shall (subject always to the provisions of the Act) be deemed to be the agent of the Company for all purposes and shall as such agent for all purposes be deemed to be in the same position as a receiver duly appointed by a mortgagee under the 1925 Act and the Subscriber and every such receiver shall be entitled to all the rights powers privileges and immunities by the 1925 Act conferred on mortgagees and receivers when such receivers have been duly appointed under the 1925 Act.

17. PROTECTION OF THIRD PARTIES

17.1 No person paying or handing over monies to the Subscriber or a receiver and obtaining a discharge shall have any responsibility or liability to see to their correct application.

17.2 No person dealing with the Subscriber or a receiver need enquire:

17.2.1 whether any event has happened giving either the Subscriber or the receiver the right to exercise any of his powers;

17.2.2 as to the propriety or regularity of any act purporting or intending to be an exercise of such powers;

17.2.3 as to the validity or regularity of the appointment of any receiver purporting to act or to have been appointed as such; or

17.2.4 whether any money remains owing upon this security.

17.3 All the protection to purchasers contained in Sections 104 and 107 of the Law of Property Act 1925 shall apply to any person purchasing from or dealing with the receiver or the Subscriber as if the liabilities secured by this Debenture had become due and the statutory power of sale and appointing a receiver in relation to the Charged Property had arisen on the date of this Deed.

17.4 No person dealing with the Subscriber or the receiver shall be affected by express notice that any act is unnecessary or improper.

18. THIRD PARTIES

The Contracts (Rights of Third Parties) Act 1999 shall not apply to this Debenture and a person who is not a party to this Agreement shall not have nor acquire any right to enforce any term of it pursuant to that Act. This provision shall not affect any right or remedy of any third party which exists or is available otherwise than by reason of that Act and shall prevail over any other provision of this Debenture which is inconsistent with it.

19. GENERAL LAW AND CONSTRUCTION

19.1 This Debenture shall be construed and governed in all respects in accordance with English law and shall be subject to the non-exclusive jurisdiction of the English courts.

19.2 The Company agrees that if any of the provisions in this Debenture is held to be invalid but would be valid if part of the wording were deleted or modified then such provision shall apply with such modification as may be necessary to make it enforceable.

19.3 No failure to exercise nor any delay in exercising, on the part of the Subscriber, any right or remedy under the terms of this Debenture shall operate as a waiver, nor shall any single or partial exercise of any right or remedy prevent its further exercise or the exercise of any other right or remedy. The rights and remedies provided in this Debenture are cumulative and not exclusive of any rights or remedies provided by law and nothing in this agreement shall operate to restrict or affect in any way any right of the Subscriber to be indemnified or to exercise a lien howsoever.

AS WITNESS this Debenture has been executed and delivered as a deed by the Company on the date first above written

EXECUTED AS A DEED by `
Martech Systems (Weymouth) Limited
acting by:-)
)
)

.....
Director

.....
Director/Secretary

EXECUTED AS A DEED by `
THE ROYAL BANK OF SCOTLAND PLC
acting by:-)
)
)

.....

Exhibit 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Jason Reid, certify that:

1. I have reviewed this annual report on Form 10-KSB of Coda Octopus Group, Inc.:

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operation and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information: and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2008

/s/ Jason Reid

Jason Reid
President and Chief Executive Officer

Exhibit 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Jody Frank, certify that:

1. I have reviewed this annual report on Form 10-KSB of Coda Octopus Group, Inc.:

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operation and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information: and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2008

/s/ Jody E. Frank

Jody E. Frank
Chief Financial Officer

Exhibit 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Coda Octopus Group, Inc. (the "Company") on Form 10-KSB for the year ended October 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Jason Reid, President and Chief Executive Officer, and Jody Frank, Chief Financial Officer, certify. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

(1) This report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jason Reid
Jason Reid
President and Chief Executive Officer

Date: February 26, 2008

/s/ Jody E. Frank
Jody E. Frank
Chief Financial Officer

Date: February ___, 2008